BONUS CHAPTER FOR READERS OF

Finding Meaning, Facing Fears in the Autumn of your years (45-65)

DISCLAIMER: **ANYTHING AS IMPORTANT AS RETIREMENT PLANNING SHOULD BE DONE WITH A TRUSTED FINANCIAL PLANNING PROFESSIONAL**.
THE IDEAS PRESENTED HERE ARE SOLELY BASED ON MY EXPERIENCE AS A PSYCHOLOGIST AND PERSONAL INVESTOR. THEY ARE FOR HEURISTIC PURPOSES ONLY. ANY CONCLUSIONS DRAWN FROM THIS MATERIAL MAY WELL NOT FIT YOUR INDIVIDUAL CIRCUMSTAMCES.

The stark truth about managing our money these days is that we are mostly on our own.
Ron Lieber, NYT, 5-17-08, B-1

RETIREMENT PLANNING: THE FINANCIALS

The autumn years lead up to and end essentially with retirement. During these years, you will have to prepare and plan for the next stages of your life. What you do now will determine the quality of your retirement, or even whether you will be able to retire at all.

There's little question that the concept of retirement, borne on the previous generation's life expectancy, pension plans, expanding economy and promises is rapidly vanishing. The fantasy of a permanent vacation for the rest of your life will be out of reach for all but the wealthiest few or those with an alternative, non-consuming, or "off-the-grid" lifestyle. This shift reflects the economic realities of shrinking pensions, longevity, the devastation of self-funded retirement plans, such as 401k's and on the "ever-youthful" Boomer mind-set. It may also be an undesirable way to live out our senior years.

The good news is we will live longer and healthier, have more opportunities for variety in life and new challenges to surmount. The "other" news is that those goodies come with a price. Most notably, for most of us, age 65 will fade as a marker of retirement as we continue to work for some time after that arbitrary age. We can expect to live longer and very simply, that will cost more.

The big questions today are "*will I outlive my money*?" "*How will I support myself in retirement?" "My assets are all in my house. How will that support me?"*

In this supplemental chapter I explore the predictable detours and lay out some methods to plan for a personally satisfying retirement. Although the financial and psychological aspects of retirement are interlinked, the focus here is on the financials.

FINANCIALS

The concept of retirement, outside of care of elders by their families is a relatively new concept in human history. As described in the book, *Finding Meaning Facing Fear in the Autumn of Your Years (45-65)*[1], the first known retirement age of 65 was set in the late 1800's by Otto Von Bismarck in Germany. Like Social Security, which was created in 1935 in the US, it was originally designed for the minority of the population that exceeded normal life expectancy.

Today, with an average life expectancy in the eighties, Social Security is typically one part of retirement planning. Increasing life expectancy along with the decline in defined benefit pension plans for middle class workers, a proliferation of nuclear and alternative (versus extended) family configurations and smaller families in general, make comprehensive retirement planning essential.

Since the 1930's and through the 20th Century, there was a three-three pronged approach to support the retirement years:

1. a pension;
2. Social Security benefits;
3. personal savings.

In the 21st century, most individuals will not have traditional pensions, will likely see a reduction in Social Security benefits and realize that a longer life requires a more substantial cushion. In addition, among those currently in their autumn years, there is an additional burden of debt, accrued while financing their present consumerism. Among those interviewed, a majority were as yet insufficiently solvent to support themselves.

Indeed, many who were confident or already retired a few years ago found their savings, IRAs, 401 and 456[2] plans decimated by as much as 40% in the recession that began in 2009. Those who stayed in the market and did not cash out at the bottom have seen the numbers recover significantly. However, their confidence has been shaken.

In fact in our survey, only seven percent of responders described a savings plan and long-term strategy of living within (or below) their means. They had set a retirement date and had a plan and funds available to support that plan.

What About the Rest of Us?

- Twenty-two percent had no long term plan and could easily outlive their savings and benefits.

