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## Retirement: A Changing Vision

By Stacy Schultz and Richard Bierck

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Even before the market collapsed (and let's face it, a nearly 50% loss of value is no mere speed bump), retirement experts were anticipating that the baby boom generation would overwhelm the modern retirement system. There are too many boomers with too little savings, and Social Security won't be able to fill the gap. Now, with the bulk of the baby boom on the far side of 50, the push is on to reinvent this late stage of life—not because people want to, but because they must. *Financial Planning* turned to the experts and visionaries who understand this dilemma profoundly, and asked them to share how they would redefine retirement. Their insights will help you update your practice. Share them with clients—and, perhaps, your spouse.

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### Ed Slott

CPA, IRA Distribution Expert

Rockville Centre, N.Y.

Consumers are worried, and they're getting educated. Thus, they're demanding well-educated advisors who can take them through the second half of their lives. The pendulum has swung, and clients have gone from needing help with accumulation to needing help with distribution, which is more critical and urgent than ever. There is less money going around now, and the less you have the more important it is to protect it.

Of course, there are certain forces consumers can't control, but the things they can control, like taxes, they're taking much more of an interest in and demanding more from their financial advisors. We're going to see a huge increase in taxes, which will be the biggest obstacle to building wealth in the future. Advisors must step up and get educated about how to manage.

Most advisors—probably more than 99%—know very little about distribution planning. That 1% of advisors will control most of

the retirement rollover money. The big problem with advisors, though, is that they don't realize what they don't know.

There's a silver lining to this economy: People are mad and ready to switch. We're seeing consumers move chunks of their life savings away from banks and brokerages. I'm speaking to lots of consumers, and they're willing to move money away from brokers they've had for more than 30 years. There's no more loyalty. That money is available for any advisor who wants it, but you have to invest in your education and show people you have a plan to hold on to it through retirement, not to mention an estate plan for after death. If it sounds like you have to do something different it's because you do.

This is a great market for a stable advisor—someone consumers can talk to. It's a tremendous market opportunity that we've never seen before. You need a seismic event to get investors to wake up and say, "I deserve better." Well, that's what they're doing. Advisors are going to get that business, but they have to get out there now. Advisors' incomes have been hit at the worst possible time, but they need to get out there and market themselves and get educated. It requires an investment at the scariest time to invest, but an investment in their practice is the best one they'll ever make.

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## **Sheryl Garrett**

**Founder**

**Garrett Planning Network**

**Shawnee Mission, Kan.**

It's depressing for people to see their nest eggs fall back to where they were 15 years ago. Of course, it won't take that long to build portfolios back up to their old value. Before, people were in the accumulation phase; now, the number of shares is there, they're just waiting for the price.

But this won't help people who are a few years away from retirement and just aren't going to be able to retire when they'd planned. So they need to be flexible. Many of these people will be working longer full-time, or taking part-time jobs during retirement. But this isn't all bad, depending on how people may look at it.

The definition of retirement is stopping. This isn't natural, really, and it's not good for you. People tend to live longer, healthier lives if they stay active both mentally and physically. Of course, people are understandably disappointed that the market decline is keeping them from reaching their retirement goals. However, if people work part-time during retirement, especially at something they enjoy, they can stay mentally and socially involved and take pressure off their retirement budget. For example, if they hang out at the library a lot and enjoy that, maybe they can work there.

During retirement, some people might have the opportunity to come back to their former employers and work as consultants. After all, they already have Medicare and their employers would like to limit their number of employees. In some cases, it may be possible to bring in as much or more income than they did as an employee. I think we'll see a major change in who's doing what work.

For example, more people in the older generation will become entrepreneurs.

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## **Eric Hehman**

**CEO**

**Austin Asset Management**

**Austin, Texas**

For many boomers, retirement was going to be a stretch, due to low savings in general. But now, I'd expect to see more of them to be planning scaled-down employment rather than a complete exit. I'd also expect to see a significant increase in the world of "work at home" multilevel marketing companies as boomers seek out ways to offset their expenses.

Further, boomers will work longer and, in theory, pay into Social Security, continue to run their small businesses, lead departments of big corporations and contribute to the progress of capitalism. The shortfall of experienced labor just won't happen like so many people thought it would.

For most younger investors, however, retirement still seems so far off that this downturn will hopefully only teach them that over time they should reduce the risk they're taking in their portfolio. For the thirtysomethings with 20-plus years of savings still on the horizon, whatever age they were shooting for before should still be their target.

