InFRE
International Foundation *for* Retirement Education

SHARING IDEAS
for Retirement Education and Administration

INSIDE THIS ISSUE
VOLUME 7 ▪ NUMBER 2 ▪ 2006

InFRE Policy Board Update

By Betty Meredith, CFA®, CFP®, CRC®
Chair, InFRE Policy Board

As InFRE continues to expand, so too does the need to strengthen and enhance the study materials for the Certified Retirement Counselor® (CRC®) or Certified Retirement Administrator® (CRA℠) designations, as well as bolster the continuing education (CE) resources available to help designees and other retirement professionals better meet the retirement security needs of working Americans.

As of June, more than 1,700 people had earned the InFRE CRC® and CRA℠, and another 660 are in the process of taking exams to earn the designations. Facing such growth, the next 12-18 months will see InFRE undertake the following initiatives:

1) Providing more retirement-specific professional continuing education courses to help retirement professionals meet their annual continuing education requirements. In 2004-2005, InFRE co-developed with NAVA the first in-depth courses available on Retirement Income Management (RIM). These courses are in multiple formats and range from an in-depth 1.5-day program for those with little prior experience with retirement income planning, to a 4-hour case study program, a half-day program for more advanced professionals, and a 1-hour introductory format. Print and online versions are now approved in almost all states for InFRE, state insurance, CFP®, CIMA, and other designations' CE requirements for 1-25 credits. Please visit InFRE's website at **www.infre.org** for more information on how to obtain CRC® 4, which includes this content, at a special rate through December 31 in order to meet your 2006 CE requirements.

2) A comprehensive upgrading of the CRC® and CRA℠ coursework by early 2007, beginning with the inclusion of the new Retirement Income Management content which was incorporated into CRC® 4 at the end of 2005. The CRC® is the only designation today to include a systematic process for retirement professionals to use for suitably meeting the Retirement Income Management needs of their clients.

In addition, several committees of retirement professionals representing the defined benefit, defined contribution, public, private, banking, brokerage, insurance, financial planning, and related industries will convene through the end of September to **review the minimum knowledge and competency standards** to be included for earning the certifications. InFRE's goal is to identify the changes and enhancements needed to make the CRC® and CRA℠ the premier retirement-specific designations available today. If you are interested in having input on the standards and content necessary for beginning retirement counselors and administrators to demonstrate in order to earn the designations, please contact Michael Wilson, CFP®, CRC® at 260-829-6319 or at **mwilson@infre.org** for more information about participating.

3) The implementation of a new designee renewal process to ensure that designees are more easily able to

...continued on next page

Upcoming Webcourse Presentations for 2006

09.21.06 — Targeted Communications
Richard Glass, Ph.D., CRC®

10.18.06 — InFRE Ethics Program
2 Hour Program
Diane Savage, CFP®, CRC®

11.14.06 — Retiree Focus Groups
Eric Sondergeld, ASA, CFA

12.12.06 — Pension Law Changes
Mary Willett, CRA℠, CRC®

cost — $69 for designees
cost — $89 for non-designees

Archived Webcourse Presentations

Available for purchase at www.infre.org for $49. Webcourses provide 1-1.5 hours of CE credit. Successful completion of a 10-question quiz is required to earn recorded web course CE.

- Understanding Communication Styles for More Effective Retirement Relations (1.5 CE)
  Presenter: Joe Tabers, CSP
- Designing Your Life in Retirement (1.5 CE)
  Presenter: Steven Shagrin, CFP®, ChFC, CRC®
- Women and Retirement (1.5 CE)
  Presenter: Cheryl Farrell, CFP®, CLU, ChFC, CRC®, CASL, AEP, MSFS)
- Interactive Presentation Skill Tips (1.5 CE)
  Presenter: Joe Tabers, CSP
- The Concept of "Retirement Readiness" is on Center Stage at the National Level (1.5 CE)
  Presenter: John Nelson, CRC®
- InFRE Retirement Income Management One-Hour Web Course (1.5 CE)
  Presenter: Kevin Seibert, CFP®, CEBS, CRC®

renew their InFRE designation. Part of this new process includes the new continuing education reporting form rolled out last December which requires designees to report only the courses completed and keep the documentation of attendance for two years from the end of the reporting period. To maintain the integrity of this new annual CE reporting process, InFRE will begin spot audits of randomly-selected designees' documentation this fall in order to ensure compliance with this new policy.

