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The Retirement Boom
By Dorothy Hinchcliff

Symposium hears of scenarios, solutions, for the coming boomer retirees.

What will happen to Social Security? Is age 65 the "new" 45? How much can a retiree withdraw without running out of money? What's the best way to invest for retirement, with modest returns predicted?

Those and many other questions were the topics discussed by a host of well-known planning luminaries, such as Robert Pozen, Nick Murray, Mitch Anthony, Deena Katz, Roy Diliberto, Dan Moisand and many others, at The Financial Advisor Retirement Planning Symposium in Las Vegas April 20-22.

More than 1,100 people and 70 exhibitors attended the conference, the first-ever retirement planning show sponsored together by Financial Advisor magazine and Intershow Productions. The 8th Annual Financial Advisor Symposium is planned at the Chicago Hilton & Towers for November 2-4.

A variety of speakers, panels and workshops at the Las Vegas symposium offered something for everyone interested in diverse retirement issues. Panels that drew particularly large crowds were "Generating Retirement Income In A Low-Interest-Rate Environment," hosted by Louis Stanasolovich, CEO and president of Pittsburgh-based Legend Financial Advisors and editor of Risk-Controlled Investing; "The New Retirementality: Planning Your Life and Living Your Dreams At Any Age You Want," by Mitch Anthony (who wrote a book by the same name); and "Determining The Appropriate Retirement Withdrawal Rate," with William Bengen, president of Bengen Financial Services, and Jonathan Guyton, principal in Cornerstone Wealth Advisors Inc., both of whom have written extensively on the topic.

The conference officially opened with a packed house featuring keynote addresses from Robert Pozen, chairman of MFS Investment Management, and author and Financial Advisor columnist Nick Murray.

Pozen, who served on President Bush's Commission to Strengthen Social Security, has been an outspoken proponent of Social Security reform. Pozen's plan to cope with Social Security's predicted insolvency would reduce future benefits for many recipients, compared with what they would be under the current system, by tying them to price increases rather than wage increases. Benefits now are adjusted upward based on wage increases, which historically have been higher than price increases.

Under Pozen's proposal, low-paid workers—those with average yearly career earnings of $25,000 or less—still would get Social Security benefits based on wage hikes. However, middle-wage earners would get benefits based on a combination of wage and price increases, and high-wage workers—those making $113,000 a year or more—would get benefits based only on price increases.

About 30% of workers are considered low-wage earners, most of whom have no IRAs or 401(k) plans, while middle and high earners almost all have IRAs and 401(k)s, both of which are heavily tax subsidized, he noted. Those retirement programs and Social Security are ALL government-supported income programs, so you need to look at all of them when coming up with a solution for the insolvency problems, Pozen maintained. "You need progressive indexing to make the system neutral," Pozen said. "You can't look at Social Security over here and 401(k)s over there."

A cornerstone of Bush's Social Security overhaul is private investment accounts, which would allow workers under 55 to divert some of their Social Security taxes to such accounts in exchange for taking lower government-paid benefits in the future. Most of the discussion involving Social Security reform has centered on the introduction of these controversial accounts, rather than on insolvency.

Pozen supports the idea of such accounts, but stressed the insolvency problems must be dealt with first. "We're talking about dessert and no one is dealing with the spinach," he maintained.

Pozen (as well as President Bush, of late) noted that private accounts will do nothing to help Social Security's insolvency and will increase government borrowing. The accounts should be looked at as a "political sweetener" that will make the bitter pill of lower government-paid benefits easier for younger workers to swallow, Pozen said, because they'll have the prospect of earning additional benefits from investments in their own private accounts.

He observed that other countries' success with private investment accounts has been mixed. Sweden and Australia, for example, have implemented successful models that include private accounts, while the United Kingdom has had moderate success with some bumps in the road. On the other hand, he

said, Japan and Germany have done "a terrible job."

Pozen reviewed other options for revamping Social Security, including raising the retirement age. Although that might be an option for the distant future, there's too much political resistance to doing that any time soon, he said.

At any rate, the window for reforming Social Security in the near term ends in 2007, said Pozen. "We need a lame-duck president to have Social Security reform because it's a very hot issue," he said. "We need a second-term president to do it before the baby boomers retire."

