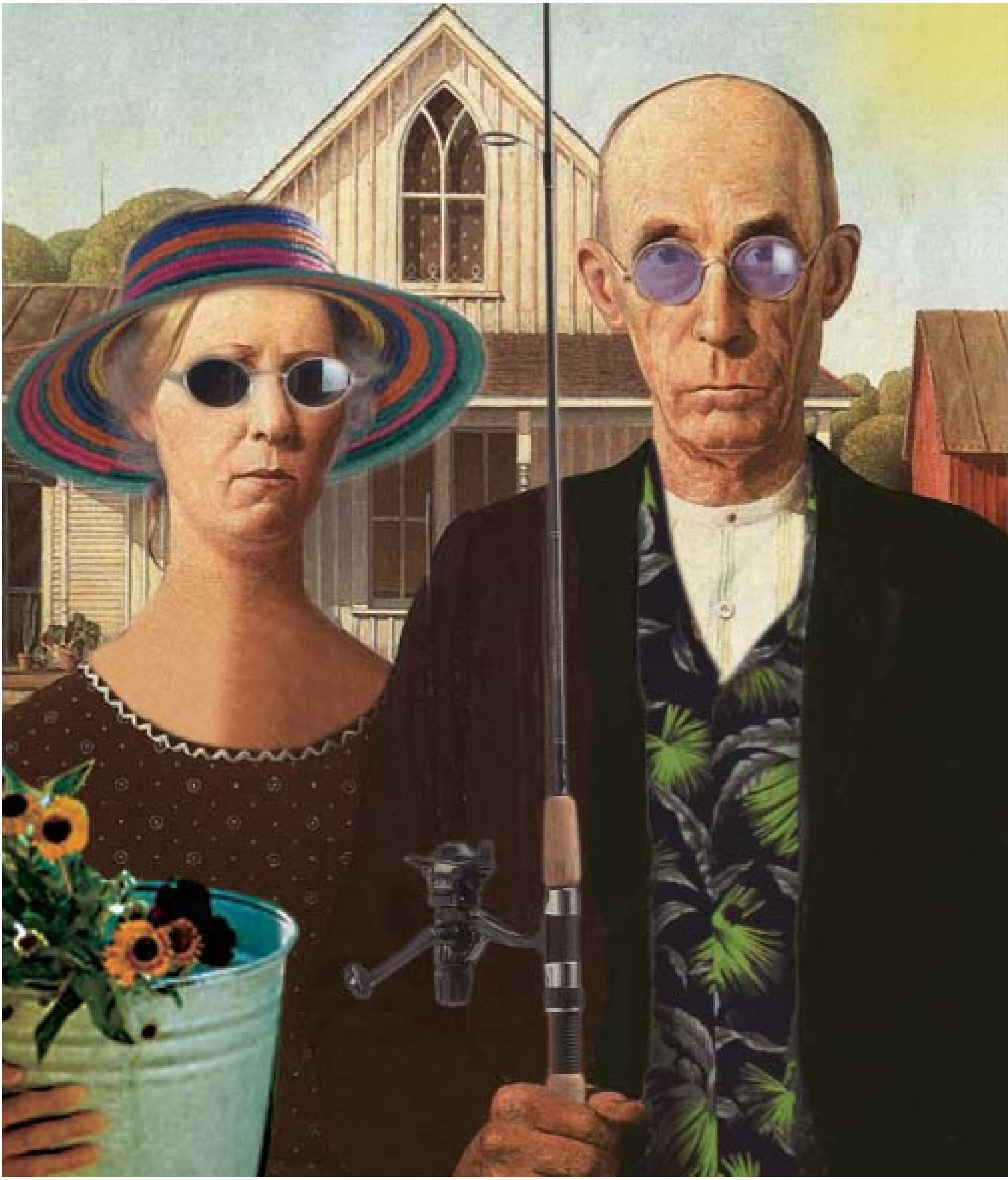
RETIREME

You've done the hard work and managed to retire with a nest egg. The trick now is not to outlive it.



NT BLUES

Ah, the good life.

On a sunny Monday morning, you're out on your deck in T-shirt and shorts, sipping a second cup of coffee and leafing through a brochure for a Caribbean cruise. And contemplating a short nap before you tackle your list of household projects. ¶ You didn't have to put on a suit. Or battle rush hour. No more memos, no more meetings, no more bosses. ¶ And no more 9 to 5 for you. Thanks to your pension and some good 401(k) invest ments, you were able to retire early. In a couple of years, your Social Security benefits will kick in. Looks like you're all set. ¶ And maybe you are. But for how long? Americans are living longer than ever, and retirement has gotten longer than it used to be. In 1940, a 65-year-old man could expect to live, on average, for about 12½ more years. Now it's about 16 more years—an increase of nearly 30 percent. Meanwhile, the average retirement age for men dropped from 74 in 1910 (when retirement was much less common) to 63 in 1983, according to the Center for Retirement Research, and it's changed little since then. Counting both men and women, the average retirement age today is 62. ¶ Today, many retirees now in their 60s will live into their 90s—and a significant number will reach 100. These trends create a tricky financial challenge:

BY ANNE RICHARDSON

How do you make the money last as long as you do?

