The Big Train Wreck Coming

Boomer retirement plans are on a collision course with reality.

By Jeff Schlegel

Baby boomers have always rewritten the rules, and as they approach retirement they're going to revolutionize that, too. At least that's the message in the ads put out by big financial services companies seeking to corral this potentially lucrative market. You've seen the ads—trim, attractive and healthy-looking grayheads walking hand-in-hand on the beach, laughing while driving down the highway in a fancy convertible car, or hanging ten on a surfboard.

No shuffleboard for these boomers. Rather, this will be a retirement where you can have it all because this is the generation that never settled for anything less. And for some boomers, retirement could be a party. According to a Federal Reserve survey of consumer finances, more than 430,000 households in the U.S. have a net worth of $10 million or more, more than double the number in 1990.

But hold on, says Richard Marston, an economics and finance professor at the University of Pennsylvania's Wharton School. As a featured speaker at a Lincoln Financial Group-sponsored retirement planning conference held in November in Philadelphia, Marston painted a doom-and-gloom picture for baby boomers (albeit delivered with a droll sense of humor). The upshot: boomers on the whole are facing stiff head winds as they near retirement.

They're saving less, living longer and facing the prospects of mediocre markets in coming years. The median retirement age for both sexes is 62, which he says made sense when we lived in a world of defined-benefit plans. But with pensions going the way of home milk delivery, boomers increasingly must rely on their own savings to finance their golden years, which might last for decades.

"My generation was blessed with one of the best stock and bond markets ever, but we didn't save enough," says Marston, an early-stage boomer. He reasons that for older boomers trying to catch up, along with younger boomers in the nest egg-building stage, the outlook isn't bright considering expectations for single-digit market growth in coming years. "There are going to be a lot of train wrecks," predicts Marston. "A lot of people are going to have to go back to work." And that assumes they can continue to find work in their sixties.

Roughly 76 million baby boomers—individuals born between 1946 and 1964—will reach the traditional retirement age over the next few decades, and that presents a lot of opportunities—and challenges—for financial advisors. Of course, many of these people already have turned to advisors for help. And the bottom-line issue for boomers (or any retiree) is making sure they don't outlive their money.

"I often tell clients that they spend more time planning for their vacations than they do for their retirement," says John Parise, a registered rep with Lincoln Financial who runs a wealth management practice in Cherry Hill, N.J., called The Resource Group. Many of his clients are successful business owners, and he speaks to some of their employee groups about their 401(k) plans. "Most people don't understand inflation and what it does to income streams and portfolio values," he says. "The sad thing is that a lot of people retire with smaller nest eggs than they expected."

Parise says his average client's wealth is about $25 million, and these boomers aren't worried about inflation or cash flow issues as much as wealth preservation,

estate taxes, making their assets creditor-proof, and family governance issues concerning their estates.

"Anyone not that wealthy should be concerned about the issues raised by Marston," he warns.

One of the fundamental questions is how wealthy is wealthy anymore? One million dollars isn't what it used to be, and even several million dollars doesn't guarantee a worry-free retirement considering that boomers are getting sandwiched by escalating college costs for their kids and rising health care costs for their parents. "The 401(k) generation is relying on us to help guide them through the maze of financial choices," says Eric Tashlein, a certified financial planner and principal at Connecticut Capital Management Group in Milford, Conn. "With that comes more responsibility for the financial advisor."

Tashlein's client base ranges from $2 million to $40 million, and folks on the lower end are worried about long-term nursing home care and college costs. He tries to educate them that they need a minimum level of stocks to support a realistic retirement spending plan, and typically he shoots for a 60-40 model. Depending on the client, stocks can range from as much as 80% to 45% of an overall portfolio. Even at that, "some people can't sleep at night with 45%," he says.

Among other options, Tashlein believes a life-pay annuity might make sense for certain clients. And more of his clients are doing charitable gifting with the promise of a lifetime income.

