

this new way of life. What used to be called the "sunset years" are looking more like a new dawn as people in their sixties look forward to years, if not decades, of vigorous life.

One of the most far-reaching studies ever undertaken on baby boomers and retirement, "The Merrill Lynch New Retirement Survey," belies the many gloomy prognostications about a "retirement crisis" caused by boomers who simply aren't saving enough. "For years, baby boomers have been told that they aren't financially prepared to retire. But those predictions and benchmarks of financial preparedness were based on their parents' version of retirement," argues Michael Falcon, Chief Operating Officer of the Retirement Group at Merrill Lynch. "New retirees will enjoy a 'longevity bonus' previous generations could only dream of, staying healthy and vital into their seventies, eighties, or even nineties," says Falcon.

"The good news is that most boomers should be able to achieve the retirement they envision," he adds. "It's true that most do need to save more than they are now, but not as much as they've been told; because they'll be living longer, they'll be saving longer. The old savings benchmarks-and advice on how to reach them-no longer apply to most investors today."

For example, of the boomers who participated in the study, more than half (78%) plan to engage in part-time or cyclical work and thus need to save less than those who plan to follow in their parents' footsteps and never work again. Taking into account their income from part-time or cyclical work, many cyclical workers will need a median savings rate of 6% to 12% per year before they begin that new phase. The typical nonworking retiree, by contrast, will need to save at least 20% per year.

"The study shows that people actually want to work into their later years to keep active and to feel a sense of purpose," says Paula Polito, Senior Vice President of Merrill Lynch's Global Private Client Group. "Because they are working, they're going to have a longer income stream-and a lot more financial options to create whatever vision they have for the future."

"By rejecting traditional retirement and by working part time, baby boomers will not have to tap retirement savings as their primary source of income until much later in life," Falcon predicts. But it's not just work for work's sake, he says; interesting work figures very large in their plans.

PURSUE A PASSION

On the cutting edge of the new retirement you'll find such sixtysomethings as Jim Mullen of Watertown, Conn. Mullen spent his career building a large and successful insurance

NEW GENERATION, NEW TRADITIONS

Just a few of the ways baby boomers are rewriting the rules

RETIREMENT	THEN	NOW
DESTINATION	The summer house	New career
LATEST ACHIEVEMENT	President of the country club	Hired as sous-chef after 30-year love affair with cooking
QUOTE	"It's been a great life"	"I feel like a kid again"
ACTIVITY WITH GRANDCHILDREN	Attending a few of their school activities	Enrolling in the same graduate program
INVESTMENT GOAL	Nest egg	Sufficient funds to open a new business
SAFETY NET	Pension, Social Security	Ability and desire to alternate leisure with work
AVERAGE DAY	Plan some fun activities; catch up with friends and family	What on earth is an "average day"?
BEST WAY TO ACHIEVE THEIR GOALS	Careful planning	Careful planning



KEN DYCHTWALD, a leading expert on aging issues and co-author of the Merrill Lynch study

“In a new retirement landscape offering limitless choices, the only sure penalty comes from inaction.”

agency. When he sold the business in 1998, at age 59, he turned his attention to a lifelong passion for farming. "I was brought up next to a farm," says Mullen. "I started working there when I was nine and worked my way through college." Today, instead of selling insurance policies, Mullen and his wife, Penny, rise before the sun each day to tend to 45 alpacas, *South* American relatives of the llama that produce some of the world's finest wool.

Alpacas are sweet-natured and smart, but no one, least of all the Mullens, has ever confused farming with the easy life. Raising animals requires long hours, hard work and patience. Yet for the Mullens, as for an entire generation of new retirees in the Merrill Lynch study, the idea of endless days poolside or on the fairway holds little interest. In fact, 56% of boomers plan to stretch their wings into entirely new careers. "These are get-up-and-go people," says Geoffrey Karp, the Mullens' Hartford-based Financial Advisor. "They wanted to be active, involved and energetic."