[1] ***Finding Meaning, Facing Fears in the Autumn of Your Years (45-65)*** is available http://impactpublishers.com/index.php?p=custom_page&page_name=How%20to%20Order through Impact Publishers and at booksellers everywhere.

[2] The numbers of these plans 401, 403, 457 all refer to U.S. tax codes for deferred taxation

- Twenty-one percent were saving aggressively with the hope of catching up.
- Fourteen percent reported no plans to retire. They planned to work until they "dropped."
- Twelve percent, more often women, had already begun or planned small businesses that they could do at or close to home.
- Almost twenty percent planned to retire from one career and then take a less stressful job "for the benefits."
- Almost thirty percent planned to sell their home, move into far more modest accommodations, keep the old autos running and change their lifestyle
- Five percent were anticipating a windfall inheritance and believed that it would be sufficient to support their lifestyle through their retirement years

Almost all of the interviewees expected to be more frugal, usually implying a major shift in consumption and spending.

Okay, Bottom Line, How much do you need?

A host of experts, web sites and programs offer an opportunity to determine "*The Number*" -- the amount needed to retire successfully, without worry. Sadly, these "experts" provide quite contrasting opinions. With all the media attention, sales pitches, "free" enticement dinners, numerical models and scare tactics, most people are increasingly uncomfortable about their financial planning. It is not easy to turn the future over to experts either.

Recent economic catastrophes in the US and Europe have decimated retirement savings and even though the market has rebounded, the psychological anxiety, engendered by the exposure of massive fraud and theft by those who were supposed to have fiduciary responsibility, remains in our hearts and minds. Most boomers simply do not trust investment advisors, who may place their own interests ahead of their clients or bankers who have done little to regain the trust dashed by the mortgage crisis, credit default swaps and other arcane financial instruments with little or no underlying basis. Several of these may emulate pyramid schemes, shell games and "last fool in" perspectives.

Is the problem real and if so, what can you do now? Who can you truly trust? Is it already too late if you are in your fifties?

Developing strategies to reach your financial goals should involve a simple mathematics equation and a little discipline. Unfortunately, for many it is far more complicated. Whatever method is used to establish *The Number* involves guesses and assumptions. Take any of the retirement calculators available on the internet, at the brokerage houses or insurance companies. Inevitably, the future retiree will be asked to estimate long-term inflation rates; a speculation the Federal Reserve Chairman is loath to make. Even more disconcerting is the bottom line that these computer programs yield - the vast majority of individuals cannot save enough or afford to retire.

Estimating The Number. In arriving at a realistic figure for retirement income, you will probably need strategies to both increase income and reduce expenses. At that spending level, Social Security benefits may provide up to 25% of your needs (more if you are married and your spouse also gets benefits), reducing the necessary principal.

Sad realities. Until the real estate bubble bust in 2007-2008, many Americans seemed to believe they could live beyond their means, as long as the values of their houses were rising. Meanwhile, half of the families without traditional corporate pension plans or 401(k)'s have saved less than $40,000 and fully a third of households have saved nothing for retirement.

The lucky few. In fact, some modest number of the Boomer Generation will be spared any inconvenience because of an expected generational transfer of wealth through family estates,[3] trusts or because of a careful, long-term, regular savings program. However, this great wealth is not equally distributed. Many Boomers who grew up and thrived in times of open possibilities and a fantasy of few limits are going to have to face finally some other realities.

What Can You Do to Vouchsafe a Viable Retirement?

There are two phases of financial planning: accumulation and spending.

Most of the attention by financial advisors is at least initially on the accumulation phase. How much do you need to accrue to have a secure retirement? The retirement calculators and related questionnaires, available from brokerage houses, insurance companies and organizations like AARP provide some general perspective on what your fixed costs will be, and how much prinicipal you will need for the number of years you are likely to live.

The calculated number you need to reach will vary across calculators and assumptions, so they are best viewed as a general guideline. *Spoiler Alert.* Most individuals who do complete the calculations suffer from some kind of sticker shock at the sheer numbers of dollars involved. The notion that a million dollars or more in savings may be necessary for the average family to maintain their lifestyle is quite daunting.

