CLIENT **BULLETIN**

Independent Financial Advisors

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Maintaining Your Standard of Living in Retirement

The majority of today's retirees are enjoying a "golden" retirement, that is, they have enough sources of income to support the standard of living they are used to. That's due to two major factors: 1) their Social Security benefits support a sufficient proportion of their income needs and 2) many have traditional defined benefit pensions.

The situation is expected to be starkly different, however, for many baby boomers and future generations. Social Security is projected to provide significantly less benefit to future retirees than it does for current ones. In addition, pensions appear to be going the way of the dodo bird, as companies eliminate or freeze those benefits, while others haven't offered such pensions for years. What is left are the self-directed 401(k) and 403(b) plans. There is general agreement among experts that these plans are a) poorly managed by employees and b) are expected to provide a much smaller source of income for retirees in the future than pensions do today. In addition, the overall long-term rate of return of stocks is projected to decline from the 10% figure used in the 1990's, down to 7-8% over the next 10 years.

By and large, Americans seem to be unaware of these negative trends, so the Center for Retirement Research was formed back in 1998 with a grant from the Social Security Administration to research trends. The Center has developed a National Retirement Risk Index, which measures the share of working-age households who are at risk of being unable to maintain their pre-retirement standard of living in retirement.

The Index, which was just released last week, shows that, even if people retire at age 65 under assumptions that are very conservative, 43% will be at risk. Under assumptions that are more realistic, the share at risk rises to an incredibly high 66%. That means that potentially two out of three retirees will struggle to make ends meet.

This is the clearest evidence to date of what economists have been warning of for years: that many Americans are doing far too little to prepare financially for retirement and are unaware of how their lives might change as a result.

Now may be the right time in this bulletin to note that most current clients of mine are well prepared for retirement, or at least know what they need to do to prepare over the coming years. Still, this is a potential sea change for our society, one that could conceivably have ripple effects on all of us, so it's important to be aware of what's coming up and how you might protect yourself and your family.

There are three relatively simple actions that people (even young people) can take. Retiring at age 67 instead of 65 reduces the households at risk by 11%. Secondly, increasing one's level of retirement savings an additional 3% per year results in a 3% reduction in baby boomer households at risk. Finally, completing a retirement plan will tell you how much each year you should be saving to achieve your long-term goals for a comfortable retirement.

Given the above concerns, I urge my clients to 1) go through the retirement planning process with my help (which is, of course, included in the services I provide) and then, 2) revisit the status of that plan periodically to see whether or not they are on-target to achieve their goals.