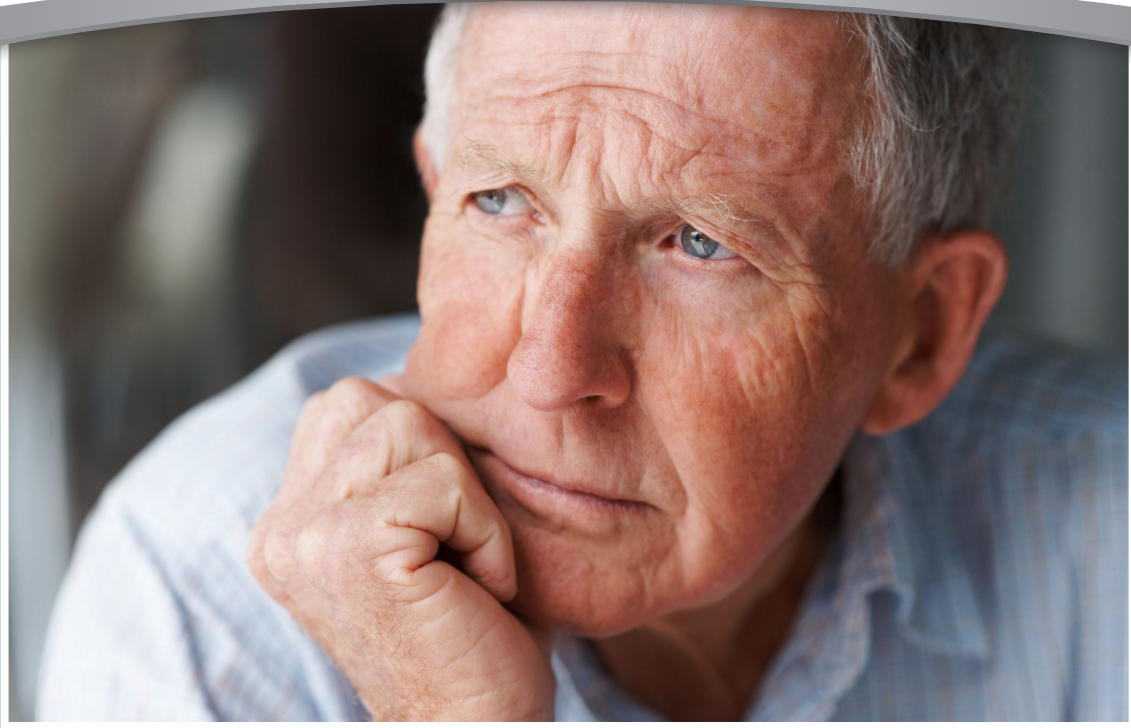


The Five Biggest Threats to a Secure Retirement

OUTLIVING YOUR MONEY



The Golden Years Turned Dark

Brought to you by
Lee Hyder

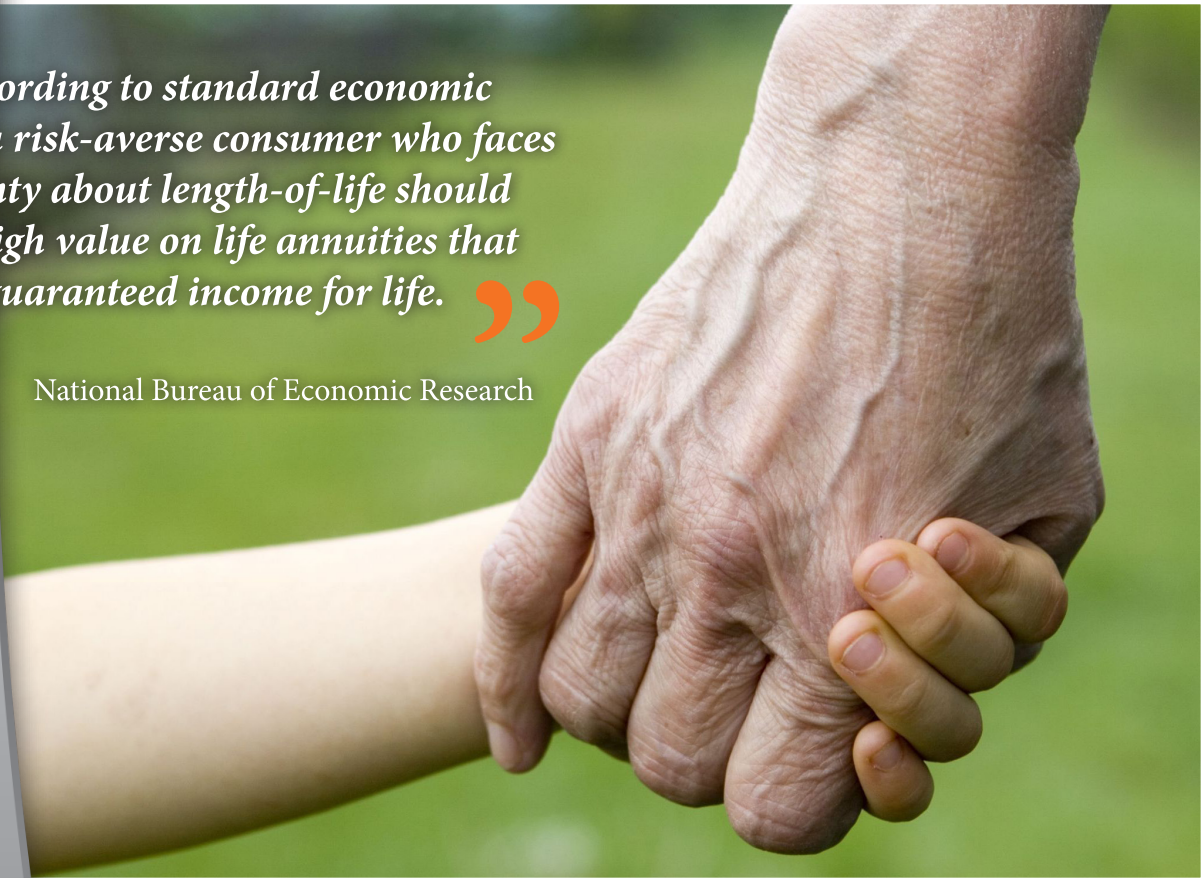
LEE & Associates
HYDER

Outliving Your Money: Golden Years Turned Dark

How much money do you need to live comfortably throughout your retirement years? To answer that question, you need to know how long you'll live. And that is a tricky question to try and answer with any certainty!

“ According to standard economic models, a risk-averse consumer who faces uncertainty about length-of-life should place a high value on life annuities that provide guaranteed income for life. ”

National Bureau of Economic Research



“To illustrate the unique financial complexities facing retirees, consider 10 high school friends who decide to retire at age 65. Now, guess when the first of those 10 friends will die. As it turns out, the first death is likely to occur only four years into retirement, at age 69. Next, try guessing when the last person will die. The answer is 34 years into retirement, at age 99!”

~ Dr. Shlomo Benartzi, UCLA Professor



In a white paper published by Allianz, Benartzi goes on to say that it's difficult in a 40- or 45-year working career to accumulate the money needed for a 34-year, pre-paid retirement. And it's even more challenging for a 65-year-old couple to accumulate enough.

As the life expectancy of U.S. residents continues to increase, the risk that retirees will outlive their assets is a growing challenge. If a husband and wife are both at age 65, there is a 47 percent chance that at least one of them will live to age 90, and a 20 percent chance that one will live to age 95, according to the United States Government Accountability Office.

In addition to the risk of outliving one's assets, the sharp declines in financial markets and home equity during the last few years and the continued increase in health care costs have intensified concerns about having enough savings and how to best manage those savings in retirement.

Fortunately, there are three things you can do to help make your money last and keep your retirement years golden: save smarter, match your lifestyle to your resources, and invest prudently.