Pozen added that the formula for figuring Social Security benefits can't be changed for anyone in retirement or near retirement, which means people who are 55 or older. The oldest baby boomers are already over 55 and the first ones will turn 60 on January 1, with the number at or near retirement accelerating every year for many years to come.

As Pozen sees it, the outlook for financial advisors who can provide objective advice on "what's best for their portfolio" is bright. "The emphasis on asset allocation and lifestyle funds is a statement by investors of how little they know," he said, while predicting that newfangled annuity products would be one of the waves of the future.

Many speakers at the retirement conference in some way tied their presentation to the impending baby boomer retirement wave. Nick Murray, for example, concentrated on what it means for advisors' practices. "Bob [Pozen] looked at the issues from 30,000 feet up. I'm going to look at the issue from the foxhole," said Murray.

And he did. "The challenge is perception, or the terrible gap between perception and reality and what the advisor has to do about this," Murray said.

At 60 years old, where the baby boomers are headed en masse, people are moving from the end of the accumulation period to the beginning of the distribution period, said Murray. "At 50, they still are looking for a stock broker to do a miracle for them. At 60, they are looking for an advisor to help them negotiate a truce with reality, and they don't know what reality is," he maintained.

Anthony, president of Advisor Insights and author of The New Retirementality, said the baby boomers will help attitudes change about retirement, a concept that's a relic from earlier times. In fact, "retirement" to most boomers will involve working—but on their own terms.

Anthony cited a recent AARP study that found most boomers plan to work in their retirement years. Although one-third said they would work because they believed they'd need income, the majority—67%—planned to continue working because they want to do so.

Not working at all, Anthony continued, makes people bored and feel unproductive. What seems to be much more satisfying to people is to be able to work at their own pace—not necessarily full time and at something they enjoy doing, he added.

Many sessions at the conference took a close look at investments. The panel moderated by Lou Stanasolovich, was posed with the question "Where does one find income in an environment where both equities and bonds are fighting secular bear markets for probably the next decade, and where they will both probably earn low-single-digit returns before inflation and taxes?"

Answers to the question ranged from laddering bonds in the short term to finding nonmainstream, fixed-income securities to purchasing REITs. One answer the panelists almost universally agreed upon was to focus on purchasing companies with rising dividend rates. The panel cited various studies that bore out this approach to equity investing. All of the panelists agreed that rising interest rates were a significant danger to mainstream stocks and bonds.

Another session that was heavily attended centered on determining the right retirement withdrawal rate and featured two financial advisors who have studied and written on the subject extensively, Bill Bengen of El Cajon, Calif., and Jonathan Guyton of Minneapolis. Over a decade ago, Bengen authored a series of articles examining what percentage of their assets retirees could withdraw without running out of money. The amount varied depending on the individual's asset allocation, but Bengen's conclusion was that, in most cases, the appropriate rate was about 4%.

In a recent article, Guyton reexamined the issue and made a few different assumptions than Bengen did. Under Guyton's alternative assumptions, individuals who withdrew 5% to 6% of their assets annually had a high probability of not exhausting their assets.

For his part, Bengen observed that the more aggressive withdrawal rates outlined by Guyton were acceptable as long as clients understood the assumptions behind them. Others wondered, though. "The big wild card is life expectancy," noted advisor and speaker Joel Bruckenstein. "If there is a breakthrough in cancer research or genetic engineering things could change dramatically, and 5.8% could be a problem in the later years."

So could a lower rate of return on financial assets for a sustained period. The implications of lower returns and possible adjustments to retirement portfolios were discussed by a panel featuring Englewood, Colo., advisor Judy Shine; Norm Boone, a San Francisco-based advisor; Melbourne, Fla.-based planner Dan Moisand and moderated by Financial Advisor editor-in-chief Evan Simonoff.

Of the three panelists, Shine has changed clients' portfolios most dramatically. Taking 10% of each portfolio out of fixed income and 10% out of equities, she reallocated the funds into such alternative investment substitutes as ICON Long-Short, Pimco All Asset All-Authority, and The Permanent Portfolio, a defensive-oriented currency play, among others.

Discussing her experience with clients in the bear market over the last five years, Shine, who lost fewer than four clients, acknowledged she learned a few lessons. “Clients, at some level, think buy and hold is a form of complacency,” she said. “What I heard from clients is that I managed more to risk. They want more active managers.”

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