

## 50-Something And Saved Too Little For Retirement?

**A**t age 53, George and Betty Jones thought they were pretty wealthy and did not have to worry about retirement. In fact, they knew exactly what they wanted to do during retirement. What they didn't know was how they'd pay for it.

Like a lot of well-to-do people in their 50s, the Joneses were totally focused on getting their kids through college, renovating their house and achieving major financial goals. Then, all of the sudden, they realized that they weren't too far from retirement and had saved too little. And they did not have a retirement plan—their portfolio just "happened."

During the past 10 years, George and Betty's priority had been paying to put three kids through college, one through law school. But now, with age 65 fast approaching, it was time to take stock of their prospects and get a realistic handle on their retirement finances.

The couple had annual income of \$250,000-\$175,000 in salary that George takes from his auto parts business, plus \$75,000 that Betty earns as a teacher. They'd lost big when the technology bubble burst, and have since stuck with very conservative investments. As of now, their retirement income and assets amount to:

- \$100,000 in Betty's 403(b) plan. Betty keeps 75% of that account in bonds and cash equivalents, 20% in a large-cap stock fund and 5% in a small-cap fund
- A \$30,000 annual pension for Betty beginning when she turns 65
- Social Security payments of \$20,000 a year for George and \$15,000 for Betty
- A house currently worth \$750,000
- A growing auto parts business worth \$2 million, which George has already agreed to sell to an employee who will pay \$230,000 per year for 15 years starting when George turns 65

Actuarial projections show George living to 90 and Betty to 92. However, they're both in good health and want to plan their money lasting through age 95. That means their retirement savings must last until at least 2046—a long time to live on a nest egg. And George and Betty plan an active retirement. Their goals:

- Traveling three times a year until age 75 and once a year thereafter, at an average cost in today's dollars of \$5,000 per vacation
- Purchasing a new car every three years for \$30,000 in today's dollars
- Buying a second home in 2022 in Florida or Arizona for about \$150,000 in today's dollars

With a vague realization that they might not actually be able to afford the retirement they hoped for, George and Betty decided to get professional

advice in drawing up a comprehensive financial plan. The results: scary but manageable.

Given George and Betty's life expectancy and current investments, they would not be able to travel, buy a second home, and get all those new cars. Their current investment allocations—20% in large-cap stocks, 5% in small cap stocks, 60% in bonds and 10% in cash equivalents—might reasonably be projected to have a 9% return annually. That's the average annual return on such a portfolio from January 1, 1970 through December 31, 2003.

Using professional financial planning software to evaluate how long their current assets might last, George and Betty not only wouldn't be able to buy the cars, the new home, or travel, but they wouldn't be able to pay their basic living expenses till age 95 if their portfolio returns fell short, to 8.5% or less. They didn't have a safety cushion.

The solution? Transform their poorly organized finances by utilizing the fundamental concepts of long-term personal financial planning.

George could open a Simplified Employee Pension (SEP), which is an IRA for self-employed individuals. George could start putting away up to \$41,000 annually. The addition of the SEP would allow them to meet all of their goals and give them a safety cushion of over \$720,000 by the time they retire at 65.

Professional portfolio management could also help. By relying on a professional to manage their money, they would be more comfortable, disciplined and less emotional about following a long-term buy and hold investment strategy. Reallocating their portfolio to have 69% of their pre-retirement assets in equities and 31% in cash equivalents and bonds would increase their projected returns to 10.2% annually. Over the 12 years leading up to their retirement, that could add another \$130,000 to their nest egg. Yes, their portfolio would have more risk because of the added stock position, but because they had a plan that was based on sound thinking and reasonable assumptions, George and Betty felt more confident about their retirement.

**Portfolio returns are generated using MoneyGuidePro. Assumes returns based on historical results from 1970 to 2003. Cash equivalents are proxied by Ibbotson Treasury Bills (1970-1981); short-term bond returns are calculated from 50% Ibbotson Treasury Bills, 50% Ibbotson Intermediate-Term Government Bonds for 1970-1978 and Merrill Lynch 1-3 Year Government Bonds for 1979-2003; intermediate bond returns are from Ibbotson Intermediate-Term Government Bonds (1926-2003); long-term bond returns are from Ibbotson Long-term Corporate Bonds Total Return (1926-2003). Large-cap value returns are based on S&P Composite Return (1970-1974) and S&P/Barra Value (1975-2003); Large-cap Growth returns are based on S&P Composite Return (1970-1974) and S&P/Barra Growth (1975-2003) returns and small cap performance comes from Ibbotson Small Company stocks. Past performance does not guarantee future results.**