As your renewal date approaches, InFRE will notify designees according to the following schedule:

1st Communication: Approximately two (2) months prior to their renewal date, designees will receive a renewal package with instructions.

2nd Communication: If it is required, a "Renewal Reminder" will be sent to designees approximately three (3) weeks prior to their renewal date.

3rd Communication: If required, a "Past Due Renewal Reminder' will be sent to designees approximately seven (7) days after their renewal date.

4th Communication: If required, a "30-Day Inactivation Notice" will be sent to designees approximately 30 days after their renewal date. This notice will indicate that the designee has approximately 30 more days to send their renewal documentation and annual payment to InFRE or their designation will become inactive.

5th Communication: If required, approximately two (2) weeks prior to the designee's inactivation date, an InFRE representative will place a telephone call to the designee as a last reminder to renew their designation.

6th Communication: If required, an "Inactivation Notice" will be sent to designees approximately 60 days after their renewal date. This notice will indicate that the designee may no longer use their designation until all required renewal documentation and current renewal fee is received by InFRE.

As a reminder, InFRE's renewal policy is as follows:

"A designee who has not met the TOTAL requirements for certification renewal (payment of annual fee, completion of continuing education, submission of a signed current designee statement) will be notified in writing of any deficiencies. If, after 60 days following the renewal date, the designee has not fulfilled all their renewal requirements, the designee will be placed on INACTIVE status and the right to use the designation will be withdrawn. They will be allowed to remain on inactive status for a period of time NOT to exceed 24 months, during which time they must complete all the requirements and pay all current fees in order to be returned to a DESIGNEE IN GOOD STANDING. If the designee does not complete the necessary requirements after 24 months, use of their InFRE designation(s) is permanently relinquished. Upon relinquishment, active designation status may only be achieved by successfully completing the most recent certification exams."

The International Foundation for Retirement Education and the Board of Policies and Standards are working hard to continue enhancing the quality of the designations and to provide retirement professionals with the resources they need to best serve their clients. Please let us know of any suggestions you might have to help us meet this objective by contacting us by email at policyboard@infre.org or by phone at (847)756-7350 ext. 133.

ABOUT THE AUTHOR

Betty Meredith, CFA®, CFP®, CRC®, is InFRE's Director of Education and Research. She has served as a portfolio manager, financial and retirement planning education consultant, trainer and author in the financial industry for over 25 years. She is the Executive Editor of InFRE's "Sharing Ideas for Retirement Education and Administration," past Chair of the Communication and Education Committee for the PSCA, an adjunct instructor for the International Foundation for Employee Benefit Plans, a past member of Nationwide's Retirement Education Institute Advisory Board, and an active member of the Post Retirement Needs Task Force of the Society of Actuaries. She may be reached at bmeredith@infre.org or 847-756-7350, ext. 133.

The 2006 Retirement Confidence Survey

By Mathew Greeenwald, Ph.D.

EDITOR'S NOTE *The annual Retirement Confidence Survey is sponsored by the Employee Benefit Research Institute (EBRI), the American Savings Education Council (ASEC), and Mathew Greenwald & Associates, Inc. Below are Dr. Greenwald's comments on the results of the 16th annual RCS published earlier this year.*

The Retirement Confidence Survey, or RCS, has been tracking the attitudes and behaviors of American workers and retirees since 1991. During that time, we have found a great deal of continuity in how Americans anticipate and prepare for retirement. Yet the world is changing around them, and their attitudes and plans are not keeping up with reality.

Americans are living longer and healthier lives than ever before, and people can look toward many active years in retirement. But at the same time, as employers pull back on the retirement benefits that they offer, workers have more responsibility than ever before for ensuring that they have the financial resources to enjoy those years. Many do not appear to be stepping up to the challenge.

