

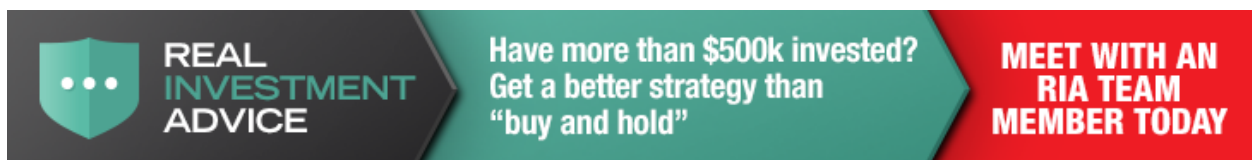


**Here are four steps to consider now for a more successful, secure retirement.** Post pandemic, it appears that a successful and secure retirement is becoming more of a nebulous dream than a clear reality. It doesn't need to be this way.

In a July 2021 generational retirement analysis by Dan Doonan and Kelly Kenneally for the National Institute for Retirement Security, we get a good idea of how the outlook for retirement in the United States is changing due to the ongoing pandemic.

I won't bore you with the entire research paper, just the highlights. For a download of the complete study click [here](#).

Overall, the current U.S. retirement system is no longer adequate for a large cross-section of workers regardless of age. Much of the U.S. workforce lack employer-sponsored retirement plans and fewer employees have options available to provide stable, guaranteed lifetime income which is disconcerting in the face of longer life expectancies and the great probability of muted returns for variable assets like stocks and bonds.



### **Highlight #1: Most Millennials have nothing saved for retirement.**

Shockingly, close to two-thirds of Millennials haven't started saving for retirement. Keep in mind, the oldest Millennial is now forty years old! Among this group, the median retirement savings is less than \$20,000. As a result of the pandemic, one in five Millennials indicate they have changed when they plan to retire. Millennials and Gen X are most pessimistic about their retirement at 72% and 59% respectively.

### **Highlight #2: There is generational agreement that the U.S. faces a retirement crisis.**

Across all generations, most Americans say the nation faces a retirement crisis with Baby Boomers expressing the most concern at 72%. The vast majority agree that workers just cannot save enough on their own to attain a secure retirement.

### **Highlight #3: All generations believe there is a wide variety of factors that make retirement preparation more difficult.**

Over 70% of Baby Boomers agree that the average worker cannot save enough on their own for retirement. The Silent Generation believes the same. All generations surveyed believe longer life expectancies, rising costs of living, fewer pensions, and stagnant wages make it exceedingly difficult for workers to save for their retirement years.

## **Highlight #4: Broad support across generations are passionate advocates for Social Security.**

The importance of Social Security as 'America's pension' spans every generation. There is broad support for increased contributions and expansion of benefits. It makes sense that 92% of the Silent Generation support Social Security. In addition, 87% of Baby Boomers, 77% of Generation X, and 69% of Millennials agree that Social Security must remain a priority for the United States no matter how bad budget deficits get. All believe Social Security alone doesn't cut it. However, there is great support for the expansion of Social Security benefits especially among Millennials (61%), followed by Generation X at 48%.

## **Highlight #5: All generations favor defined benefits plans or pensions.**

Defined contribution plans were originally designed to complement pensions, not replace them. DC plans to place all the investment and saving risks and responsibilities on employees. I'm certain most readers of RIA are fiscally responsible and are disciplined when it comes to saving. However, the masses aren't and it shows in this survey.

Baby Boomers at 76% and Millennials at 81% hold favorable views of pensions and every generation agrees that pensions are better at providing retirement security over the predominant employer-sponsored retirement plans for private-sector workers.



## **A pension solution exists if anybody would listen!**

Recently, The New School's Schwartz Center for Economic Policy Analysis has undertaken eye-opening research that dives deep into the reality of U.S. retirement readiness. Teresa Ghilarducci, the Director of SCEPA along with her team, has been banging the drum hard over retirement inequality among lifetime earnings quintiles.

Low and moderate wage earners have experienced a dramatic deterioration in retirement wealth due to the death of pensions. However, there's damage in every quintile which proves to me how defined contribution plans such as 401ks have failed a majority of Americans as primary retirement savings vehicles regardless of the impressive bull run in markets over the last ten-plus years.

Two major stock market derails along with a decade to break even after the financial crisis, lack of financial literacy, poor savings skills - oh, and the ability to tap plan account balances for loans and down payments for primary residences (which I believe is fiscally irresponsible), have proven that defined contribution plans should have remained a complement to pensions as originally envisioned, not a replacement.

