July 2008 Newsletter

What's the Correct Amount to Withdraw from Your Retirement Funds Each Year?

Rules of thumb and guidelines abound in every investment arena – you'll always hear about specific percentages you should save, spend or invest based on where you are in life. They're made to draw attention to specific investment needs everyone has, and for that reason, it's good to have them.

A popular one is that no one should spend more than 4% annually of the value of their nest egg in any given year. Another is that retirees only need 70-80% of their last working year's income to maintain their standard of living. The reality is that everyone's retirement goals are different and should be planned based on specific needs, not general rules of thumb. This is why retirement plans should be made with the aid of experts in tax, estate and investment issues. A good starting point would be a meeting with a qualified Financial Advisor who can go over your personal situation and define particular percentages that can be withdrawn from your overall retirement nest egg while you continue to work or relax.

What's the downside of not planning? Wachovia's recent 4th Annual Retirement Survey showed that many retirees enter their post-working years with no idea – or limitations – on how much of their nest egg they'll spend on an annual basis. The financial firm reported that 28% of surveyed retirees with average total savings of $375,000 withdraw 10% or more of their retirement savings annually to pay for expenses. Further, only one-third (38%) pegged their withdrawal rate at 5% or less. Only about half (47%) said they had a written withdrawal strategy, and only 28% said they have a written budget for spending their savings.

Here are the major ways to determine an appropriate withdrawal amount to withdraw each year in retirement:

Define a vision of retirement and revisit it every year: Anyone who has worked with a good investment manager or financial planner has addressed the kind of retirement they envision. Incorporating part-time work into the retirement picture might make other financial goals more affordable. A person who manages his or her finances or works with an expert needs to revisit those goals annually to assess the feasibility of affording a particular lifestyle in retirement.

Track working-life expenses for 3-6 months: This is where that vision of retirement becomes real. Understanding what an individual spends on lattes and late-night carryout may motivate an investor to shift his behavior from spending to saving.

Create a worst-case health scenario: For many retirees, increasing healthcare expenses and the cost of end-of-life-care account for significant spending. As a result, many retirees may pay for expensive experimental treatments to fight disease or long-term assisted living or nursing home care. According to AARP, annual nursing home costs will be at more than $100,000 a year in the next two decades compared to their current annual range of $45,000-$60,000. While public aid picks up medical expenses for those who exhaust their assets in most states, most of us desire more than minimal standards of care.

Shift into a retirement investment strategy in stages: With a clear majority of investors having inadequate retirement funds in place near or at retirement age, it may seem silly to talk about investing post-retirement. But the younger an investor is, the more valuable the conversation. Good advisers can help build more balanced portfolios that fit the exact needs of the investor as retirement nears.

See how long you can put off taking Social Security: The Wachovia study also reported that the majority of respondents planned to start taking Social Security benefits at age 62, the earliest point possible. Another 17% reported taking Social Security benefits at age 65. Only 9% reported delaying Social Security benefits past age 65. Even though no one will get rich off of Social Security, delaying taking those payments will result in larger payments later, but get advice to see if that decision is right for you.

2nd Quarter 2008 Investment Management Report

If the last three months of volatility and general turmoil has left you feeling anxious and uncomfortable, you are justified - this year is off to the worst start for the market since 1970. The markets cascading fall may seem reminiscent of the early 2000 technology stock decline that precipitated the last bear market. On the second to last day of this quarter, eight months after the Dow Jones and S&P 500 reached all-time highs, all major U.S. markets and global markets slipped into bear territory (down 20%), demonstrated by the triple whammy of rising oil prices (38% in 3 months), a worsening housing slump, and an unresolved crisis in credit markets.