- According to the Survey of Consumer Finance, American homeowners received a windfall as median housing values soared between 2001 and 2004. But most squandered that windfall, and median net worth increased by only 1.5%.
- The proportion of American workers who have saved for retirement has remained unchanged since 2001 at roughly seven in ten.
- More than half of workers reporting assets in the RCS say the total value of their household's saving and investments, excluding the value of their home and any defined benefit plans, are less than $25,000. Although savings increase with age, more than four in ten of workers age 55 and older say their assets total less than $25,000.

Retirement will make up a significant proportion of most people's lives. Why are people neglecting to prepare for it? I believe it can be traced to three things.

First, as the RCS finds, many workers don't know how much money it takes to have a comfortable retirement. Only four in ten workers say they have attempted to do a calculation. And, when probed, some of those admit they guess or base their estimate on what they have heard or read. Further, while most workers would prefer to maintain or better their lifestyle when they retire, half think they can be comfortable with 70% of their pre-retirement income or less.

Second, many American workers are confident about their financial situation in retirement and this confidence may keep some from rationally examining their retirement preparations. One-quarter of workers are very confident they will have enough money to live comfortably throughout their retirement years, and 4 in 10 are somewhat confident. Even 44% of workers who have not saved for retirement are confident about their retirement financial security. *[Editor's note: A 2003 study on overconfidence found that if a person is incompetent in a particular domain (as we all are in one domain or another), we lack the ability to recognize our incompetence and thus will be substantially overconfident[1].]*

The RCS suggests that some workers may be overestimating their prospects for a financially secure retirement. Consider these facts about workers who are very confident they will have enough money for a comfortable retirement:

- 22% are not currently saving for retirement
- 39% have less than $50,000 in savings
- 37% have not done a retirement needs calculation

Third, many workers are basing their retirement planning on assumptions that may or may not prove true.

- For example, while the average retiree today retired at age 62, the average worker today plans to retire at age 65; one-quarter plan to retire at age 66 or even later. But historically, approximately four in ten retirees retire earlier than planned, usually due to poor health or job loss. So for at least some workers, it is likely that these plans to work longer will not be realized.
- Two-thirds of workers plan to work for pay in retirement. This is more than twice the proportion of retirees who say they actually have worked for pay. While many of these workers will undoubtedly work in retirement, it is unlikely that all who would like to work will be able to do so.
- Some workers may be overestimating how much income their accumulated savings will generate. Even two in ten of those who say they and their spouse have not saved for retirement mention some form of savings as their largest source of retirement income.
- While six in ten workers report they expect to receive retirement income from a defined benefit pension, only four in ten report that they and/or their spouse currently have this type of plan. This means that up to 20

percent of workers are counting on getting this benefit from a future employer—a scenario that is becoming increasingly unlikely as companies cut back on their defined benefit offerings.

- Almost four in ten workers expect that they will receive retiree health insurance from an employer—making them as likely to expect this benefit as current retirees are to receive it.

This paints a gloomy picture, but the RCS also points to ways of stimulating retirement planning and savings. Some of the most effective are through the workplace. Almost half of workers say they received information on retirement planning through an employer in the past 12 months. Three in ten of those who received this information report they made changes as a result, usually increasing their savings or changing their investment mix.

More than eight in ten eligible workers in the RCS report they participate in their employer's retirement savings plan, making this type of savings vehicle far more effective than an individual retirement account, or IRA. Only about one-third of workers say that they have an IRA opened with money saved outside of an employer's retirement plan.

Employment-based defined contribution retirement plans could be made even more effective through automatic features that default workers into savings options. Both current participants and non-participants generally feel favorably toward these automatic features as long as an opt-out is available:

- Seven in ten participants and non-participants say they favor automatic enrollment and set up of contributions through payroll deduction.
- Two-thirds of participants and six in ten non-participants favor automatic increases in the percentage of salary contributed to the plan.
- Six in ten participants and non-participants favor automatic investment of contributions.

Tips for incorporating these findings into your individual counseling sessions, educational programs, or communications

- Be sure clients know how much it will take in retirement savings at their desired retirement age.
- Assess client overconfidence by comparing their current savings and investing behavior (amount saved, rate of saving, and current asset allocation) to what they'll really need. If they're overconfident, you'll make little progress until you help them believe they need to change what they've been doing.
- Confirm they will really have what they expect to have in retirement like a pension, retiree health insurance, the ability to work due to potential employability, etc.
- Ask them to detail their expected retirement expenses, and show them their potential annual income shortfall.

