

Recession-Proof Your Retirement Years



**Simple Retirement Planning
Strategies That Work
Through Thick or Thin**



By Steve Vernon, FSA



Recession-Proof Your Retirement Years - Simple Retirement Planning Strategies That Work Through Thick or Thin

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Hello friends!

Are you worried about having enough money to last throughout your retirement years? Are you concerned about potentially racking up costly bills for medical or long-term care expenses that drain your savings? Are you wondering how you can truly enjoy your so-called “golden years”?

You're not alone. Thousands of people across the country are concerned about just how they're going to be able to make it during their retirement years, especially given the current state of our economy. Many of us got slammed by the stock market crash and economic downturn of 2008-2009. What now? Will a comfortable retirement end up being just a fantasy?

I'm Steve Vernon, and I worked as a consulting actuary for more than 30 years, helping Fortune 500 employers and other large organizations design and manage their retirement programs. Now I help people prepare for their retirement years, or *rest-of-life*, as I like to call it. I advocate simple, realistic strategies to help you manage your money, health and lifestyle that should work through thick or thin.

I don't tell you how to retire to Panama, Mexico or some other exotic location; get rich by investing in gold, real estate, collectibles, options or commodities; retire at 50 to a life of luxury; or use sophisticated estate-planning strategies that are really meant for the more affluent among us.

Instead, I advocate using simple retirement planning strategies that are practical and realistic for most working Americans. No more, no less. I'm offering no gimmicks and no flashy techniques that may sell books but won't work for the average American.

There's no use hiding the fact that we face significant challenges when it comes to our retirement years. But instead of being depressed and paralyzed about these trends, I'd rather move forward as best as we can, using strategies and techniques that are practical and realistic. If this sounds like a good plan with respect to your retirement years, I'll show you how to get on track, using the latest research and solid financial analyses. I'll describe how to increase your odds of living a long, prosperous life and help prepare you for a future that's certain to have more ups and downs.

Take charge of the rest of your life, and you'll put a lot of anxieties to rest! If you're ready, let's get started.

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B. Smaller

"If we take a late retirement and an early death, we'll just squeak by."

At least he's planning! This book shows you a better plan.

SECTION I

INTRODUCTION AND PREPARATION

If you're anywhere close to retiring, chances are good your radar picks up on the many stories and advertisements out there about how to retire comfortably. And while there's a lot of good information being published, there are also many ideas that may not work for you or are simply self-serving hype.

Confused or worried about retirement? You're not the only one. Thousands of people nationwide are wondering just how they're going to be able to retire comfortably, especially given the current state of our economy. So how do you decide what to do and what will work best for your particular situation? Let me tell a personal story that offers some ideas and insights.

Late in 2008, I had dinner with my 87-year-old mother, and I asked her how she was doing, given the financial meltdown. "I'm doing just fine," she told me, "but I'm worried about what you kids will inherit, since the value of my retirement investments has dropped a lot." I told her that "we kids" don't worry about our inheritance and are much more interested in her well-being.

Then I delved a little deeper to find out more about why she's doing so well. What can you learn from this? Plenty! Let's take a look:

-
- She has a lifetime pension from my father, who worked until age 65 as a professor at USC. That pension and her Social Security income just keep chugging along, in spite of the economic meltdown.
 - She supplements her pension and Social Security benefits with interest and dividend income from her retirement investments. While the value of her stocks has dropped significantly, the dollar amount of her dividend income has dropped by a smaller, tolerable amount.
 - She's paid off the mortgage on her house. The house is small by today's standards, but it meets her needs just fine.
 - She keeps her living expenditures low and has no credit card debt. She drives a seven-year-old car, and most likely will continue driving it for another five to 10 years.
 - She's in good health; she eats sparingly—but consumes lots of fruits and vegetables, and she gets good exercise by walking and gardening. She even grows some of her own food.
 - She volunteers once a week in a nonprofit thrift store. She's doing the same tasks as if she were working for wages, so she could find a job that would offer a small paycheck if she needed it.
 - She keeps in touch with friends and relatives, and sees family members at least once a week (all of her kids live nearby).
-

The financial meltdown really hasn't changed her life very much. She still has about the same income and expenses, and she continues to do what gives her joy in life. After talking with her, I realized that she and my late father made some smart choices that recession-proofed their lives, managing to successfully navigate through four downturns since my father retired in 1981.