However, this is not unusual - there have been nine similar drops in the market since 1960. The 10.2% decline in the Dow Jones makes this its worst June since 1930. During the roller coaster ride that characterized this past quarter, the market had exemplified remarkable resilience in the face of mounting worries, with the Dow Jones posting a 9% gain for the quarter on May 2nd. Unfortunately, the continuous rise in oil prices rekindled fears of inflation, sending all of the major indices down soon after. The Dow Jones decreased by 13.38%, the NASDAQ by 13.55%, and the S&P 500 by 11.91% - all in negative territory for the year. In a reversal from the past five years, almost all global markets (with the exception of Latin America) fared worse, as the broad based MSCI EAFE lost 17.35% in local currency (a loss of 10.96% in U.S. dollars).

If there was a sweet spot, it was within mid caps, while large caps continued to outperform small, and growth maintained its advantage over value. Energy and commodity related companies continued their ‘bubble-like’ tear, gaining north of 20% for the quarter and 100% over the past year.

With a slowing global economy and dramatic rise in global inflation added to our concerns, where do we go from here? Of course, we can not predict the future. No one could have anticipated the dramatic spike in oil prices that has become the dominant market moving issue. A retreat of oil prices and a firming of the housing market will provide immediate catalysts for equities, which by historical standards, are quite attractively valued.

In light of this environment, we have reduced our risk by decreasing exposure to equities, and raising our money fund targets. We are currently increasing our allocation to mid and small cap holdings, while reducing our large cap and international positions. In the short run, we expect continued volatility and slow economic growth, unless the speculative trading in the commodities and futures market is curtailed. If oil and commodities prices come down, stocks may rally. Historically, selling out of the stock market at this point has been a mistake, as stocks usually rebound to newer highs. In the long run, we remain confident that the investments we have selectively chosen will reward us handsomely, while providing above market returns during these difficult times.

Thank you for your patience in this difficult economic environment as we do our best to navigate your portfolio. If at any time you have a question or concern, please contact us. Otherwise, we will be following up with you over the next quarter.

Financial Planning For Newly Single Parents

After a divorce or the sudden death of a spouse, single parents have the twin challenges of adjusting to a new life and getting their child adjusted to it as well. The third challenge – getting money issues in order – can be a threat to both. For a newly divorced or newly widowed parent, the right tax, estate and financial planning advice are crucial. Your Financial Advisor can advise their newly single man or woman clients on the right steps to take in setting up a new financial future that fits them. Here are some general steps the newly single people should take:

Revise or make an estate plan: Single parents have to revisit the estate plans they made when they were married or set an estate plan for the first time. A will is essential, but it's also important to make immediate plans for who will raise the children if something happens to the parent. In case of divorce, plans might have been set for the ex-spouse to take full-time custody in case of the other's death, but if a parent has never been married, it's particularly important to select the right custodian for the child and perhaps a separate person who can become custodian of the child's finances to invest properly for their support and their future.

Make sure all beneficiaries are correct: If you've separated assets in a divorce or you've just had or adopted a child, it's particularly important to go over all your holdings to make sure your beneficiary designations are correct to make sure your child or a trust or other investment structure set up in the child's name receives those assets. Don't forget all your insurance policies, your work and individual retirement accounts and any investments you might have recently acquired.

Make sure ex-spouses are removed from any joint accounts you've been awarded: You also need to notify each of the three credit bureaus of your divorce so future reports will be based only on your credit reports.

Adjust your investment focus if necessary: Becoming a single parent changes your investment picture. For retirement as well as investing you will do for your child's future, get specific advice on what they'll need for college and what you'll need for retirement as a single person.

Revisit your career plan: Unless you are wealthy to begin with, you are probably going to have to either return to the workforce or possibly change jobs to increase your earnings or improve benefits if you're not receiving any other source of income. If additional career training is necessary to improve your prospects, you may consider going back to school – always tough with a kid at home – and you'll need to strategize how to pay for it. You might also choose to work for an employer with great educational benefits.

Make sure you get the pension assets you're entitled to: A Qualified Domestic Relations Order (QDRO) is a settlement statement where a spouse receives pension assets from another in case of a divorce. You need to present a QDRO approved by the court at the time a divorce is finalized to your ex-spouse's plan administrator to make sure agreed-upon assets get transferred to the account you've designated. Get some advice on how to best invest those assets.