## **Highlight #6: Policymakers need to do more to improve Americans' retirement prospects.**

Listen, we can see this is true based on the fact that significant Social Security legislation hasn't been passed since 1983. Policymakers are completely disconnected when it comes to the retirement savings dilemma. All they do is look to pass more legislation that allows leakage from retirement accounts. Houses, emergency expenses (ridiculous), and who knows what else in the

future can be funded using savings earmarked for retirement?

Keep in mind, defined benefits plans or guaranteed income products in general, make it difficult to impossible to tap funds for anything but retirement. Some products do allow accelerated benefits for long-term care expenses or terminal illnesses.

**I greatly encourage RIA readers to read the book [?Rescuing Retirement ? A Plan To Guarantee Retirement Security For All Americans,?](#) written by Teresa Ghilarducci and Tony James.** It outlines the downright scary retirement crisis facing America. The authors offer a viable solution called a Guaranteed Retirement Account which is a federal revenue-neutral hybrid defined-benefit plan with flexible options, full portability, and a guaranteed monthly income for the life of a worker and spouse.

## **What is a GRA?**

The GRA is designed to supplement Social Security and defined contribution plans and close the widening shortfall between savings and income required to survive retirement. In other words, it takes the place of pensions that corporations were happy to do away with. It's a solution I support wholeheartedly.

Finally, the GRA is not a government entitlement. It's mutually funded by employers and employees for a total of 3% of gross income. This program would provide *all* workers through mandatory payroll deductions, a much-needed lifetime income solution.

Perhaps a member of Congress will read the book too. Hey, I can hope, right? (I'm really not that hopeful).

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## **Four steps to a successful, secure retirement.**

I believe it's not too late for every generation to create a personal, successful retirement framework. One that fits your situation and nobody else's.

### **Step One: Think imperfect.**

Frankly, I need you to forget all the bucolic mainstream financial services commercials that outline how stocks are the panacea for every financial goal. Also, it's not everybody's idea of retirement to be sipping champagne watching a sunset on the beach in Majorica every year.

Strip it down. Think simple. Be original. Forget the preconceived notion that multiple millions of dollars are required to enter the secure retirement club. It isn't.

Personally, I've always been a good saver and respectable steward of money. I better be a financial planner and money manager. Consistent at socking away 30% of my gross income. I've been fortunate to earn enough to be in the top 5% of U.S. households.

### **Then life got in the way.**

I needed to resign from a long-term employer due to my beliefs that the institution was ethically breached. Subsequently, I got sued and the stress caused a permanent breakdown in the function of my right kidney. Oh, and then there was a divorce and a new business. All in my late 40s.

At an age I should have been winding down, thinking of retirement, I was starting up again. My life was wrought through a wash/dry cycle and spinning completely different than originally planned. My decades of savings began to rapidly dwindle. Divorce, attorney costs, medical costs, and the capital required to grow a business took me back financially to a net worth I haven't benchmarked since my early 30s. Thankfully, my daughter has a well-funded 529 for college or that would be yet another formidable expense or financial setback.

## **Many people experience great starts to late starts and later finishes.**

The road of life can deviate far off an anticipated course; even tenured navigators with the most sophisticated of tools can lose their way. Like riding out a storm, you get through it with what you got then assess the aftermath. For me personally, the irony wasn't lost. Here I was assisting others financially map out imperfect retirements. Little did I realize that I too was about to embark on an all-too-similar journey.

Care and nurturing encouraged by a healthy dose of current reality, forced me to settle in, get comfortable in thinner fiscal skin. I began to reevaluate an imperfect retirement plan. One that was very different than what began decades ago.

Thankfully, the money I accumulated over the years was sufficient to make it through the shocks. However, when it came to my retirement goal, I was back in the first inning and batting for the minors. I decided to get to work. It all began with the basics, breaking my situation down to the foundation. I had to rewind. Start digging. And it was deep in the soil that I learned how far I was willing to go to get back on track.

So, the situation isn't hopeless. It's never too late. An imperfect retirement includes a revised perspective about working longer, lifestyle expectations, when to begin Social Security, guaranteed income solutions, and how to mitigate great financial risks like the need for long-term care. Retirement is a collaboration of strategies that result in the consistent, inflation-adjusted lifeblood retirees call 'cash flow.'

## **Step Two: Undertake a holistic, micro-assessment of what makes you truly happy.**

Step two has little to do with the fiscal state of a household. It's mostly about what goes on internally that drives happiness. I'm talking about the qualitative activities and internal drives that can enhance big happiness in retirement. For example, I partner with a widow of modest means who makes retirement ends meet by working part-time. In addition, she agreed to postpone Social Security benefits until at age 70 which maximized her lifetime retirement income. Her retirement is replete with blissfully simple satisfactions such as reading, attending local events, and social activities through her job and volunteering.