BonoTom Studio with apologies to Grant Wood

Roll Your Own

Today's retirees, and the ones who will follow them in the coming decades, are entering new territory. Greater longevity, the decline of traditional pension plans, and the rise of 401(k)s mean that middle-class retirees will have more control over their retirement funding—and for a longer time. They won't automatically get a check every month from their traditional pension, and they'll depend heavily on their 401(k)s to help finance their later years.

Navigating that financial terrain won't be simple.

"Future retirees will retire with a big pot of money and no pension," says Shane Chalke, an actuary who is president and CEO of AnnuityNet/VARDS. "As retirees hit ages 65 and 70, they're going to have a big 401(k) without a method of determining how much to spend each year. It's a tough environment to roll your own."

For many current retirees, the defined benefit (DB) traditional pension plan remains an important source of income. According to the Employee Benefit Research Institute (EBRI), 40 percent of all retirees over 65 received DB pension payments in 1998, and the median monthly payment was $549. DB plans will probably continue to play a big role in providing retirement income—at least for a while. The proportion of retirees with DB income is likely to stay constant or increase over the next 15 years or so—until the younger baby boomers retire, says EBRI President Dallas Salisbury.

By then, if current trends continue, the traditional pension may itself be headed for retirement.

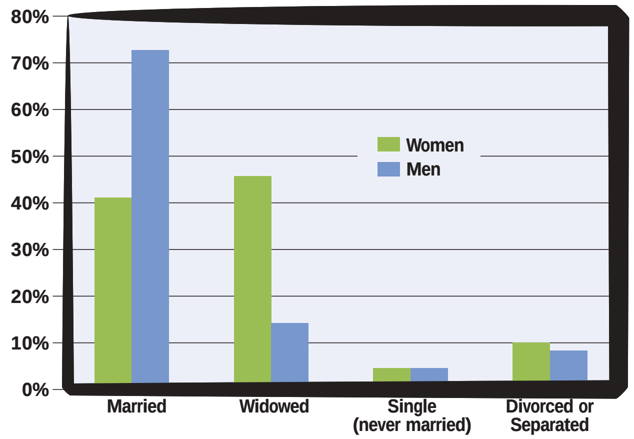
The American Academy of Actuaries estimates that in 1975, 40 percent of workers had a traditional pension and only 16 percent had a defined contribution (DC) plan. But as 401(k) plans grew, David turned into Goliath. Today, only 21 percent of workers have a traditional pension, while 46 percent have a DC plan (sometimes in addition to a traditional pension). And three-fourths of those DC plans are 401(k)s, the Academy said in recent congressional testimony. For both DB and 401(k) plans, retirement experts say, workers who are given a choice often prefer to get a lump sum rather than a monthly annuity. The lump sum gives retirees much greater control over their money. It also leaves them with much greater financial risk.

"There's this emotional attachment to lump sums that isn't grounded in hard evidence," says Bill Daniels, a senior retirement consultant at Towers Perrin. "Even when people are given the choice between a lump sum without the value of an early retirement subsidy or a pension that includes the early retirement subsidy, they'll take the lump sum. The irony, of course, is that once you have all your money in a lump sum, you realize that what you need is an income stream."

Many of us reach that point unprepared. We want to be in the driver's seat, but various studies indicate that once we're there, we don't know how to skillfully maneuver around the retirement risks in front of us.

► **EXAMPLE:** In response to a 1998 survey conducted by the American Association of Retired Persons (AARP) that asked, "When an investor diversifies his investments, does his risk of losing money increase or decrease?" only 26 percent of those 65 and over correctly answered that it would decrease.

Marital Status of Persons 65 and Older, 2001



Based on Internet releases of data from the 2002 Current Population Survey of the U.S. Bureau of the Census

► **EXAMPLE:** In a 2001 retirement risk survey by the Society of Actuaries, 67 percent of retired women and 55 percent of retired men underestimated a 65-year-old's average life expectancy. And only half of the retirees said they had thought a great deal about retirement financial planning more than two years before leaving the workforce.

► **EXAMPLE:** In EBRI's 2003 Retirement Confidence Survey, only 16 percent of the workers surveyed could give the correct age at which they'll qualify for full retirement benefits under Social Security. Many workers remain unaware that the age is gradually increasing from 65 to 67.

Anna Rappaport, an actuary and retirement expert at Mercer Human Resource Consulting, says more emphasis needs to be put on financial education, both in schools and in the workplace.

"There's much more individual responsibility for retirement than there used to be," she notes. "When people have regular income from an employer-provided plan, it's less important that they be able to manage risks. But under many of the evolving plans, people get everything as lump sums and they're expected to manage it themselves. Building assets is only half of the job—the second half is managing those assets once we're retired."

As the number of older Americans burgeons in coming years, many more of us will be trying to figure out how to manage our assets, and our decisions could have increasingly important consequences.

In 2000, there were 35 million Americans 65 and older, or about 12 percent of the U.S. population. By 2030, the number of 65+ Americans is expected to double to 70 million, or 20 percent of the total population. "There's a looming social problem that we in the industry are keenly aware of," says Chalke. "We're going to watch a lot of people run out of money."

