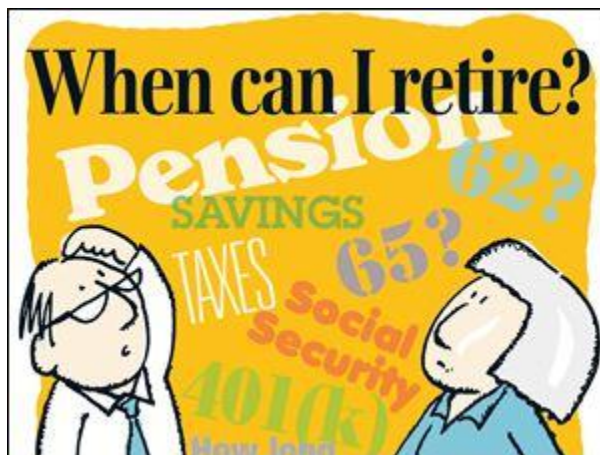


Financial planners say many changes make question much harder to answer

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Editor's Note: This version corrects the SunAmerica Financial Group survey year from 2002 to 2001.



"When can I retire?"

The answer to that question used to be fairly straightforward.

For decades, financial planners calculated a person's ability to retire using four basic components -- what one spends, what one saves, what one owns, and what one owes.

Add them all up, figure in a person's life expectancy, and generally a planner could render a "yes" or "no" opinion on the age a client hoped to retire, within three to five years.

"It used to be that you burned the mortgage. You had a defined benefit pension plan, you had Social Security, you worked and you paid off the mortgage, and you didn't have any debt. You turned 65 and you walked out the door," said Phil Selden, a veteran financial planner and president of the Toledo board of the Financial Planners Association.

But over the last decade, and especially since the 2007 recession, finding an answer to that previously simple question is a lot harder.

"It's a lot more complex question because there's a lot more uncertainties, a lot more variables today than there were before. The list of risks has grown longer," said Mr. Selden, a planner with United Advisors Wealth Management in Sylvania Township.

Just a decade ago a person's retirement could be built upon steady issues like pensions, inflation rates, medical costs, housing, and Social Security.

"It was a more predictable environment," Mr. Selden said. "I can remember lots of people saying 'I'm going to retire at 50, I'm going to retire at 55 and get out of the rat race.'"

On paper, he said, everything looked good through the 1990s.

But the 2000s have brought two recessions, slumping housing values, overburdened pension plans, soaring medical costs, exploding college costs, and a shifting investment landscape.

These days, planners say, only one issue still instills any reasonable certainty: Social Security.

"That needs to be the mainstay for all Americans for having some sustained lifetime income," said Jean Setzfand, a financial security expert for AARP in Washington.

"Beyond that, people are being left to their own devices to establish a retirement nest egg for themselves, and they have to know how much to set aside and find an easy way to do so. The easiest is to save at the workplace, and the best way is through a 401(k) savings plan," she said. "But only half of workers have a 401(k) available to them. The ability to save these days is not easy. You have so many obstacles."

Don Rook, a financial planner and president of AssetDynamics, also in Sylvania Township, said the list of risks that impede retirement now includes longevity, inflation, interest rates, health care, and investments. But many clients, he added, don't want to hear about it.

"It's like Americans feel it's their birthright to retire at a specific age," Mr. Rook said. "But I think that age is going to go up."

Those approaching retirement also may have to readjust their expectations of how good life in retirement is going to be, Mr. Rook added.

"We're heading toward a much lower standard of living. There's more pressure on the nest egg and the probability of returns that are much lower than we got in the '90s," he said.

Key changes

Ms. Setzfand said preretirees feel like their retirement picture darkened with the 2007 recession, but many of today's problems that negatively affect retirement had their roots planted well before that.

"What I see are a lot of systemic changes that are the underlying plates to this whole picture, and which seemed like insignificant changes at the time but had a huge ripple effect on retirement now," she said. "The recession focused the attention on the more tangible changes, but I think these changes have been in place for some time."

A key change that has been occurring for some time is the loss of pensions or other directed benefits plans, which for retirees are the second biggest source of income behind Social Security. In its place, many companies began offering 401(k) plans or other savings plans to give workers more say in their retirement and free companies from a lifetime burden.

"Where the ground has shifted tremendously ... is the way the retirement benefits system has changed. It has put more control in the hands of people to direct their own retirement," Ms. Setzfand said. "Some are taking responsibility; most are not," she added.

For those who aren't saving enough, it will mean they will have to work longer past 65, Ms. Setzfand said. "And when you have an economy like we do right now, if you're lucky enough to have a job, well, great. But if you're an older worker without a job, it doesn't bode well for you."

Longevity

Mr. Selden said longevity is a problem delaying retirement for many.

The average person now lives about eight years longer than the average person did in 1970, according to U.S. Census Bureau data. In 1970 the average man lived to be 67, the average woman 75. But now the average man lives to be 76, the average woman 81.