[3] The estimated $70 Trillion expected to be transferred in the first three decades of the 21st Century has shrunk dramatically because of the longevity and financial needs of the current older generation and market losses in 2008 and 2009. It seems at this point less clear what the actual wealth transfer will entail, but for the average middle class person, $50,000 to $100,000 may be considered a substantial inheritance. The $2 - $10 million exclusion on taxes enacted during the first G.W. Bush administration will be a pipe dream for all but the wealthiest 1 – 5% of the population.

Will I outlive my money?

That question has grown from a perplexing query, discreetly posed across the dinner table or by confidential financial advisors to an almost unending threat that comes at the post midlife crowd from a multitude of media.

Look at the headlines of popular periodicals. The issue of financial security is front page, from expected sources such as Money magazine, Forbes and the Wall Street Journal to mainstream Newsweek, Time, daily newspapers and even alternatives such as the Utne Reader. Consider the question pondered on the late July, 2009 cover of *Newsweek*, "the recession is over; will you survive the Recovery?"

Check out the course offerings at the local community center or listen to the radio or watch television programs and one of the dominant themes is about money, money management, financial issues and retirement. Follow some of the web links or pop ups whenever you do a Google or Yahoo search and once again there are computer estimators to provide "*The Number*."

Although these media warnings are important in a world in which most of us will be funding our retirement life personally, they are frustrating for several reasons. For one, they ask you to provide some expertise that may be beyond your capability.

Here is a typical example from one of the internet based services. The numbers in parentheses represent the situation of Sal, a well employed single person.

Your current age (55)

Age at expected retirement (65)

Annual income ($85,000)

Expected expenses in retirement ($70,000)

Social Security benefit ($24,000)

How much do you currently save annually ($8,500)

Your estimate of rate of inflation for use in this calculation (4%)

What is the current value of your investments? ($400,000)

What is the annual return on your investments or what rates do you expect to receive (7.5%)

What other sources of income will you have post retirement (Soc. Sec., inheritance, pension, royalties etc.) ($24,000)

What rate of increase in income (i.e. raises) do you expect between now and retirement (3%).

According to the resultant calculation, the amount needed for retirement is over $2 Million and Sal, the individual in this example, will have just under $1 million. Except for his Social Security Benefits of $2000 per month, his funds will completely run out 11 years after retirement, when he is 76.

By working three more years until age 68, the funds will last an additional 4 years – until age 80; still below the expected life span for men and women who reach age 65.

By cutting his expenses in retirement to $60,000, he can add another three years.

Any changes in assumptions can have major impact. For example an inflation rate of 3.5 instead of four will add two more years onto the time before money runs out and an 8% return on investment also adds two years. If Sal were married and his spouse also receives social security benefits, the age increases to 86.

The calculations are solely for planning purposes. Nobody can reliably foretell many of the crucial criteria. In addition, this particular example does not account for cost of living differences. Sal resides near Cincinnati, Ohio. A person living in San Francisco, Honolulu or New York with identical resources would have a far bleaker picture.

Bob and Alice

Bob and Alice do live in one of those more expensive areas, a suburb West of Boston. They are a healthy, vibrant couple who, until 2008 were on the brink of retirement.

At ages 60 and 62, they've done it all right, saving 15% of their income for retirement, and have lived within their means. Their vision of the “golden years” include an active life with a moderate country club membership, increased time with children and grandchildren and occasional travel.

According to a summary provided by their financial planner at the end of 2007, “*you are on track to fully and easily fund your vision*.” By the beginning of 2009, their portfolio had lost 35% and their retirement vision seems so much more distant. To be sure, Bob and Alice will be okay, but they are now faced with a significant choice: Do they retire in two years as planned when Bob reaches 62 with a lower standard of retirement, or do they delay retirement to rebuild their savings and portfolio?

