

NEW HAMPSHIRE
P.O. Box 28
Whitefield, NH 03598
603.837.2506**ARIZONA**
3331 N. Deerspring Court
Tucson, AZ 85750
520.731.3434Fax: 866.263.4922
c.taradash@cvtfinancial.com
www.cvtfinancial.com

Planning For Baby Boomers

The hot topic in the financial planning press these days is how to generate income for retirees and how the practices of financial planners will probably shift over time because the baby boomers are beginning to retire and they presumably will seek assistance in navigating their finances during their retirement years. Currently, the typical financial planning client is probably a person or couple in their 50's who is planning for their retirement. While I have clients in their 20's (and it is great to see younger men and women beginning to plan at an early age) and I have client's in their 80's, my practice does follow the norm in that most of my clients are looking at retirement in the next 10 to 15 years.

Because people are living longer, pensions are not as common and social security doesn't typically bring in sufficient income to meet a retiree's needs, there are a lot of years that people are dependent upon their investments. The worst calls I get are from people who need help because a parent has run out of money and can't manage with just their social security income. I don't think this is something anyone wants to experience. On the other hand, there are people who are excessively frugal with their assets, which could be due to the fact that they fear running out of money. However, they have sufficient assets such that they could probably spend more if they chose to do so. Finding the right balance between spending too much and not spending as much as you might like to is challenging.

Conventional wisdom says a person may withdraw 4% from his or her portfolio plus inflation each year and likely not run out of money, but it isn't guaranteed you won't run out of money following this plan. If you start with say a \$1 million portfolio, you may withdraw \$40,000 from your portfolio the first year and \$41,400 the second year if inflation is 3.5%. But, this rule of thumb assumes a decent rate of return and a reasonable inflation rate. If the \$1 million portfolio only returns 2% a year, you could run out of money in your early 80's, assuming a retirement age of 60. On the other hand, if the portfolio returns 8% a year, it would be worth well over \$4 million at age 100, which means the owner of this portfolio could have spent more than the 4% plus inflation each year.

There are a couple of problems with this rule of thumb. One is that it is impossible to know how the portfolio is going to perform in any given year. And, unlike the model, it is highly unlikely the portfolio is going to perform exactly the same every year. The other issue is a retired person's spending habits. A typical person is probably more likely to want to spend more during the early years of retirement because

he will be more active. Then, people tend to slow down and stay closer to home and their spending may decrease. But then, if there are then medical issues, spending could rise significantly.

Given this complexity and the anticipated demand from the baby boomers for advice, it is easy to see why the hot topic in the financial planning industry these days is income generation for retirees. It isn't enough any more to just say that a person should have a portfolio with a certain asset allocation and then use the income from the bonds to subsidize the expenses. A portion of the portfolio needs to be in growth type investments so that it hopefully grows sufficiently to fund the income needs fifteen to twenty years down the road. And, a certain portion of the portfolio should be in cash vehicles such as money markets and CD's, which are considered relatively safe investments. And yes, a portion should be invested in vehicles that generate income. Determining the proper mix is the tricky part and it is going to be different for everyone.

Personally, rather than rely on a 4% rule of thumb, I like to keep a close tab on clients retirement plans and update them frequently, rather than let it go on auto-pilot. If things work out better than expected in a given year, then the spending could possibly increase a bit more than planned the following year. But, if it appears there could be difficulties down the road, it will be known well in advance so appropriate measures can be taken sooner, rather than later. And, hopefully, when all is said and done, people will enjoy their retirement and not worry about not having sufficient assets or running out of money.