Make sure health insurance is in place: If you're divorced, it's likely you won't be able to stay on your spouse's plan, so you'll have to locate your own insurance option. But if your ex-spouse's plan is a good one, try and make sure that he or she can keep your child covered until a better option comes along. Again, the need for health insurance may also drive your career decision, so consider it.

Make sure your life and other insurance is in place: As a single parent, you'll need to adjust the amount of your life insurance relative to any insurance coverage your ex-spouse has with your children as the beneficiaries. You'll also need to make sure on a regular basis that your ex-spouse has not cancelled that coverage.

Check in with Social Security: See if your ex-spouse's work record may entitle you to receive certain benefits.

An emergency fund becomes even more important: If you have the option of acquiring six months' of income in a divorce settlement or if you can set aside that amount somehow, it's particularly necessary because you won't have another partner's income to fall back on anymore.

To Retire or Un-retire? Ways to Consider the Question

Add retirement to the long list of things Baby Boomers are changing their minds about.

An April 2006 study by Zogby International and the MetLife Mature Market Institute found that a significant number of older Americans are revising their ideas about their post-career years. The study found that 78% of respondents aged 55-59 are working or looking for work, as are 60% of 60-65 year-olds and 37% of 66-70 year-olds. Across all three age groups, roughly 15% of workers have actually accepted retirement benefits from a previous employer, and then chose to return to work (or are seeking work). Called the “working retired”, these workers represent 11% of 55-59 year-olds, 16% of 60-65 year-olds and 19% of 66-70 year-olds.

A decision to return to work isn’t necessarily a negative. It’s not always a sign that older Americans are having trouble making ends meet. Some work simply because they want to change careers for a new challenge.

Yet delaying retirement or returning to the workforce from retirement is a decision that should be made after a thorough financial review.

According to MetLife, most older employees expect to stop working for pay at the age of 70. The best time to talk about working in retirement is at least five years before you retire. If you’re working with a good advisor, they’ll force you to answer key questions about the retirement you want to have. You might discover that working in retirement is something you want to avoid at all costs, and you’ll have to accelerate your savings and investments to avoid it. Here are some critical points to consider in a working retirement:

Making working retirement a variable in your planning: If you’re in your early 50s and reviewing your retirement planning so far, it makes sense to ask yourself under what conditions you’d return to the workplace. Maybe you want to take a year off after you retire from your current job and then you’ll go back into another career. You obviously need to know based on current projections how much money you’re likely to gather from savings and other retirement resources. Then you need to consider how much money you’d be satisfied making in your post-retirement working life and for how many years you’ll earn that income.

Check what returning to work will do to your pension: Early retirement transitions can have some adverse effects particularly where pensions are involved. Be sure to get some advice.

Back to school? You need to plan: Seniors may get early-bird specials at restaurants, but colleges aren’t giving away free tuition. And if you haven’t had to put your own kid through school, you’ll be shocked at how much college costs have risen in the past 30+ years. If you’re investigating post-retirement employers, see if you can qualify for educational benefits to back up any out-of-pocket costs. Also, some colleges do offer discounted tuition or free classes for seniors.

Talk to a tax professional before you make a move: Tax issues shouldn’t determine your ambitions and goals, but it’s important to consider the impact work-related income will have on your retirement. Many retirees find that it doesn’t take much post-retirement income to tip them into a higher bracket. Look for ways to control the taxes you’ll ultimately pay, including continued participation in qualified plans, and IRAs, and other tax-favored accumulation vehicles. And don’t forget to discuss your Social Security options.

Consider insurance issues: If a retiree returning to the workforce is already receiving Medicare or covered by a “Medigap” policy, they may be able to lower their costs or improve their coverage by accepting group coverage as primary underwriter of their medical expenses. Since people over age 55 are generally the greatest users of the healthcare system, coverage issues are particularly important to run by a financial expert.

Keep saving: If you return to the workplace, see what you can do to take advantage of your new employer’s 401(k) plan or any other tax-advantaged retirement savings benefit, particularly if an employer matches your contribution. Don’t miss a chance to enhance your retirement savings.