A paper titled [Relative Deprivation Theory: An overview and conceptual critique](#) published in the British Journal of Social Psychology outlines the theory of relative deprivation. The theory goes that people may feel deprived of some desirable thing relative to their own past, other persons or groups, or some other social category. Listen, these feelings are valid. I'd languish about my past and how my perfect plans were obliterated. Over time, I worked to shift my focus and took control of my actions. The daily practice of gratitude became very important to me.

Above all, the most fulfilled retirees are those who focus on their own holistic financial plans, benchmark personal sources of happiness against eternal metrics, and avoid comparing their retirement aspirations to those of others. In other words, the happiest retirees establish personal fulfillment zones with little regard to how others live or what they wish for themselves. They exist happily in the present. There will always be things they want but can't afford. However, they've taken a solid inventory of the simple activities that help maintain happiness.

## **Start with comprehensive financial planning.**

So, first, undertake comprehensive financial planning to crystalize the lifetime retirement dollars required to fulfill needs (think about the cash necessary to keep a roof over your head and food in the fridge). Second, consider the wants and the wishes or the fun, happy stuff and see how your plan handles them. Finally, if your plan requires improvement, dig deep and micro-assess what makes you happy. Can you scale it down? That's where the self-analysis comes into play.

For example, I partner with a client who had to re-evaluate regular overseas travel. We needed to reduce his big trips to once every five years. He decided to become a student of Texas history and now travels the state and uses Airbnb to visit the places he reads about. Overall, we reduced his fun stuff expenses by 50 percent. Yet, we didn't reduce at all his sense of self-fulfillment and lust to travel and learn!

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## **Step Three: Plan for living longer.**

I find it entertaining how confident people tend to be about their 'expiration date. I hear it often: "Oh, my parents died in their 60s, so I'll probably check out around 70." It's like there's a mystical, life-expectancy Magic 8 Ball out there. So you believe you'll pass on before the mortality tables dictate. But let me ask you a question.

### ***What if you don't?***

Consequently, what if you live longer than the actuaries indicate you will? On average, compared to those with average life spans, households in the top third of longevity need to have about 20 percent more wealth at retirement to fully fund their needs. This is according to a study, Household financial planning strategies for managing longevity risk penned by Vickie L. Bajtelsmit and Tianyang Wang for the Finance and Real Estate Department at Colorado State University.

Consequently, a combination of solutions may be used to combat longevity risk. Retiring two to four years later than planned or working longer is common today. Per the analysis, delaying retirement by four years reduces the retirement wealth needed to fully fund a retirement period by about one-third. Home equity conversion mortgages (reverse mortgages), long-term care insurance planning, postponing Social Security until age 70 combined with the use of guaranteed income solutions can minimize longevity risk.

For example, a retiree with an expected long life expectancy may investigate a single-premium immediate annuity during the latter stage of retirement (think age 75 or older). The 'annualization of a part of a stock and bond portfolio can ensure along with Social Security, that an older retiree will never run out of income.



## At RIA, we believe annuities should be *planned, not sold*.

Comprehensive financial planning must be undertaken first to determine whether a guaranteed income stream is required to complement Social Security. Specifically, income annuities are solely designed to provide a stream of income now or later that recipients cannot outlive. These annuities are simple to understand and generally lower cost compared to their variable and indexed brethren.

The purest form of annuity is the SPIA. *It's the ?Ivory Soap? of insurance products*. SPIAs are splendidly simple ? Provide a life insurance company a lump sum, and they pay you or you and a spouse for life. That's it. I consider SPIAs the best replacement for the pension your company no longer provides. You, as an employee, must create a pension on your own.

## The Rationale for Income Annuities In Retirement.

There are several valid reasons to allocate a portion of an investment portfolio to an income annuity. I'll list them in the order of importance:

1. **Above-average life expectancies.** *On average, American males live to 76.1 years; females add 5 years to 81.1. If you or you and a spouse have a family history of longevity and enjoy excellent health along with life-prolonging habits like exercise and a healthy diet, a SPIA may be a viable addition to a traditional stock and bond portfolio.*
2. **Retirement plan survival deficiency.** *Life has a way of altering good financial intentions. If lucky, you have a solid 20 years to save uninterrupted. Along that path may come unexpected life changes like divorce, a major illness, job loss, and let's not forget the portfolio-busting bear markets or worse. If working longer, saving more, part-time employment in retirement, and smart Social Security decisions don't dramatically improve the probability of financial plan success, then a SPIA can be purchased to ensure, along with Social Security, your household never runs out of money.*
3. **A legacy intent.** *Studies indicate that purchasing an inflation-indexed SPIA at retirement reduces portfolio depletion and allows for a larger inheritance for those who believe leaving a legacy to children and grandchildren is an important goal.*

Although SPIAs are simple in theory, consumers have difficulty grasping how they provide return or yield. Prospective SPIA owners should swap the word ?return? for the concept of payout.

