Baby Boomer Retirement Roadmap

FIVE KEYS TO ENJOYING THE LIFESTYLE YOU WANT FOR THE REST OF YOUR LIFE

By Denny Frasiolas
and Artie Bernaducci

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This Book Is for You If . . .

You should take time to study and consider this book if one or more of the following applies to you:

• You are a baby boomer, meaning you were born between 1946 to 1964.

• You've experienced a major life change recently, such as moving to a new home, changing jobs, retiring, receiving an inheritance, facing a divorce, selling your home, etc.

• You are thinking about your retirement and want to ensure you have taken all the right steps to make it as enjoyable and stress-free as possible.

• You have been wondering about whether you need financial advice, but you're just not sure of the best way to go about getting it.

• You worry about the unpredictable economy and wonder what effect it will have on your long-term finances.

• You are interested in legal, ethical, and effective strategies to help you pay less in taxes—both now and in retirement.

• You have heard some people say the government cannot afford to continue the current Social Security arrangements forever, and you are concerned about what this means for you.

• You are worried about the volatility and risks of the stock market.

• You worked hard for the money you have earned and saved, and you want to ensure you pass something on to your kids and grandkids without the government getting its hands on too much of it.

• You already have some savings and retirement plans but are not sure if they are enough to last for as long as you may need them.

• You know you need to invest your money wisely for the future but are confused by the whole range of options available.

• You realize you may live a long time after retirement and are worried about what will happen if you become weak or frail or even need long-term care services.

• You are concerned about what will happen to your spouse if they are left alone in their senior years.

• You already retired and are dissatisfied with the income produced by your assets and investments.

• You want to make sure you and your dependents get their fair share of Social Security money after years of paying into it.

BABY BOOMER RETIREMENT ROADMAP

Five Keys to Enjoying the Lifestyle You Want for the Rest of Your Life

Today, millions of Americans in the "baby boomer" generation approach retirement with more opportunities and more challenges than any previous generation.

Our parents and grandparents often retired after long periods of employment with a single employer or having made very few job changes during their lives.

When they retired, they could often rely on a Social Security benefit backed up by a healthy pension from their long-term employer.

Typically, they would live only a few years after retirement, and usually they would be able to do this without major financial worries.

Even if they didn't quite live a luxurious lifestyle, they could often expect to be comfortable for the remainder of their golden years.

Today, however, we face a very different set of circumstances. The way we live, work, and plan our finances has changed—in some cases, significantly.

Now:

• We live longer.
• We enjoy a more active lifestyle in retirement.
• We expect to maintain high standards of living in retirement.

These are largely improvements as far as our life and lifestyle prospects. However, there are also some substantial tradeoffs, such as:

• Traditional pensions are disappearing.
• Market and economic booms and busts have left people concerned and confused about investing their hard-earned money.
• Health care costs are rising.
• Life is unpredictable, and we never know when we might need access to our money.
• Social Security faces enormous pressure as the number of people in retirement increases, and the increasing costs are shared amongst fewer people in the workforce. (This has already led to new legislation affecting Social Security benefits.)
• The range of investment options is complex, making it hard to know who to trust. (Even television personalities have now become financial "gurus.")

The result is we need to be more careful than ever before about making our money last.

So, perhaps it's not surprising many Americans these days find their retirement plans coming up short. It's now a real concern that many retirees today could outlive their financial assets if they attempt to maintain their preretirement standards of living.

The good news is there is something you can do about it.

Making a Plan

Many retirees today could outlive their financial assets if they attempt to maintain their preretirement standards of living.

It couldn't be clearer that, whatever your current situation, now is the time to stop and check how effective your current strategy is for building a retirement nest egg and ensuring it will last the rest of your life.

Don't have a retirement strategy?

Well, bear this in mind . . .

Wells Fargo reports those with a planning mindset (people who set concrete financial goals) accumulated three times more in retirement assets versus those without one.[1]

Fortunately, it's never too late—or too early—to work on the right strategy.

And it's better to work on it with the right information and support.

Here's the key . . .

Regardless of how you envision your retirement, these days, you are primarily responsible for planning how to get there.