Carla and Will

At approximately the same age, Carla and Will face a more dire consideration. Unlike Bob and Alice, they do not have the "luxury" of a decision about working longer, cutting back on country club memberships or travel. In 2007, they had made plans to wait until they were both 65 and then retire to their mortgage-free home in Upstate New York.

Because they had some debt and began to save for retirement later in life, they had been more aggressive in their investment choices. It was working well for a few years and then they lost over 40% of their savings in the market downturn. They also suffered an unexpected escalation in their adjustable mortgage and had to take out a home equity line of credit for both repairs and living expenses. By January 2009, they were faced with a reassessment of plans and a realization that retirement would be put off a minimum of five years.

These couples are not unique. According to a July, 2009 issue of *U.S. News & World Report* and confirmed by similar estimates, the one year loss in equities to "Main Street" portfolios was over seven *trillion* dollars, about 30 percent from retirement accounts. Naturally, the Boomers were among the hardest hit.

So what if we all have to work longer? After all, we also expect to live longer and healthier as well. Two factors play into this phenomenon: jobs for 60-somethings are not always easy to get or keep; each job we do land in a contracting economy that is close to ten percent official unemployment, means one job that will not go to a younger worker; one whose FICA deductions will presumably be funding his or her elders' Social Security and Medicare..

It is always very difficult to deal with a discrepancy between what we expect and what we actually receive. This discrepancy discussed in detail in *Finding Meaning, Facing Fears* may be at a psychological level quite distressing. If you expect that you will not be able to retire until you are 70 years old, new information that you will not be able to retire at age 67 may be stress-free. However, if you expect to retire at age 65, that same "new" information may be quite disturbing. Thus, adjusting your expectations for retirement date and lifestyle may be particularly useful.

Properly Sequencing the Closing of the Barn Door and the Horse's Potential Departure

For those with standard (defined benefit) pensions, the past may be prelude to the future, but the number of individuals who can count on company pensions and benefits is shrinking dramatically. Eric, a professor for 30 years at a private college reported,

> *"on my last day at work, I expect my colleagues and the staff in my department to give me a small party. The administration will allow me to keep my e-mail account for a month or two and offer me some cartons to unpack my office and demand back my keys to the building. There will be no pension, save my own 403b account, no health care until Medicare begins unless I pay for it myself through COBRA, and no gold watch!"* He added, "*When my father retired as a professor, he had a pension, lifetime healthcare and use of the university facilities. He didn't get a gold watch either*."

At age 65, Eric will not be able to support himself and his wife on their accumulated savings and Social Security benefits, unless they decide to sell their home, move into much more modest accommodations, keep the old autos running and live a lower socioeconomic lifestyle. What are his options? One of the most likely for Eric and many like him will be to stay on the job longer than age 65. As a professor, the physical demands of his work will likely permit that. Another option is for him to use his skills to find a new, different kind of part time work after he retires.

Hard Numbers. For the majority of Americans, retirement income will be pieced together from a variety of resources. As a quick rule of thumb, it takes a million dollars to throw off $50,000 in after tax income, assuming no decrement in the principal over time. For someone with expenses of a $100,000 a year, that means $2M. Those kinds of numbers are beyond the average family. This means that strategies to both increase income and reduce expenses will be necessary. Social Security benefits may provide a maximum of 25% of that $100,000 figure for an individual and 50% for a couple. Any additional expenditures will reduce the nest egg substantively.

So What Can You Do? Here are ten considerations. Obviously, those who are closer to retirement will likely have to take more aggressive measures to reach the goal.

1) *Try to estimate generally your life expectancy*. Although none of us truly know our real life span and the timing and nature of our death, there are some guidelines based on statistics and general trends. Factors such as family history, education level and health will help you make an educated assessment of your financial needs and more informed choices for income sources such as Social Security, IRAs and pension plans. This will help you address any predictable shortfalls and plan to cover them in advance.