## An end-of-summer reading suggestion.

I implore you to consider and plan for longevity risk. Unless you suffer from a congenital condition, your lifestyle is the best predictor of longevity. One of the most enlightening books about this topic is [The Longevity Paradox: How to Die Young at a Ripe Old Age](#) by Dr. Steven R. Gundry. Most people believe DNA dictates how long they'll live. They're only partially correct. Surprisingly, over 98 percent of longevity is based on lifestyle!

In conclusion, if you eat healthily and exercise regularly, the odds are you'll beat the mortality tables. Therefore, preparing your finances to survive as long as you do is a worthwhile pursuit.

## Step Four: Don't mess up Medicare and Social Security decisions.

The alphabet soup of Medicare and the labyrinth of Social Security benefits are intimidating, to say the least. One in four seniors depends on Social Security for 90 percent of their income. Healthcare costs in retirement can exceed \$300,000 which includes premiums and out-of-pocket medical

costs. In other words, longevity risk and mitigation of healthcare risks in retirement require smart, unemotional, planned decisions to maximize income benefits, build awareness to enrollment periods, and the proper selection of supplemental coverage.

## **Social Security is America's pension.**

Older adults believe women will live to 83.7. In actuality, they will live to 89 years old. On average, men will live to be 87. Older adults think men will live to be 81.6. Longer life expectancies warrant serious consideration to postponing Social Security until age 70, especially in the face of dwindling private pensions.

In other words, a guaranteed income is important to the survivability of an investment portfolio comprised of variable assets like stocks and bonds. During periods of low investment returns which we believe at RIA, are imminent, the maximization of guaranteed income options can help retirees to adjust or reduce portfolio withdrawal rates.

If a future Social Security recipient waits until age 70, monthly payments can be 32 percent higher than the benefits earned at full retirement age. Currently, the full retirement age is 66 and 2 months for those born in 1955; for people born in 1960 or later, FRA is 67.

It's important to partner with a financial professional who understands the devastating impact of impetuous Social Security claiming decisions. In numerous cases, RIA Certified Financial Planners have prevented individuals from losing thousands of dollars in lifetime and survivor income benefits due to misinformation from brokers, friends with strong opinions, and plain old misconceptions.

One of my childhood favorites, Jimmy "JJ" Walker is now a spokesperson for Medicare Advantage plans! First Joe Namath. Now, Jimmy "JJ" **DYNAMITE** Walker? Talk about feeling my age! Who's next? Childhood crush Marcia Brady's Maureen McCormick?

## **Medicare Advantage vs. Original Medicare**

First, at RIA, we generally do not recommend Medicare Advantage plans which are all-inclusive. They cover Medicare-related expenses, dental, vision, and other incentives such as gym memberships and even sports watches! Second, due to lower overall monthly costs, pervasive advertising, and other benefits (Original Medicare does not cover dental or vision, at least as of today), these plans are exploding in popularity.

Third, per KFF.org: In 2021, more than four in ten (42%) Medicare beneficiaries ? 26.4 million people out of 62.7 million Medicare beneficiaries overall ? are enrolled in Medicare Advantage plans; this share has steadily increased over time since the early 2000s. Between 2020 and 2021, total Medicare Advantage enrollment grew by about 2.4 million beneficiaries, or 10 percent ? nearly the same growth rate as the prior year. The [Congressional Budget Office](#) (CBO) projects that the share of all Medicare beneficiaries enrolled in Medicare Advantage plans will rise to about 51 percent by 2030

Last, **Advantage Plans usually have lower premiums than Medigap (also known as Medicare Supplemental Insurance) and are offered without evidence of insurability.** However, out-of-pocket costs can be costly in the future. Per KFF.org: While average Medicare Advantage premiums paid by MA-PD enrollees have been relatively stable for the past several years (\$36 per month in 2017), enrollees may be liable for more of Medicare's costs, with average out-of-pocket limits increasing 21 percent and average Part D drug deductibles increasing more than 9-fold since 2011; however, there was little change in out-of-pocket limits and Part D drug deductibles from 2016 to 2017.

## **Conclusion**

Keep in mind, going forward, the pandemic may be a game-changer for the affordability of these plans. At RIA, we monitor Medicare, Medigap, and supplemental plan inflation closely for planning purposes. We will keep readers and clients updated.

A secure, successful retirement is defined on your terms. Nobody else's.

It's time to follow the beat of your own drummer and stress less about retirement comparisons with others.

Embrace your own unique reality and work the best within the framework.

Most happiness originates from within. Start there first.