



Retirement in the 21st Century, Revisited

Winter 2006

Imagine the retirement planning challenges posed by a 2000-year life expectancy. In a bid to create the future possibility of human immortality, a British scientist by the name of Aubrey de Grey has commissioned a multi-million dollar challenge to the scientific community, called the Methuselah Mouse Prize (www.mprize.org) to begin this intriguing process with the development of immortal mice. Science fiction, perhaps; certainly, comedic fodder for the next Mel Brooks. Nevertheless, this year the first wave of the baby boomers turns 60 and begins slouching toward retirement. While not expected to live forever, many of us will live another 30, 40 or even 50 years following retirement.

Factors in the “New Retirement”

Demographic/Social Factors

- Increased longevity
- Baby boomer retirement “wave”
- “Social insecurity”: will Social Security and traditional pension plans be reliable?

Personal Factors

- Continuing search for meaning, fulfillment
- Maintaining connection to family, friends and community
- What will our material and spiritual legacy be?

The Metamorphosis of Retirement

As a consequence of the convergence of both external, demographic phenomena and considerations personal to each of us, the concept of retirement is changing in profound ways—for good.

The most important assets for people engaging in this new, complex retirement model are first, a vision of the future and second, a plan which integrates both the personal and financial elements for success.

To assist your exploration of these issues, this article offers assessment and planning tools developed by our strategic partner, Money Quotient™. You can download these tools for free under the “**Financial Tools>Planning Tools**” section of our website.

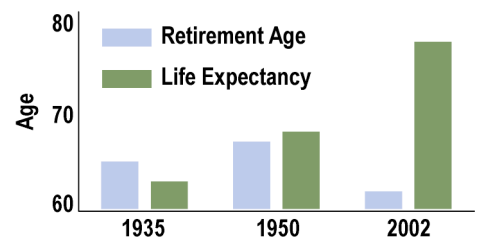
Download 1
[Retirement: Thinking it Through](#)

You are welcome to use these tools on your own, or

contact us for assistance with follow-up analysis, as well as additional related tools and resources.

The History of Retirement

As originally conceived, retirement was meant to be sudden and short. When Social Security was instituted as part of the New Deal, retirement age was 65, but average life expectancy was 63. In 1950, the average age of retirement was 67, while life expectancy was only 68. Today, the average retirement age is 62, with a life expectancy of 77 and a 50% chance that one partner of a married couple will live to age 92.



Chronological Phases

The old retirement could be characterized as an event. The new paradigm is more of a continuum or evolutionary process, with three easily identified phases: active, contemplative and resolution.

The active phase, of course, is the one we're all looking forward to. Doing and accomplishing all the things we've wanted but didn't have the time for. **The contemplative phase**, involves slowing down and reflecting on life and preparing for the inevitable. **The resolution phase** is frequently characterized by health care issues and putting the finishing touches on our legacy.

Download 2
Life Transitions Survey

It is impossible to know in advance, due to the inherent uncertainties involved in health and finances, how much time we will spend in each of the various stages, but we should be prepared for all three. Anecdotal evidence of how people have managed in the new era of retirement is mixed. As life expectancies have increased, people have had to make adjustments during retirement for which they were unprepared. Some have been able to adapt. For others, the experience has been difficult and depressing.

A wise person once said, "The only constant in life is change." Two key skills for a successful retirement are anticipating transitions and having the resilience to cope—and indeed thrive—with them.

Successful Retirement: Managing Financial, Physical and Emotional Components

The world is too much with us; late and soon.
Getting and spending, we lay waste our powers.
William Wordsworth

True prosperity over the 30 plus years that we will be "retired" requires integrating the things that money can buy with the things in life that we value and give us satisfaction. The most important thing is getting your priorities straight, knowing what's really important in life and setting a course to that destination. A variety of skills and strategies are required for successfully managing a lengthy retirement.

In addition, identifying meaningful learning, work, volunteer and leisure activities is a critical element of retirement planning. And a crucial part of this step is the essential recognition that money is merely a tool for achieving and satisfying the goals of your life and not an end in itself. Our activity creates satisfaction.

Download 3
Financial Satisfaction Survey

Re-thinking Work

"The trouble with the rat race is that even if you win you're still a rat."
Lily Tomlin

Traditional retirement planning relied on the so-called "3-legged stool." Those legs are a pension, social security and personal savings. The new retirement contains a 4th leg, some kind of vocational activity, paid or otherwise. Volunteering bridges the emotional challenges of retirement, providing the satisfaction of continuing productivity and self-esteem. Paid work can serve those needs as well as span potential financial gaps, by supplying extra income and adding to the longevity of savings. Indeed, the

active period of retirement, if telescoped back to the beginning of what we now call the “pre-retirement” years, can be a period of 25 or 30 years, presenting opportunities and challenges for a long, productive middle life that incorporates a balanced amalgam of work and other activities. A 50-year-old, rather than working a 60-hour week to fund a retirement at age 62 and then falling off the vocational cliff, could instead, reconstruct life around satisfying work which would be less consuming but last longer.

Playing into the hands of those planning to incorporate work into their retirement is the recognition by employers that the work force is shrinking and that to remain competitive, they need to retain their older workers. Employers have begun to adopt flexible phased retirement programs (portable jobs, part time projects and early benefits) and have seriously been addressing the problems of age discrimination in the work place. Talented retirees are also getting in touch with their entrepreneurial side.

This “Workplace of the Future” was a focus of the most recent White House Conference on Aging, which is convened once per decade, and was held in December 2005. The theme of the conference last year was “The Booming Dynamics of Aging: From Awareness to Action.” Find out more at www.whcoa.gov.

Financial Planning: “Am I Going to Outlive My Money?”

Financial Planning in retirement is a demanding proposition. Inflation at the rate of 3% will erode purchasing power by half over the course of retirement. A large majority of retirees rely on their investments to fund their retirement and legacy goals. At the same time, many are supporting aging parents, college students and older children who may be having a difficult time getting started with their earning lives. What is required is a controlled spending plan and an investment portfolio that is neither too aggressive nor too conservative.

The skills of many investors aren’t nearly as good as they think they are. Overconfidence leads to the commission of mistakes that may be difficult to overcome. (Constructing and managing a portfolio for the spending or distribution period—as opposed to the years of accumulation—is a complex task and will be the subject of a complete article on the subject in our next issue.)

Planning for Physical and Emotional Health

Among the ups and downs of a lengthy period of retirement will undoubtedly be physical and emotional health challenges and losses. Obviously, we have no control over our genetic make-up, but through careful attention to our lifestyle we can significantly contribute to health in retirement.

Moreover, health care will have an impact on our financial success. The Centers for Medicare and Medicaid Services estimate that, by 2015, one in every five dollars will be spent on health care. Retirees will pay for much of this spending out of their own pockets. (The next issue will also cover one of the greatest risks to a successful retirement: unfunded health and long-term care expenses.)

Finally, to make the most out of our retirements, we will need to shore up our relationships with family and nurture the companionship of friends with similar interests. Contributions to the success and happiness of others will be the most important part of our legacy.