

The Four Faces of Retirement

By Lisa Gray, CIMC

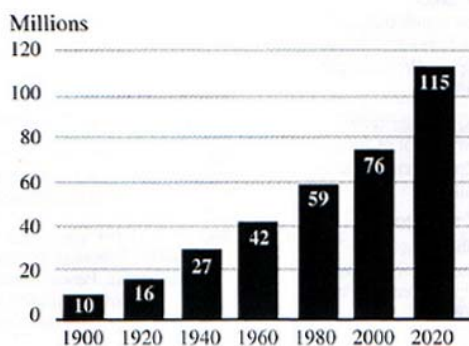
It's no news that we live in an aging society. Median age has gone from 17.5 to 32. The number of people hitting their one hundredth birthday increased 23 percent over the last decade in New York City alone, according to the 2000 census. There are over 50,000 centenarians nationwide. There may be close to a million by 2050.¹ These days, aging doesn't mean "old." "Senior" doesn't mean decrepit, and retirement doesn't mean stagnation.

The baby-boomer generation is continuing its rebellious journey through life, most notoriously as it approaches retirement. Traditional thoughts of retirement are being challenged, and boomers' attitudes about living their golden years to the fullest are reaching out to generations both pre-boomer and post. In other words, the concept of retirement is taking on an entirely new face-and there's no turning back.

The largest single segment of the U.S. population has shifted demographics through every stage of life it has experienced. Boomers demand more and more of their lives and of their money. Now that boomers are approaching retirement, those demands are only increasing. But the financial advisory industry is behind the curve (see exhibit 1).

Wealth management for the retirement segment is more crucial than ever. The average retirement life expectancy has increased from an average seven to ten years to close to 20 years. The search for ways to stay healthy and vital is gaining momentum on a daily basis. Entrepreneurialism is taking on a whole new meaning. Work is becoming an offshoot of leisure. In short, a new path is being paved, and consultants must begin leading it instead of following.

Exhibit 1: Growth of the 50+ Population: 1900–2020



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Changing Demographics

As a recent financial services firm's commercial profiles one of its investors, one hears the phrase, "came out of retirement so he could get some rest." Boomers characteristically have been a rebellious lot. From that rebellion is emerging a fascinating new paradigm. The generation of explorers, always seeking to make things better, making new discoveries, and adopting a lifetime of learning and experiencing is defining retirement on its own terms.

Unlike their parents' generation, who depended upon Social Security and company pension plans for its retirement support, boomer investors are realizing more and more that *they will* be primarily responsible for their retirement income. According to a Tiburon Strategic Advisors' report dated September 2001, saving for retirement has become the goal of highest priority among most consumers.² In a Tiburon survey, 45 percent of investor respondents between the ages of 30 and 49 cited retirement as their primary savings focus, while 40 percent of those over age 50 targeted it.

A full one quarter of boomers will enter their prime earning years by 2006. That, coupled with the focus on saving, means they'll be investing more, not only in retirement accounts, but also in other investment accounts. Boomers will become more and more intent on providing themselves the type of retirement their parents never knew to dream of.

The "second half of life" is now the chance to do things an individual's time previously would not accommodate, such as getting a master's degree or starting a new career. According to Maddy Dychtwald, cofounder of AgeWave and author of *Cycles: How We Will Live, Work, and Buy*, people will begin looking at retirement as a time to seize control over their lives. In her book, Dychtwald describes the new retirement in three words: reinvention, liberation, and opportunity.

She says the age-defined linear path of birth-education-work-marriage-family-retirement-death is giving way to a more cyclical pattern, with people going in and out of these life stages at various times during their lives. The commercial mentioned at the beginning of this section effectively points to life's more cyclical state.

Stop and think for a minute. Do you know anyone over 40 who is going back to school? Over 50? Getting remarried at age 60? Starting a business at age 55? 65? During more linear life expectancies, the concept of retirement was basically the same for everyone. Now there is as much differentiation in retirement outlooks as there are people. According to a Harris Interactive Strategic Consulting

Group "Re-Visioning Retirement" study commissioned in 2002 by AIG SunAmerica Financial Network and the Dychtwald Group, there are four broadly segmented retirement camps into which most people fall.

The "Four Faces of Retirement"

Today's retirees generally look forward to the second half of their lives with enthusiasm, anticipating a sense of freedom and life enjoyment they previously may not have experienced. Of course, this anticipated freedom greatly depends on how well prepared they are financially. Wealth managers and consultants who study this group and become aware of its characteristics will open themselves to unprecedented opportunity. From one perspective, understanding the new retirement outlook should be pretty simple, since a good many consultants fit within the target age group themselves. What kind of life do you, as a consultant, want for your later years? Do you see yourself in one or more of the "Four Faces" categories? Let's take a brief look.

