The Wall Street Journal's Personal-Finance Section

WEEKEND INVESTOR

 * * * * * * THE WALL STREET JOURNAL. Saturday/Sunday, September 17 - 18, 2011 B7

For the week: **DJIA** 11509.09 ▲ 516.96 4.70% **10-Yr. Treas.** ▼ 1 14/32 yield 2.074% **GOLD** $1812.10 ▼ $44.30 **OIL** $87.96 ▲ $0.72 **EURO** $1.3798 **YEN** 76.79 **3-month Libor** 0.35133 **Money Market (ann. Yld)** 0.56%

Don't Join the Ostrich Generation

Amid the Choppy Markets, Too Many Soon-to-Be Retirees Have Avoided Making Key Decisions. Here's What to Do—Right Now

By Kelly Greene

Stocks are volatile, the economy is stagnant, and corporate pensions and Social Security seem less viable by the day. One might expect such a dismal confluence of events to jolt aspiring retirees into financial-planning overdrive, furiously making budgets, cutting spending and salting away every spare nickel.

Yet many Americans are responding to the market and economic malaise by putting their heads in the proverbial sand. Half of U.S. workers who are at least 45 years old haven't even tried to calculate how much they will need to save to live comfortably in retirement, according to a March study by the Employee Benefit Research Institute.

Others are shelving retirement dreams because they are paralyzed by fear. According to EBRI, 20% of employees say they intend to retire later than they had planned, for reasons ranging from the slowing economy to worries over the future of Social Security.

Even wealthier people are nervous. Two-thirds of "affluent investors" with at least $250,000 in investable assets surveyed in June were concerned that their retirement stash won't last throughout their lifetimes, up from 57% in December, according to Bank of America Merrill Lynch.

"People are frozen because they don't know which way to go," says Jeannette Bajalia, president of Petros Estate & Retirement Planning in St. Augustine, Fla. "Anytime there's ambiguity, it immobilizes them."

Please turn to page B10

Illustration by Brian Stauffer

Retirement Planning: It's Time to Get Busy

Continued from page B7

The good news is that there are ways to fix derailed retirement plans. Among the essential tasks: talking honestly with your spouse, planning realistically for health-care expenses and rethinking your retirement age and Social Security assumptions.

The first step is looking beyond the current market realities of volatile stocks, low-yielding bonds and slow economic growth—and having the fortitude to continue taking measured risks.

Many investors are too rattled to invest in anything except cash these days. "There's a level of conservatism in couples in their 50s and 60s unlike anything I've seen," says Greg Sarian, a certified financial planner at Merrill Lynch for 19 years in Wayne, Pa. "Even if they already had a defensive investment posture, there's been more pullback."

Yet giving up potential growth on money meant to last the rest of your life can be risky as well. Say a couple with $2 million in savings, panicked over increasing market volatility, moves a portfolio of stocks, bonds and cash investments entirely to certificates of deposit and short-term Treasurys earning 0.5% a year and never shifts it back. Assuming they withdraw $120,000 in their first year of retirement and 3% more each year thereafter, they could run dry in about 14 years, says Michael Martin, president and chief investment officer of Financial Advantage in Columbia, Md.

For clients approaching retirement, Mr. Martin's firm puts 28% into equities, including 22% in individual stocks and 6% in three emerging-market mutual funds. A larger portion—36%—goes into six bond funds with a combined duration of less than three years and a 4% yield. Another 16% is in cash reserves, 13% in "hard assets" (10.5% in gold and 2.5% in timberland) and 7% in a tactical fund that jumps into asset classes as conditions warrant (**Pimco All Asset All Authority Fund**).

This conservative allocation appeals to retirees who make portfolio withdrawals for living expenses, because their investments have some growth potential, but it also spreads risk enough to make it more likely that their nest eggs can last, Mr. Martin says.

So far this year, the portfolio has brought a 3% return, he says, compared with the average money-market and savings account return of 0.15%, according to Bankrate.com.

