



INVESTOR SOLUTIONS

THE STRATEGIC ADVANTAGE



## The Retirement Challenge: Sink or Swim

CERTIFIED FINANCIAL PLANNER

BOARD OF STANDARDS, INC.

Financial Planning Clinic  
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# It's Expensive To Retire

- Plan on 75% to 100% of Final Income
- For every dollar of income your portfolio must produce, you need assets of \$20 to \$25.
- Sustainable Withdrawal Rates = 4% to 5%



# Retirement

- 1/3 of your life without a paycheck
- Life expectancies at retirement greater than age 95



# The New Reality

- You Are On Your Own
- Sink or Swim



# Traditional Sources of Retirement

- Social Security
- Pensions- Guaranteed Income for Life
- Private Savings
- Family Support



# The New World for Retirees

- Defined Benefit Plans Disappear
- Employee Funded, Employee Directed Defined Contribution Plan (401(k), 403(b), etc.
- Reduced Social Security Benefits
- Increased Life Expectancy
- Health Care Costs????



# At Any Stage

- Insurance
- Estate Planning
- Emergency Fund
- Live Within Your Means
  - Avoid Consumer Debt
- Save Lavishly



# Investment Considerations

- Invest Wisely
  - Taxes
  - Risk
  - Costs
  
  - Don't Chase Returns
  - Passive Strategies
  - Long Term Buy and Hold



# Defined Benefit Plans

<b>Function</b>	<b>Employer</b>	<b>Employee</b>
Determines Benefit Level	✓	
Calculates Required Contribution	✓	
Makes Contributions	✓	
Makes Investment Decisions	✓	
Responsible for Shortfall in Capital	✓	
Pays Plan Administration Cost	✓	
Converts Account to Lifetime Income	✓	
Provides Survivor Benefit	✓	
Provides Pre-Retirement Death Benefit	✓	
Pays for Investment Advice	✓	
Provides Education and Advice	✓	



# Defined Contribution Plans

## Function

- Determines Benefit Level
- Calculates Required Contribution
- Makes Contributions
- Makes Investment Decisions
- Responsible for Shortfall in Capital
- Pays Plan Administration Cost
- Converts Account to Lifetime Income
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## Employer

## Employee

✓

✓

✓

✓

✓

✓

✓

✓

✓

✓

✓



# 401(k), 403(b) Challenges

- Evaluate Carefully
  - No control over costs
  - No control over investment choices
  - Elimination Periods
  - Vesting Requirements



# Alternatives to 401(k), 403(b) Plans

- IRA's
  - \$4000/\$5000 a year (subject to income limits)
  - Spouse Pension Plan
  - Spouse IRA
- Brokerage Accounts
  - Must be tax sensitive