Three Proactive Strategies

1. Smarter Saving:

Saving more money is a critical piece to financing your retirement years. But, if you're already squeezing all the pennies out of your budget, where can you find extra cash to continue building your nest egg? Below are a few ideas:

- ▶ Consider selling some of your "stuff." Ebay and other auction websites are great potential options. While generating some extra cash to save, you'll also be getting organized for the next phase of your life. You will also save your heirs from the trouble of having to sort through years of accumulated "stuff".
- ▶ Automate your savings. Most Americans tend to spend the cash they have available. Therefore, the key to saving more is making sure the cash you want to put back for retirement is never available to spend in the first place. The easiest way to do this is to set up automatic savings deposits every month. Most banks and saving institutions offer this as an option.
- ▶ Review your insurance. If it's been a couple of years since you've shopped for insurance, you may want to obtain new auto and homeowners insurance quotes. If you're not already bundling, consider doing so. If you don't drive a lot of miles, tell the agent – many offer low mileage discounts. This simple step could save you \$100 a month or more. Whatever you save – don't spend it! This money is for investing.
- ▶ Check your interest rates. If you have a home or auto loan, make sure you have the lowest interest rates available. Interest rates are now at historical lows, so a refinance may make sense. If you have high interest rate credit cards, transfer to a card with a zero percent offer for transferred balances and then work to pay it off as soon as possible.

Hopefully, by making a few of these changes, you'll be able to save an extra \$200 per month or more. However, in addition, lifestyle adjustments may also be needed.



2. Lifestyle Adjustments:

To determine if lifestyle adjustments are needed, you first need to project how long your savings will last. Do you need to live on investment interest alone? Can you afford to draw down your principal savings? A good financial planner can help you through this forecasting process. Don't forget to include the cost of inflation in your calculations. For example, let's say you consistently earn a 5% return on your investments (over a 30-year period in retirement). However, inflation averages 3%. That means you no longer have access to 5% interest because you have to subtract the 3% cost of inflation. This leaves you 2% to work with.

Experts interviewed by the Government Accountability Office (GAO)* recommend that retirees delay receipt of Social Security benefits until they reach at least full retirement age. Expert also recommend retirees withdraw money from their savings strategically and systematically. Many Americans may need to scrutinize or limit their social activities and non-essential purchases. (GAO Retirement Income 6-2011)

Now, this doesn't mean that you stay home and live on Ramen Noodles! It means that you have to be smart about finding ways to pay less for the things that matter most to you. For example,

- ▶ If you love dining out, watch for coupons or go out during happy hour.
- ▶ If you're fond of travelling, don't pay full price for airfare. Look for creative ways to accumulate miles.
- ▶ If you have two vehicles or two homes, consider downsizing to one and investing the money you make on the sale.
- ▶ If you're paying a lot for fuel, consider a hybrid vehicle.

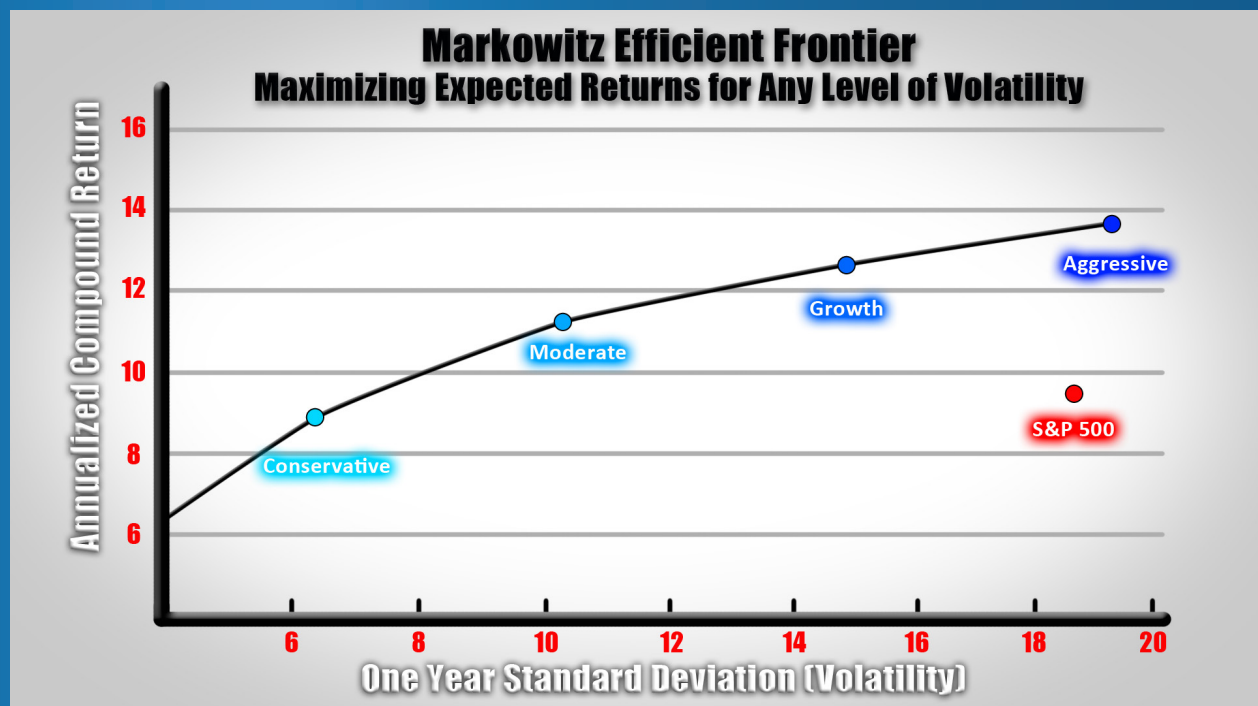
Another option is to consider a part-time job in a low-stress, high-enjoyment environment. Work for a museum, art gallery or vineyard. Offer music lessons, ski lessons, or tutoring. If you're artistic, consider selling your wares on etsy.com. Animal shelters, bookstores and coffee shops also hire part-time employees and provide enjoyable work environments. These kinds of opportunities can often add joy to your life, while adding a bit of extra income as well each month.