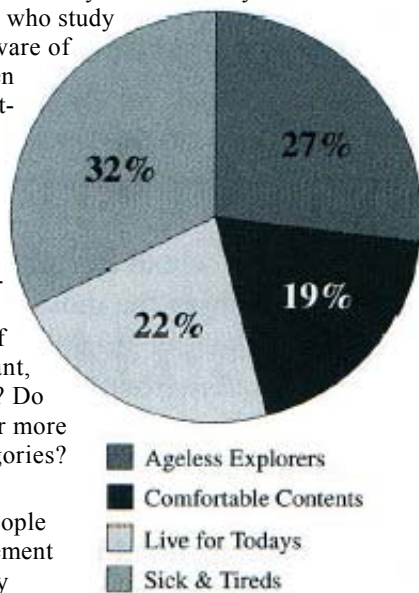
The Ageless Explorers. People in this group expect retirement to change their lives very little. They are "youthful, empowered, and optimistic," according to Dychtwald. On average, they have saved for retirement for about 24 years, never feel "old," plan to do everything in their power to keep from feeling old, and are constantly looking for new things to do and learn. Ageless Explorers epitomize the new retirement paradigm. They plan to make their lives even fuller than they are now and are well-prepared financially to assure the realization of those plans.

They are keen on staying healthy and able to do what they want without restriction. They are highly focused on the quality of their lives. Lifelong growth, entrepreneurship, and paving paths capture their interest.

The Comfortably Contents. The Comfortably Contents also wish to enjoy life, but without the pressures they experienced prior to retirement. They have been long-term savers and are well prepared to assure a life that can be lived at a slower pace. This segment most closely resembles the traditional view of retirement, having worked hard, accumulated assets, and wishing to relax during their golden years.

According to the Harris/SunAmerica study, "personal improvement, contribution to society, and work are less important" to Comfortably Contents. They traditionally have high net worth and feel quite happy with their lives as they are.

The Live for Todays. This group is similar to the Ageless Explorers, but it has saved for a much shorter period



of time—approximately 18 years. It has virtually the same outlook as Ageless Explorers, but risks less satisfaction because of lack of preparedness. Actually being able to live the desired retirement life is a worry to this group.

Live for Todays, perhaps even more than Ageless Explorers, wish to reinvent themselves and remain active. But they are anxious that their dreams may be cut short. They avidly seek ways to improve their financial situations to assure the retirement life they want.

The Sick and Tireds. Sick and Tireds are, unfortunately, the largest and unhappiest group. They tend to be more pessimistic and disappointed with life in general. They've accomplished less in their lifetimes and expect less of life in their golden years. They tend to be envious of others who are living the retirement life they always dreamed of but never felt they could have.

Many in this group have health problems and have experienced widowhood. They have the greatest tendency to view retirement as a winding down period. They are ill prepared financially and feel they have little to look forward to.

Finally, the Harris/SunAmerica study gives the new retirement paradigm recognition by citing the following characteristics:

- 95 percent of preretirees plan to work in some capacity during retirement
- 81 percent want to continue learning throughout their lives
- 70 percent are interested in trying new things
- 65 percent wish to travel
- 63 percent would like to find a new hobby or work interest

Retirement Entrepreneurs

Not only do new retirees wish to continue their working lives to some extent, future economic factors may require it. Since Generation Xers are significantly fewer in number than boomers, the aging of the boomer generation will cause a shortage of younger age workers. "Age discrimination will decrease as a result. Corporations are going to welcome older workers," says Dychtwald. "It's just going to be the reality of the situation."

The market downturn of the last couple of years figures heavily into the need to continue working. People are re-assessing their investments and choosing either to save more by working longer, or by toning down their original plans for their retirement lives. According to an AARP poll taken in November/December 2002, pared spending and postponed retirement are the two most significant lifestyle adjustments that are being made as a result of the reversal or diminution of fortunes made in the 1990s markets.³

But those factors speak primarily to investors who got started late. Those who invested earlier in the decade still have a significant portion of their fortunes intact. However, the psychological damage is present with them as well, and their need for guidance is acute.

People who have enjoyed great success and have been better able to weather the recent economic malaise may simply shift into a less demanding type of work. Dychtwald tells the story of a portfolio manager who is in the midst of such a shift. "The stress just got to be too much after a 20-year career. He'd been quite successful and wanted to give back to society. So, he went back to school and is planning to teach history."

Many people who tirelessly built demanding careers with major companies for 20, 25, or 30 years are becoming consultants during retirement. They make more money than they did working year round and have more freedom and command over their schedules. Others decide to turn a hobby into real work, fueling an entirely new wave of entrepreneurialism. Work becomes a lifeline for them. They enjoy contact with others, both socially and professionally, and they find renewal and satisfaction with their lives.

Some may have pictured themselves as pet shop owners or innovative technology gurus. People start new businesses late in life for a number of reasons, but primarily because they want to feel vital and still able to contribute. The burst of entrepreneurialism will require even more planning financially. Ever-changing tax laws, the threat of war and global unrest, and unsettled economic environments will cause them to seek good advice. They will be looking for more safety nets and preparation for the "unexpected."