On the whole, Tashlein finds the boomers a "very challenging" group to work with, though mainly in a good way. "They're smarter than the prior generation, and they're constantly keeping me on my toes professionally because they're huge readers. But they're less loyal, and you have to enhance your service offerings or you won't have them as clients for very long," he says.

For boomers on the lower end of the net worth spectrum, home values comprise a good chunk of their assets. Subtract that, and some aren't as rich as they think. "Even when the asset sheet says they're affluent, the cash flow sheet says something else," says Michael Dubis, CFP and president of Touchstone Financial in Madison, Wis. "A lot of times, I'll look at the percentage drawdown of a portfolio to determine if they're affluent."

Baby boomers were **28%** of the U.S. population in **Census 2000**.
— *U.S. Census Bureau*

Roughly two-thirds of Dubis' clients are worth $500,000 to $2 million, with the rest greater than that. He follows a core asset class strategy, and generally uses exchange-traded funds and funds from the likes of Vanguard and the Dimensional Investment Group. Dubis believes in total return portfolios versus dividend income portfolios, but that's not always an easy sell. "I guarantee their cash positions for three to five years so they won't freak out during periods of market volatility."

Dubis also likes long-term nursing home insurance as a portfolio hedge and a planning tool for multigenerational wealth transfer. "It's one of the few agency-pushed products that are well designed," he says. "Or, at least well intended." And while not generally a fan of annuities, he believes they have a place for some clients. He leans toward fixed annuities from Vanguard or T. Rowe Price, along with no-load products from Ameritas Life Insurance and Jefferson National Life Insurance Company.

Dubis sees boomer clients as a mixed bag. "I like the ones who are self-employed, the partners in businesses, doctors who run their own practices" he says. "They understand limited resources."

He decries the entitlement mentality he sees in other boomers, the kind of people who think that second homes and early retirement are a matter of course. "Even when they have a few million dollars, they have unrealistic expectations about how much things cost both now and in the future," says Dubis. "You can't go 30 years without working unless you have $4 million to $10 million today."

But early retirement is such an enticing goal, even if it is illusory for most. "I'm often asked, 'When can we stop work?'" says Malcolm Greenhill, CFP and principal at Sterling Futures in San Francisco. Many of Greenhill's clients are boomers who work in Silicon Valley and were on their way to an early retirement before the tech bubble burst.

"A lot of people in Silicon Valley had enough money where they never had to work again, and as far as they're concerned that was taken away from them when the boom ended," says Greenhill. "That brought home the point that life is inherently random."

But with options under water, outsourcing a constant threat and ever-constant long hours at the office, some of Greenhill's Silicon Valley clients hate their jobs and want out. He takes them through a detailed process that shows them they need roughly $150,000 to $200,000 a year to maintain their desired lifestyle in the Bay Area, and he does Monte Carlo simulations to gauge the likelihood their retirement plans will be successful.

One of Greenhill's clients, a software engineer in his early forties who's worth $4.5 million, wants to quit now and never work again. Greenhill tells him that's not doable unless he works another seven to ten years. "I don't see him leaving the workforce forever," says Greenhill. "I see this as a life planning situation where we need to explore moving in another direction."

Ellen Siegel, a CFP licensee who runs her own practice in Miami, divides boomers into various categories: late boomers versus early boomers, men versus women, singles, unmarried couples (straight or gay) and married couples. She believes each has its own particular fears and requirements that need to be addressed.

The bulk of Siegel's clients fall into what she calls the semi-affluent group ($500,000 to $2 million). She's says she's no Pollyanna, but she doesn't share Richard Marston's dour outlook for the boomers, at least not for those in her clients' income bracket. "I believe there's a problem out there," says Siegel. "But whenever intelligent and motivated people address a problem, they find solutions."

Plus, she adds, boomer retirees are more likely to be proactive in retirement. "Baby boomers see life differently than their parents. A lot of boomers are starting businesses in middle age. They expect that life won't stop at 65, and that's a mitigating circumstance.