Understanding Retirement Risks

Everything happens to everybody sooner or later if there is time enough. —George Bernard Shaw

Investment risk

The downside of investment risk became painful reality after the 1990s ended and the stock market bull mutated into ravenous bear. Three of four Americans between the ages of 50 and 70 lost money in the market's decline, according to a December 2002 AARP survey.

For recent retirees and those nearing retirement, the timing was terrible. The AARP study found that among retirees who had lost money in the market, nearly two-thirds had changed their lifestyle as a result. In the 2003 Retirement Confidence Survey, one-fourth of workers 45 and older said they'd decided within the previous year to retire later than originally planned, and many cited market losses as a reason.

But market risk is just one of many that retirees face. Others include longevity risk, interest rate risk, health care costs, inflation, and the death of a spouse, to name a few.

Longevity risk

The good news is that we're living longer. The bad news is that many more of us will survive mortality risk only to face longevity risk instead. (To oversimplify, mortality risk is the risk that you'll die and your family will run out of money; longevity risk is the risk that you'll live a long time and run out of money yourself.)

"There's been a great deal of attention paid to managing investment risk," says Rappaport. "There's been very little focus on the fact that no one can predict how long they'll live."

On the average, of course, the answer is "longer." By 2030, 8.9 million Americans will be 85 or older—more than double the 85+ population in 2000, according to the Administration on Aging.

And many of them will be living without much of a financial cushion.

Among people 65 and older, about two-thirds receive at least half their income from Social Security, and one-fifth rely on Social Security as their only source of income, according to the Social Security Administration. (For more on longevity risk, see the sidebar "Outliving Your Money.")

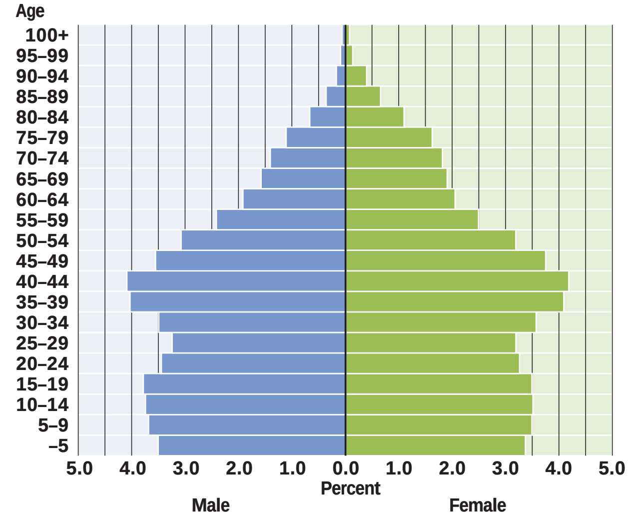
Interest rate risk, inflation risk

Unusually low interest rates may have been a boon for the housing market recently, but they have a dark side, too. They make life harder for retirees who rely on fixed-income investments to help pay expenses.

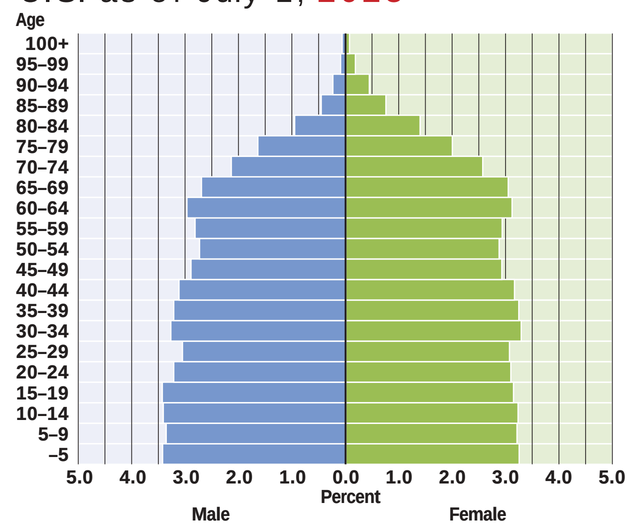
The problem of retirees earning next to nothing on their money hasn't gotten much attention yet in the press, says Alicia Munnell, director of the Center for Retirement Research. She adds that low interest rates "are supposed to be good for the economy, but they've never been good for people living off of accumulated assets."

Nor are they good for retirees looking to buy fixed-income instruments. "The question we face constantly is where are we

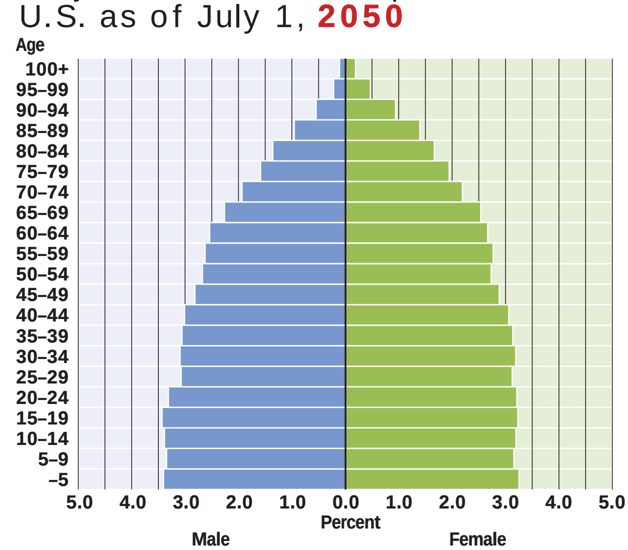
Projected Resident Population of the U.S. as of July 1, 2000