The Bush Effect

On the surface, the president's tax-free dividend proposal seems to rob 401(k) plans, IRAs, and other retirement plans of their luster. However, when seriously considered in light of the long-term growth rates of equities and the typical size of dividend payouts, the impact truly would be of little consequence. Where the elimination of dividend taxation may legitimately create an impact is with the growth of the stock market.

If the proposal is adopted, companies may indeed institute small dividends, such as Microsoft did recently, in order to make their stocks more attractive to equity balanced and income funds. These funds previously have not been able to include such companies in their portfolios because of style criteria. Instituting dividends would open companies to the criteria of more portfolio managers. In the case of Microsoft, it's easy to see the impact such new buying activity could have on the stock market.

The elimination of taxes on dividends would likely boost equity values as a whole, according to Ernst & Young's "Business Economic Update" dated January 2003. The report cites equities could gain up to 9 percent from higher investor valuation and economic growth through increased earnings spurred by the tax-free dividend proposal.

Even Real Estate Investment Trusts (REITs) should have no real concern. The dividend payout rate has typically far exceeded other dividend payout rates, hence REITs' attractiveness for retirement income. Rather, the aspects of Bush's tax plan that may indeed create a significant impact lie with the proposed new savings programs such as Lifetime Savings Accounts (LSAs) and Retirement Savings Accounts (RSAs).

With LSAs, investors could tuck away \$7500 per year after tax and withdraw the funds and future growth taxfree at any time and for any purpose. The goal of RSAs would be to phase out existing IRAs into a Roth-type of retirement savings plan that circumvents the current eligibility thresholds. This new RSA would also have a maximum contribution amount after tax of \$7500 and would appeal to the middle and higher income investor class. Existing IRAs would be taxed during the transition to an RSA account but the penalties for early withdrawal would be eliminated. These new plans could possibly have a tremendous impact on the retirement savings scene, as married couples could conceivably contribute up to \$30,000 per year if allowed to take full advantage of both types of plans.⁴

The "noise" about the impact of the tax-free dividend proposal is simply the most recent example of investors' need for the quality guidance certified consultants offer. In the current environment of high velocity change, opportunities for providing comprehensive, client-focused services abound.

Wealth Management's Role

From a plethora of aspects, wealth management for retirees will be critical. Accelerated tax cuts and adoption of LSA and RSA programs will only add to the retirement plan rollover boom to come. One source Tiburon cited in its TAMPS report predicted \$500 billion will rollover into IRAs every year beginning in 2010. Add the number of boomers selling their homes to buy smaller homes near the coast, current entrepreneurs selling their small businesses, and boomer inheritances from the World War II generation, and the need for wealth management is perspicuous.

As the World War II generation declines, wealth transfer through inheritance will skyrocket. Projections ranging from \$8 trillion to \$12 trillion describe the wealth transfer possibilities over the next 20 years. Many will experience a sudden and drastic change in their financial position as a result. They will need advice to help them structure those funds to provide the retirement life they envision.

In a nutshell, the major opportunities will be:

- ✓ Consulting with preretirees and planning for retirement during working years
- ✓ Shifting asset allocations at the point of retirement
- ✓ Staying on top of life-changing events
- ✓ Capturing the rollover boom
- ✓ Capturing the inheritance boom
- ✓ Consulting on business sales and succession
- ✓ Consulting with "sudden wealth" clients
- ✓ Consulting people in shifting their retirement expectations
- ✓ Consulting younger people and educating them in the new paradigm

Satisfaction with retirement life relates directly to financial preparedness. Sick and Tireds are the least prepared and the least happy with their retirement lives. Ageless Explorers are the most happy. Financial freedom, however, is

associated more with having enough money to reach goals, rather than with excess wealth—a model which fits hand in hand with fee-based consultation and wealth management. Advisors will allow an entire livelihood to escape them in future years if they do not prepare themselves by becoming consultants. Those of us who have already taken that step will need to continually hone our skills to appropriately serve our peers in reaping more than just financial wealth from their golden years.

Acknowledgment

Title of piece as well as much of the general information throughout taken from the work of and used with permission from The Dychtwald Group and Maddy Dychtwald/

Endnotes

1. "As More Live Past a Century, 100 Isn't What It Used to Be," by N. R. Kleinfeld, *New York Times*, January 20, 2003.
2. "Fee Accounts and the Booming TAMP Market," Tiburon Strategic Advisors, September 2001.
3. "Survey Finds Plenty Work in Retirement," by Becca Mader, *Memphis Business Journal*, January 24, 2003.
4. "Bush to Propose Expansions of IRA-Like Investments," *New York Times*, January 31, 2003.

Resources

www.re-visioningretirement.com, www.agewave.com,
www.maddydychtwald.com, www.tiburonadvisors.com

Lisa Gray, CIMC, is president/CEO of graymatter STRATEGIES, LLC, a Memphis, Tenn.-based financial journalism firm.