2) *Keep working*. One of the fastest growing segments of the workforce is the number of over 65 and up employees and entrepreneurs. According to the U.S. Department of Labor, the number of workers over 65 is at record levels in 2012. Furthermore, as people extend their working years, even on a part time basis, they create opportunities to feather the nest egg, Remember, each additional year of working counts threefold: More income and savings; increased time for saved assets to grow and a year in which youa re not sepnding down what you already have saved.

3) *Increase capital.* For a generation that has been marked by consuming, it's not always an easy transformation to saving. The easiest methods for increasing principal occur with the most time left for saving. A 45 year old has a much better chance of increasing their savings rate and getting compounding of their investments than a 60 year old. Understand the importance of compounding and the Rule of 72[4] in allowing money to work for you instead of the opposite.. While you are working, get in an automatic savings program and stick to it. Maximize any matching contributions from an employer as early as possible. Self employed individuals have recourse to some interesting defined benefit plans, SEP IRAs, Individual 401k plans etc.

4) *Review more carefully, alter and cut spending*. In general, when individuals are asked about their fixed expenses, their estimates tend to be excessively high or low. Discretionary spending needs to be the central focus for reprioritizing. Sometimes, the fixed expenses also have to be addressed. A budget should provide guidance; not be a prison sentence. The question is, what could you give up without some distress or suffering?

5) *Work with a good financial planner*. If your own savings plan for retirement needs is not clearly on target, get help. It's hard to talk about finances to a stranger, but your fiscal health may need some professional care just as your physical self. A person over fifty during an annual physical check-up is exposed in a variety of ways to professionals. So it should be with your investments. In addition to managing current assets and plans, a financial planner will be able to assist in accounting for your extended longevity and the vagaries of inflation.

6) *Work as a couple*. If you are in a committed relationship, be sure to examine both visions of retirement and talk about these before setting a plan that will inevitably fail. If your vision and your spouse's is discrepant, talk it over. Sometimes a professional third party is invaluable in helping you align your retirement desires.

7) *Health Care*. Be sure to provide for continuing health care after retirement. Many people are surprised that they will not be covered by a former employer. Find out about Medicare and other available programs well before your 65th birthday, when it clicks in and be ready to apply three months before that birthday. Recent (2012) estimates are that if your longevity will be average, your out of pocket costs for medical care will be over $300,000. That means saving an extra $10,000 for twenty years to cover that expense. These figures do not account for Long Term Care such as nursing homes – those costs can exceed $75,000 per year. Many investment advisors recommend long term care insurance, if necessary, as a substitute for life insurance.

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[4] The Rule of 72 is an arithmetic method to calculate the time in which your investments will double. Simply divide the interest rate into the number 72 and the resultant sum will be the number of years for the investment to double. Thus, if you are receiving six percent on your investment of $10,000, in 12 years you will have $20,000. If your investments are yielding eight per cent, you will have the $20,000 in just nine years. The rule also works in reverse in exploring debt and the time to half your principal.

8) *Make a Will, or better yet, put a Will in a Trust*. Although most of us prefer denial to the reality of our personal demise, any financial plan must include considerations for our personal care and for our desires for our children. A living trust will handle a number of these issues and eliminate many of the hardships of probate.

9) If you are not in a traditional long-term marriage. Blended, Step, Alternative, cohabiting lifestyles demand a much more assiduous look at finances. When there are children from different marriages, their care needs to be well planned and set forth in formal agreements. So too, should inheritances be made clear. Managing existing assets and and responsibilities may require knowledge of how your relationship is treated in the jurisdiction in which you reside..

10) Talk with the adult children. If there will be a need to get help from children during a lengthy retirement, talk with them in advance and work out details as best as possible. Again, a professional third party may be able to facilitate these conversations. This is especially true when there is a family business that may be passed on to another generation.

RETIREMENT PLANS

There are two phases of financial planning: accumulation and spending.

Most of the attention by financial advisors is at least initially on the accumulation phase. How much do you need to accrue to have a secure retirement? .