It was that conversation with my mother that really inspired this guidebook. I was relieved to learn that my mom and dad had planned well for their retirement years. But I also knew there were many people out there who hadn't done as well. I wanted to write a book that would offer people in their 50s, 60s and 70s a systematic plan for living a long, prosperous life—and for surviving future downturns (which are inevitable). Having good strategies in place can help dispel the natural fear and anxiety that we all feel about the future. And it helps us focus on what's really important—reaching our full potential during our retirement years, taking care of unfinished business, spending time with friends and family, and passing along our legacy.

Of course, the goal is easy to say, a lot harder to do: You want enough income to cover your living expenses for the rest of your life, no matter how long you live and no matter what happens with the economy. At all costs, you want to prevent being broke at age 85 when you can't push "rewind" on your life or your finances. Many financial planners focus on building wealth; this is a different problem from developing reliable sources of income in your retirement years, which is what I'll show you how to do in this book.

To stack the odds against the risk of outliving your money, I'll share ten smart steps you can take to recession-proof your retirement years. The information in this guidebook will then help you navigate through these steps and achieve the type of retirement you really want. This guidebook will:

- Help you prepare for your retirement/*rest-of-life* by using simple strategies that should work through thick or thin.
- Introduce a systematic, realistic plan for addressing retirement risks and preventing common mistakes.
- Point you in the right direction for additional resources. You'll need to do more than just read this guidebook.
- Help you take action steps while you're still working to plan for a successful retirement.
- Offer realistic strategies regarding money, health and lifestyle, and show how each affects the others.

There's no use hiding the fact that we face significant challenges in our retirement years. Here's one example: The average 401(k) balance for people in their 50s and 60s is about \$100,000. This will generate a lifetime income that increases for inflation of roughly \$5,000

per year. This won't exactly fund those "golden years" we've all been looking forward to. Add the threat of large medical bills, and you can really get anxious about the future. I've seen the statistics: Somewhere between 30 million and 50 million older Americans are in this predicament. But instead of worrying about these challenges, you can take action. And that's what this guidebook can help you do.

{ "Action is the antidote to despair." }
— Joan Baez

In spite of the challenges we face, I believe it's a good time to be aging. There's plenty of scientific and medical research that shows us how to live long, healthy lives. Social research shows what makes us happy and gives us meaning, particularly in our later years. There are many robust, efficient financial products and services, as well as nonprofit organizations that advocate for seniors and provide helpful resources. And all of these resources are at our fingertips because of the internet. None of these resources were available to our parents' generation, so we've got a tremendous head start. It's just up to us to make the best of what we've got.

What Does It Mean to Recession-Proof Your Retirement Years?

There are several things you need to understand in order to make the best plans for your *rest-of-life*:

- You can't prevent a recession, depression or high inflation from happening. That's out of your control.
- You can't even prevent these events from causing some damage to your finances. That's unrealistic.
- You *can* adopt strategies that will help you survive these events, so they don't cause you permanent damage and you can hold on until the economy recovers.
- You'll need to protect against other risks as well.

Over the span of the past 23 years, there have been four major downturns:

- The 1987 stock market crash
- The savings and loan crisis of the early 1990s
- The bursting of the tech bubble that lasted from 2000 to 2002
- The stock market crash and economic downturn of 2008-2009

Those of you with longer memories may also remember the stock market crash of 1974-1975 and the high inflation of the late 1970s.