The biggest change for them is housing—to view their house as a place to live and not as an investment that automatically grows in value. Too many younger investors signed interest-only mortgages based on the idea that investing principal in the stock market is better than paying down a mortgage. If they keep that plan going, this generation will reach retirement with a tremendous debt load to overcome. They need to consider not moving to the bigger house every chance they get, so eventually they can have a reasonably nice house that's paid for.

Unlike boomers, younger investors' model for retirement has never been based on working for the same company for 30-plus years and then receiving a pension to go fish or play golf every day. Many don't think about completely exiting the workforce as their goal.

I still think Medicare and Social Security will provide some benefits for the younger generation. That's not to say they'll experience the same payback as their parents did, but it will be greater than the \$0 most of them are expecting. It's about expectations—boomers have counted on exiting the workforce and getting Social Security at 65; younger generations plan on continued employment and no Social Security at all.

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## **Tracy DeWald**

**Senior Vice President and General Counsel**

## **Securities America**

### **Omaha, Neb.**

One of the biggest mistakes advisors are making is failing to address the situation directly with clients who are upset about their retirement plans. It's like a bomb has gone off and clients are the children wandering through the streets while their advisors are hiding in the bunkers. They are not there for their clients; they aren't showing them the love.

What looked like a good strategy for retirement two years ago—what made sense then for many clients—no longer does now that the market is down. So clients may need to change their expectations. That also means that advisors need to have some frank discussions with their clients, possibly regarding their risk tolerances.

Clients are upset about lost value. Since clients are sensitive now, shell-shocked that they won't be able to retire as soon as they'd planned, you need to make sure you have these discussions. This can prevent liability. At the same time, you need to make sure that these discussions themselves don't result in lawsuits.

If you change clients' retirement strategies, you should document this in case they later say that they did not want to buy those products or that they didn't know their assets were sitting in cash, for example. The idea is to have frequent conversations and frequent touches with clients. If you don't have a lot of fingerprints, it will be much harder for you to deal with the SEC if they ever were to ask you: "Why did you charge the Widow Jones 1% per year—\$15,000 in fees—and just what did you do to earn it?"

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## **Mitch Anthony**

**Founder, President**

**Advisor Insights**

**Author of *The New RetireMentality***

**Rochester, Minn.**

The way people think about retirement needs to change. The problem isn't that we need to quit working, it's that we need to bring our lives into balance. The old retirement was formed in the Industrial Age and based on physical labor. People didn't have the physical capacity to come to work anymore and could be replaced by young, strong 20-year-olds. In today's world, we trade intellectual and relational capital. And given the realities of what's happened in the last year, a lot of people are going to be working because they have to, but a good percentage of them will realize that it's a blessing in disguise.

Work is an activity that brings value to someone else and brings purpose to the person doing it. A lot of people go into retirement and within a few months they're bored out of their skulls. They miss work. In fact, there's a 50% to 60% chance that the retiree is going to go back to work at least part-time within six months.

But very few financial planners consider working income in retirement years when creating retirement plans. Planners have these conversations before the person retires, not knowing what he or she will feel once they're in it. If you're building a retirement plan, don't you have to include all forms of income? If planners are smart, they will now.

Too many advisors out there simply manage assets, but don't talk about the issues. They need to discuss living below your means, for example. If you're going to retire, you'll probably have to make some compromises, especially now. It's time to start having realistic conversations with your clients. Some people will have an affinity to that conversation and some will resist it. But we've got to look at the whole picture and have enough courage to tell people the truth. That's what advisors are shy about.

Part of that conversation is how you can downsize your life. Look at what average Americans has in their savings plan—how are they going to retire on that? What retirement goals are unrealistic? Maybe having the home in Florida isn't realistic, but going down for two weeks is. The old retirement happened in the December of life—you didn't have much time left, that's why they gave you a watch. The new retirement happens in the September of life. You have a full season ahead of you—it's a completely different conversation.

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## **Judith McGee**

**Co-Founder, Chair**

**McGee Financial Strategies**

**Portland, Ore.**

How bad things are for retirement plans of people who are still working depends on where they live and what they do.

Unemployment will go much higher, and this will be spotty, regionally. The nation is in a recession but in Michigan, they're having a depression.

With our clients, we talk about preserving principal. Part of this is having enough cash to get through this period. For most retirees, we are encouraging them to set aside a supply of cash that will last at least two years. (This cash could come from staggered CDs.) Formerly, we said six months to a year. But we're in an elongated, troubled time in the economy—for at least two years.