Let us make one thing clear (we'll come back to it later on in the book):

Having a 401(k), IRA, or another arrangement in place does not mean you have a complete plan for retirement.

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[1] Wells Fargo. 2018. "2018 Wells Fargo Retirement Study." https://www08.wellsfargomedia.com/assets/pdf/commercial/retirement-employee-benefits/perspectives/2018_Wells_Fargo_Retirement_Survey_WP.pdf

A few additional steps are necessary.

First, you have to make the best choices for building your nest egg. Then you have to decide how best to manage and protect the nest egg you've worked so hard to build. You will also need to ensure your nest egg generates a strong enough income stream to last you a lifetime and remain large enough to provide the lifestyle you want.

Planning for the Retirement Mountain

Here's another important concept we will return to later in the book.

Planning for retirement is like climbing a mountain—*and* coming back down.

With this in mind, you need one approach for climbing the mountain and another for coming down the other side safely and comfortably.

When you're taking a challenging path in any area of your life, you probably want to do it with an experienced guide, similar to Sherpas who accompany mountaineers in the Himalayas.

That way, you can be more confident in your plans for the ascent and descent.

It's the same idea when it comes to the different phases of your retirement planning.

When you're taking a challenging path in any area of your life, you probably want to do it with an experienced guide.

Many people feel they need the assurance of a guide to help them work out what they need to do and when they need to do it.

We like to think of ourselves as resembling the Sherpas. We use our extensive experiences in the complex terrain of financial planning to help our clients feel more protected and comfortable.

The challenge for many people is the process of planning for retirement requires so many decisions, and your priorities usually change depending on where you are in your life. What is most important for you when you are twenty is often not your main priority when you are forty, and something that may be crucial at age forty may not even be on your list of priorities at all by the time you are sixty.

By helping people make decisions, we act as the Sherpas for our clients as they plan to traverse what we call the "retirement mountain."

But we have found many people beyond those we serve as our clients need support in their retirement preparations. So, while we can't be personal guides for everyone, we can set out a roadmap highlighting what we believe is most important for the climb.

That's our aim in writing this book.

Becoming Retirement Ready

Do you need a guide to help ensure you're retirement ready?

You might if you are between fifty and seventy-five years of age—whether you are retired or very close to it. We'd like to help you in your goal of becoming retirement ready.

There are a number of benefits associated with being truly retirement ready.

For instance, when you are retirement ready, you can be more confident that you will have the income you want in retirement and that you'll continue to enjoy the lifestyle you want for the rest of your life. Some of the other key benefits include the following:

• If you are heading toward retirement, you are still climbing the retirement mountain, and you'll discover ways to help maximize your retirement readiness for both the peak and descent.
• If you are already retired, you're already making your way down the retirement mountain, and you'll discover ways to help ensure the nest egg you've worked so hard to accumulate provides the most income possible for the rest of your life.

We aim to make this book as helpful as possible without filling it with jargon, unlike many other retirement books available on the market today.

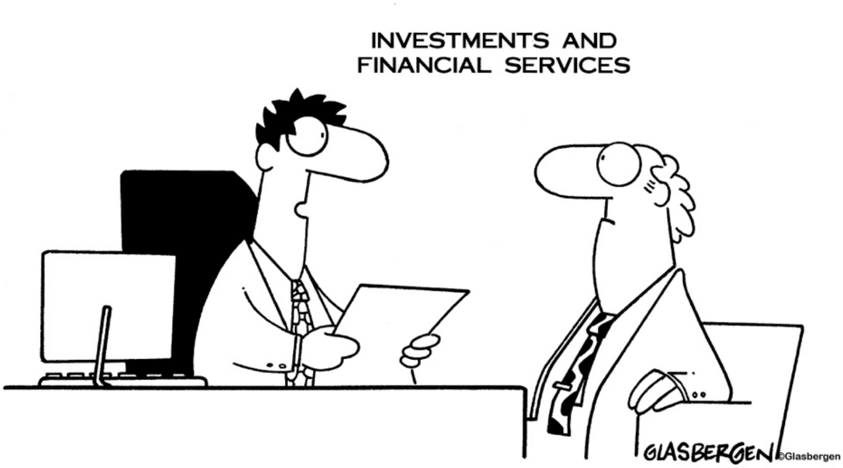
We've answered many of the questions we are most typically asked, and we've provided a roadmap here in this book to help you through the following five stages of:

1. Understanding the Baby Boomer Retirement Challenge
2. Navigating Comfortably Up and Down the Retirement Mountain
3. Selecting the Right Social Security Payout
4. Protecting Your Health and Financial Comfort for Life
5. Passing Wealth on to the Next Generation

It's your retirement, and you've worked hard for it! Our roadmap is designed to help you live the lifestyle you want for the rest of your life. If you're ready to get started, let's dive in!

KEY #1:

Understanding the Baby Boomer Retirement Challenge



"You're called 'boomers' because 'boom' is the sound most of you will make when you crash into your retirement years."

The first big challenge most people face when they think about retirement is they don't really have a clear plan for it.

When preparing for retirement, people often assume they have some pensions in place and some investments that can get them through the remainder of their lifetime. But, most of the time, they haven't sat down and really worked out the necessary details.

Sometimes that's because retirement still seems a long way off. In other cases, it's because the whole thing seems so confusing or overwhelming to the point that they think, "out of sight, out of mind." Regardless, they may end up procrastinating until it's too late—which can end up costing them big time!

Often, they don't understand planning for retirement really isn't all that hard—especially when you work with an experienced guide. The process can also be made much easier when you break it down into more "bite-sized" steps.

One of the most important steps is to start actually planning for your retirement and understanding the importance of that planning.

In this first step of the retirement planning roadmap, we want to help you get this foundation right because everything else will be built upon it. And we all know, the stronger the foundation is, the stronger the structure built on top of it will be.

By the end of this chapter, we hope you'll have a firm foundation and a good understanding in place for moving on to the next step.

In this section, we will look at:

- Why Planning for Retirement Is Harder Now Than Before
- Keys to Taking Retirement Planning Seriously
- What to Do When It Seems Too Late to Plan
- Key Factors in Retirement Planning

Why Planning for Retirement Is Harder Now Than Before

Before mobile phones, the internet, and complex financial products, life used to be less complicated in many ways.

While we may be nostalgic for certain aspects, it certainly doesn't mean life was better back in the day—there are certainly aspects of modern life that we wouldn't want to trade. Yet, there are several reasons planning for our retirement years is now much more complicated than it used to be.

> **I think the Baby Boom has enjoyed itself, maybe sometimes a little too much, and we're continuing to enjoy ourselves, maybe a little too much.**
>
> **P J O'Rourke, Writer.**

Among the most notable reasons for this are:

• Changing demographics
• Different employment patterns
• Longer life spans
• Uncertain Social Security
• A wider range of ways to plan for the future (which, in turn, can lead to confusion and overwhelming feelings about what to do)

Let's take a closer look at each of these elements.

• Changing demographics

People around retirement age now generally originate from what is known as the "baby boomer" generation.

The "baby boomer" name arose from the unusual spike in the birth rates after the Second World War. Young men and women who had been unable to settle down and raise families through the war years suddenly entered a period of peace and prosperity and got to work making up for lost time.

Generally, anyone born between 1946 and 1964 is considered a “baby boomer,” so it follows many people retiring now—or thinking about retirement—are part of this generation.

In general, despite some economic storms along the way, our baby boomer generation has probably enjoyed a higher standard of living than our parents and grandparents did.

According to Forrester Research, older shoppers now not only make up a larger segment of the population than ever, but they also are the biggest spenders because of the extra cash built up over the years.

For example, in 1973, older consumers accounted for 25 percent of discretionary spending, but this grew to 35 percent by 2013.[2]

One of the challenges we face now in looking ahead to retirement is some from this era have overenjoyed the good times and didn’t prepare for a rainy day.

Some have borrowed rather than saved, and they have little in the way of savings for the future.

This issue is compounded by the fact that this generation did not follow the example of their parents by having large numbers of children.

At a very localized level, one couple needs to have two children to “replace” themselves. In fact, on average, they need slightly more than two, allowing for those who sadly pass away young.