Economic downturns and calamities happen—they're simply inevitable. And since you'll most likely be retired for 20 years or more, it would be wise to prepare for future crises, since one or

more is bound to happen at some point in your retirement years. This guidebook provides a systematic plan to help you survive future economic challenges and minimize the damage, so you can focus on enjoying life.

Top 10 Retirement Mistakes

When it comes to retirement, one of the worst mistakes people make is neglecting to plan ahead. Instead, they just "wing it" with regard to drawing down their retirement savings. They take out what they need for living expenses and hope their money will last. Well, hope is not a good strategy!

Instead, you've got to have a plan. You've got to carefully consider just what your retirement needs will be in order to make sure you don't run out of money. You don't want you or your loved ones to become destitute in your 80s while you still have some good years of life ahead of you. A good plan will help you avoid this fate.

By planning ahead, you may be able to avoid these **Top 10 Retirement Mistakes**:

-
1. Not creating a realistic assessment of financial resources. Half of all older workers haven't calculated what they need for retirement or budgeted for retirement expenses.
 2. Retiring too early with insufficient financial resources. This is a natural consequence of not preparing a financial-needs analysis. And an increasing reliance on 401(k)/account-based plans presents a significant challenge. The average 401(k) account balances of older Americans are far from sufficient to fund an adequate lifetime income.
 3. Starting pension benefits too early. Most workers retire before maximizing their retirement income.
 4. Starting Social Security benefits too early. Half of all Americans start taking benefits at age 62, the earliest possible age that generates the lowest amount of monthly income.
 5. Drawing down 401(k)/retirement savings too rapidly. Withdrawing just 4% to 5% per year is considered a safe withdrawal percentage, but many people withdraw at much higher rates.
 6. Uninformed or poor selection of financial advisors and/or products. Choosing unwisely can seriously affect how much money your investments earn.
 7. Tapping home equity too early through home equity loans or reverse mortgages. You might need that money later in life if you need long-term care.
 8. Continuing an unhealthy lifestyle. Doing so increases your chances of developing expensive, debilitating conditions.
 9. Not having strategies in place for medical and long-term care expenses. You don't want these expenses to wipe out your retirement savings.
 10. Having living expenditures that are unnecessary, unrealistic or unaffordable, given all the above mistakes. You don't want to run out of money in your later years and then regret buying things that weren't really necessary or important.
-

And here's one more, thrown in for good measure:

Not having a good idea of what you want to do in your retirement years!

Which brings us to the next set of lists...

Good and Bad Reasons to Retire

GOOD REASONS TO RETIRE	BAD REASONS TO RETIRE
<p>You have a good idea of what you want to do with your time, or you have a plan to find out.</p> <p>You've prepared a strong financial plan, and you have sufficient financial resources.</p>	<p>You're bored with or sick of work.</p> <p>You got laid off.</p> <p>You don't like your boss.</p> <p>Your friends are retiring.</p> <p>Retirement is what you're supposed to do at your age.</p> <p>Your parents retired at your age.</p> <p>You think you have enough money, though you don't really know for sure.</p>

HOMEWORK ITEM: *Determine your reasons for retiring.* This is a great topic to discuss with your spouse, partner or close friends and family. Talking through important issues with people who care about you is an excellent way to help you make difficult decisions. Having good reasons to retire and avoiding the bad reasons gets you off to a great start.

Hopes and Dreams vs. Fears and Concerns

Before we go any further, let's do an exercise I like to call "**Hopes and Dreams vs. Fears and Concerns.**" I want you to take five minutes and list out all the hopes and dreams you have for the future. What do you want to do with your time? Do you want to travel? Do you have hobbies or interests you want to pursue? How would you like to be remembered? This list is the first step you'll take towards living the life you want. One poignant way to complete this exercise is to write your obituary, and then vow to live up to it.