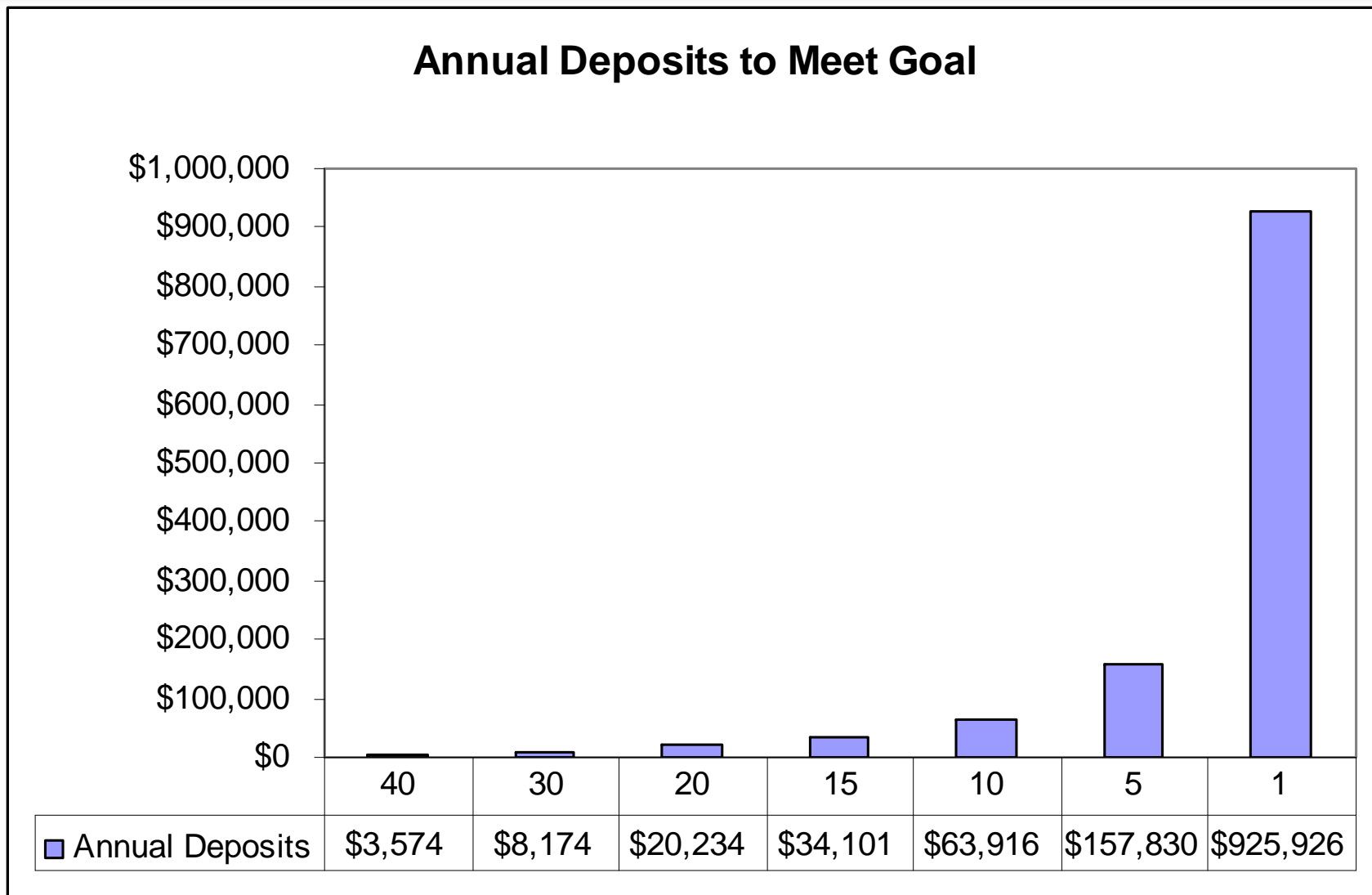


# Early In Your Career

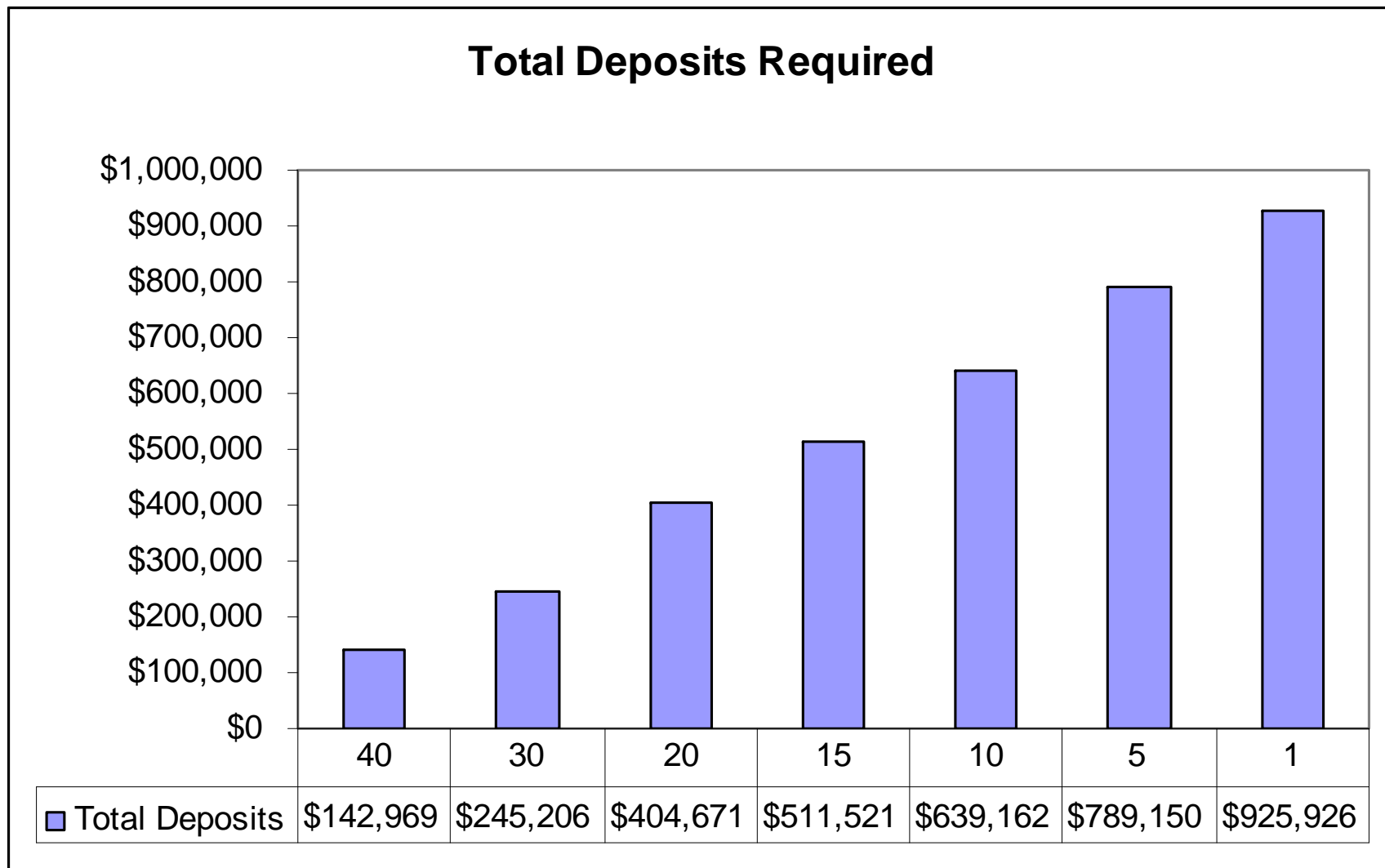
- It's never too early to start saving
- Difficult to predict retirement needs
- Set a savings goal
- Use Pension Plans Wisely
  - Evaluate Costs
  - Evaluate Investment Choices
- Establish Investment Accounts
- Roth V. Regular



# Start Early – Million Dollar Accumulation



# Start Early – Million Dollar Accumulation



# Changing Employment

- Pension Choices
  - Take it
  - Leave it
  - Roll it to new plan
  - Roll it to IRA
- Don't forget other benefits
  - Health Insurance, etc
  - Cobra