Projected Resident Population of the U.S. as of July 1, 2025

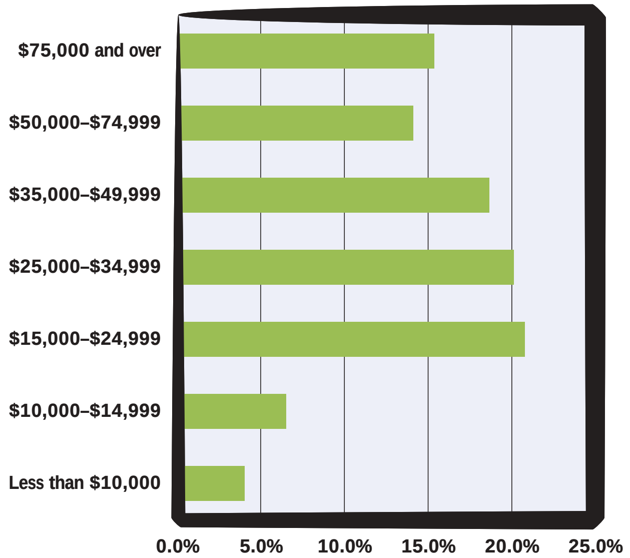


Projected Resident Population of the U.S. as of July 1, 2050



Source: U.S. Census Bureau

Median Income of Family Households 65+ Householder



$33,936 median for 11.6 million family households 65+

Source: U.S. Administration on Aging

putting our clients' fixed-income money," says Mark Johannessen, a financial planner in McLean, Va., who specializes in retirement finances. "We are being forced to seek investments we would not ordinarily have used when U.S. Treasuries were yielding 5 to 6 percent." Annuities are among those investments, he added.

Inflation also poses a potential threat to retirement security. Over the years, ever-increasing living costs can gradually suck a nest egg dry.

"Making Your Money Last for a Lifetime," by the Actuarial Foundation and the Women's Institute for a Secure Retirement (WISER), estimates that if inflation is 3 percent, $10,000 at retirement will be worth only $5,537 after 20 years. At 7 percent inflation, that $10,000 will be worth only $2,584 after 20 years.

Health care needs

Health care expenses are impossible to predict. But even for relatively healthy retirees, health care can be expensive, and their former employers are unlikely to be sharing the burden.

As of 2001, according to one study, no more than 37 percent of those between 55 and 64 who had retired from a large firm had insurance coverage from a former employer. The figure was even lower, 27 percent, for retirees over 65, who were eligible for Medicare.

Paying for long-term care can wreak havoc on retirement savings. Long-term nursing home care often costs $50,000 or more a year, and Medicare covers only about 50 percent of seniors' regular health expenses, excluding nursing home care. Overall, out-of-pocket medical expenses for people 65 and older rose to an average $3,493 in 2000—a 50 percent increase above the 1990 level, and far more than the $2,182 average for the total U.S. population, says the Administration on Aging. According to its estimates, health care costs accounted for 12.6 percent of total spending by Americans 65 and older; more than double the 5.5 percent average for all age groups.

Managing the Risks

Retirees can use a variety of strategies to deal with retirement risks. The options range from creating your own pension to waiting a few years before you start getting Social Security checks. But different strategies fit different people. There are no guarantees, no one-size-fits-all answers. What works for you will depend on your circumstances, your needs, and your goals.

Figuring out the best approach "is really an individual assessment," Salisbury noted. Too often, he says, people mistakenly follow financial advice they hear about or read about, even though the generalities don't apply to their situations. "Until you've done your assessments of needs and of risk aversion, and all those other individual assessments," he says, determining your best strategy "is impossible."

And managing retirement risks isn't a one-time thing. Changing circumstances may require new solutions. Here are some of the possibilities.

Consider Annuities

(Note: This article focuses on the immediate fixed annuity, which is not to be confused with the more complex deferred variable annuity.)

In the wake of stock market losses and low rates for fixed-income investments, some retirees are taking a closer look at creating their own pensions.

With an immediate fixed annuity, you get a predictable monthly check for a long time—until you die, if that's the option you choose. But you have to pay a lot up front, and you usually can't get it back. (To read more about annuity advantages and disadvantages, see the sidebar "Should You Buy an Annuity?")

And they're not easy for everyone to understand. For instance, Daniels notes, workers are sometimes bewildered when they're told that if they use $100,000 to buy an annuity, they no longer have access to that money. (In order to generate retirement income, the money must remain invested.)

"They say, 'You mean I won't have my $100,000 any more?' In a sense you don't—but in a sense you have something better, because you now have an income stream that is probably larger and more secure than the one your $100,000 would have generated," says Daniels. "It's a leap people have a hard time making."

To help them make the leap, some retirement analysts think 401(k) plans should be encouraged, or required, to offer an annuity option.

"I would like to see annuities become the default for most of these 401(k) plans, and then you can opt out if you prefer," Munnell says. Trying to successfully manage the money from a lump sum "will present insurmountable problems" for most people, she says.