Then take another five minutes and write out all your fears and concerns about the future. What events or situations might prevent you from realizing your hopes and dreams? What are you most scared will happen in your retirement years to prevent you from living the life you want?

You can use Appendix A at the back of this book to help you create these lists.

HOMEWORK ITEM: *Share and discuss your lists with your spouse or partner and/or close friends and relatives who care about you.* Sharing your list gives you the

opportunity to get feedback from the people who know you best, people who can help you live the best possible *rest-of-life*.

Now that you've made your list, you can use it as you read and work through this guidebook to evaluate the solutions that are out there. This helps you decide what kind of plans you can make that will help you realize your hopes and dreams and protect against your fears and concerns. Setting your intent to address these issues is a powerful first step.

And with good plans in place, you'll feel more confident that you'll be able to realize your hopes and dreams, and that your fears and concerns won't prevent you from enjoying your life.

HOMEWORK ITEM: *Visit with older friends and relatives who are doing well in their retirement years.* Ask them about their secrets to living well in their *rest-of-life*. You'll learn some good tips, and having good examples to follow helps you make important changes in your own life.

Top 10 Retirement Risks

Understanding the mistakes people make regarding retirement is only the first step toward creating the type of *rest-of-life* you really want. You also need to understand the risks involved with retirement. So let's take a look at this list of **Top 10 Retirement Risks**:

-
1. Living too long and running out of money
 2. Recession/stock market crash that reduces the value of your retirement savings
 3. Inflation eroding the value of your fixed pensions and fixed investments
 4. Low interest rates that result in reduced income
 5. Poor health and resulting high medical bills
 6. Potentially ruinous bills for long-term care expenses
 7. Reduction in needed wage income during your retirement years
 8. Bad advice, fraud or theft
 9. Death of your spouse
 10. Loneliness, boredom or lack of purpose
-

Addressing these risks will help you prevent the most common mistakes shown previously. And you can address these risks by implementing the following strategies that will help provide security in your retirement years.

10 Steps to Retirement Security

1. Take care of your health.
 2. Protect against the risk of catastrophic conditions.
 3. Consider working as long as you can.
 4. Maximize Social Security income by delaying benefits.
 5. Be prudent when withdrawing retirement savings.
 6. Maximize income from traditional pension plans.
 7. Manage your investment risk and invest for income.
 8. Adjust living expenses to match your retirement income.
 9. Develop a robust social portfolio.
 10. Become a student of retirement and build a professional team.
-

These steps aren't rocket science; they're mainly common sense. And while all of us should be taking these steps to insure security in our retirement years, many people aren't. The fact is, most people haven't done much planning because they just haven't thought much about their retirement years, or they don't know where to start.

This book removes the mystery surrounding retirement planning, so you can apply your common sense. Planning wisely for your *rest-of-life* simply means making every dollar count and using **all** the resources available to you—financial and nonfinancial.

Section II of this guidebook will provide the details you need to implement these 10 steps. But before we go there, let's cover a few more important issues.

Just How Much Life Do You Have Left?

When it comes to your *rest-of-life*, there's really a lot at stake. Studies from the Society of Actuaries estimate the life expectancies for men as shown in Table 1:

Table 1. Life Expectancies for Men

CURRENT AGE	EXPECTED REMAINING YEARS	EXPECTED AGE AT DEATH
50	31	81
55	27	82
60	22	82
65	18	83
70	14	84

Source: RP-2000 mortality table

Here's the same table for women:

Table 2. Life Expectancies for Women

CURRENT AGE	EXPECTED REMAINING YEARS	EXPECTED AGE AT DEATH
50	34	84
55	29	84
60	25	85
65	21	86
70	17	87

Source: RP-2000 mortality table

Doesn't knowing that you may have twenty to thirty years left inspire you to want to make the most of those years? Isn't it worth spending some time now planning to get it right? Here's one way to look at it: Why not spend the same amount of time you'd take planning your next vacation and plan for your *rest-of-life*—a time span much longer than the typical two-week vacation?

