Baby Boomers and Extended Longevity

Baby boomers will soon be addressing the significant task of structuring — or in some cases restructuring — their accumulated retirement assets for the preservation and distribution phases of retirement income management. Can they go it alone? Or will they need the help of skilled, educated financial professionals to help determine how to stretch their retirement assets to meet their anticipated longevity?

While most boomers realize their life expectancy will exceed that of their parents' generation, remarkably few boomers have done the kind of retirement planning necessary to address this issue. One study indicates that less than one-third of pre-retirees have accumulated enough retirement money to match income projections based on their life expectancies, and beyond. "Caution should be taken when evaluating life expectancy," advises Michael L. Wilson, MBA, CFP, owner of Integrity Financial Planning in Orland, Indiana and faculty member of Kaplan College's Financial Planning Program. Wilson adds, "Only one out of 25 people the same age today will live to their full life expectancy; the other 24 run the risk of exceeding their projected life expectancies."

Extended Longevity

Due to advances made in medical science, baby boomers are the first generation to be confronted with the issue of extended longevity. While life expectancy differs between men and women — with women typically living five to seven years longer — the promise of a long life is even better for couples than individuals. The Society of Actuaries reports that a married couple age 65 today has a 48 percent chance that at least one of them will live to age 90. Also important: the fastest growing age group in the U.S. today is age 100.

Longevity statistics, along with the reality of how much money will be required to maintain the lifestyles to which boomers have grown accustomed — combined with living in an inflation-prone economy with fluctuating market conditions, and do-it-yourself investing — have only added to the boomers' primary problem of potentially outliving their assets. The importance of building an adequate and continually growing nest egg during the accumulation and preservation phases of retirement planning — which will provide for the 20 to 35 years of income needed during the distribution phase — cannot be overstated. In many cases, boomers will need to generate additional earned income during their initial years of retirement while "growing" their already accumulated assets. But, where will that money come from?

Not only are baby boomers going to be living longer than their parents, but we are seeing that their employer-provided benefits will be much less generous than what has been provided for previous generations of retirees.

Sources of retirement benefits include: Social Security, inheritances, traditional pension plan (which pay a fixed amount on a regular basis), assets in 401(k), 403(b), or other retirement accounts from current or previous jobs, IRA's, and liquidated or income-generating real-estate holdings, and accumulated cash. However, the fact that many employers have, or are threatening to jettison their employee pension plans should have baby boomers alert and asking questions about their employers' promised pension packages. We only have to look at what happened with Enron, WorldCom, Delta Airlines, U.S. Air and Arthur Andersen to know that the unthinkable can and does happen. To play it safe, I usually recommend that boomers entitled to defined benefit pension distributions from employers make an effort in their planning to address these potential shortfalls.

Savers vs. spenders: Will the money last?

Ralph Kelman, Chief Executive Officer, Kelmoore Investment Company, located in Palo Alto California, a firm specializing in managed options portfolios, once said to me, "People fall into two categories: spenders and savers."

As a baby boomer working with boomer clients, I am continually reminded of that. I am part of a generation notorious for its spending habits. Because of this historical behavior, it is usually not recommended to take lump-sum distributions from retirement accounts, but rather use the IRS-rollover provision. Many product choices are available that preserve the tax status of "rollovers" from these accounts and, in some cases, offer the full preservation of principal while allowing for growth and providing for use of the client's money when it is needed.

As for keeping 401(k) money in a company plan after retirement, most retirees will have more investment options if they "rollover" their money to an IRA or perhaps a series of IRAs outside their company plans using a diversified structure of products.

Another point to consider here is that given the fate of some companies' solvency, it may make sense to move money (in the form of a rollover) away from former employers, so it is safe from their creditors in the event of potential financial difficulties.

A movement today in the 401(k) plan market recommends immediate annuitization of accumulated benefits immediately upon retiring. This seems to be yet another extreme — a "one size fits all proposition." Since the distribution phase of retirement sets the stage for the distribution of assets needed over 20 to 35 years, it may not be a wise choice to annuitize immediately upon retirement. Rather, choose products and an investment structure that provide opportunities for growth of the entire portfolio with an option to annuitize five to ten years down the road to guarantee and create income for life.

Do-it-yourself retirement planning: Worth the risk?

As many as 50 percent of today's pre-retirees and current retirees are trusting their future financial well-being to do-it-yourself retirement planning, rather than seeking the advice of financial professionals. "It is important to understand that this is the way boomers are used to doing things." says Michael P. Sullivan, President, 50-Plus Communications Consulting, a Charlotte, North Carolina-based firm specializing in boomer Profiling. Sullivan adds, "Boomers need help and they need it now."

We are the "me" generation: well-educated, successful, industrious and always thinking we know best. But the truth is, planning for the preservation and distribution phases of retirement income management can be complicated. Access to products needed to do it right is not readily available directly to consumers, so it is vitally important that boomers seek help. Those of us in the financial services industry must step up to the plate — both companies and advisors — and take responsibility for educating and guiding this generation on the real issues of longevity and the importance of planning for the three stages of retirement income management with the ultimate goal of creating income for life.