Figure Out When to Start Getting Social Security

You can start receiving Social Security retirement checks before, at, or after your normal retirement age. Each choice has tradeoffs.

If you were born in 1937 or earlier, you can start receiving full Social Security retirement benefits at 65. If you were born in 1960 or later, you'll have to wait until 67. For everyone else, the eligibility age for receiving full Social Security benefits lies somewhere in between, because Social Security is gradually raising the full retirement age to 67 over a 22-yearperiod.

Regardless of your birth year, you can start collecting Social Security retirement benefits as early as 62, or you can wait as long as 70. Most people take benefits early. According to a Congressional Research Service report, about 64.5 percent of the men and 74.5 percent of the women who began getting Social Security retirement benefits in 2000 were between the ages of 62 and 64.

But the early starters get smaller monthly checks than those who wait, because Social Security has to pay them longer. If your full retirement age is 65 and you start getting benefits at 62, you get 20 percent less than the full benefit. And when the full retirement age reaches 67, people who start taking benefits at 62 will get 30 percent less.

It works the other way if you hold off. If you're above full

Outliving Your Money

IT'S A CRUCIAL PART OF FINANCIAL PLANNING, both before and during retirement, but retirement experts say that longevity risk—the potential that our lives will last longer than our money—is too often ignored or misunderstood.

"I really don't think people have focused on the potential for living a long time and outliving their resources," says Alicia Munnell, director of the Center for Retirement Research at Boston College.

Many of us will have to focus on it at some point, whether we plan for it beforehand or just take our chances and go broke in our old age. It's already worrying retirement analysts, who say that when we work on our financial strategies for retirement, we need to have a general idea of what the average life expectancy is for people of the same age and gender.

And, they say, we need to keep in mind that although many people die before reaching the average, many others live longer than average—and sometimes much longer. (The table below, which is based on Social Security Administration data, shows average life expectancy estimates for people of various ages.) For example, about one-third of all 65-year-old women and one-sixth of all 65-year-old men can expect to live until 90, according to the Center for Retirement Research.

"Life expectancies have been rising steadily. An unforeseen acceleration in the overall trend is just part of the risk you're hedging," explains John Ameriks, an economist with the TIAA-CREF Institute. "The more important risk you're hedging is your individual risk around whatever your expectation might be. Even if you expect to live to 95, you can't know if you'll in fact live to be 85 or 105." But you probably know that, generally speaking, your longevity risk is higher if you're a woman than if you're a man. On average, women have a lower income, longer life expectancy, and a far greater chance of outliving a spouse.

Almost half of all women 65 and over were widows in 2001, while only 14 percent of the men in that age group were widowers, according to an Administration on Aging report. Overall, the report says, annual median income was $11,300 for women 65 and over, and $19,700 for men in that age group.

"Five percent of older married couples live in poverty, but the poverty rate for widows and divorced women is more than three times as high, and women live longer than men," says Anna Rappaport, an actuary and retirement expert at Mercer Human Resource Consulting. "It's really important for women to think about those risks and how to manage them."

If your age in 2003 is this:	the average lifetime of your age group, once you have reached 65, is... (if you're male)	(if you're female)
90	79.5 years	83.8 years
80	80.4 years	84.1 years
70	81.3 years	84.5 years
60	82.0 years	85.2 years
50	82.7 years	85.8 years
40	83.3 years	86.4 years
30	83.9 years	87.0 years
20	84.5 years	87.6 years
10	85.0 years	88.1 years
1	85.5 years	88.6 years

(Adapted from "Life Tables for the United States Social Security Area 1900-2100," Actuarial Study 116, Social Security Administration, by Felicitie C. Bell and Michael L. Miller. Life expectancies were calculated on a cohort basis and have been rounded here.)

retirement age when you start getting Social Security benefits, you get a delayed retirement credit that pays you more for every month that you wait, until you reach 70. Retirees born in 1937 get 6.5 percent more annually for each year up to age 70 that they delay getting benefits; people born in 1960 will get 8 percent more a year.

If you can afford to, and if you expect to live a long time, it could be worth your while to wait.

For example, if you're a 60-year-old making $50,000 a year, and you'd get $970 a month if you started receiving Social Security benefits at 62, you'd get $1,369 a month instead if you waited until you were 66, according to rough estimates by the Social Security Administration. And, in this example, waiting until you're 66 pays off if you live beyond 75 years and 8 months.

If you're below full retirement age and you return to work, your current Social Security checks are reduced if you exceed certain income levels. But when that happens, says Ron Gebhardtsbauer, senior pension fellow at the American Academy of Actuaries, your future Social Security benefits will make up for it.

For example, he explains, "If you defer your benefit, it will be larger when you restart, and what you lose now, you'll regain later."

Go Back to Work—If You Can

The penny-saved, penny-earned strategy is an obvious place to start when your expenses are higher than expected. But if you can't make your savings and investments stretch far enough, you need another solution. One option—when it's feasible—is to return to work.

It's an option that's becoming more popular as workers move into gradual retirement, or phased retirement, and continue working.

