

# Demographics

- Longevity is a key driver in this new paradigm.
- A male, 65-years-old and in good health, has a 50% chance of living to age 85, and a one in four chance of living to age 92.
- A woman of 65 years, in good health, has a 50% chance of living to 88 years of age, and a one in four chance of living to age 94.

(Source: Society of Actuaries Annuity 2000 Mortality Table)

# Retirement Security

- Retirement security is the acquiring of knowledge about the factors which allow for a worry-free retirement and the implementation of actions necessary to develop such an informed plan.
- The main insecurities in retirement are declining health, insufficient assets and income to live comfortably, and the longevity prospects of outliving one's resources.
- Changes in assets, income, marital status, health, and living arrangements impact security over the course of retirement.

# Sources of financial advice

- Fidelity study shows top sources of advice are:
  - financial professionals (30%),
  - friends and family (26%),
  - online planning tools and advice (22%),
  - and educational materials from employers (20%).

# More on pensions

- The Pension Protection Act was passed to tighten controls for firms that fall short in their contributions.
- State and local governments' retiree benefits mirror the private sector.
- Credit Suisse estimates \$558 billion in unfunded liabilities for the 50 states and \$951 billion for local governments—a staggering \$1.5 trillion.
- These same unfunded liabilities for S&P 500 firms were \$326 billion in 2005 in comparison.

# Health care

- Health care costs are a big problem for retirees, companies, and the government.
- Costs continue to rise well beyond average inflation rates, thus posing a greater problem to retirees who tend to consume more health care services.
- A few elements of competition have been introduced through Medicare Advantage plans (Part C), however, these plans have not realized the cost savings expected, and may be cut by Congress.
- Advantage plans cost the taxpayer 12% more than traditional Medicare.

# Global financial markets

- Global interdependence applies more directly in retirement security in relation to asset prices.
- Professor Siegel of Wharton says it will take massive investment by people in India, China and other developing countries to prevent a US market meltdown.
- Other experts on the subject reject this idea and worry more about those who have not saved enough at all or will rely on government assistance which may get reduced over time.

# More opinions

- Retirement funds called target-date and lifestyle mutual funds marketed as “all-in-one, invest it and forget it funds,” grew by 50% in 2006.
- The funds re-balance over time as the investor’s retirement date approaches. These vehicles are considered more suitable for younger savers entering the workforce, who may start with these funds in their 401(k).
- The Pension Protection Act allows for a qualified default investment alternative (QDIA). That QDIA is expected to be target-date funds within the 401(k) plan.

# Retirement income robbers

- Inflation
- Withdrawing too much too fast
- Underestimating longevity
- Health care expenses
- Unfortunate market timing, e.g., market downturn right before retirement date