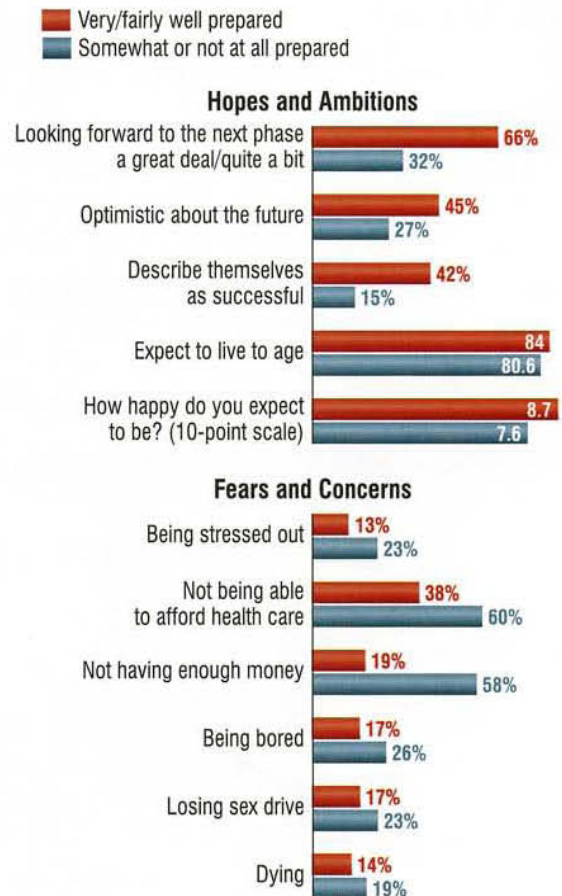
Baby boomers, in short, are viewing the years after retirement not as a period of slowing down but as a time to reinvent themselves. Sensing this sea change in Americans' attitudes toward retirement and realizing the implications for financial planning, Merrill Lynch launched a major study to put hard numbers to its hunch that millions of boomers will remain active-at-work and play. "The Merrill Lynch New Retirement Survey" of 3,448 U.S. boomers reveals that they fully intend to live longer and fuller lives than any generation of retirees in history.

"What we saw was really the birth of a whole different vision," says Ken Dychtwald, Ph.D., co-author of the Merrill Lynch survey. A noted gerontologist, Dychtwald is the bestselling author of 10 books, including *Age Wave* and *Age Power*, and is widely regarded as the nation's leading authority on the changing nature of aging and retirement in the U.S.

"It's all very exciting," Dychtwald says. "But when society no longer lays out a predictable road map for retirement, individuals will have to be creative in planning what retirement means to them and deciding how to get there. There's going to be a premium on getting sound advice to help navigate that twisting, turning road."

PLAN AHEAD FOR PEACE OF MIND

Boomers who feel financially ready for retirement are happier and less fearful and expect to live longer



SOURCE: THE MERRILL LYNCH NEW RETIREMENT SURVEY

Even as it opens broad opportunities, the new retirement poses considerable challenges. Longevity brings with it extra expenses. Only a third of boomers say they feel financially well prepared for this next phase. Among this group, 66% say they are eagerly anticipating the years ahead, the study shows. But just 32% of those who don't feel prepared are looking forward to retirement—perhaps the clearest indication that peace of mind and a strong financial plan go hand in hand.

THINK DECADES AHEAD

For Jim Mullen, preparing for retirement involved detailed meetings with Karp from the time he began thinking of selling

his business in the 1990s. Thanks to the proceeds from that sale, the Mullens don't need profits from their alpacas to get by. But as long as the business pays for itself, they won't have to dip into their nest egg to keep the focus of their retirement dreams alive. Had they chosen a retirement of solely leisure and travel—the "traditional" model—every trip or activity would have been a drain on their savings.

Because earlier generations needed their lifelong savings to fund their retirement activities, they were generally steered to conservative fixed-income investments. With only limited life expectancies, they were seen as having little tolerance for risk and not enough time to potentially benefit from growth-oriented investments. Once again, the new retirees are rewriting the rules.