The key to successfully creating a retirement nest egg is to use tax advantaged methods to have your money grow before taxes need to be paid. Retirement plans come in two general categories: defined benefit plans & defined contribution plans.

Defined Benefit Plans

Employer plans. The traditional pension plans often enjoyed by employees of large corporations, especially those with union workers. As a benefit of employment, workers receive on retirement a fixed percentage of their earnings annually.

Personal defined benefit plans target a desired level of retirement income and allows for aggressive savings to reach the goal. Contribution amounts are adjusted each year to help you reach your goal. This could be the right choice for you if you’re self-employed or a small business owner with no non-family employees, near retirement and can contribute a significant amount of your income each year. These plans require special tax reporting and an actuary to compute the annual contribution. For that reason they are more complex and tend to be more expensive. The primary advantage is for individuals who have fewer years until retirement and need to contribute a large amount in each year. Almost the entire income may be contributed.

If you are the employer and employee. It is important to note that if the employer does create such a plan it must be offered proportionally to every employee who works at least 50% time in the business.

Defined Contribution Plans

Instead of determining the ultimate payout during retirement (defined benefits), these plans determine the monthly/annual contribution from one's paycheck, draw or profits. In these plans, the employer creates the plan and the employee contributes, tax deferred dollars as a deduction from income. Sometimes employers encourage these contributions with matching funds for some of the total.

Good examples of these tax advantaged plans are the 401(k) plan offered by many employers, 403(b) plans offered by non-profit organizations and 457 plans, primarily available for governmental and specified non-governmental employers. The employer provides the plan and the employee. Each of these deferred compensation plans place pre-tax money into a retirement account that is managed directly by the employee Each of these plans has some differences, particularly around withdrawal penalties (prior to age 59 ½.

Keogh plans are tax-deferred retirement plans designed to help self-employed workers or individuals who earn self-employed income establish a retirement savings program. Keogh plans are for profit sharing (variable contributions based on income) or money purchase (mandatory percentage per annum). One advantage of Keogh plans is the opportunity to contribute a high maximum per year. Two disadvantages are the need for annual tax reporting (IRS Form 5500) and the mandatory contribution even in lean income years.

Business 401(k) If you're self-employed or have your own business, it is possible to create a small business retirement plan. These plans provide tax breaks for the business, savings for retirement and are competitive for recruiting. They are relatively easy to set up with professional help.

Individual 401 (k) plans (also known as Simple K plans). If you and your spouse are the only employees in your business, it is possible to create a simplified 401 plan. These plans are usually administered through a stock brokerage house and through a specified number of mutual fund companies. They are easier to create and set up than larger 401 plans.

A SEP-IRA (simplified employee pension plan) is one of the easiest small business retirement plans to create and maintain. Tax filing isn't required and it allows for a sizable retirement plan contribution for yourself and any eligible employees.

IRA (individual retirement Accounts) are the most common and well known of all retirement plans. These are trust or custodial accounts that are designed for taxpayers (and their beneficiaries). They are funded with pre-tax dollars (thus reducing the taxable income) of up to $5000,00 per person; more if you are over fifty years of age. Like all other tax-advantaged plans the amount in the account grows tax free until mandatory required distributions at the age of 70 ½. These are designed for earners who are not covered by employer plans. Withdrawals are treated as ordinary income for tax purposes. They are available at banks, savings and loans, brokerage houses and several other financial fiduciary institutions. They are very easy to set up.

Roth IRA Is similar in some ways to a traditional IRA, but contributions are in *after-tax dollars.* Thus they do not reduce the current taxable income. However, all money in these accounts grows tax free and when withdrawn is not subject to additional taxes. For this reason, they may be passed on to heirs who also benefit from the tax free withdrawal value. Both traditional and Roth IRAs may limit investments and presumably do not allow riskier investments.

Investing for the uninvolved investor

Start: Don't be an ostrich! You don't have to become a seasoned investor, trade frequently or be at your computer screen at 4:00 am to check on the overseas markets, but it is wise to have a sense of what you have and how it is invested and most important that the investments reflect your retirement needs.