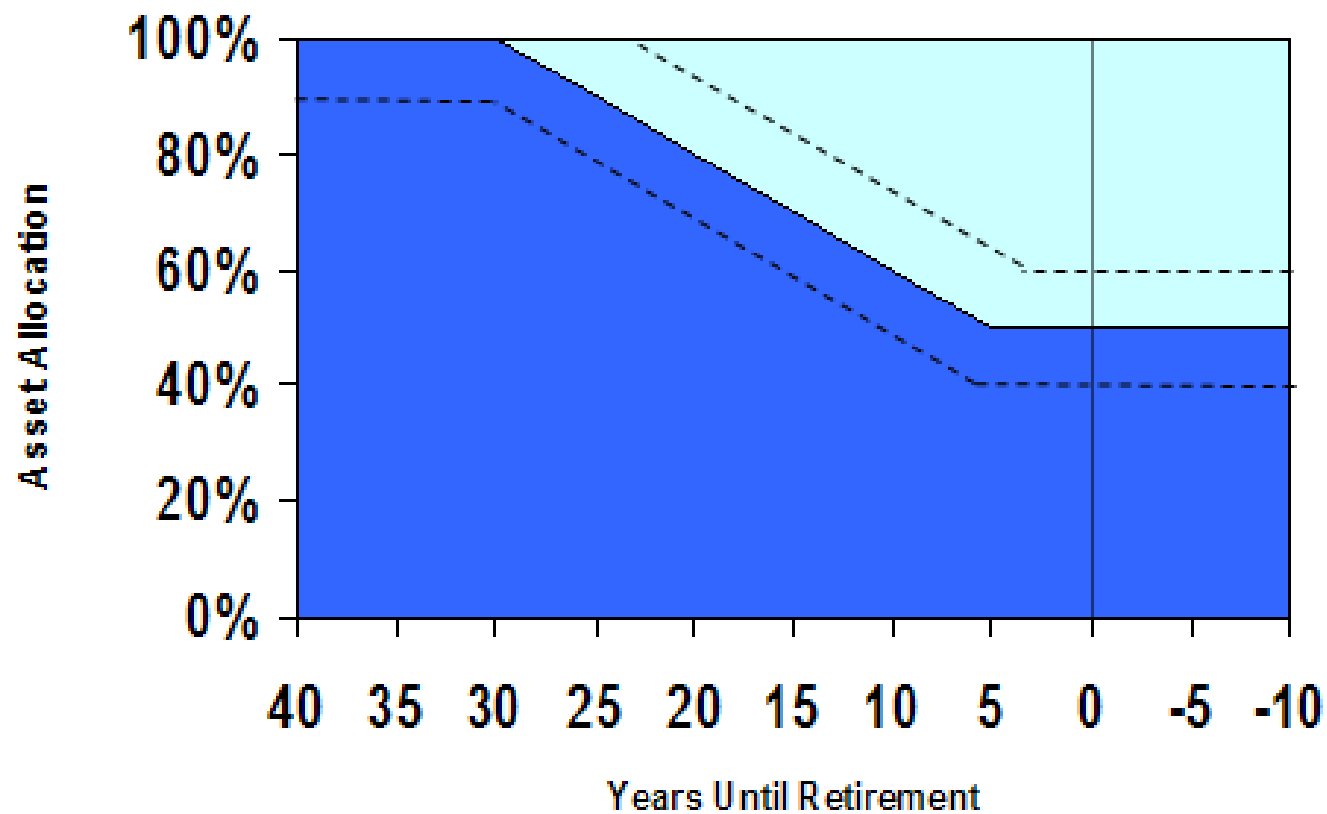
# Mid Career

- Begin Glide Slope
  - Reduce Risk as Retirement Approaches
- Catch Up Rules
  - Additional Contributions to Plans at Age 50



# Systematically Reduce Risk

Asset Allocation Glidepath



# Early Retirement Options

- Avoiding Early Retirement Penalty
- Statutory Exemptions
- Substantially Equal Payments
  - Section 72(t)
  - Three ways to calculate
- Separation from Service after 55
- Draw Down Other Assets



# Approaching Retirement

- Position asset allocation in advance
- Don't let the stock market determine your retirement date



# Insufficient Assets Approaching Retirement

- Work longer
- Save more
- Reduce standard of living
- Increase Rate of Return for Investments



# Delaying Retirement

- 70 is the new 65
  - More years to contribute
  - More years for assets to grow
  - Fewer years to live
  - Substantial increases in income



# In Retirement

- Making it last forever
- Structure Asset Allocation
  - Sufficient Liquidity to ride out storms
    - At least 7 to 10 years of planned income needs
  - Sufficient Equities to provide for long term growth
    - Globally Diversified
    - Consider Overweight Small – Value
    - Commodities Futures
    - Real Estate, Foreign and Domestic



# Build in a Safety Margin

- Don't Plan Your Life on the best possible scenario
- You are unlikely to have too much money when you want to retire
- Conservative Assumptions
  - Sustainable Withdrawal Rates
  - Stress Test Planning
    - Monte Carlo
    - Reduced Return Assumptions
    - Bad years up front



# Passing it on

- IRA and Pension Assets
  - Differences between Pension and IRA Rules
  - Stretch IRA
  - Pecking order of consumption
  - Use of Trusts



# Conclusions:

- Expensive to Retire
- Take Responsibility
  - No one is likely to do it for you
- Consider Professional Help





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Any questions?