

Financial Foresight

Dempsey Investment Management • Fall 2008 Edition

The New Face of Retirement

What image comes to mind when you think of your retirement years? The financial industry brochures often show a couple in their late 50's or early 60's playing golf, walking on a secluded beach or sunbathing on a cruise ship. The reality today reflects a much different picture for the majority of retirees.

Earlier in my career I was taught about the three-legged stool in retirement: social security, pensions and savings/investments. In my opinion the stool now has four legs, the last being income from employment. A book I consider a must-read on the subject is Mitch Anthony's, The New Retirementality: Planning Your Life and Living Your Dreams...at Any Age You Want. Anthony's book not only discusses the financial aspects of retirement but also delves into the goals, meaning and purpose of your retirement. I find the book to be of value to individuals many years away from retirement as well as current retirees. Anthony explains how a delayed retirement or phasing into retirement can benefit you in many ways. Instead of discussing "return of capital", he talks about "return on life" and "wealth care". Many of us saw our parents looking forward to retiring with a pension and security, but for most of us, our retirement picture looks quite different.

To begin with, most of us are putting off retirement. According to Forbes, in 1985 one in ten Americans aged 65 or older worked. Today one in five do. For those age 65 to 69, work now provides 39% of income, up from 23% two decades ago.¹ Also Boomers are expecting to work longer. When the Employee Benefit Research Institute surveyed workers ages 55 and older this year, 46% said they expected to either retire at a minimum age of 66, or never. This

figure is up from only 18% just a decade ago. Only 2% said they plan to quit work before 60, down from 11% a decade ago.² Many of these findings may be driven by life expectancies. Today a 66-year-old man can expect, on average, to live 16.4 more years, while a 66-year-old woman has a life expectancy of an additional 19.2 years.³

Anthony points out how this new retirement picture isn't necessarily a bad thing. Not only does working longer allow you to keep from depleting your savings, you can actually add to it. This also delays tapping into social security, which would be reduced if taken before your normal retirement age. Let's examine the scenario of Mr. Smith, who is considering retiring at his current age of 62. He has \$500,000 in savings and would receive \$18,000 annually in social security benefits. (This figure is reduced by 25% due to his early retirement prior to age 66.) Let's assume his portfolio is balanced with dividend paying stocks and bonds and he is able to draw an income of 4% or \$20,000 a year from this portfolio without invading his principal. Combining the two sources, his income becomes \$36,000

"I have come to the conclusion that more retirements will fail for non-financial reasons than for financial reasons."

**— Michael Stein, author,
The Prosperous Retirement:
Guide to the New Reality**

a year. Now consider a new retirement picture. Mr. Smith decides to leave his job as a regional sales manager working 60 hours a week. This time he sets up his own consulting company offering sales training a few days a week and even lines up a few training sessions in Florida during the winter. With this extra income he delays taking social security thus increasing his

benefit to \$24,000 a year at age 66. He also has not taken from his savings and at a 7% return over four years, his portfolio has grown to over \$650,000 which could now generate \$26,000 a year in income. Not only has Mr. Smith increased his savings and income, but he has also transitioned from a life of stressful, full-time work to a mentally rewarding career that still leaves plenty of time for personal interests.

Your later years are a great time to pursue career interests you may have put aside in your previous years for various reasons. This may enable you to have more satisfaction and less stress in the workplace. The income may not compare to your previous career, but you are still earning income nevertheless. Other benefits to a later retirement involve mental and physical challenges. Continuing to practice critical thinking, problem solving, and simply moving your body more because you are working helps to keep you healthy. Individuals often feel more fulfilled by keeping in touch with other professional contacts, and by keeping busy. You don't need to work full-time to reap these benefits. Consider a gradual, or phased retirement. Cut your hours or even step down from responsibilities you do not care to deal with anymore.

If you are many years away from retirement, don't wait to start enjoying life. If you don't find fulfillment with what you are currently doing, make a change now. Once you find a career that suits you well, you may not give much thought to how soon you can retire, making the financial picture less of a concern.