"An increasing number of Americans choose to return to work after they retire, often on a part-year or part-time basis," noted the 2001 actuarial survey on retirement risks. For example, a Congressional Research Service report finds that 38 percent of men and 29 percent of women 55 to 64 who received income from a pension or retirement plan in 2001 were employed in March 2002.

Those who stop working in their early 60s rather than later "are at much greater risk of having inadequate incomes when they are older," says a 2002 Center for Retirement Research report, which notes that early retirees give up labor income, get a reduced monthly benefit from Social Security, and lose the chance to contribute to a corporate 401(k) plan, if such a plan is offered.

And then there's health insurance. Even for young retirees in relatively good health, losing employer-sponsored health insurance can be costly. For example, an EBRI issue brief estimates that to cover health insurance premiums and out-of-pocket costs, a 55-year-old retiring this year in Washington, D.C., would need somewhere between $75,000 and $286,000—and that's just until Medicare kicks in at 65.

"The largest single reason for someone to think about working at least until 65 is health insurance, and as time rolls forward, that's going to become even more true," says Salisbury.

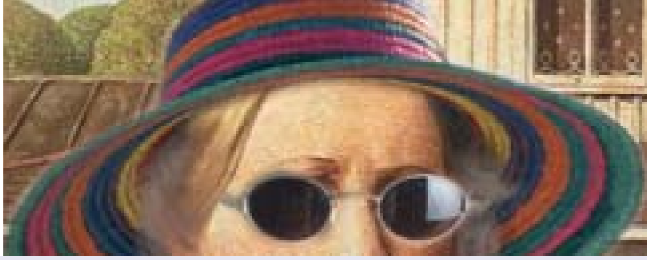
If you're counting on continuing to work, however, time is not on your side.

About 68 percent of men and 53 percent of women between the ages of 55 and 64 were working or looking for work in 2001, says the Congressional Research Service. But it's a different story at later ages. Even though the trend toward earlier and earlier retirement appears to have ended in the mid-1980s, only 13 percent of those 65 or older were working in 2001, according to the Administration on Aging.

Continuing to work isn't always feasible for younger retirees, either. "Some people have physically demanding jobs, or there's no demand for their skills, or they're not in good health, so it's not the answer for everybody," says Munnell. "But if people can stay in the labor market, they probably should."

Review Your Investment Strategy

Both before and during retirement, financial experts say, a diversified financial portfolio remains key to a successful retirement strategy.



Should You Buy an Annuity?

MAYBE YOU'RE INTRIGUED BY THE IDEA of a do-it-yourself pension, but you don't know if immediate fixed annuities would be a good investment. If so, read on to learn what some retirement and financial experts think of them. But first, please note that while there are various types of annuities, the ones discussed here are immediate fixed annuities unless stated otherwise.

They offer protection against longevity risk—the risk of outliving your assets.

"It's going to be a very big challenge for people when they're handed $150,000 from their 401(k)," says Alicia Munnell, director of the Center for Retirement Research at Boston College. "How do you spread that over a lifetime? It's very hard to do. The best way for most people is to buy an instrument like an annuity."

John Ameriks, a TIAA-CREF Institute economist, conducted a study which found that using a fixed annuity and making systematic withdrawals from an investment portfolio, rather than just making systematic withdrawals alone, could reduce the likelihood of outliving one's assets. "When most people start thinking about this, they've built up a pile of money and they take a dollar off the top and hope it grows fast enough that they never reach the bottom," Ameriks says. "The problem is that you don't know how long you're going to live."

Many people misunderstand longevity risk, he says. "They see only one side of mortality/longevity risk—they think, 'I'm going to get hit by a bus and the insurance company is going to win.' Many don't realize that by not receiving at least part of their income from an annuity, they are just choosing the opposite extreme—essentially betting that they're going to die early and won't need the income stream an annuity would provide."

If you don't expect to live very long, longevity risk is not a major concern.

Before buying an annuity, it's a good idea to consider your health and your family's medical history to figure out whether you're an obvious candidate for a longer or shorter life span than average. Annuities are designed for the long run—you probably won't get your money's worth if you live only a few years after buying one.

Annuities can provide a source of regular income every month.

In mid-July 2003, according to one Internet annuity site, a $100,000 immediate fixed annuity would buy a 70-year-old man living in Maryland an average of $714 a month ($8,568 a year), for the rest of his life. For a 70-year-old woman in Maryland, that annuity would buy an average of $660 a month ($7,920 a year); the total is lower because women tend to live longer than men, so that $100,000 has to go further. And for a 70-year-old couple, $100,000 could buy a monthly check of $599 ($7,188 a year) as long as one of them remained alive.

You may not need another source of regular income every month.

If you're on either end of the economic spectrum, you're less likely to be in the market for an annuity. If you're poor, you can't spare the money for it. If you're wealthy, you probably don't have to worry about outliving your assets.

Annuities are for you, not your heirs.

Annuities usually don't pay death benefits. Generally, the more you use to buy an annuity, the less you will leave to your heirs. That's "one of the typical downsides" of annuities, notes financial planner Mark Johannessen. "You're going to have to think about your personal financial situation and whether you're going to want to leave money to your children," he says.

If your main goal is to take care of your own income needs, Johannessen says, an annuity might help. "If all I need is 5 percent, and I can achieve that and have a good quality insurance company that will pay me that for the rest of my life, that would be fine."

