

Retire Without Running Out of Money

*An Empirical White Paper focusing on the powerful solutions
offered by wealth management.*



Jack Monteith, Founder,
Empirical Wealth Management

*“Good fortune is what happens when
opportunity meets with planning.”*

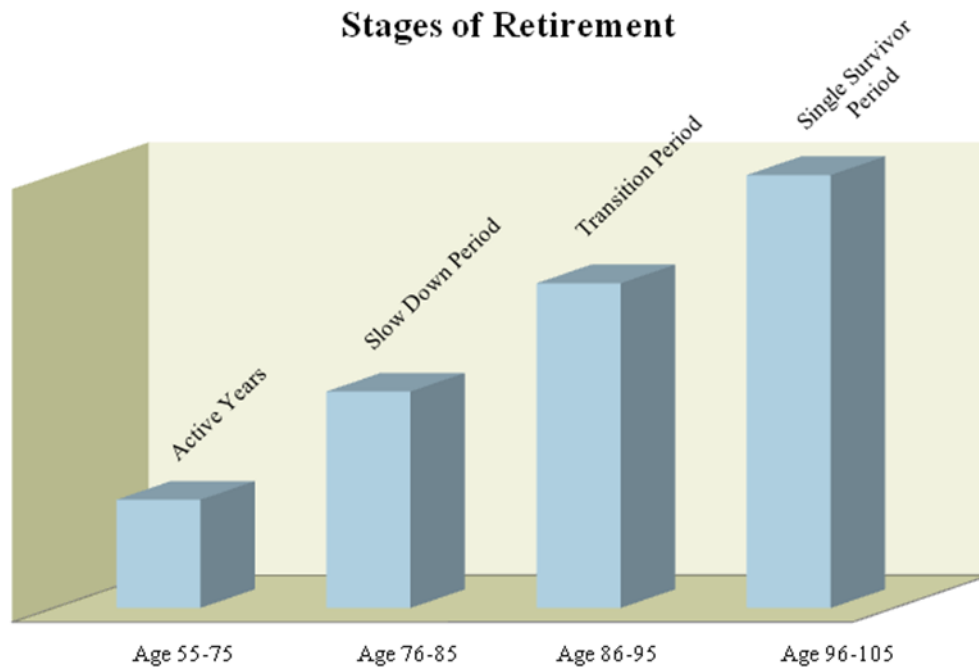
– THOMAS EDISON

WEALTHY OR FRUGAL RETIREES DON'T WORRY ABOUT RUNNING OUT of money, but if you are like the rest of us and on the verge of retirement, then running out of money is near or at the top of the "worry list."

In this white paper, we will deal with this fundamental retirement fear - in its many manifestations - by offering a solution based on disciplined financial techniques that are present, if not entirely prevalent, in the financial industry.

Structure: *First*, this paper focuses on the concerns that retirees may have when it comes to retiring. *Second*, it provides an overall summary of the "best practices" provided by the wealth management process. *Third*, the paper offers more detail on these processes and how they can be applied. *Fourth*, the paper concludes with a summary, including a list of the various steps in the implementation of wealth management as it relates to maintaining a standard of living.

The Stages of Retirement



Before we examine the process of designing a retirement plan, let's look at what modern retirement is. First of all, it is necessary to recognize that retirement isn't merely one stage. It is several, with each stage requiring somewhat different cash flow planning, investment allocations and tools, and risk management techniques.

These stages are as follows:

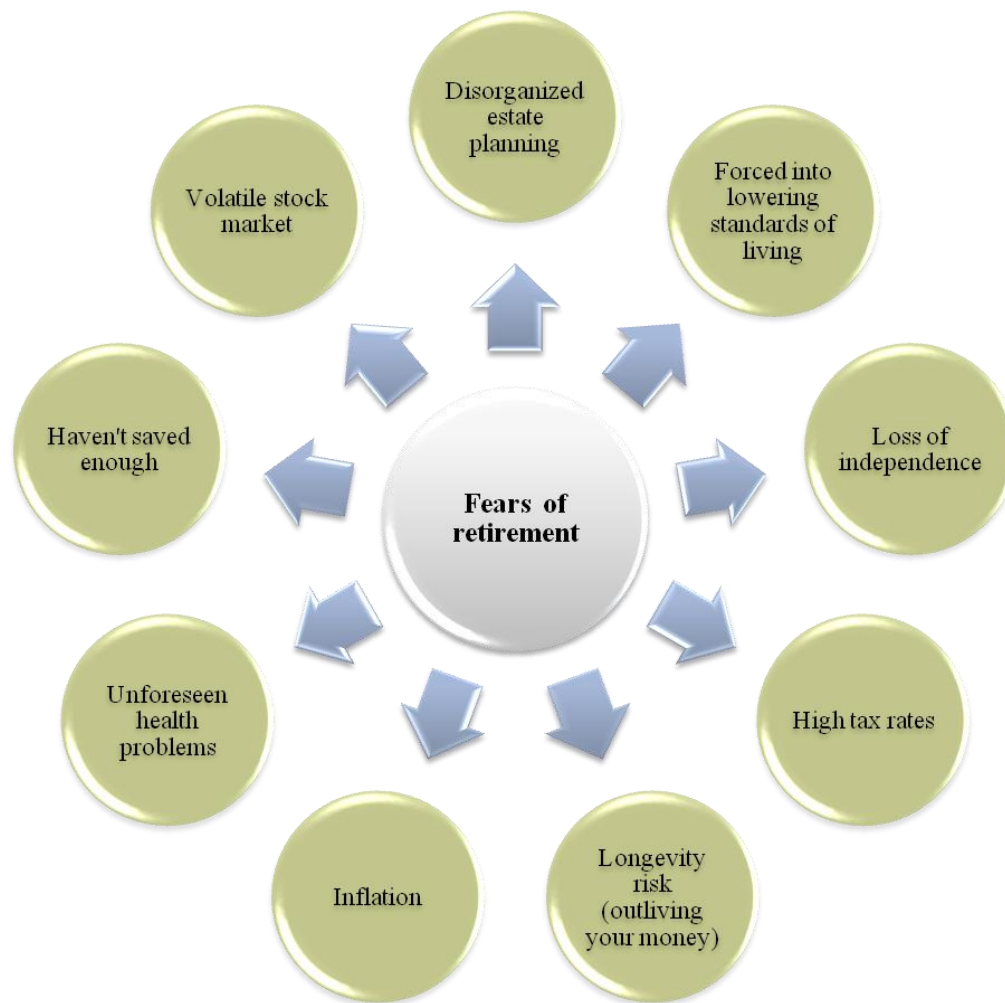
- A. **The active years** - Age 55-75 –this period is characterized by travel and physical activity – revisiting hobbies –maybe going back to school. This is also the period where second careers may be started. These are typically the years of high spending.
- B. **The slow down period** -Age 76-85 –this stage is characterized by more modest activity and spending. Health care needs start to become an issue.
- C. **The transition period** -Age 86-95 –The need for real income declines to as low as 50% of the income you needed when you were in the active stage of retirement. Healthcare expenses begin increasing substantially, and if you have lived this long the probability of needing nursing home or home care increases dramatically. And by this stage of retirement 82% of couples will have experienced the death of a spouse.
- D. **The Single Survivor Period** -Age 96-105 – 90% of people are unlikely to live beyond age 95. And, there is a less than 1% chance that both members will live beyond 95. The single survivor beyond age 95 will require much less consumable income as healthcare expenses consume the majority of income.

Retirement: To Fear or not to Fear?

Retirement can be one of, if not the most fulfilling time of your life. You have spent many years saving and investing for this moment. Sadly, most people don't identify their own unique life values and financial goals and therefore don't properly plan for the two main retirement financial goals; funding ongoing living expenses and retaining wealth. These are two distinct goals and without clearly defining your goal between these two extremes, and planning accordingly, you may fail at both.

Individuals may withdraw too much of their “nest egg” too soon and run out of money. Others don't properly allocate their investments – meaning they take too much risk or just as dangerous they take too little risk. Some retirees have a difficult time managing such risks as inflation, rising health care expenses and nursing home care. Even if a retiree has planned for retirement, he or she may not put in place the necessary controls to monitor and reconfigure assets as the retirement progresses.

