SAGE Solutions

How to take the Financial Stress out of Retirement

This article is focused on the following:

- "Why is Retirement Asset Management important?"
- "What Retirement Asset Management missteps must I avoid?"
- "How do I develop a Retirement Asset Management plan now?"

Retirement asset management refers to the management of money during the distribution phase of life. Unlike previous generations, this distribution period hopefully can last 30 to 40 years "after the last paycheck." According to the Society of Actuaries, there is a 50% chance one spouse of a married couple at age 65 will live beyond age 92. Because of the potential for a lengthy distribution period, it is key to your entire financial wellbeing to manage this stage effectively. For example:

- By correctly ordering the distribution of your retirement assets, you may have the potential to make more out of a smaller accumulation so you can retire earlier or live more comfortably in retirement.
- With a distribution plan, you're more likely to enjoy the kind of life you dreamed about and leave a significant legacy for your beneficiaries. This means you may not have to choose between supporting yourself and leaving something to your loved ones.

This article will point out 7 possible missteps that occur in the retirement planning process. Hopefully you will gain enough knowledge so that you can maximize your distribution options, potentially increase your retirement income and make your retirement income last longer.

What are the most common financial missteps in retirement?

1) Underestimating longevity
2) Not being adequately prepared for a down market
3) Underestimating the impact of inflation
4) Failing to diversify investments
5) Underutilizing unique investment features
6) Not distributing assets tax efficiently
7) Missing your annual financial checkup

Misstep #1: Underestimating longevity

For earlier generations, a financially secure retirement meant having "enough" to live comfortably to age 65 or 70. With the medical advancements we read about on a daily basis, the average life expectancy is regularly rising.

Ensuring that you don't outlive your assets now requires even more planning than was needed to accumulate those assets in the first place.

NEXT STEP

We will expand upon this conversation during our Webinar scheduled for December 10, 2009 at 1pm EST. You can reserve a space by contacting Lisa Carson by phone at 518.465.3530, or by email at lcarson@SageHillAdvisory.com. If you have any questions in the meantime please feel free to contact any member of the Sage Hill Advisory & Management team.

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If your retirement plan doesn't recognize the possibility of a very long retirement, you may be facing the greatest threat to retirees: outliving your money.

PROBABILITY OF RUNNING OUT OF MONEY
IF PORTFOLIO IS INVESTED (40/60 STOCK/BOND MIX):

	25 years	30 years
4% withdrawal rate	2%	9%
5% withdrawal rate	18%	37%
6% withdrawal rate	50%	71%

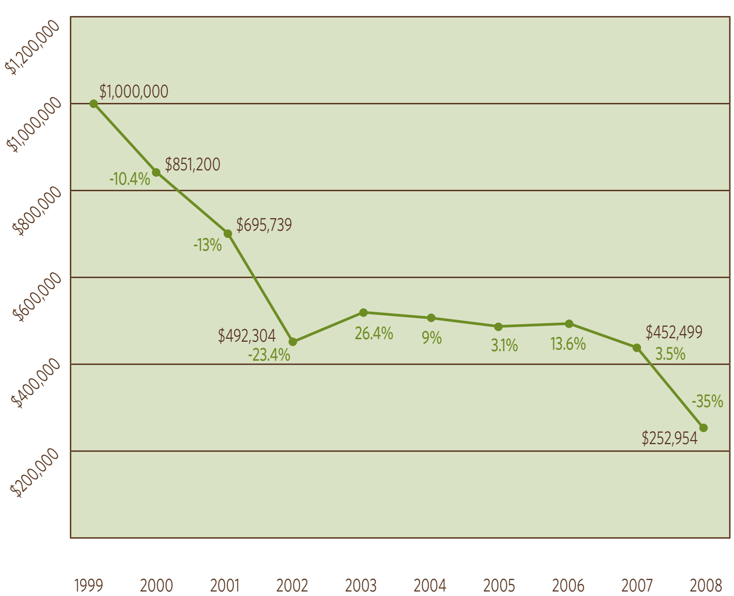
Misstep #2: Not being adequately prepared for a down market

Today's retirees often need to grow and protect their retirement assets. The rise and fall of the stock market can have a profound effect on the value of your retirement income assets. Consider that down markets can have a disproportionately negative impact on assets during the early years of retirement versus the later years. This can be significant, even when subsequent market upswings occur.

