

Special Advertising Section

You're Not Done Yet

Why Financial Planning
Should Continue after Retirement

When Jim Prieb retired from his job as a sales manager for Illinois Tool Works in 2003, his investment portfolio was heavily skewed toward stocks. It performed admirably for the next four years as the stock market rocketed skyward, but then his financial advisor, Joshua Kadish of Retirement Planning Group Inc. in Riverwoods, Ill., began urging caution. The stock market was on a tear, Kadish reasoned, that simply couldn't be sustained.

Prieb, now 66, took Kadish's advice, substituting bond funds for some of his more aggressive stock funds. He also invested additional money in annuities — insurance products that could protect his principal while throwing off a guaranteed stream of income. Call it fortuitous timing; the stock market took a u-turn in October 2007, and over the ensuing year and a half lost more than 50 percent of its value.

"Joshua really spread things out," says Prieb, who with his wife, Patti, 63, resides near Charlotte, N.C. "Consequently, our retirement has been fairly smooth, even during the downturn."

Many retirees weren't so fortunate, of course. When the markets finally stabilized, many were left with decimated investment portfolios generating just a fraction of the income they had been producing. Some struggled to pay their bills.

Years of planning for retirement can make getting there feel like crossing a metaphorical finish line. But as the recent financial crisis revealed, the race isn't necessarily won at that point. Without continued monitoring and fine-tuning, the financial plan that led you to retirement may not protect you once you get there.

"All sorts of things can happen after you stop working that can require you to change your plan," says Kevin McGarry, director of retirement income strategies for financial services firm Nationwide Financial, part of Nationwide Mutual Insurance Company. "For anyone who is happily retired, continued financial planning is critical to remaining happily retired."

Improving longevity is one reason that planning remains so important in retirement. According to the U.S. Census Bureau, the average American retires at about 62 years of age, yet increasing numbers are living into their 80s and 90s. If both partners in a married couple are 65 today, McGarry notes, there is a 50 percent chance that one partner will live to 92, and a 25 percent chance that one will live to 97.