Here are some fears of those approaching retirement and in retirement. You may share them:



How does one deal with such fears? By planning. One must examine, realistically, a spectrum of financial necessities. The rest of this white paper will offer a holistic approach to retirement that attempts to provide retirees with the peace of mind that comes from overcoming the fears of retirement by taking control through the planning process.

Allay Fears: Implementing Goals and Objectives for Retirement

Perhaps the most important action retirees can take as they face the critical “retirement” life change is to sit down with pad and paper - or perhaps at the computer - and review just what is most desired going forward. What have you put off during your working years that now you’d like to experience or share with someone? Do you want to spend money on children now or leave a large inheritance for them at your death? Everyone has their own unique values and goals – now is the

time to put them to paper. The golden years can be filled with achievement and satisfaction, but like everything else in life, not much is to be obtained without effort and planning.

Once retirees are clear as to their goals as they enter this new phase in their lives, they need to begin the task of structuring assets to align wealth with what is desired from this new phase of their lives. If travel and discretionary spending is desired, then a portfolio must be specifically designed to achieve these spending goals. If maintaining or continuing to build an estate for heirs is paramount, then a portfolio should be structured with this objective in mind. A globally diversified investment strategy should be used for both the stock and bond components of the portfolio.

Retirees should also take tolerance for risk into account, and understand that risk is defined as volatility over time. And volatility over time may be a very long time. Take the NASDAQ as an example; in March of 2000 the NASDAQ stood at over 5000, today it's at 2373. It may be another 10 years before it finally overtakes its year 2000 high. Determining the amount of volatility that is tolerable is a basic building block in a good retirement plan. However equally important is risk capacity. You may have the nature of an aggressive investor but because of your cash withdrawal needs and shortened investment horizon you would not be able to financially survive the volatility of an aggressive investment allocation.

Volatility that is tolerable at an early age may not be an option at a later one. Thus, risk lends itself to both subjective and objective analysis, and tolerance and positioning must be regularly reviewed.

After determining goals and objectives, and deciding on the level of risk that is appropriate, given their monetary status and financial psychology, potential retirees should take stock of their personal financials. Make a list of your investments and liabilities. Next list your sources of retirement income and monthly expenses. For some people they will find that their financial goals, total investments, monthly expenses and risk tolerance don't match up. The good news is that it's better to discover this early in the retirement process rather than much later when it's too late to do anything about it. Modifying financial goals, investment allocations, monthly expenses and acceptable risk may be required to successfully remain financially healthy throughout retirement. This is the time that reality may set in and you may be forced to make the decision to structure your assets to provide quality of life and security for yourself rather than leaving a large inheritance for you children.

Retirees will also have to examine the rest of their financial imperatives, insurance, legal issues pertaining to wills, inheritance and survivors, the configuration or reconfiguration of trusts, annuities and the tax consequences involved. Remember, at this stage of your life financial mistakes are often very difficult to overcome, so it is

highly recommended that the services of experienced lawyers, accountants, investment advisors, and financial planners be retained.

One crucial piece of advice when working with the various professionals; make sure that you fully understand their recommendations. For example: when an investment advisor recommends an investment plan or allocation she should thoroughly explain to you the costs and characteristics of the recommended investments. You should understand the amount of downside risk that is possible and you should be shown empirical data supporting the claim that this portfolio can provide you your required regular cash withdrawals for your lifetime.

Wealth Management Supports Positive Retirements

Because of the complexities of modern finances many retirees increasingly seek out wealth managers, a new breed of financial professional. Many wealth managers have their roots in finance, accounting, legal, and financial planning, and are skilled at aligning with a client's individual value system. This is especially important when it comes to retiring. As one approaches the golden years, there are fewer opportunities for "do-overs." You need to get it right.

A wealth manager can prove most helpful for retirees because of the "one stop shop" aspect of this discipline. The skilled wealth manager will provide a level of guidance and discipline when it comes to elucidating exactly what the retiree wants to accomplish and how he or she might organize assets to best achieve those goals. Additionally, the wealth manager will act as a "chairman of the board," organizing accountants, lawyers and other financial professionals as necessary to implement clients' wishes.