—Editors Note

Employers can help workers already participating in their plan to make more informed investment decisions by adding lifecycle and lifestyle funds. Among participants not already offered each type of fund, almost 7 in 10 say they would be likely to use a lifecycle fund, while two-thirds say they would be likely to use a lifestyle fund. About half say they would be likely to use a managed account.

More than seven in ten workers express interest in a lifecycle fund for their automatic investment option.

Similar proportions say they are interested in balanced funds and professionally managed accounts.

However, workers are most comfortable with their own investment choices. Half would trust their own investment decisions over an automatic fund option. This makes investment education a vital component of retirement planning. More than one-quarter of workers say an employer currently offers them access to investment advice, and about half of these workers received recommendations on how to invest their savings. While some workers may be comfortable receiving this advice online or over the telephone, the delivery method of choice is a face-to-face meeting. More than seven in ten workers not currently offered this type of advice say they would be likely to use it if it were offered in this format.

[1] *"Know Thyself: Incompetence, Overconfidence And The Expanding Universe Of Imperfect Information,"* Paul J. Ferraro, Department of Economics, Andrew Young School of Policy Studies, Georgia State University, 2003.

ABOUT THE AUTHOR *Mathew is President and CEO of Mathew Greenwald & Associates. Dr. Greenwald has thirty years of market research experience. Matt has a Ph.D. in Sociology from Rutgers University and a continuing interest in social and consumer behavior. He founded the firm after eight years as the Director of Social Research at the American Council of Life Insurers.*

A recognized expert on opinion research, Dr. Greenwald is frequently asked to speak at forums, conferences and seminars sponsored by a wide variety of organizations. Matt has testified before Congress regarding retirement attitudes and has written many articles concerning the financial services industry, demographic changes, consumer attitudes and behavior, the Baby Boom and Baby Bust generations, and the values and lifestyles of the American public. Matt is an elected member of the Market Research Council and he served as a Congressionally-appointed delegate to the 1998 and 2002 White House/Congressional Summit on Retirement Savings. He may be reached at mathewgreenwald@greenwaldresearch.com or by phone at (202) 686-0300.

Retirement Counseling

Building Interpersonal Trust and Receptiveness

By Joseph M. Tabers, CSP

It's no secret that trust and confidence are two cornerstones of a successful client-professional relationship, especially for you as a retirement counselor. After all, people come to you for answers and helpful financial guidance. They wonder if you can make the financial planning process simpler and easier for them to understand. They want reassurance that they are making the right decisions with their resources.

Being a professional, you certainly have the answers. But for clients to get the most from their experience, using your communication skills to build interpersonal trust and receptivity is a *must*.

"Can We Talk?"

It may be a signature line for comedienne Joan Rivers, but it's also the question many of your clients, especially newer ones, are asking themselves about you. People tend to be most comfortable working with and referring others to a counselor they like and trust. And that client trust is much more likely to increase when you make a sincere effort to adjust and adapt your own style of communicating to better match that of the client.

Our first challenge is to recognize our own natural dominant style or tendencies when communicating. Second is to recognize the preferred styles or tendencies of others. Once both of these are known, we need to do our best to adapt to or appreciate the other's preference when communicating.

Understanding Communication Styles: It's All Greek to Me

As the Greek philosopher Aristotle wrote, "Know thyself." Awareness of your own communication style is the first step toward becoming a more effective communicator.

Let's take Dr. William Marston's concepts, described in detail in Chapter 2 of the fourth CRC® course. In his book "The Emotions of Normal People" (1928), Marston identified four specific and observable behavioral patterns:

- Dominance
- Influence
- Steadiness
- Compliance

Testing instruments documenting and proving these patterns were created in the late 1960s and have been used extensively throughout the world in business, industry, government and education. But for the majority of us, one or two of these traits are dominant in our day-to-day behaviors.

As outlined in the table below, these four observable behaviors will help you determine your own style in order to better understand your behavior strengths and expectations, and those of your clients/employees, when communicating.

For example, if you are highly dominant ("High D" in the table) your strengths would be that you are competitive, decisive, direct and a problem solver. Your weaknesses, however, would be that you also tend to be a bit too direct, impatient, and perhaps are more task-oriented than a client might be ready for.