(Annuities also have various other options, however, including a "joint and survivor" feature that provides lifetime income for a couple.)

Annuities aren't flexible.

In a survey cited in a 2000 research report by the Center for Retirement Research, financial planners were asked why annuities providing a lifetime income weren't more popular. The main reason: loss of control of principal or lost flexibility. Annuities provide neither flexibility nor liquidity. Generally, once you buy an immediate fixed annu-

ity, you can't take out the money again, so you'll have to use other assets for emergencies and other needs.

Immediate fixed annuities don't protect against inflation.

Immediate fixed annuities lock in a guaranteed fixed income, so they don't keep pace with inflation. (There are some inflation-indexed annuities; they aren't discussed in this article.) Bill Daniels, a senior retirement consultant for Towers Perrin, notes that other fixed-income instruments also don't protect against inflation. He says annuities are "like a specialized version of a fixed-income investment. If you're comfortable that a part of your portfolio should be in fixed income, it's not a very big step from there to conclude that you should probably put a part of that into annuities—because now you have dealt with longevity risk, which the fixed income instruments can't."

Annuities tend to be a better deal for older retirees.

There's no right or wrong age to buy an annuity—but you get more for your money at 70 than you do at 60. As you get older, the value of being in the insurance pool increases.

It's not all or nothing.

"You don't show up at 65 and dump all your money into an annuity," says Ameriks. But just as "there aren't a lot of cases where you tell people, 'don't hold any stock at all,'" he says, "there aren't a lot of cases where you say, don't hold any annuities at all."

When deciding whether to buy an annuity, or how much to buy, he says, "you've got to include Social Security and a traditional pension and those other sources of income that will offset the amount of annuity you need to buy."

Daniels says it's unwise to buy an annuity that gives you more income than you need for living expenses. "That's sort of like overinsuring," he says. And he recommends against buying an annuity with money that you're otherwise comfortable having in high-risk investments.

It's not now or never.

"You don't have to do it when you're 65," notes Ameriks. "You can come back and look at it when you're 70." Also, financial experts point out that a common strategy is to buy several annuities, spreading out the purchases over a period of time.

Some annuity options may be more important to women and couples.

Depending on individual circumstances, annuities can be especially helpful for older women who outlive their spouse.

Some retirement experts suggest that couples consider the joint and survivor annuity, which continues to provide income until both spouses die. "Thinking of some way of allocating the money over the joint life span of the couple is a very important consideration for women," says Munnell.

Women who are still in the workforce, and who have a choice of receiving their pension as a lump sum or an annuity, should take a close look at their options, recommends Daniels. They may find that they'll get a better deal by taking the pension as an annuity, especially if they'd planned to use the lump sum to buy an annuity. The reason: Insurers use separate male and female mortality tables for annuities, but pensions use unisex tables. A 60-year-old woman who buys the same annuity as a 60-year-old man usually gets a smaller monthly check, because she's likely to be getting the checks longer.

Do your homework.

If you do decide to buy an annuity, retirement experts recommend that you buy from a solid company with a good reputation. It's a good idea to see how the companies are rated by Standard and Poor's, Moody's Investors Service, and A.M. Best.

You should also shop around for a good rate, and compare various fees and charges. "With any financial service you buy," Johannessen notes, "you don't necessarily want to buy the first thing off the shelf without checking out what other people might recommend."

Web resources for consumers

Here's a starting point for information on the World Wide Web about managing various types of retirement risk. (Also, if you want to continue exploring the topic, try the related links on some of the sites here.)

- **FirstGov for Seniors' retirement planner**
  http://www.seniors.gov/retirement.html
- **The SEC's financial facts tool kit**
  http://www.sec.gov/investor/pubs/toolkit.htm
- **The Motley Fool's retirement basics**
  http://www.fool.com/Retirement.htm
- **Social Security's retirement planner**
  http://www.ssa.gov/retire2
- **"Making Your Money Last for a Lifetime: Why You Need to Know About Annuities," by the Actuarial Foundation and the Women's Institute for a Secure Retirement (WISER)**
  http://www.actuarialfoundation.org/active/coned/wiser_annuities.html
- **"Ten Questions to Ask When Choosing a Financial Planner," Financial Planning Association**
  http://www.fpanet.org/public/tools/tenquestions.cfm
- **A Kaiser Family Foundation report, "Private Long-Term Care Insurance: Who Should Buy It and What Should They Buy?"**
  http://www.kff.org/content/2003/6072/

Retirement experts recommend that during retirement, you should review your income needs every few years. You may discover that you need to change your investment allocation and asset mix. An old rule of thumb was that retirees need only 70 percent to 80 percent of their pre-retirement income to meet their expenses. But depending on how active you are, and how high your expenses are, you may need much more. And retirees who expect to need income for a long time may decide that some of the money they have in bonds should go into stocks instead.

"The world has changed a bit. If you think about retirement, 65 used to be old; 65 is not old anymore," says Tom Murphy, a retirement specialist at Buck Consultants. "Retirees now have a 20-to-30-year life span in front of them. To totally look away from equities when you're a retiree doesn't make sense anymore."