Unfortunately, wealth management has become a kind of buzz word, and many claim to be wealth managers even though their processes are no different than those that might have been implemented years ago. Individuals with roots in finance, tax, legal, and financial planning along with modern computer power, the implementation of sophisticated communications devices including the Internet, and the evolution of sophisticated investing techniques supported by Modern Portfolio Theory have contributed to the creation of the modern discipline of wealth management.

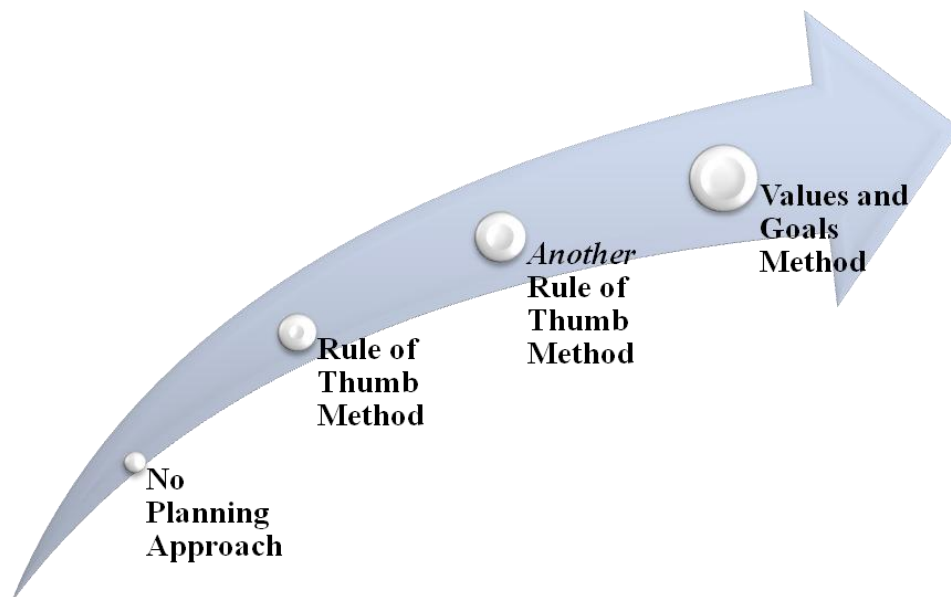
At its most basic level, a true wealth manager will seek to align wealth with values and then implement realistically and carefully what has been decided upon. Finally, the wealth manager will track the agreed-upon plan and ensure that changes are made as clients' situations and lifestyles evolve.

More to Consider: The Values Process

In digging down into retirement planning, it becomes apparent that successful retirement is more complex than it seems at first, because there are several

retirements rather than one. Bearing this in mind it becomes evident that retirement planning will have to be revisited numerous times during retirement.

But in order to revisit a retirement plan, one will need to put into place a plan to begin with. In order to do so, the retiree will have several options as to how to approach the planning process, as follows:



1. **The “no planning” approach– go with the flow method.** This is the approach that you will probably use if you are truly overwhelmed and no amount of resources can tempt you to put into place a plan in advance of retirement. In short, this is most likely a plan for failure. Retirees will often overspend early and run out of money later, or under spend early at the expense of quality of life.
2. **“Rule of thumb” method.** This is an easy-to-use approach that deals mainly with investment resources. It holds that in order to stay in funds – and never outlive your money - you should draw no more than 4% annually of your retirement investment assets. The problem with this approach is that with market volatility, retirees may be forced into reducing their cash withdrawals in periods of down markets. Also, this approach is most often used by retirees desiring to maximize the amount to be left to heirs at the expense of their quality of life that more substantial early cash withdrawals can provide.
3. **Another rule of thumb.** The percentage of your portfolio allocated to bonds should equal your age. Example: age 60 equals 60% of your retirement funds should be allocated to bonds. Because of today’s longer life expectancy this method may not provide enough growth to provide for the cash withdrawal needs

of the modern retiree who tends to be more active and to live longer than previous generations of retirees.

