QUESTION:

Dick,
I found this interesting article on the MSN Money website and thought it might be of interest to some of your younger clients or those who are just now beginning to plan their retirement strategy. (see attached article titled:

ANSWER:

Summary:
(1) Save 15% of annual income for retirement; (2) Income from Social Security benefits, private annuities with living benefits, long term care insurance; (3) Supplemental retirement income from 401K plans, IRAs, sale of real estate owned and other assets; (4) Cash outflow savings derived from debt repayment.

This is an interesting article in that it focuses on some categories of retirement risk that are obscured by our individual need to survive daily, from a cash flow standpoint.

The recommended 15% savings rate as a **percent of income that should go to retirement savings** is probably high but certainly worth striving for. Essentially, that is the retirement savings number that you were able to achieve as you approached retirement.

The Longevity Issue

> One of the biggest differences between individual accounts and traditional pension plans is that they transfer… "longevity risk" from pension funds to individuals… you need to save more -- a lot more -- in your account than a pension plan would include in order to cover the chance that you'll live to a very old age

It is **the longevity issue** that needs addressing. As individuals, we have to absorb 100% of that risk (we and our families). Annuities - including Social Security benefits - can offset a portion of this risk. SSI absorbs some of the risk. Annuities with guaranteed living benefits can absorb another portion of that risk. (There is the added risk that the annuity provider will survive to pay off the annuity).

Just the **statement of the issue** of longevity, will focus on the importance of measuring and accommodating a risk that is not well understood. A significant issue, in terms of longevity, is the long term care risk. Not everyone will need LTC, but as an individual, this is an issue where we must bear 100% of the risk. LTC insurance will absorb some of the risk, but there needs to be another way to absorb the balance of that risk. (I am seeing one annuity that is designed to do a portion of this - about half of what the Lincoln Financial MoneyGuard insurance plan does).
Longevity Risk => SSI, private annuities with living benefits, LTC insurance

Supplemental income comes from qualified retirement plans - 401K, IRA, etc, Real Estate owned (home), and other saleable assets.

Lastly, there are the **savings that come from reduced cash outflows** leading up to and in retirement. These are provided thru the pay-off of debt, reducing debt to zero.

There is a need to teach the American public how to achieve this goal of risk diversification and long term saving. Bogle's comments are helpful in defining the goals and risks.

This was a good article to read.

Dick