Let's take a look at a hypothetical example of a retirement account invested in the S&P 500 Index during the bear market of 2000 through 2002. This hypothetical investor began with \$1,000,000 and withdrew \$50,000, (inflated 3% per year) at the beginning of each year. The percentage numbers on the chart are the return of the S&P 500 (with dividends reinvested) for that particular year.

You can see in the chart that despite the subsequent positive market performance, this investor would have just \$452,499 left in his/her account at the end of 2007 and with the resumption of a downtrend during 2008; the balance erodes to \$252,954 at year end.

NOT BEING ADEQUATELY PREPARED FOR A DOWN MARKET



Misstep #3: Underestimating the impact of inflation

In 2008 the inflation rate was .1% as measured by the U.S. Bureau of Labor Statistics. Although relatively tame the last couple of years, I don't recall that the average prices I paid for good and services stayed the same for a whole year. The point is; your personal inflation rate is subject to your personal experiences. In fact the US BLS has been conducting a bit of an experiment on the CPI, which stands for the Consumer Price Index. It has created a sub-index of the CPI called the CPI-E. The index is designed to better chart the typical basket of consumption for retirees. For example, the CPI-E for medical care has twice the weight as it has in the CPI. The reason is that that the elderly spend a greater fraction of their income on medical care. Though inflation overall has been tame in the past decade, health insurance care and prescription drugs have risen exponentially each year.

Misstep #4: Failing to diversify investments

COULD YOUR RETIREMENT INCOME NEEDS
SURVIVE A BEAR MARKET?

Concentration of assets in one asset class increases your portfolio's risk and may not produce better returns.

Diversification among a variety of asset classes may help lower the market volatility of your portfolio.

Diversification does not assure or guarantee better performance and doesn't eliminate the risk of investment losses.

Misstep #5: Underutilizing unique investment features

There are investment vehicles specifically designed to provide guaranteed income for life and protection against stock market losses. Utilizing these instruments can enhance your portfolio and help you avoid some of the missteps we have identified. The tables below outline the potential income and risk reduction enhancements when utilizing these vehicles.

ANTICIPATED INCOME ATER-TAXES PER \$1,000,000 INVESTED:

	Enhanced Portfolio	Traditional Portfolio 60%/40% Stocks/Bonds
35 year lifetime	\$1,569,788	\$1,205,611
Annual after-tax %	4.5%	3.4%
Annual before-tax %	6.9%	5.3%

ANTICIPATED PORTFOLIO DECLINE
DURING NEGATIVE STOCK MARKET CYCLES:

	Enhanced Portfolio	Traditional Portfolio 60%/40% Stocks/Bonds
50% Stock Market Decline	-7%	-28%
30% Stock Market Decline	-3%	-16%
10% Stock Market Decline	1%	-4%

Misstep #6: Not distributing assets tax efficiently

OPTIMIZING THE ORDER OF ASSET DISTRIBUTION IS KEY TO YOUR DISTRIBUTION PLAN.

Helps you receive your desired level of retirement income for as long as possible.

With increasingly complex retirement plans, the old "rules of thumb" may no longer be adequate.

How should the distribution order be determined?

If you only have a small amount of assets in your portfolio, the answer may be to sell poor performers and retain strong performers.

But what if you have a portfolio with a variety of assets, what is the correct distribution order?

Misstep #7: Missing your annual financial checkup

Review your plans annually with your financial advisor and stay on top of:

- New tax rules and regulations
- New investment options
- Unexpected asset allocation changes due to an investment's performance
- Fluctuating rates of inflation
- Changes in your risk tolerance
- Changes in your goals

Protective Step

Our primary goal for our client families is to zealously protect their financial independence. To that end, we detail one's operating cost of living, prospective major purchases in the future, forecasted inflation rates, rates of return on assets and tax rates, among other factors. We then seek to structure and manage their financial resources to dovetail around their goals. In our ongoing strategic thinking, research, analysis and due diligence of each element of available financial instruments, we unearth features that offer risk protection and return characteristics that support client goals. It is a bit of a stew, but in the end, a careful selection of ingredients in the right proportions can yield a consistent predictable outcome time after time after time.