4. **Customized “values and goals” method.** This is the most sophisticated and forward looking approach to retirement, as discussed at the beginning of this white paper. It encompasses a plan that aligns values and financial goals with the four stages of retirement. Modern Wealth Management takes an active and deliberate approach to creating wealth, protecting wealth, and distributing wealth.

More to Consider: How to Design Your Plan

Retirees who have decided that it is both prudent and worthwhile to implement step four, above, will make the time to evaluate their resources realistically and then attempt to understand how these resources can best support their goals and values. Once you have established what values are important to you it's time to align your financial goals with these values. What goals do you have that require money to achieve?

- ✚ *Financial Independence*
- ✚ *Travel*
- ✚ *A home in a warmer climate*
- ✚ *College education for grandkids*
- ✚ *A debt free life?*

Now try to identify fundamental values:

- ✚ *Opportunities for family*
- ✚ *Charitable giving to select causes*
- ✚ *Creative or artistic fulfillment*
- ✚ *Mentoring*
- ✚ *A specific lifestyle or opportunities offered to a significant other*

Once you have identified life values and tangible financial goals, you need to begin to ensure that your finances are up to the task. Investing for the long term is not always easy. American financial commentators seem to believe that stocks always rise, given time; however, that may not always be the case. Japan, one of the world's biggest economies illustrates this point.

Japan's Nikkei stock market average finished the 1980s at 38,915. Today, more than 18 years later, the Japan Nikkei is only about 17,000, still less than half of what it was 18 years ago. At the same time, interest rates on five year CDs in Japan went from 3.5% down to almost zero. Can you imagine starting your retirement in Japan during that period?

There is wisdom in the saying “Plan for the worst and hope for the best” As you enter each stage of retirement you will want to provide a monthly income for the duration of that stage. Think of this income as a guaranteed monthly pension. Create an investment portfolio that provides these benefits with the least amount of risk at an appropriate, necessary level of support. It will take time and work, but the effort will be productive and result in a retirement that provides a maximum level of fulfillment.

An Empirical Difference

Has the above information stimulated your thinking when it comes to retirement? Certainly, there is much to do, and it is likely not going to grow any easier. In this white paper, we have reviewed various wealth management concepts that will help you with your planning and implementation in order to experience the best and most satisfying retirement. The reality of retirement planning is that there is no one size fits all planning solution. Solutions may range from the very simple to the highly complex. In summary, we highly recommend that you plan your retirement based on the following components:

- ✚ *Identify what’s important about money to you....your values*
- ✚ *Identify what you want to do with your money...your goals.*
- ✚ *Identify your retirement cash flow needs*
- ✚ *Identify other retirement necessities – tax and estate planning, etc.*
- ✚ *Analysis of retirement assets*
- ✚ *Identify outside risks to your success*
- ✚ *Identify your risk tolerance and risk capacity*
- ✚ *Structure assets and cash flow to meet your goals and support your values*
- ✚ *Structure your cash flow for tax efficiency*
- ✚ *Monitor ongoing progress*

You Don’t Need to ‘Go It Alone’

Does this sound overwhelming? You need not “go it alone.” Here at Empirical Wealth Management, we take pride in being on the “cutting edge” of wealth management; providing the tools as well as the appropriate spectrum of financial executives’ necessary to support a successful retirement. We understand that a “do over” in the retirement years is costly. We know the necessity of planning for the next generation – and then implementing that plan.

The Empirical Wealth Management approach confronts the retirement issues mentioned in this white paper and provides the strategies and planning mentioned as well. That’s because the process that has been designed for clients of Empirical Wealth Management takes into account the latest disciplines, investment theory and industry “best practices.” You may inquire about our services using the contact information below.



EUGENE OFFICE:
1400 Executive Parkway,
Suite 245
Eugene, OR 97401
Ph: 541-338-3000
Fax: 541-338-7551



SEATTLE OFFICE:
800 Fifth Avenue,
Suite 4120
Seattle, WA 98104
Ph: 206-923-3474
Toll Free: 800-923-4307
Fax: 206-923-3484



PORTLAND OFFICE:
9755 SW Barnes Road,
Suite 210
Portland, OR 97225
Ph: 503-808-9005
Toll Free: 800-317-6018
Fax: 503-808-9006