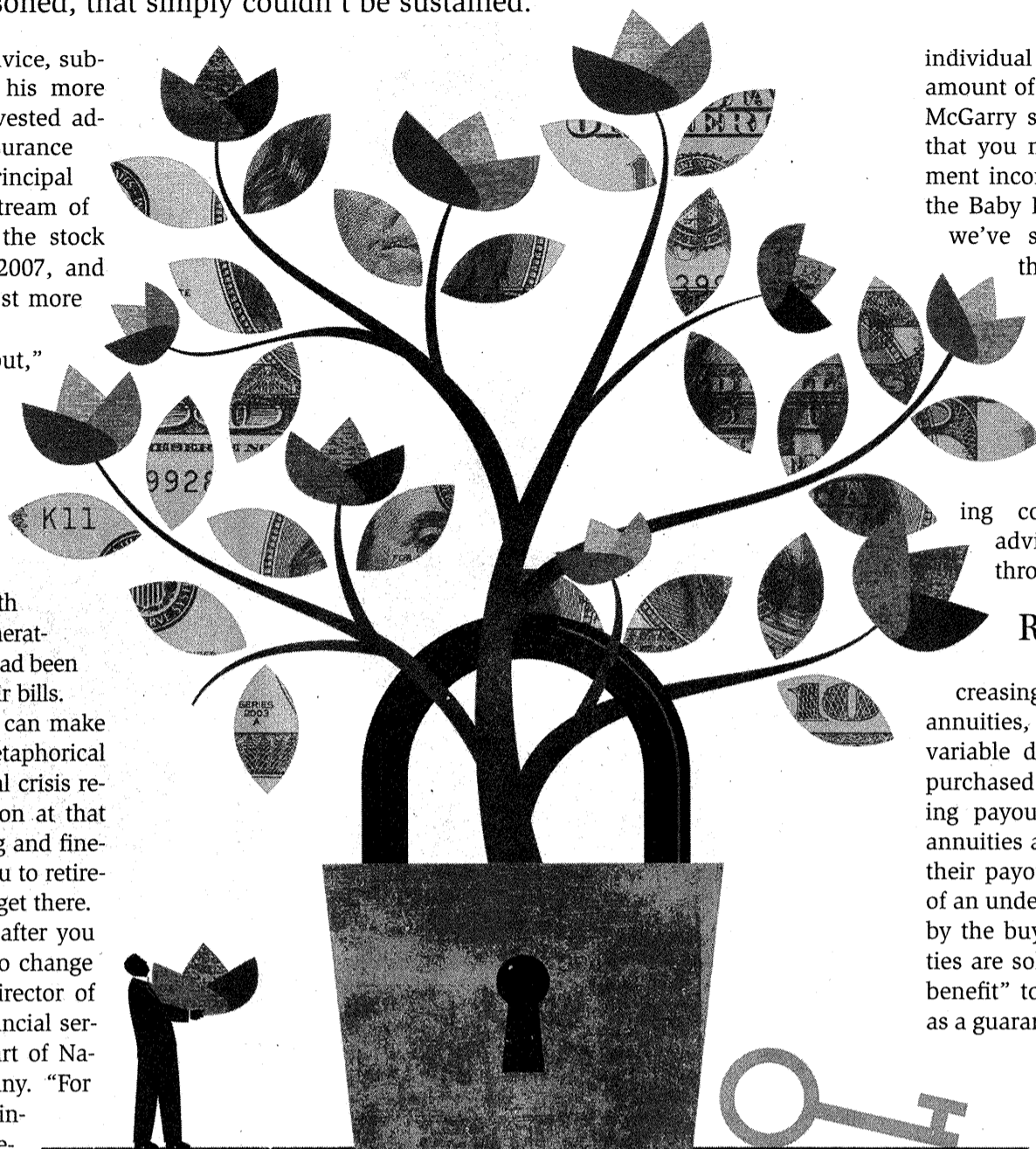
"When people plan to get from 'here' to 'there,' 'there' is normally the end of life," Kadish observes. "The early days of retirement may be only two-thirds of the way to their destination."

Change Happens

A lot can happen over the final third of that life journey, says Jac Herschler, head of business strategy for Prudential Annuities, part of Prudential Financial Inc., including external events such as the recent financial market meltdown and the ensuing recession, significant changes in tax policy, and prolonged periods of low interest rates. Closer to home, investors might see their plans upended by unforeseen medical expenses, an unexpected death or divorce, having to help adult children with their own financial troubles or having to care for an aging parent.

Or they might buy or sell a home. When electrical engineer Phil Patton, 68, retired from San Diego Gas & Electric Co. last December, his investment portfolio was relatively straightforward. Nearly a third of the money he and his wife Sally, 66, had accumulated was allocated to cash. The rest was split approximately 60-40 between stocks and bonds. But shortly after Patton retired, the couple used a chunk of their cash to buy a condominium in their hometown of San Diego. It's an investment property for now, Patton says, but some day could become their primary residence.

In the meantime, the new real estate investment has necessitated some changes in the Patton's financial portfolio. Acting on the advice of Certified Financial Planner David Zuckerman of Zuckerman Capital Management LLC in Los Angeles, the Pattons further pared back their cash holdings — cash now accounts for somewhere between 10 percent and 15 percent of the Pattons' total investment portfolio — and simultaneously increased their exposure to low-duration corporate bonds, foreign government bonds and Treasury



individual investors fail to plan for the actual amount of money they'll need in retirement," McGarry says. "The rule of thumb might be that you need 75 percent of your pre-retirement income once you stop working, but as the Baby Boomer generation begins to retire we've seen that they're spending more than that. Some studies have shown that 55 percent of them are spending the same as, or more than, what they were spending prior to retirement — especially in the first 18 to 24 months after they stop working. That needs to be addressed in ongoing consultation with their financial advisors so that their assets can last through their retirement."