The above tables also just show the *average* years remaining for both healthy and unhealthy people, all mixed together. Can you beat the averages? Absolutely! If you make a few lifestyle changes (eat right, get enough exercise, manage stress, stop smoking), you can improve your odds and add another five to seven years to your life expectancy. On the other hand, if you continue unhealthy habits, you can tip the time frames in the other direction and actually *subtract* five to seven years from your expected lifespan!

This knowledge should motivate you to make the necessary lifestyle changes that will enable you to live longer, live healthier and spend less money on medical and long-term care expenses. And a great “side” benefit is that you’ll look and feel better now. The downside? You’ll need more money to fund a longer retirement, so that’s why you need to consider your lifestyle and finances together when planning for the rest of your life.

HOMEWORK ITEM: *Estimate your life expectancy by taking your lifestyle and family history into account.* It can be an eye-opener to many people to learn that your financial resources may need to last a much longer time after you stop working than you had initially thought. Two excellent websites that can help you estimate your life expectancy are www.livingto100.com and www.bluezones.com. The good thing about both of these sites is that they give you tips to put into practice that will help improve your results.

Money Is Not Enough!

When planning for your retirement years, you need to build a financial portfolio that will support your intended lifestyle. But that isn’t sufficient for a long, prosperous *rest-of-life*. You must think more broadly and include strategies that will improve your health and lifestyle, too.

These three areas—finances, health and lifestyle—overlap and influence each other throughout our lives, and they’re especially critical in our retirement years. For instance, if you don’t have your health, then you drain your finances trying to get healthy and you most likely aren’t very happy. Another overlap? Studies have shown that if you’re happy and satisfied with your life, you’re less likely to get sick.

Here’s another example: Studies have also shown that money can’t buy happiness, yet not having enough money to meet your basic needs can make you unhappy. Also, worry and stress over finances can adversely affect your health, making you “sick with worry.”

Finding ways to improve each of these three areas—finances, health and lifestyle—significantly increases the odds of having a long, prosperous life. And while it’s not guaranteed, following the strategies outlined in this guidebook should put you in the ballpark. From there, you can always make adjustments as you experience life’s twists and turns.

But—and here’s the important part—if you’re not even close to having sufficient resources, you may not be in the position to guide your destiny. Instead, you’ll merely get the life that shows up, which may not be the life that you want.

The Magic Formula

At parties and social situations, once people learn that I'm a consulting actuary who writes about retirement, they often ask me for a magic formula or number that will *guarantee* a secure retirement. At last, this actuary is the life of the party!

Back to the question, the operative word here is "magic." Do you believe in magic? I didn't think so. There is, however, an effective formula that you can use to manage your resources for the rest of your life:

$$I > E$$

The first part of the formula is your income (the "I" in the equation above). That'll include such financial sources as Social Security, pensions, savings, 401(k) plans and income from work. The second part of the formula is your expenses (the "E" in the equation above).

For the average American, 75% of their household budget goes toward the following five expenses (in this order):

- Housing
- Transportation
- Food
- Health
- Entertainment

In order to make sure you have sufficient resources for retirement, you've got to determine the right balance between income and expenses, one that will make you happy, both before and during retirement. Throughout the guidebook, I'll provide strategies for maximizing your "I" and minimizing your "E." Section III of this guidebook will help you estimate your "I" and your "E" in your retirement years, using the worksheets I've included in Section IV.

Note: You may want to familiarize yourself now with these worksheets, which will help you better understand the "I" and "E" concepts as you encounter them throughout the guidebook. You can also use online software or spreadsheets instead of the paper worksheets in this book, most of which employ the same concepts as the included worksheets.

