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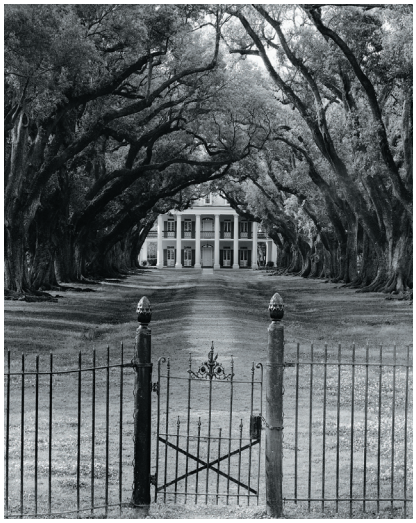

Changing Landscape

Are Aging Baby Boomers Ready for Retirement?

Ready or not, there they go. America's baby boomer generation—more than 78 million strong—is fast approaching retirement. And many, especially the eldest boomers, are rethinking how they will spend, and pay for, their retirement years.

With life expectancies increasing, some 80 percent of boomers plan to work after retiring, according to AARP estimates. In fact, the Bureau of Labor Statistics projects that the number of employed Americans ages 55–64 will increase by 51 percent between 2002 and 2012, while those ages 65–74 will increase by 48 percent. CareerBuilder.com indicates that three out of five workers over age 50 plan to find new jobs when they retire, and 51 percent intend to work full time until age 65.

With so much fundamental change, as financial advisers, we have had to change how we work with—and talk to—our clients about retirement.

Retirement Reality Check

In addition to helping clients determine the initial amount of income they will need at the time of their retirement, you also will need to follow up with clients at least annually to review any changes to their income needs due to employment status, portfolio performance or health issues.

Because each person's financial situation is different, there is no hard and fast rule as to how often the calculations should be performed. Generally, the closer to actual retirement, the more often calculations should be performed.

AARP estimates 73 percent of people aged 50 years and older do not have sufficient income and assets to withstand a long-term illness or disabling condition totaling $150,000 over three years.

While in 1900, retirement lasted an average of only one year, the U.S. Department of Labor reports that Americans now spend an average of 18 years in retirement.

Since health and long-term care are, by their very nature, unpredictable and risky, clients will need to answer a number of questions regarding their health, family longevity and preferences for care to help advisers address their needs.

Often, a prudent path for clients is to transfer risk by using Medicare at 65 in addition to a health insurance supplement and a long-term care policy. Otherwise, it's nearly impossible to budget for a retirement in which you could easily spend anywhere from an additional $220,000 for short-term health care needs to several million dollars for a long-term nursing situation, not to mention pharmaceutical and medical care.

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Funding Strategies

More work: Continuing to work (even part time) after age 65 can pay off. Those who retire at 65, work two days a week and earn 40 percent of their pre-retirement salary, can increase their savings by 30 percent during a five-year period.

Sock it away: Some 85 percent of boomers participate in 401(k) plans, the highest participation rate of all age groups, says SmartMoney.com. The key is contributing as much as possible into such plans. Likewise, consistently putting money into an IRA or other retirement plans may gain tax advantages and grow one's nest egg, but it's important for CPAs to review each client's situation in this regard.

CPAs will want to consider: risk tolerance verification, adherence to contribution limits, potential Roth IRA conversions, and taxable growth (and short-term/long-term capital gains treatment) versus tax-deferred growth (and ordinary income treatment).

Following this inquiry, CPAs can provide the client with specific questions to ask an investment adviser that will help educate the client about the plan, or to give the client a second opinion about the investment adviser's recommendations.

CPAs who want to be a trusted adviser in this matter will explain the process of evaluating investments and advisers and then encourage the client to apply what's valuable to their own situation.

A business owner with consistent income might put a pension plan in place to put away more than $100,000 per year based on income and age to deduct from current income (assuming a defined benefit pension plan makes sense considering other employees). At retirement, that same business owner could collect up to $160,000 annually for the rest of his life.

Other high-income earners can look at long-term tax deferral of real estate and certain insurance products. Especially timely may be the implementation of such plans in case the next administration raises taxes on incomes and investments.

As Congress acted in 1988, certain insurance policies may effectively be "grandfathered" allowing the most favorable tax treatment. Some employers offer deferred compensation plans giving a current tax deduction and deferral, but executives should understand that they are subject to the company's long-term viability to get the

favorable treatment. It's likely, for example, that the top executives of IndyMac felt great about their plan two years ago.

Social Security: Social Security was intended to be one leg of a three-legged stool for retirement income that also includes employer pensions and personal savings. Even the most pessimistic forecasts predict full payouts through 2041. Using a combination of Social Security and employment income—even part time—may curb the urge to dip heavily into savings too soon.

Savings/investments: Retirees looking to compliment their guaranteed Social Security base with additional guarantees from their employer-sponsored retirement plans should consider increasing certain savings and personal investments.

Just a generation ago, many companies provided pensions for employees. In 1979, 84 percent of workers were covered by a pension, as compared to 37 percent in 2005.

Today we can use an immediate annuity to provide a guaranteed income for the client's life. A more "normal" investment portfolio would consist of diversified investments in stocks and bonds.

However, the annuity can be used to demonstrate payouts. The annuity income stream can be structured as a fixed amount every month, or as a monthly payment, which fluctuates with the performance of the chosen underlying investment accounts.

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For example, based on current rates, a 65-year-old male depositing $1.5 million into a fixed immediate annuity would receive approximately $9,825 per month for the rest of his life, while a variable immediate annuity would produce an initial payment of approximately $8,250 per month.

However, while the fixed payout remains the same, had the variable payout been started in 1982, the payout would have increased to approximately $35,500 per month in 2008. This is why a combination of plans may allow clients both the guarantees of security and the opportunity to outpace inflation.

The above are but a few of the tactics out there. Keep abreast of the changing landscape and you will be better able to help your client adapt and have a happy retirement. CPA

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