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Retirement Is Tougher than Ever, and You Can Make a Difference

By John Papadopoulos

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One way to explain the realities of today's financial world to perplexed clients comes from an unexpected source: the often-quoted Yogi Berra. He is credited with saying, "The future ain't what it used to be."

Indeed, the future for most people has been shifting for more than 20 years, at least regarding the way they are planning to fund their retirement. Some of those changes are decidedly not their own idea, but consider a few data points from the U.S. Census and research firms, Cerulli and McKinsey that illustrate what people are up against:

* In the 1980s, about 65% of a typical person's retirement income came from Social Security; today, it's 40%.

* In the 1980s, 53% of households had a pension plan; today that figure is 35%.

* In the 1980s, about 11% of households had a 401(k) plan; today, it's 49%.

The 2007 Wachovia Retirement Fitness Survey, conducted by Richard Day Research, (Wachovia Corp. merged into Wells Fargo & Co. last year), found that just 14% of pre-retirees polled had a detailed plan of how much they would need to save for retirement and how to get there. In fact, 70% of those surveyed did not have an IRA. These results indicate that very few people have a clear picture of what they will need in retirement. And if they don't know what they need, how can they plan for it?

Of course, our country and our industry have undergone seismic changes since this survey was done. The equity markets took an unforeseen turn for the worse last fall; housing prices fell rapidly; credit markets froze; and long-standing businesses ceased to exist. The financial services industry became the target of government, media and public criticism. Unemployment grew exponentially and investors watched their asset values slide off a cliff.

A study released by the Federal Reserve earlier this year showed that Americans lost \$1.3 trillion in wealth during the first quarter of 2009 alone.

On top of that, much of the framework that people have counted on to fund their retirement is rapidly disappearing, as companies scale back or discontinue pensions and 401(k) plans, and government-sponsored programs like Social Security find themselves on shaky economic ground.

What this means for our clients is that they really are on their own. They have to step up and take personal accountability for their financial well-being. There's no safety net or magic bullet investment that will secure their future. And, because of recent economic conditions, many of them have fewer assets to work with to create a solid financial base for their retirement.

What this means for our industry is that what we have to offer is needed now more than ever. Our wise counsel, strategic guidance and insightful analysis can make a real difference in people's lives.

Here's the key: as we move into a future that looks very different from the past, the single best thing we can do for our clients is urge everyone we work with to have a financial roadmap. In some cases, that will be a detailed financial plan. In others, it will be a less comprehensive-but no less important-investment plan.

All our work with clients should grow from-and connect back to-the plan. Making a solid financial plan the core of our relationship will help clients prepare for the challenges they face and seize the opportunities that come their way.

The truth is, most people fail to plan for their retirement. In a survey conducted by Age Wave and Harris Interactive in March of this year, just 18% of respondents said they have actively planned enough and are confident about their retirement future.

This fact presents us with an opportunity. It gives us a chance to reconnect with existing clients who may have retreated from the market and are unsure about what to do next. It also gives us a platform for establishing relationships with new clients.

Creating a plan starts with having a thorough conversation with the client. We have to ask tough questions; questions that will get them to think about things they ordinarily wouldn't think about and, in some cases, things they may not want to think about. One fundamental question that people in this business should ask their clients is this: "How much does your lifestyle cost you?" People can't really plan for retirement if they don't have a good handle on what they're spending now and what they'll spend in the future.

Asking hard questions of our clients and really listening to the answers will enable us to serve them well.

It will give us the information to provide a roadmap that will help them get from where they are today to where they want to go, regardless of how conditions change in the future.

It's up to us to understand their goals, analyze their current circumstances and be honest with them about what it will take to achieve those goals in light of the new realities. We may be the bearers of bad news, telling them they will have to set aside more of their current income or work longer than they had planned.

Whatever our clients' goals, at the end of the day, they need money to achieve them. Managing that money and navigating the path to your dreams is a lot more complicated now than it was a few years ago.

Having a plan in place helps both us and our clients know where we're trying to go and what it will take to get there. It may be true that the future is not what it used to be, but with some honest discussion and smart planning, it can still be bright indeed.

John Papadopoulos is President of Wells Fargo Retirement.

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