For most of us, nobody will be as watchful of or careful about your finances as we are personally. However, being aware and involved with financial decisions is not for everyone. In fact many feel like Stephen when he opines,

> " I just want to not know about any of it. I can't pay attention to money and I wouldn't know a good stock from a bad one anyhow. All I want is for someone to take it over and for me to see the balance going up from year to year."

Chanelle agreed with Stephan. Confronted with an array of choices for her company's 401(k) plan, she said, "Just tell me what fund to choose so's I don't have to look at it again and I can take out the money when I need it." When told by an older colleague that it doesn't work that way and she needs to check on it and talk with an advisor at least twice a year, she replied, "I know I won't do that, so what should I do?"

He recommended a financial advisor and a balanced growth and income fund as a start.

In truth, the array of mutual funds, index funds and exchange traded funds (ETF's) are expanding exponentially. In fact, there are far more mutual stock funds than there are stocks traded on the major exchanges. The proliferation of choices can be confusing even to an experienced investor.

It is always advisable to have a trusted person with no personal proprietary interest in your financial state. A brief description of the available experts will follow. Clearly there is no right answer for everyone, but there is probably a right answer for each individual. For most of us, the KISS (Keep it Simple Stupid) method is most effective and usually least expensive.

Some general guidelines:

1) If you don't understand an investment (i.e. commodity futures, hedge fund strategies, companies that engage in businesses you don't understand) stay away from it.

2) Recognize the good news/bad news truth that most professional market timers and stock pickers do not do better than index funds. In other words, over the long run an investment in the entire market or a large segment of it will do better than the experts, especially those with television exposure or slick marketing materials.

3) Get the right kind of help. There are two types of advisors: fee based and commission based.

Fee based advisors. charge either by the hour or by a percentage of the portfolio that they manage – normally around 1% for moderate sized estates. The disadvantage of these advisors is the annual fee even if trading is minimal. The advantage is that the advisor has no personal stake in buying or selling investments.

Commission based advisors, as in most brokerage houses, make their money by charging a percentage of each trade you make, buying and selling. The advantage is that in a relatively inactive account (as are many retirement accounts) annual trading fees may be fairly minimal – although, particularly for smaller accounts, some brokerage houses also have a host of additional fees, even for inactive accounts. The disadvantage is that when a broker makes money on each trade, they are at least subconsciously prone to trade more often "for your benefit." The better brokers do this by reference to our true needs and are often aware of well timed purchases and sales. They may also help clients be more tax efficient with their gains. One note of caution, most brokers are far better at knowing when to purchase a stock than when to sell it.

Seasoned investors characteristically set a price to sell a stock when they buy it. Thus is you purchase 100 shares of XYZ company at $25.00 a share, you may want to determine at that time that you will sell XYZ if it falls 20% to $20.00 per share or to sell it at $30.00 when it gains 20%. Of course, market fluctuations and a company's health may influence your decisions. In general, again, the most frequently successful strategy is to purchase Index funds and let the market buy and sell for you.

4) Shop around and don't be reticent to switch advisors when it's not working out the way you want or when your personal broker leaves and the firm reassigns you to another.

5) Tax efficiency is essential. At the moment, there are many tax-advantaged investments and ways of investing. You want to be aware of these and to maximize what you get to keep – not always how much you earn. Some tax advantaged investments and methods maximize use of tax deferred retirement

plans. Remember, a penny saved may be less than a penny earned, once taxes are paid. Allowing your money to compound in a tax-deferred or tax-free account will yield a far greater return. In addition to placing income-related vehicles in tax-deferred accounts, municipal bonds are often both state and federally tax free.

6) Asset allocation. Place your retirement building funds in a variety of markets. It is rare for all aspects of the economy to be down at the same time, although that did occur to some extent in the recession that began in 2008). Percentage investments in large companies, small companies, foreign investments, real estate etc allow one to ride out the inevitable ups and downs in the economy. No single market segment is always the best or the worst investment. A plan in which one is properly diversified and rebalances investments on a semi-annual to annual basis is often a workable strategy.