¹Ashlea Ebeling, "Here's a Plan: Work Longer," *Forbes*, 29 September 2008, 97.

²Ibid.

³Ibid., 103.

Dream Home, Nightmare Insurance? Do You Have All the Home Coverage You Think You Have?

By David Palmer

Hinesburg, VT – September 25, 2008
If your home hasn't been broken into, or damaged by lightning, hurricane, fire, or hail, consider yourself lucky, because millions of homes across America suffer these damages each year. As if that weren't bad enough, homeowners are often stunned to find out that their home insurance may not cover everything they may anticipate. Since the home is typically a person's biggest financial investment, this can leave consumers in a state of financial shock.

"Too often, the importance of having the right insurance is not realized until a loss occurs, and consumers are left paying more than expected for home repairs," said David Palmer from the Palmer Insurance Agency. "There are many out-of-pocket expenses that consumers need to be aware of, because all insurers are certainly not the same."

Below are some questions you should ask before purchasing home insurance:

What's covered? Familiarize yourself with what the policy you are purchasing will cover—as well as what it will not. For example, damage caused by flooding is not covered under the standard insurance contract. Also, determine in advance what your expected out-of-pocket responsibility will be in the event of a loss. Many contracts contain more than one deductible, depending upon the nature of the loss.

Does the insurer offer "guaranteed replacement cost" coverage for the property? This coverage provides peace of mind that your home will be repaired or replaced, even if your coverage limit is inadequate. This is important if your house were destroyed and needed to be completely rebuilt. It can be especially helpful for older homes or

in a market where home values are rapidly appreciating in value. Also, find out what exactly the company considers a "guarantee." Most companies cap the coverage provided at 125 percent of the limit, while only a few carriers offer a full guarantee.

Is an inflation factor built into the policy?

It's important to make certain that you have enough coverage on your property to keep pace with inflation, particularly in these times of rising construction costs and contractors' fees. Look for a company that offers an "inflation guard," which means that every year, your level of coverage will automatically increase to keep up with the level of home repair inflation in your area.

Does the insurer offer replacement cost coverage for contents?

Most insurance companies will cover a home's contents for "actual cash value," which includes a deduction for "depreciation"—meaning that the older the age of the contents, the less the contents would be worth. There are carriers, however, that would reimburse contents on a replacement cost basis, taking age out of the equation.

In the event of a loss, will the insurer stand behind the work performed?

Because of the number of claims they handle, many insurers have developed a familiarity with local contractors, and will stand behind necessary repairs that a reputable, licensed service providers will make to a property. This can offer peace of mind, if you don't have a reliable contractor in mind at the time of loss.

Finally, an important consideration in selecting home insurance involves flexibility. "One size does not fit all," said David Palmer. "The insurance needs for a brand new home are dramatically different than that of a Victorian. Talk to your agent to obtain an appropriate level of coverage to fit your insurance needs, by selecting the level of coverage you want, as well as securing additional coverage for items that are important to you—for example, jewelry or computers. By asking questions before

the loss, the customer has the option to either accept limited coverage or secure a more complete policy."

For a better understanding of the level of insurance that's right for you, contact David at the Palmer Insurance Agency by calling 802-482-5678 or visit the agency at 22 Commerce Street, Hinesburg, VT 05461.

Understanding Medicare

By Duncan A. Winton

There may be some questions that individuals who are retired or who are approaching 65 need to understand. Some of the key questions one should be reviewing are as follows:

1. If I am still working (over 65) does it make sense to have coverage under a traditional medical plan or can I save money and have good medical coverage with Medicare?
2. Am I carrying too much insurance?
3. Do I have prescription drug coverage and what are my options?
4. Can I change companies if I have an existing Medicare supplement plan?
5. What are open enrollment dates and how do they affect me?
6. Can I save some \$ and reallocate them for other benefits I may need?

For answers to these challenging questions, please contact Duncan Winton directly.

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