Retiree Solutions

Some retirees are becoming increasingly amenable to the purchase of annuities, including fixed immediate and variable deferred annuities. The former are purchased with a lump sum and begin making payouts immediately. Variable deferred annuities are typically funded over time, with their payout determined by the performance of an underlying investment portfolio selected by the buyer. However, most variable annuities are sold today with some form of "living benefit" to provide guaranteed income, such as a guaranteed minimum withdrawal benefit.

A GMWB promises buyers they can withdraw a specified percentage of what they paid for their annuity until they've recouped their entire investment, regardless of how the underlying portfolio performs.

In addition to considering annuities, Kadish advises retirees to hold an ample emergency fund and to implement "exit strategies" to protect against losses when the financial markets turn south. Typical exit strategies include placing stop loss orders on stock positions, he says, and hedging stock portfolios with put options.

Retirement also marks the beginning of what Kadish calls the "transfer phase" of life, meaning that period when people begin planning for the efficient transfer of their assets to their heirs. A financial planner, often working in concert with the client's attorney, can help retirees with this, too. Beyond updating their wills, many retirees find it helpful to establish trusts to help them control how and when their assets are distributed after their death and to minimize estate and gift taxes.

Regular Checkups

Financial planners generally recommend that retirees revisit their financial plans at least annually, and in some cases more often, partly because time is no longer working to their advantage. Because they have fewer years to get back on track, and because there is no paycheck coming in that can be used to make catch-up contributions to retirement accounts, financial missteps can be harder to overcome in retirement than they are during an investor's working years.

"We recommend continuing to consult with your financial advisor throughout retirement just as you would go to your doctor for regular medical checkups," McGarry says. "You want to make sure you have the right products and services in place, that you haven't had any major life events that would require a change in your financial plan."

Retirees should consult with their financial advisor at least annually, preferably biannually, and at the start of any major life event such as a divorce, a death, the birth of a grandchild, or the purchase of a new home or vacation property.

The stakes are too high to do otherwise.

— R.M.

TRENDS IN PENSION/ANNUITY INCOME

The likelihood of receiving an annuity and/or pension income increases with age, until the oldest age group (those age 80 and over), where the data show a lower percentage receiving annuity and/or pension income. However, since 1975, the percentage of individuals age 80 and over receiving annuity and/or pension income has increased, from 17.7 percent in 1975 to 37.3 percent in 2008.

| AGE | 1975 | 1990 | 2008 |
|-----------|------|------|------|
| Age 50-55 | 4.6% | 6.6% | 4.0% |
| Age 56-60 | 9.4 | 15.8 | 12.6 |
| Age 61-64 | 16.1 | 28.0 | 22.4 |
| Age 65-67 | 25.8 | 37.1 | 31.2 |
| Age 68-70 | 26.5 | 38.4 | 35.7 |
| Age 71-75 | 25.4 | 39.2 | 35.5 |
| Age 76-80 | 21.7 | 34.6 | 37.2 |
| Over 80 | 17.7 | 30.2 | 37.3 |
| Over 65 | 23.8 | 36.1 | 35.4 |

SOURCE: EMPLOYEE BENEFITS RESEARCH INSTITUTE, BASED ON DATA FROM THE CURRENT POPULATION SURVEY

Inflation Protected Securities, or TIPS.

Hiring an advisor was a relatively new phenomenon for Patton, who mostly managed his own investments while he was working, and still manages about half his portfolio today. But as he approached retirement, he says, he began to question his solo approach.

"For so many years, I thought I knew as much as anyone else, but that was when the markets were generally going up," Patton recalls. "The last six to eight years, it's been a different story. Our financial planner could figure out some things I realized I just didn't know so much about."

Failing to appreciate potential pitfalls is, of course, just what gets some retirees and their financial future into trouble. They may travel more than they had anticipated, spend more than they had budgeted, or fail to rebalance their investment portfolios on a regular basis. Such missteps may seem small in isolation. But like the person who gains a pound or two every few months, only to find themselves dangerously overweight several years later, the retiree who strings together a series of small financial mistakes can find the cumulative results catastrophic.

"One of the biggest things I see is that