Malcolm is an example of a person who had a good income, excellent retirement plans and a shortsighted perspective. His 401 (K) plan contained several thousand shares of his company's stock and little else. When the company hit rough times, the stock went down precipitously. In Malcolm's words, "my retirement tanked along with the company… I was a millionaire on paper, but by the time I could cash out, it wasn't worth very much at all.

Unlike Malcolm, his colleague Andy kept moving funds from the company stock to a portfolio that was 40% stock, 40 % bonds and income vehicles, 10% real estate and 10% international. Each six months, he sat down with his financial advisor and they rebalanced the portfolio to meet their predetermined percentages. Thus only 5% of his total stock holdings were in the company stock. When the stock portion of his portfolio went below 40% and the real estate climbed to almost 20%, he rebalanced, taking the excess real estate profits and putting them into more stock purchases.

Normally as we get closer to retirement, our portfolio's become more income oriented and less subject to the vagaries of stock market trends. To paraphrase slightly the words of legendary investor Bernard Baruch, the return *of* investment starts to dwarf in importance the return *on* investment. As the years to retirement become closer, the number of years to make up a loss decreases. Had Malcolm suffered the loss of his stock's value at age 35 instead of age 55, he may have been better able to recover.

A Time to Reap

Until now, the focus has been on the accumulation of assets to fund retirement, but regardless of how much has been accumulated, a lot of problems can result in spending these funds inappropriately. There are several risks that have to be addressed in the process of planning and many of these cannot be known in advance.

The risks include

- our longevity,
- market volatility and the chance that the value of our investments will be down when we need them.
- Inflation rates
- Health care costs
- Withdrawal rate

Many experts are now talking about sustainable systematic withdrawal strategies. These strategies for spending are dissimilar from the strategy for accumulation. One of the most widely used and supported strategies is the time-segmentation approach.

The time segmentation approach. Resources are divided, typically into three categories: one for the first five years of retirement (cash and cash equivalents such as laddered CDs), a second for the next ten years (fixed income vehicles such as bonds) and finally one to meet expected needs after 15 years (stocks and more volatile investments).

The reasoning behind keeping the more volatile investments in the long term category is to give them time to grow. No 15 year period in the overall stock market has resulted in a loss. So investing for the long term is the best way to skew the odds in your favor. By contrast, market timing and day-trading strategies are far more risky and statistically far more likely to fall short.

Other strategies that have been favored by financial advisors are the 4% annual withdrawal rate and Target Date Funds offered by many financial institutions. The distinct advantages and disadvantages of each of these approaches is far beyond the scope of this chapter and truly needs individual consultation with a trusted advisor. However, the general principles for withdrawal will generate a good discussion with your advisor and are psychologically more salient, especially if you are concerned that you will run out of money.

Regardless of the approach, both fiscal and psychological security are always primary.

Goals. As recommended by my Santa Clara University colleagues, Drs. Meir Statman and Hersh Shefrin, it is also advisable to target spending to specific goals for an additional sense of self control. The first question one should have about even a small "estate," is how we want our money to be used. Is our goal to spend it down until there is only enough available for our funeral expenses? Do we want to leave as much as possible for our children, grandchildren or to a charity? Do we want to spend now or provide something as a legacy?

Of course for many of us, the only question is can we make it on what we have accumulated and not be dependent on our children, but if we have planned well during the autumn years, spending below our means and putting away what we can for retirement, there are likely to be sufficient funds for withdrawal to support a decent lifestyle for us and also some bequest to others. Reassessing these categories may need to be done over the lifetime

Other Considerations

As daunting as the financial considerations may seem, psychological, emotional and personal realities may be far more salient. In fact, it is the influence of the psychology of finances that may overwhelm the influence of fiscal realities.

These concerns are explored in Chapter 10 of *Finding Meaning; Facing Fears In the Autumn of Your Years (45-65).*