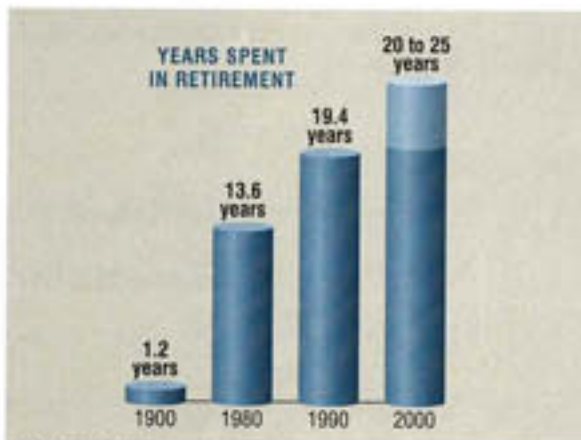
PAULA POLITO, Senior Vice President of Merrill Lynch's Global Private Client Group

“People actually want to work into their later years to keep active and to feel a sense of purpose.”



THE LONGEVITY BONUS

Once a brief coda, more time in retirement means more time to reinvent life



SOURCE: THE MERRILL LYNCH NEW RETIREMENT SURVEY

As youthful, energetic people in their sixties, the Mullens are deeply interested in how their investments will perform during the next decade, or even the next several. "Jim wanted to structure his portfolio so he'd be comfortable even if alpaca farming didn't work out," says Karp. "He'd rather see the portfolio grow and draw some income from dividend-paying shares than go full bore on fixed income and live off the interest." So Karp introduced the Mullens to a team of professional money managers who selected a balance of growth and value stocks that will generate income while still seeking to grow and preserve capital, which the couple plan to use to fund their 17 grandchildren's education.

Still, no two retirement dreams are exactly alike. According to Sylvester Knox, a Financial Advisor based in New Jersey, each dream needs its own investing plan. "Thirty years ago, an advisor could plug a client into a retirement model and tell him what his assets were likely to be when he retired at 65 and



Retirement for Jim and Penny Mullen involves rising before the sun to tend to their 45 alpacas.

HOW TO GET STARTED

No matter what your retirement dreams, here are eight important steps to consider as you prepare for life after work


IN A RETIREMENT LANDSCAPE THAT OFFERS SO MANY OPTIONS, ONE OF THE FEW GUARANTEED wrong choices is doing nothing. Whether you initiate your planning with giant leaps or baby steps, retirement expert Ken Dychtwald urges, "Start now. The revolution in retirement doesn't mean that financial preparation goes away. The earlier and better you plan, the more likely you'll be to realize all of your dreams."

- 1** Begin by using the New Retirement Illustrator (found at www.totalmerrill.com/retirement), a Web-based planning tool designed to help you understand the impact of living and working longer.
- 2** Start a dialogue with your Financial Advisor. Be open about what you want to achieve in retirement and discuss a variety of financial scenarios, such as whether you will continue to work.
- 3** Quantify all potential sources of retirement income in a comprehensive financial plan with your Financial Advisor so that you have a complete picture of the funds you can draw upon during those years.
- 4** Consider the role that insurance, including life, long-term-care and health insurance, should play in your plans.
- 5** Ask your Financial Advisor about business ventures you're considering. A Loan Management AccountSM may be an appropriate way to finance your plans while you preserve your long-term investment strategy.
- 6** If you want to improve your cash flow and guard against interest-rate volatility, ask your Financial Advisor about refinancing your mortgage.
- 7** Streamline your long- and short-term finances using a variety of cash management options, such as a Merrill Lynch Beyond BankingSM account.
- 8** Finally, save regularly and contribute fully to all available tax-advantaged vehicles, such as IRAs, 401(k)s and education savings plans. To simplify saving, consider Merrill Lynch's automated funding service.



MICHAEL FALCON, Chief Operating Officer of the Merrill Lynch Retirement Group

"The good news is that most boomers should be able to achieve the retirement they envision."



how much income he needed to live on," says Knox. "Today, models like that don't capture the complexity of our lives. Our job now is to help clients set up a road map that incorporates multiple periods of income inflows and outflows so clients can set longer-term goals, even as they continue to enjoy active lives."