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[2] Ashley Lutz. *Business Insider.* June 2, 2015. “Baby Boomers are the sexiest consumers in retail.” https://www.businessinsider.com/baby-boomers-spend-the-most-money-2015-6

The reality in the U.S. now, however, is the average fertility rate—the number of children born per adult—is much fewer than this. It's closer to 1.5.[3]

This means, for every six baby boomers,
only about four people have been born in the next generation.

This is what we mean by an "aging population." There are fewer young people (i.e., people in the workforce and lined up ready to come into the workforce) than there are in the older generations who are nearing the end of their working years.

In theory, this means those four children have to work harder to support the six from the older generation when they can no longer work.

In practice, even if they were willing to do this—an unlikely scenario, given they will also have to work harder to support their own finances—the current system of pensions may well be unsustainable for some of the other reasons we discuss.

- **Different employment patterns**

There are also different employment patterns today than there were in the past.

In our parents' generation, many people spent their entire lives working for one corporation, and many of these offered pension plans with retirement income benefits linked to what people earned while working.

At the time, the easy advice was to get a good job at a good company, work hard, and then end up with a nice pension.

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[3] Julia Belluz. Vox. May 15, 2019. "The historically low birthrate, explained in 3 charts."
https://www.vox.com/science-and-health/2018/5/22/17376536/fertility-rate-united-states-births-women

However, the key problem here is the same demographic change we mentioned above.

In many pension schemes, there are more pensioners than workers.

Many of these big company pension schemes started in the fifties and the sixties when there were around ten to eleven workers for every pension recipient. At that time, the economics looked good. Over time, though, the situation has actually reversed in many cases, and there are now often more pensioners than workers in these plans.

Although many of these pension funds built up substantial assets, the financial demands, combined with the changing demographics, mean they cannot always be sustained.

With companies no longer offering competitive pensions, many workers no longer feel compelled to stay with one company, leading to more turnover in the workforce. The days of retiring after a lifetime at one company are dwindling. This in turn can disincentivize companies from offering pensions, as some boards figure it's not worth investing in the professional development of workers who may leave after a few years.

In addition to this, the remaining pensions' benefits need to be paid out for a longer period of time due to increased American longevity. This leads to our next component.

• Longer life spans

In the early days of pension plans, many people did not live long beyond retirement—often just two or three years on average.

Nowadays, many people can expect to live fifteen to twenty years (or more) after retirement —often in good health.

That's time that has to be paid for by these pension benefits, and, often, people hope to enjoy the same standard of living they enjoyed while they were working. Now they just have more time to spend money!

• Uncertain Social Security

The story of Social Security is similar to the history we just covered of company pensions.

Social Security was initially set up to prevent the elderly from having to live an undignified life in poverty when they were not able to work anymore. But this program was never meant to provide one's primary retirement income benefits.

There is a kind of fear, approaching a panic, that's spreading through the baby boom generation, which has suddenly discovered that it will have to provide for its own retirement.

Ron Chernow, Writer.

Social Security works on a pay-as-you-go principle, meaning the contributions of current workers are used to pay the income benefits of retired people.

Unlike a lot of company pension funds, the money to fund Social Security benefits has not been set aside in advance.

This approach worked in the days when the population was growing and the active members paying into Social Security outnumbered those withdrawing from it.

For example, three or four active workers might be paying into the system for every retired person receiving benefits.

This was possible because the population steadily grew.

As we explained prior, though, the roles are now becoming reversed due to the shrinking numbers of active workers. In order to sustain the Social Security system over the long term, we will need to make some changes. Some of the changes on the table mean choosing among options such as:

- Increased retirement ages
- Smaller payouts
- Increased worker contributions

In fact, we could end up with a mix of all three. But we cannot expect to rely on future generations to finance people in retirement as they have done in the past. Some would even argue the whole Social Security system is unsustainable.

As we'll explain later, Social Security remains an important part of your retirement calculations, but it is not something you want to rely solely on to sustain your desired standard of living in retirement.