Saving strategies are only the beginning, however. Advisers say people should start thinking about other important matters, from where to live to Social Security expectations, in their 40s, if not sooner. Here's a guide:

■ **Start talking with your husband or wife—now.**

Couples are having trouble connecting on retirement-planning issues. A May study by mutual fund giant Fidelity Investments found that 62% of couples approaching retirement disagreed about their expected retirement ages, and 47% disagreed on whether they will continue to work in retirement.

Scott Anderson took a buyout late last year at age 51 from his job as precinct deputy inspector of the Nassau County, N.Y., police force. He spent much of last winter helping his twins apply to colleges, he says, and working out an income plan with Craig Ferrantino, a financial adviser in Melville, N.Y.

"One person in the couple usually handles it," Mr. Ferrantino says, "but we have a holistic approach, and we like to talk to both people in the couple." By doing so, Mr. Ferrantino often finds that partners have different ideas about how much income they need, and how large an investment loss they could tolerate, among other potential conflicts.

Mr. Anderson's wife, who has a part-time job at a boutique, plans to work another 10 years—and isn't sold on his idea of moving to Utah for its world-class skiing. "If I'm going to move from my primary residence of the last 20-plus years, I see it coming sooner rather than later," he says.

The idea is bringing up issues, he says, because Ms. Anderson's mother lives near them on Long Island. As a way to compromise, he is starting to think about buying a beach house there.

Couples also can try taking a quiz together to see how they match up on basic expectations. Fidelity offers one at fidelity.com/couplesquiz that focuses mainly on finances, and there are others more focused on time at dontretirerewire.com/couples_quiz.html and zestnow.com (click on "Relationships").

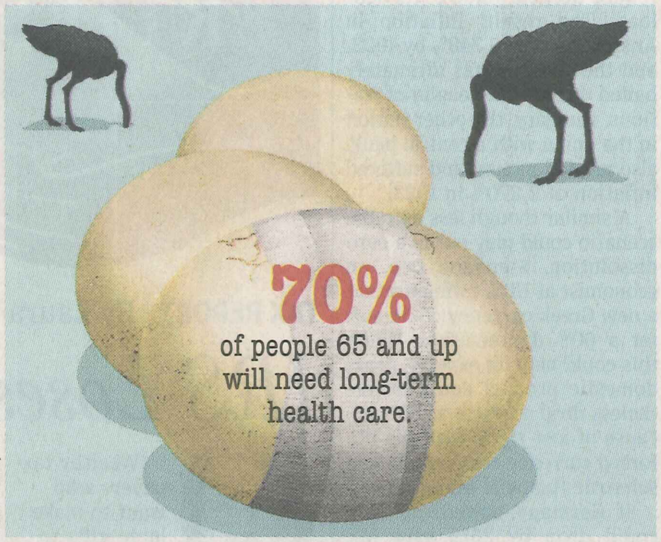

Illustration by Brian Stauffer

A rule of thumb: Vow to spend at least half the time talking about your retirement plans together as you do about summer vacation plans, says Mr. Sarian of Merrill Lynch.

■ **If working till you drop is your plan, think again.**

Half of baby boomers expect to be in their 70s before they fully retire, according to research released last year by First Command Financial Planning. But people laid off in their late 50s and early 60s, often because of their relatively large paychecks and benefit packages, have a hard time getting back to those levels.

"Anyone who is 55-plus working in corporate America has a bull's eye on their back," says Kevin Reardon, a fee-only financial adviser in Pewaukee, Wis. "We tell everyone who's not the owner of a business to prepare."

The unemployment rate for 55-plus workers was 6.6% in August—lower than the 9.1% rate for the total labor force. But since the start of the recession, both the number of unemployed and the unemployment rate have increased by a greater percentage for the over-55 age group, according to an AARP analysis. What's more, the average duration of unemployment for older job-seekers is a solid year, compared with 37 weeks for younger workers, the group says.

Of course, an economic rebound could change these trends. But few economists are predicting robust job creation in the next few years.

One potential salve is part-time work. Even a modest paycheck could help early retirees give their battered investments a chance to bounce back before they start tapping them.