The complexity Knox observes in his clients' lives is borne out by the study, in which just 18% of respondents see retirement as starting when they reach a specific age. The largest group (46%) sees this new phase beginning with financial freedom, a benchmark whose precise terms vary from person to person. For most, though, financial freedom includes both the opportunity to pursue dreams, like travel or a second career, and the ability to keep monetary concerns (such as paying for health care) at bay.

Those objectives require a comprehensive plan—one that considers much more than investments, Knox says. He describes the Total Merrill™ approach, designed to address virtually every aspect of a client's personal and business finances, as being essential to helping his clients realize their retirement dreams. By looking at his clients' financial lives in an integrated way, Knox can help them establish long-term-care policies, for instance. "The premiums can be paid from investment income, rather than the policyholder having to write out a check. It's certainly convenient and, more importantly, this demonstrates how Merrill Lynch can help make your investments work harder together, for both growth and protection," says Knox. He can also take a retiree's complete finances into account to create a stream of income. By taking into account everything from cash management and financing to estate planning and business needs, Knox and his clients can chart more comprehensive financial futures.

Knox recently used Total Merrill planning and financing capabilities with one of his clients who, after a career working his way up the ladder of a large transportation company, longed to indulge a lifelong passion for cooking by opening a restaurant. Financing that dream required significant up-front expenses. The client had built a sizable estate during his career, but he didn't want to tie up his retirement investments in the restaurant. So Knox set up a Merrill Lynch Loan Management Account™ which provided the client access to the cash he needed while allowing him to keep his retirement portfolio intact. What's more, the interest rate he pays is based on his total available credit rather than his outstanding balance, which lowers his cost of borrowing.

So far the small restaurant is earning just enough to cover the client's expenses and pay his staff. But through

DISCOVERING A NEW WAY OF LIFE

How Merrill Lynch took the pulse
of America's baby boomers

"THE MERRILL LYNCH NEW RETIREMENT SURVEY"

grew from a hunch—a broad consensus among senior managers and Financial Advisors that American retirement dreams were changing, perhaps forever. Reluctant to modify long-cherished financial planning models on the basis of a hunch, however well informed, Merrill Lynch decided to put its perceptions to a rigorous test: Gather the hard numbers on the idea that millions of active, energetic boomers have no plans to ride off into the sunset.

To help it find answers, Merrill Lynch turned to Ken Dychtwald, Ph.D., widely regarded as the nation's leading authority on the changing nature of aging and retirement. Dychtwald, who devised and co-authored the study, has written 10 books on aging issues, including the bestseller *Age Wave*, and his findings have been featured in many national publications, including *American Demographics* magazine, which recently honored Dychtwald as the most influential leader in understanding boomers during the past quarter century.

While Dychtwald, like Merrill Lynch, had predicted broad changes in retirement among boomers, the results of interviews with 3,448 U.S. adults surprised even him. "It turns out that the whole concept of retirement that people cherished just a few years ago is coming unglued. In its place you've got this enormous generation of boomers barreling toward this stage of life with radically different hopes."

At the beginning of the 20th century, people who reached 50 or 60 were said to be getting old. "But now boomers realize that they may be the recipients of an incredible longevity bonus—they may live 80, 90 or even 100 years. If you go to the dictionary and look up the word retirement, it says, 'to go away, to disappear.' For today's retirees, that's no longer an option."

To obtain a copy of the study, go to www.totalmerrill.com/retirement or call your Financial Advisor.

SOURCES: THE MERRILL LYNCH NEW RETIREMENT SURVEY AND WWW.AGEWAVE.COM



"Thirty years ago, an advisor could plug a client into a retirement model and tell him what his assets were likely to be. Today, models like that don't capture the complexity of our lives."

careful planning, he is able to live off investments he made during his business career. If the restaurant ultimately succeeds, the client hopes to have a business he can pass down to his family. But in many ways, the venture is already a success. It's demanding work that doesn't fit everyone's idea of retirement. "But he's found true happiness," Knox says. "Even though he's 'retired,' he literally can't wait to get to work each day. I love that for a great definition of what the new retirement is all about?"

REMAIN A PROACTIVE PLANNER

Of course, working during retirement isn't purely about satisfying one's dreams; economic necessity may play a part as well.