• A wider range of ways to plan for the future

Today, we also have numerous financial products and services that could be used for retirement planning. While this may seem like a good thing, it can actually lead people to feel overwhelmed and, in turn, procrastinate until it is too late.

Your parents probably worked for one company for most of their lives, and they likely had a nice 401(k) or company pension to retire on at age sixty.

They may also have collected Social Security, and life was fairly good. They might have even had a few different pensions generating income for them, but, overall, the arrangements were usually straightforward.

Now, as we'll see in later chapters, a confusing array of different options to choose from—not to mention the frequency of job changes an average worker will experience—allows people to acquire many different types of investments and pensions over their working lives.

We aim to clear away some of the fog from this later in the book, but the sheer range of choices can be a factor that makes the process difficult for many people.

Keys to Taking Retirement Planning Seriously

One of the questions people most often ask when it comes to retirement finances is, "When should I start planning for my retirement?"

When you know what you want your retirement to look like, it becomes possible to work out how much it will cost.

The obvious answer is it's never too soon to start planning for retirement.

There are several common mistakes we see people make when thinking about retirement, including:

- **No Retirement Goal**

Some people have no idea when they want to retire nor what they want their retirement to look like.

So, wherever you are in life right now, you should start by deciding what you want your retirement to look like. Then you can work out how much it will cost and how best to pay for it.

The good news is, this problem tends to be one of the easiest to fix. We provide some tools to help you do that at the end of this book.

- **Having No Plan**

Some people know they want to retire and have a retirement goal in place, but do not have a plan for how to retire.

Setting your retirement goal means deciding what you want your retirement to look like. The plan is how you actually hope to make it happen.

Without this, you may face significant challenges when retirement arrives, as many factors are out of your control.

Again, we'll show you some strategies to consider at the end of this book.

• Not Saving Enough

When you know what you want your retirement to look like and work out how much it will cost, you can then take the steps and contributions necessary to make it happen.

The reality is many people underestimate what they will need to fund the retirement they want.

There are many basic calculators available that will help you determine whether or not you're saving enough to reach your retirement goal.

• Starting Too Late

Starting too late is one of the most common problems we see, and it is the most difficult to fix. That's why you might hear the frequent statement that the most valuable retirement asset you possess is time.

We always assume it will be easier to find the money in ten years than it is today, but reality usually does not reflect this.

The truth is, you'll always have expenses and demands on your finances.

Then, what happens is, you might reach age fifty-five and wish you'd started saving back when you were thirty-five.

If you were able to create the habit of saving for retirement early, you likely have more confidence now, closer to your retirement years, that you'll have it all taken care of.

However, if you haven't planned so far ahead, the good news is it is still never too late to take action.

• Not Making the Most of Opportunities

There are many ways you can get the best out of your options for retirement planning, such as taking advantage of 401(k) matching from an employer or maximizing your tax deferral with your IRA.

You can also leverage many other opportunities to save more for retirement.

Our aim is to help you make the most of these opportunities.

• Failing to Track Results

How you save today will differ from how you save ten years from now. As you age, you'll generally want to reduce risk and invest less aggressively.

You'll also want to review your retirement savings annually to make sure you're on track to reach your goals. Setting retirement goals and tracking your progress can provide powerful motivation.

We always assume it will be easier to find the money in ten years than it is today, but reality usually does not reflect this.

You might create a chart that shows you climbing closer to your goal. Or you may track your progress in a ledger or spreadsheet. In any case, you choose whatever method of tracking and measurement helps motivate you—as long as you are taking action.

In reality, you are on your own these days much more than ever before. You're entirely responsible for your retirement. It's up to you to save for your retirement—not your employer and not the government.

It's not complicated, but it does require planning and a course of action that you can and will follow through. With this book, we aim to help you develop a roadmap to do exactly that.

What to Do When It Seems Too Late to Plan

Of course, the earlier you start planning, the more time your money will have to grow, and the less it will cost you to reach your retirement goals.

Here's an example.

If you invest $5,000 a year each year until age sixty-five and assume a 7 percent return, the difference in the outcome is enormous.