3. Efficient Investing:

Based largely on the Nobel Prize winning research of Merton Miller, Myron Scholes, and Harry Markowitz, an efficient portfolio is one that is designed to maximize return for the risk taken. It's based on several principles:

- The risk of an individual asset is far less important than the contribution the asset makes to the portfolio's risk as a whole.
- For the same amount of risk, diversification can increase returns.
- The mechanism to reduce risk is dissimilar price movements; therefore, the task is to find assets with low correlations (i.e., as one goes up, another goes down).
- The Efficient Frontier allows individuals to maximize expected returns for any level of volatility

Every portfolio has an expected risk and return level, but many investors have no idea. They're investing blindly with the hope they receive only high returns, fully unaware of the statistically likelihood that they'll have a negative year.



Securing Your Golden Years

Many people are rightfully fearful about the possibility of outliving their money. As you contemplate this risk, make sure to consider this three-prong approach: Save Smarter, Adjust Your Lifestyle and Invest Prudently. And, don't implement any changes without first getting expert advice. A trustworthy financial advisor can be an invaluable resource during these challenging times. Find a partner to be your guide and sounding board so that you can proceed with confidence. With some proactive planning, you can be sure that your golden years don't become your darkest!



* The U.S. Government Accountability Office (GAO) is an independent, nonpartisan agency that works for Congress. Often called the “congressional watchdog,” GAO investigates how the federal government spends taxpayer dollars. The GAO provides Congress (and the American People) with information that is timely, objective, fact-based, nonpartisan, non-ideological, fair, and balanced.

** The National Bureau of Economic Research (NBER) is the nation's leading nonprofit economic research organization. Twenty Nobel Prize winners in Economics and thirteen past chairs of the President's Council of Economic Advisers have been researchers at the NBER. The more than 1,100 professors of economics and business now teaching at colleges and universities in North America who are NBER researchers are the leading scholars in their fields. These Bureau associates concentrate on four types of empirical research: developing new statistical measurements, estimating quantitative models of economic behavior, assessing the economic effects of public policies, and projecting the effects of alternative policy proposals.

LEE & Associates
HYDER

1655 West Market St. #445 Akron, OH 44313
330.836.7800 • lee@leehyder.com

Lee Hyder & Associates is registered as an investment adviser with the state of Ohio and only transacts business in states where it is properly registered, or is excluded or exempted from registration requirements. This report is a publication of Lee Hyder & Associates. Information presented is believed to be factual and up-to-date, but we do not guarantee its accuracy and it should not be regarded as a complete analysis of the subjects discussed. All expressions of opinion reflect the judgment of the authors as of the date of publication and are subject to change.