If you retired in the 1960s or 1970s, "You were dead in 10 years. You didn't expect to have 20 years of retirement," Mr. Selden said. "Now you figure 20 years."

"Think about trying to maintain a lifestyle for 20 or 25 years," Mr. Selden said.

Mr. Roork said the health-care risk is much greater than it was two decades ago, with the possibility of a catastrophic illness or mishap wiping away much of one's retirement nest egg as one approaches retirement.

But even more worrisome, he added, is something most people do not talk about -- inflation.

Currently, at below 1 percent, annual inflation is on the back burner and a threat that few worry about.

But it averaged more than 7 percent in the 1970s, more than 5 percent in the '80s, 3 percent in the '90s, and 2.5 percent the last decade.

Mr. Roork said if a retiree spends \$4,000 a month on goods and services, at 3 percent annual inflation that \$4,000 in 20 years will only equal \$2,215 worth of buying power. "At 7 percent inflation, it would only buy \$1,000," he said.

"We'll have a nation full of people who are going to have to work longer or go back to work," Mr. Roork said. "Companies are going to have to change their strategy to let people work longer or with more flex time or something. Otherwise, inflation will be a big burden on us."

Interest rates, now at historical lows, also are playing havoc with retirement. Retirees need low-risk steady streams of income. Historically, that was supplied by government bonds, but with interest rates stuck at rock-bottom levels -- the yield on the 10-year Treasury bill is about 1.4 percent -- and bond prices high, retirees and soon-to-be retirees are now hungry for better returns but face the prospect of moving into investment instruments that could be more risky.

Those close to retirement who invest in bonds now not only face low returns but the prospect of the value of their bonds decreasing if interest rates rise, as most economists expect will happen. "We've never had rates this low, so we've never had the risks of rising rates as we have today," Mr. Roork said.

The calculations

Knowing that the game has changed, many planners are still trying to advise clients on retirement based on tried-and-true logic: what kind of lifestyle do you want in retirement, and how much money will you need to save to maintain that?

"We do financial independence calculations that try to cover basic living expenses -- mortgage, utilities, food, insurance -- and then discretionary spending. Then you figure in life expectancy plus a few years," Mr. Rook said.

Mr. Selden said he advises clients to "control what you have control over." Currently, that comes down to three things: taxes, savings, and spending.

Tax planning can protect wealth and allow saving the maximum, he said.

Spending, however, takes more willpower than the other two. "Not enough people, in my opinion, have the wherewithal or motivation to control their spending," Mr. Selden said. "If you can control your spending and have a good plan to do that, you can put more money into your retirement plan, and that control goes a long way to reducing stress over 'When can I retire?'"

But America seems to be losing the battle for restrained spending, according to a 2011 survey by SunAmerica Financial Group.

The life insurance firm, which surveyed American attitudes about retirement in 2001 and then updated parts of that survey a year ago, found that two classes of people woefully unprepared for retirement had increased over the last nine years.

A class SunAmerica called "Live for Today's," that is, those with retirement ambitions but who have saved for it on average 18 years and are unprepared for it, rose from 22 percent in 2002 to 27 percent. Another class, "Worried Strugglers," that is those who see retirement as a period of financial worry and stress, rose from 19 percent to 35 percent.

"It's pretty clear, as you know, that many Americans are woefully and sadly unprepared for retirement," said Larry Mark, a SunAmerica spokesman.

But Mr. Mark said the survey, which interviewed 1,000 workers 55 or older, noted the recognition by many workers that their planned retirements likely will be postponed.

"One of the things that did change [from the 2001 survey] is the age that preretirees expected to retire. It went from 64 to 69," Mr. Mark said. "I think those findings were triggered by increasing longevity and the effects of the recession and financial needs."

New outlook

Given that many workers now realize their retirement likely will come later, rather than sooner, attitudes seem to have shifted to make lemonade out of a lemon. Mr. Mark said when those

surveyed were asked if they viewed retirement as a winding down of life, as opposed to starting a new chapter in life, 54 percent chose the latter.

"In 2002 it was just 38 percent, so that was a pretty significant increase. People told us that retirement didn't necessarily mean the end of work and two-thirds said they'd like to remain productive," Mr. Mark said. "And a lot of people wanted to remain active because they wanted to remain productive, not because they had to work."

Mr. Mark said a wild card that popped up in the survey was 70 percent of respondents who believed they might need to financially assist their adult children, and 62 percent may have to assist grandchildren.

The picture has become so cloudy that many people not only have no idea of when they can retire, they're no longer sure what to expect of retirement, Ms. Setzfand said.

"I think a lot of these financial factors for people have shifted, and that has changed [one's] view on retirement from a planning perspective," she said. "If you don't know what retirement life you want anymore, it's hard to pinpoint the money you need to support that.

"Gone are the expectations of moving to Florida, living along a golf course, or walking on a beach. It's just not practical for most people anymore," she said.

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