Mr. Reardon, the Wisconsin planner, counseled one couple recently to have the wife hold on to her job three to four years longer than planned. She works part-time running a travel agency, making about $25,000 a year. She didn't view it as a large contribution to the couple's finances, so she considered quitting so they could move.

Mr. Reardon explained that if she kept working, their investments should last at least two additional years—until she's 84, rather than 82. She has continued—and can do most of the work in six months each year, he says.

■ **Plan for rising health-care costs—especially if you're healthy now.**

Most boomers realize that care is pricey, but typically don't grasp the scale of rising costs.

A private room in a nursing home, which now costs $82,125 a year on average, according to the American Association for Long-Term Care Insurance, could escalate to $190,000 a year by 2030, based on estimates by insurer Sun Life Financial. Yet in a survey of 1,015 people who are 50 or older that Sun Life released earlier this month, the median guess was that costs would go up half that much.

Some 70% of Americans older than age 65 will need long-term care, meaning help with daily activities such as eating and bathing, according to the U.S. Department of Health and Human Services. Yet the same survey found that almost no one had discussed long-term care with a financial adviser or lawyer.

Financial planners who confront their older clients with such statistics say the clients usually spring for long-term-care insurance, which costs about $2,350 a year for a 55-year-old couple (including discounts for good health and being married), or $4,660 a year for a 65-year-old couple, according to the American Association for Long-Term Care Insurance.

The main moving parts are the length of the benefit, which generally should last at least three years; the daily benefit amount, which should match up to costs where you live; and the "elimination period," meaning the period of time you choose to pay your expenses yourself before coverage starts. Particularly for people under age 70, many planners also recommend paying up for a rider that provides a 5% bump in the benefit each year to protect against inflation.

Another option is a "hybrid"—an annuity or life-insurance policy with a long-term-care benefit. Ms. Bajalia in Florida recently set up an indexed annuity for Barbara Deckman, 62, a retired teacher, which has a lifetime-income benefit and a "double confinement" rider, meaning the policy pays twice as much each year if Ms. Deckman qualifies for long-term-care payments.

■ **Don't jump the gun on Social Security.**

One of the benefits of advance planning is that it can allow you to delay taking Social Security for as long as possible. Depending on your financial situation, life expectancy and other issues, that could be a wise move.

Unless a person is terminally ill, there is little upside for someone in their early 60s to tap Social Security. By collecting at 62, rather than at the government's "full retirement age" of 66 for people born from 1943 to 1954, you would slash your monthly benefit. Wait until age 70, however, and you would get 132% of the monthly benefit you would collect at your full retirement age.

A retiree eligible for $18,750 a year in Social Security at age 62 who waits to collect $33,000 a year starting at age 70 could substantially increase the after-tax amount he could spend by age 95, according to T. Rowe Price. Assuming the benefit would increase 3% a year for inflation, and that the retiree was in the 25% marginal income-tax bracket, he would get $850,000 in all by starting the benefit at age 62—or $1.4 million by waiting until age 70.

Becoming a nonagenarian isn't unthinkable: One in four of today's 65-year-olds will live to 90, and one in 10 to age 95. So, if your family members typically live into their 80s or 90s, and you think you could, too, you should consider delaying the benefit as long as you can.

Of course, the big challenge in postponing Social Security is figuring out how to fill the gap between age 62 and whenever you start collecting benefits. Couples in which both spouses worked could try to live off the early benefit of the worker with the smaller paycheck, saving the larger one for later.

Another strategy, living off retirement-account withdrawals for a few years, might help cut future tax bills. Starting in their 70s, retirees generally have to take mandatory withdrawals from retirement accounts, and pretax contributions and earnings are subject to income tax. By lowering those account balances in their 60s, at the same time they aren't drawing Social Security income, they might be able to take smaller mandatory withdrawals later and also pay tax on those withdrawals at a lower rate.

Bottom line, Mr. Reardon says: "If there's a good chance one of you will live into your 80s, delaying Social Security is a good way to guarantee your rate of return for your collective lives."