Financial analysts suggest that you consider all your assets and sources of income when you review your investment strategy. If you do not have any regular income beyond Social Security, for instance, you might want to consider buying an annuity, because a base of regular income is important to retirement security. If you already have a pension and an annuity, you might decide to put more of the rest of your portfolio into riskier investments that offer higher potential returns, but also higher potential losses.

The median net worth for households headed by people 65 or over in 2000 was $108,885, according to the Census Bureau. By far the biggest source of income among those 65 and older is Social Security, with Social Security benefits representing 38 percent of their total income in 2000, according to the Social Security Administration. Most of their remaining income that year came from earnings (23 percent), assets (18 percent), and pensions (18 percent).

"You can invest the rest of your assets much more aggressively if you have an income stream that pretty much meets your living requirements," says Daniels.

And Johannessen notes that it doesn't necessarily take complex calculations to determine if you've taken on more financial risk than you're comfortable having. "Different people have different risk tolerances," he says. "How are you sleeping at night? If your investments don't allow you to sleep at night, it's a sure sign that things need to be changed."

For some, that change could be to get out of stocks entirely. "You should only put money in equities that you can afford to lose—and most retirees can't afford to lose anything," says Salisbury. "If you have some guaranteed streams of income, more power to you, but that is a relatively small minority of the retired population."

Those interested in alternatives to stocks and regular bonds might want to consider Treasury inflation protected securities (TIPS). According to TIAA-CREF, they accounted for 6 percent of total tradable U.S. Treasury notes and bonds in 2002. They are likely to outperform conventional Treasury securities when inflation is higher than expected, and to underperform them when it's lower, says TIAA-CREF.

Ultimately, though, your investment strategy depends on your individual circumstances, including your needs, your objectives, and your tolerance for risk. If you're not sure how to invest your money and you can afford to pay for financial advice, you might want to talk to a professional.

"One really effective way of dealing with the anxiety of all this is to sit down and do some planning with a financial adviser or an organization you're comfortable with," says John Ameriks, of the TIAA-CREF Institute.

To protect yourself, you want someone who's knowledgeable and objective. If you're looking for a financial planner, Johannessen suggests that, for a start, you talk to two or three people in person or on the phone to get a sense of how comfortable you feel with each of them and how well they listen. Finding a good fit is important.

Also, he recommends that you make sure they've been licensed as certified financial planner practitioners (CFPs) and find out how they are compensated. There are several ways they can be compensated. Different methods work for different clients, and up-front disclosure is key. (More information about selecting a financial planner is available at www.fpanet.org, the Financial Planning Association's website.)

Find Out About Long-Term Care Insurance

For those who can afford it, long-term-care insurance helps pay the sometimes staggering costs of extended nursing home care. "It's definitely something that should be considered," says Towers Perrin's Daniels.

Not surprisingly, the risk of a retiree needing nursing home care is higher for women and, regardless of gender, increases with age. While 4.5 percent of the entire 65+ population lived in nursing homes in 2000, the figure was only 1.1 percent among people 65 to 74. It rose to 18.2 percent for people 85 and older, the Administration on Aging estimates.

While nursing home costs average $50,000 per person per year, they can run as high as $70,000 per person per year, according to the retirement risk survey by the Society of Actuaries. Nearly half of the retirees surveyed were concerned they might not have enough money to pay for an extended stay in a nursing home.

But many people underestimate the possibility of needing long-term care at some point, says Rappaport. "There's a disconnect for many. Even when people understand that something is a risk, some of them say, 'Well, it's not going to happen to me.' But these are highly variable expenses, and many people wouldn't be able to afford it if they needed a lot of care."

Like most other strategies to reduce financial risk, long-term-care insurance isn't for everyone. Relatively few people buy it or plan for the cost of extensive long-term care, says the actuaries' study, which notes that such planning may not be affordable for a lot of people and that Medicaid provides a safety net for the poor.

Retirement experts say that long-term-care insurance generally works best for the middle class or upper middle class, rather than the truly rich, and it's better to buy it early than late. When retirees wait until their 70s or 80s, it's much more expensive—if they can get it at all.

Cash In on Your House

Home equity is, by far, the largest asset held by older Americans. For example, while median net worth is $112,000 for households headed by 55- to 64-year-olds, it's only $32,300 when home equity isn't included.

Traditionally, homeowners have been reluctant to leverage their biggest asset. But for retirees who want to nurture their nest egg, selling the house and buying a smaller one, or moving to a less expensive area, can be a smart strategy.

It's a strategy retirees will probably use more often in the future, according to retirement analysts. "Looking at your house as an asset is something people are going to be forced to do given the decline in stock values and the inability to earn any interest of any significance from their assets," says Munnell.

Homeowners get a huge tax break when they sell their house. Because of a 1997 change in federal law, individual homeowners pay no taxes on gains of up to $250,000 (up to $500,000 for a couple) when they sell their primary residence. Retirees who want to add to their financial portfolios may discover that after buying a new house, they still have enough left over to get an annuity or make other investments.

But to make sure they don't run out of cash in the long run, retirees might have to change more than one part of their financial strategies. For example, a retiree might decide to sell the house, start looking for work, and buy an annuity. "There's no miracle easy solution here," says Munnell. "You have to look at all the options." ●

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