The new lesson is that we have to be tactical. In the past, we talked about growth and income. That may be strategic, but it's not tactical. Tactical is running a calculation for a period where investments will have no growth. What true income are their portfolios throwing off? To do this calculation, you have to total up payouts from annuities, pension plans, dividends and interest—but not Social Security. Planners who do this can adjust asset allocations to address the cash flow that they may produce for their clients. When we're down to that, we should be able to have cash flow of about 5%. So with \$1 million in assets, that would be \$50,000 a year that this client could spend without touching principal.

## **Jean Setzfand**

**Director of Financial Security**

**AARP**

**Washington, D.C.**

Guarantees are out the window. What you expected your life to be, you really have to reevaluate whether that's sustainable in both up *and* down markets. Medicaid is in danger, too, since its cost is shared between the federal government and the states, and many state budgets are very much in deficit.

It's hard to swallow, but the best alternative is an immediate fixed annuity. I recommend that especially for new retirees, since they must make sure they have their basic fixed costs covered by guaranteed income.

Expectations are another area that needs to be considered. Once you start to pare everything back, there's only so much you can do before you have to start altering your expectations for what retirement looks like in a system tied to market risk. It's different for everyone. The longer you can work, the better off you'll be. Retiring at age 62 should never have been considered. For those capable, I don't believe it's wise to leave at 62, even five to 10 years ago.

But even for those who want to consider working, or want the option, it may not be available. It's heard more often than not these days: If you're near retirement, then just prolong work as long as possible. That's great if you're young and strong, but if you're older it's going to be hard to get a job.

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## **Catherine Smith**

**CEO**

**ING U.S. Retirement Services**

**Windsor, Conn.**

Clearly, the market volatility and declines are forcing all of us to take a hard look at our retirement strategies. Consumers are realizing more than ever that they need to take stock of their portfolios and find the asset classes that will help them find a safer, surer path to retirement.

The new retirement then, is likely to encompass a combination of products and features that borrow from both old and new retirement vehicles. For example, defined benefit pension plans are becoming a thing of the past, yet more and more retirees are seeking the guaranteed income that pensions once provided as a way to offset the market volatility they've seen hit their 401(k) plans recently. For this reason, products that can offer investment growth while providing a floor against the market's declines have been playing a larger role in the overall portfolios of many Americans who seek a source of guaranteed income in retirement. Additionally, balancing risk and reward tradeoffs through lifestyle funds or other well-diversified mutual funds is

increasing its draw. Investors are also looking to life insurance as a safety net for their retirement assets.

This new retirement will also include products that make it easier for the average consumer to make complex financial decisions in both the accumulation and distribution phase of retirement. We will see products that give consumers the confidence to remain invested for the long haul and the assurance that they can achieve retirement readiness. There will also be products that provide a combination of guarantees and downside protection with the ability to leverage some of the upside the market may experience.

We've seen many products evolve to meet the demands of retirees and pre-retirees over the years. For example, target-date funds were created to meet the demands of mutual fund investors who don't have the time, desire or expertise to manage an age- and risk-appropriate portfolio by themselves. The demand was so strong it ultimately created a whole new category of mutual funds. The industry is constantly shifting to meet the changing demands of consumers who ultimately drive product innovation. Bottom line, I believe market conditions will accelerate innovation in our industry.

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## **Alicia Munnell**

**Director**

**Center for Retirement Research, Boston College**

**Boston**

This market is a wrenching, emotional experience for a lot of people. They feel they have failed, that they've lost control; they're vulnerable. It's a very hard situation to be in.

Advisors should get it across that clients shouldn't panic, that they should calm down and figure out at what point they're going to need how much money—and if they have the time to let their investments recover. Of course, saving more in time to realize retirement plans may not be possible for people in their late fifties and early sixties. People don't need all their retirement money on Day One, but some get it in their heads that they will need every penny right away.

Many of these people will have to work longer than they had planned. Advisors should tell their employed clients: "A steady income is the most important thing. If you have a job, stay with it."

This requires being proactive at work—making a difference. Clients who just sit there, hoping the employer will keep them aboard, are not doing enough. They have to be taking this seriously. It makes a difference to an employer if the employee is looking at a Florida retirement website or doing his or her job—being involved and dedicated to the employer.

By working longer, people will be able to wait longer before they start collecting Social Security. The longer they wait, the more they will get. For those who postpone their retirement until age 70, the monthly checks will be 75% higher than if they'd retired at 62.

That's huge.



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