Top 10 Retirement Decisions

In addition to understanding your "I" and "E," by the time you're done with this guidebook, you'll also have made great progress toward answering the following questions:

-
1. How much money will you need during your retirement years?
 2. How much should you save between now and the start of your retirement?
 3. Will you need (or want) to work in your later years?
 4. When should you start taking your lifetime retirement incomes from Social Security and, if applicable, from a traditional pension?
 5. How can you draw down your retirement savings so you don't outlive your savings?
 6. How can you best manage your living expenses to match your income?
 7. What type of investments should you make and how should you allocate your assets?
 8. What steps will you take to improve your health?
 9. How can you manage the risk of high expenses for medical and long-term care services?
 10. What will you do with your time?
-

Determining the answers to these questions will help you more easily answer the biggest question of all: When can—or should—you retire?

Even if you don't have all the information you need to get the answers you're seeking, realize that getting in the ballpark is a good first step—and is often good enough. And it's certainly much better than doing nothing.

Take Inventory

In preparation for working through the rest of this guidebook, you'll want to take inventory of all your financial resources that might produce income or provide protection against risks in your retirement years. Turn to **Worksheet #1: Retirement Resources Inventory** in Section IV to get started. Be sure to include all your 401(k) balances, IRAs and pension benefits you've earned, as well as your spouse's resources. If you work for a nonprofit or government, include balances in 403(b) and 457 savings plans. Also list all the insurance policies you have that can provide protection in your retirement years, such as life insurance, medical insurance, disability insurance and long-term care insurance. Don't include the value of your house, antiques, jewelry, collectibles, etc. unless you plan to sell them and convert them to assets that can generate income. And if this is the case, be sure to reduce any sales proceeds by estimates of applicable taxes and selling costs.

Another important part of your inventory is your "human capital." While it's not financial in nature, it most certainly affects just how comfortable your *rest-of-life* will be.

Your Human Capital Inventory

- How many friends or relatives can you confide in and discuss important life decisions with?
 - How many friends or relatives live nearby and would come to your aid in an emergency?
 - Would any of these friends or relatives be able to take care of you if you needed long-term care?
 - Do you have friends or relatives with whom you can share resources, such as a car, appliances, tools, etc.?
 - With how many friends and relatives do you participate in regular activities that give you enjoyment and meaning in life? Are you “diversified,” meaning that you have several good friends in addition to your spouse or partner?
 - What social institutions are nearby that can help you and provide social contacts? Include such associations as churches, social organizations, clubs and the like.
 - What state and local government organizations or nonprofits are available to provide potentially necessary services?
-

Please don't overlook these important nonfinancial resources; if financial resources are insufficient to provide the resources you need, your “human capital” may need to be put to good use.

Now we're ready to get started with Section II and the **10 Steps to Retirement Security**. Following these steps will put you on a good path to recession-proofing your retirement years.

Checklist of Action Steps for Introduction and Preparation

- Identify with whom you can discuss important issues for planning the rest of your life. If you're not doing this now, one good way is to form a small study group of like-minded people.
- List your reasons for retiring and discuss them with people who care about you.
- List your hopes and dreams vs. fears and concerns.
- Using a website, such as www.livingto100.com, www.bluezones.com or something similar, estimate your life expectancy and your spouse's, if you're married.
- Prepare the financial Retirement Resources Inventory, Worksheet #1 in Section IV.
- Prepare your "Human Capital Resources Inventory," as described above.

HELPFUL RESOURCES

- If you want to read a statistical analysis of the challenges we face in our retirement years, visit my website www.restoflife.com, go to the page labeled "Articles and Newsletters," and look for the article titled *Statistical Analysis: Why Traditional Retirement Is Out of Reach for Most Baby Boomers... And What We Should Do About It*.
- Websites such as www.livingto100.com and www.bluezones.com can help you estimate your life expectancy.
- A report prepared by the Society of Actuaries addresses retirement risks in more detail. It's titled *Managing Post-Retirement Risks: A Guide to Retirement Planning*, and you view a copy at <http://www.soa.org/files/pdf/post-retirement-charts.pdf>.