While tomorrow's retirees are expected to live longer than those of previous generations, corporate pension plans have shrunk and Social Security is being stretched. "Social Security was put in place when people were living just a few years after leaving work," argues Dychtwald. "The system was never designed to fund people through decades of nonworking retirement."

In this new environment, Social Security, a pension plan and a savings account—the big three of traditional planning—won't begin to finance the extended lives and dynamic dreams of retirees. A boomer approaching retirement who wants to start a second career will need to have enough income, which means maintaining a portion of his portfolio in a diverse mix

THE NEW RETIREMENT ILLUSTRATOR

This new online retirement planner considers your unique situation now and your personal goals for tomorrow

TEMPTING AS IT IS TO VIEW BABY boomers as a single, vast generation with uniform goals and dreams, the fact is that each individual is unique, regardless of generation—one-size-fits-all planning won't do.

Many retirees will be working and living longer; to help you understand the financial impact of these longer timelines, Merrill Lynch has created a Web-based tool called the New Retirement Illustrator. The Illustrator, located at www.totalmerrill.com/retirement, features an easy-to-use interactive timeline. Adjust the sliders on the timeline to

indicate when you plan to leave your career, how long you expect to be in the transition phase between work and leisure and when (or if) you plan to stop working altogether. Your input generates a Financial Impact chart that gives you a better idea of the level of savings you'll need—comparing that with the amount from the "old retirement" model.

The results you obtain from the Website are merely illustrative and should help you begin a more detailed conversation with your Financial Advisor to ensure you are on the right track.



The Illustrator can compare retirement-savings needs based on a variety of scenarios.

TEN QUESTIONS THAT NEED ANSWERS

BEFORE YOU CAN FIND FINANCIAL SOLUTIONS to the challenges ahead, you need to define your "ideal" retirement. This self-exam can help.

1

How do I balance work, leisure, even education today? Will I want to adjust that balance during the next 25 years?

2

Are my plans for retirement in sync with my spouse's?

3

Do I have enough health insurance? Do I need long-term-care insurance?

4

Do I want to work in retirement, and will this work involve a continuation of my current career or something new?

5

If I stay where I am, will my employer be open to a more flexible work arrangement?

6

If I'm thinking about a new career, have I started planning for the transition?

7

Do I have skills or a passion that would translate into a solid business venture? How will I fund it, and how will it affect my ability to generate income?

8

Everyone defines financial freedom differently. What's my definition, and how can I achieve it?

9

Am I comfortable carrying long-term debt, such as a mortgage, into retirement?


10

Do I have a financial plan that considers how work in retirement will affect what I need to save now?

For more information and exercises to help you answer these questions, go to www.totalmerrill.com/retirement and click on ENVISION. And, of course, call your Financial Advisor.

of equities in addition to a core of fixed-income securities. Stocks can offer necessary hedges against inflation—which generally works against fixed-income investments—and remain a source of long-term returns.

"In a new retirement landscape offering limitless choices, the only sure penalty comes from inaction," says Dychtwald. Against that backdrop, the call to action seems clear: People who start planning now—today—have the best chance of making their retirement dreams come true. For some, that may mean giving serious thought for the first time to just what they want their reinvented retirement lives to look like. For those with a clear vision of what they want, action means taking concrete steps with their Merrill Lynch Financial Advisors to carefully plan for the future. Rolling over scattered IRAs into Merrill Lynch accounts might also help focus the picture.

"For all of the revolutionary changes, in some ways the new retirement still hinges on old-fashioned wisdom," says Knox. "A number of boomers looking ahead to retirement are sacrificing small pleasures, such as vacations, now for an important payoff later." In the past, many retirement-age people would blow a huge chunk of savings on a major "reward" for their career's end—a luxury car, for example. "These days, my clients are more likely to buy something less expensive but much more efficient, so that they can pursue a long life in retirement—on their own terms," Knox says. All the better to prepare themselves for the long, exciting road ahead. 

YOUR ADVANTAGE

Ask your Financial Advisor about the full range of Merrill Lynch's retirement services, including:

- New Retirement Illustrator
- Assessing Your Goals
- Loan Management Accounts
- estate and succession planning
- tax-deferred savings vehicles



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