

Retirement: A Time for Reexamination

Today, retirement often doesn't mean leaving the working life behind completely. It's easy to understand why continuing to work has appeal. More and more of us are living longer and enjoying many healthy years past the normal retirement age. The desire to remain active and "useful" is natural. However, it's a different story to work because you *need* to.

Taking another Look at Traditional Resources

Traditionally, people have thought in terms of three basic retirement resources: Social Security benefits; a pension or income from a 401(k) or other retirement plan payout; and the income earned from one's investment portfolio. If you elect to follow the "working" model, you can add employment income to this list.

Social Security benefits never have been, and never are likely to be, sufficient on their own. What's more, the availability of sufficient funds in the Social Security system to pay the coming hordes of baby-boomers is a continuing concern. The question, then, is: Will pressure on Social Security's coffers lead to modifications that may have a negative impact on the benefits that a retiree receives?

If you make regular contributions to a company retirement plan or IRA over the years, the income from those funds definitely may play a major role in meeting your expenses. But, for some families, those funds may have to be used to meet other financial needs.

For instance, many baby-boomers married later rather than sooner. One of our clients couldn't have summed up better the situation that they may be facing: "I'll have two children in college in the year that I can tap my IRA without having to pay a 10% penalty. So, for me, my IRA is more like a college education fund than a retirement fund."

A Personal Asset Allocation Model

In short, then, you have to focus on your personal portfolio to help ensure that you will be able to live comfortably in your later years.

If retirement is relatively far away, you need a strategy capable of growing your assets sufficiently so that, when needed, your investments will throw off a sufficient source of income to meet your expenses. If you are near (or in) retirement, your attention is likely to switch to preserving the assets that provide you with a regular flow of income and, if necessary, to increasing that income.

One of the most critical steps in this investment process is creating a personal asset allocation model. You do this by selecting the asset classes (stocks, bonds and cash investments) that you want in your portfolio and in what combination. The mix that you choose will depend upon a number of factors, including your tolerance for risk, the time remaining before you reach retirement, your need for ready cash and your tax picture.

The asset allocation model that you formulate should assign percentages for each asset class that will make up your portfolio. Part of this process also includes choosing the right investments within each asset class—specific kinds of stocks (large-, mid- or small-cap, for example) or bonds (government, corporate, etc.)—that will provide the return that you seek at a risk level with which you are comfortable. You also must monitor your investments, rebalancing across the asset classes as personal, market and economic circumstances dictate.

Retirement Changes the Model

As you approach retirement, a careful reexamination of your asset allocation model will be necessary. The allocation that you chose in your early and middle years is likely to need some adjustments once you are no longer working (or working full-time).

The criteria to consider in developing an asset allocation model in retirement are much the same as those from before retirement. However, your needs and concerns are likely to be different. For instance, without a regular paycheck the need for ready access to cash or for a more reliable source of income may be more important. Those needs, in turn, may alter how much risk that you are willing to take.

The table below presents examples of asset allocations that take into consideration the factors of age and risk tolerance. These allocations are suggested only as general guidelines and are not intended to serve as specific advice regarding the mix of investments appropriate to your circumstances.

Whatever the retirement that you envision, you are likely to be in for some major changes in your life. You want the changes to be for the better. We would be happy to review your portfolio with you today in order to make certain that you achieve that goal.

SAMPLE ASSET ALLOCATIONS			
	Conservative	Moderate	Aggressive
Early years			
Stocks	40%-60%	60%-75%	90%-100%
Bonds	20%-40%	15%-25%	0%-10%
Cash	15%-30%	10%-20%	0%
Middle years			
Stocks	30%-50%	40%-60%	75%-100%
Bonds	25%-45%	25%-40%	15%-25%
Cash	20%-30%	15%-25%	0%
Preretirement years			
Stocks	15%-30%	30%-50%	50%-75%
Bonds	40%-75%	40%-60%	25%-50%
Cash	20%-35%	20%-30%	0%-25%

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Any developments occurring after January 1, 2008, are not reflected in this article.