- If you started at age twenty-five, you would end up with more than $1 million
- If you started at age forty-five, you'd end up with around $200,000

It's not just that waiting to forty-five means missing twenty years of payments. A straight calculation shows that is a difference of $100,000. But most of what makes the difference between starting at twenty-five and waiting until forty-five is in compound interest—the money generated by your money over time. The longer you make steady contributions, the more you earn in compound interest. This means every month you wait to begin saving *costs you money*.

We travel through life assuming we'll have more money to invest after we reach a certain stage. But then something unexpected occurs, and the goal of saving more money never happens.

The next thing we know, it feels too late to do anything. But the reality is, it's never too late to get started.

If you start planning late, though, you will have to face one or more of the following consequences:

• You will have to save more money now
• You will have to delay your retirement
• You will have to reduce your standard of living in retirement
• You will have to find work or other sources of income after retirement

Obviously, you want to minimize these negative effects, which is why it's important to take action now.

You may be able to take advantage of opportunities to restructure your investments or claim tax relief from previous years. Many of our clients have been surprised at how we've been able to help them make up for missed time.

Key Factors in Retirement Planning

One of the main reasons planning for retirement can be difficult is the many different factors you need to consider.

Here are just a few you need to think about before you even start to consider how much money you'll need to save:

• **Health care:** The costs keep on rising, and it becomes more and more difficult to meet them in your senior years as your chances of needing care are higher. We'll talk about this in more detail later.

• **Inflation:** While it's been less of a concern in recent years compared to the past, who knows what will happen in the future?

Even inflation of just 1 or 2 percent a year can make a big dent in your savings over time.

• **Low interest rates:** While future interest rates are unpredictable, interest rates on savings have been very low in recent years.

This has been a particular problem for people at or near retirement who typically prefer more conservative investment options.

• **Longevity:** While none of us can know or predict how long we will live, the average life span has been steadily increasing over time.

People in previous generations did not live many years after retirement, but people today are living into their eighties, nineties, and beyond. This means retirement savings may have to last many years.

• **Liquidity:** There are many reasons why you might need access to significant amounts of money—whether for predictable factors, such as college fees and family weddings, or for less predictable events.

You have to consider when you might want access to your money and what the costs and tax implications of that might be.

• **Taxation:** Paying tax creates potentially the largest financial commitment at all stages of your life. Therefore, it's important to plan so you don't pay more to Uncle Sam than necessary.

In our experience, too many people fail to take taxes into account when planning their retirement income needs. Remember, it's not necessarily what you make, but what you keep determines your standard of living in retirement.

• **Social Security:** You need to calculate how to extract the maximum benefit you are entitled to from Social Security.

Getting this one decision right could potentially mean thousands of additional dollars in retirement income for you.

• **Wealth transfer:** You need to find the most tax-efficient method to transfer assets to your heirs. Otherwise, Uncle Sam could end up as your biggest beneficiary!

• **Family protection:** While your children or grandchildren may not be your financial responsibility in your golden years, you will want to ensure your spouse or partner is cared for if they are left on their own. Otherwise, he or she could end up losing some of their income if you pass away first.

Some people also need to ensure they have provisions to provide care for dependents, such as a special needs child.

That's why life insurance and family protection can still be relevant later in life. It can also play a role in tax planning. We'll talk more about that later.

• **Attitude to risk:** The potential returns you will receive on your money depend on how much risk you are willing to take with it. That's why you need to take your attitude toward risk into account when planning, something we'll discuss in detail later on.

• **Long-term care needs:** Our planning for retirement must take into account the possibility of needing special care at some stage.

This can be extremely concerning and very expensive if not planned for properly. Even assistance with basic needs, such as bathing and getting dressed, can be expensive. So be sure to include these costs in your overall retirement planning.

• **Planned retirement age:** The age at which you plan to retire will have a considerable impact on how much money you need.

Retiring later means you have more time to save and will have a shorter period to dig into your funds.

• **Desired lifestyle in retirement:** What you want to do in retirement will determine how much money you need.

Many people underestimate what they will need to spend each day. You might think you will spend less, but often we see people find they actually spend more.

As you can see, there are numerous challenges facing the retirees of today.

We'll dive into these elements in detail as we go through the book. So, let's keep moving forward.