Observable Communication Strengths

- High D: competitive, decisive, direct, problem-solver
- High I: confident, enthusiastic, inspiring, optimistic
- High S: amiable, friendly, patient, steady
- High C: analytical, conscientious, fact-finder, diplomatic

Communication Weaknesses

- High D: can be too direct, impatient, task-oriented
- High I: can possibly oversell, too trusting, have difficulty planning and controlling time
- High S: can take criticism personally, resists change for change sake, waits for orders before acting
- High C: can over-analyze, be overly-critical, defensive when criticized, and lacks ability to verbalize feelings

How do you stack up? The idea is not to isolate a "bad" communicator, but merely to prompt us to look at ourselves and how others might see us. If we step back and observe a person we know over time, very often we can begin to notice how that person's communication strength may at times come across as irritating to others.

The same is usually true for all of us as well! So ask yourself: "In order to improve and grow, am I controlling my own communication strengths to avoid overusing them?"

How to Modify Your Personal Style to Be a More Effective Retirement Counselor

A willingness on your part to adjust your style of communication according to the style of those with whom you are communicating can go a long way in helping build stronger client relationships. Use the traits and expecta-

...continued on next page

tions at right for each behavior style as a way to better understand the expectations and needs of clients/employees in order to build better client rapport, trust and long-term relationships and for better influencing client retirement planning outcomes.

During your next client meeting, presentation, or interactions with others, watch for opportunities to practice controlling your natural strengths, weaknesses and tendencies when communicating. You will benefit from greater respect and cooperation from others and a greater ability to influence people in making wise choices regarding their retirement future.

Contains Emotions

CONSCIENTIOUS/ANALYTICAL	DRIVEN/DIRECTING
styles are often: Value oriented Facts, logic and rules oriented **You Can:** ▪ Slow down ▪ Provide facts ▪ Explain details well	**styles are often:** Control oriented **You Can:** ▪ Give choices and options ▪ Move to task quickly
STEADY/RELATING/AMIABLE	**INFLUENCING/EXPRESSIVE**
styles are often: "We" oriented **You can:** ▪ Listen and build trust ▪ Be sincere using a quiet manner ▪ Give them time to think	**styles are often:** "Me" and "Fun" oriented **You can:** ▪ Be openly friendly ▪ Give personal recognition ▪ Build personal relationship

Displays Emotions

ABOUT THE AUTHOR *About the Author: Joe Tabers, CSP, is the President of Productive Training Services Inc. Productive Training Services helps businesses and organizations improve their internal and external communication, relationships, and trust. For more information, you can contact Joe at jtabers@productivetraining.com or (734)332-8770.*

Retirement Income

What's Your Retirement Income IQ?

By Michael L. Wilson, CFP®, CRC®

It's not your father's retirement anymore (apologies to Oldsmobile). Generating a lifetime of retirement income today and in the future is very different than it was even just 20 years ago. Not convinced? See how well you do on the following true/false quiz:

1. Retirement distribution planning is similar to accumulation planning. T/F
2. A 70-85% income replacement ratio will maintain a retiree's quality of life. T/F
3. When estimating income needs, use average life expectancy. T/F
4. An inflation-adjusted withdrawal rate equal to 4.5-5% of a portfolio's initial value is safe. T/F
5. A retiree's expenses remain relatively constant throughout retirement. T/F
6. Retirees should try to maximize their income and not invade their principal. T/F
7. Retirees need to take less risk with their investments than they did prior to retirement. T/F
8. The projected duration of a retiree's assets should utilize historical average annual return assumptions. T/F
9. Medicare will take care of most long-term care needs. T/F
10. Home equity should not be considered a retirement asset for most people. T/F

Replacement Ratios & Expenses

Expenses for individual retirees will change over time, regardless of what the average replacement ratio percentage is for an average retiree. In the early stages of retirement, expenses are often higher while the retiree is more

...continued on next page

active and interested in pursuing lifelong goals. But expenses will start to decrease as the retiree becomes less mobile, and in the final stages of retirement expenses may likely be the lowest since the start of retirement itself, continuing the overall downward trend.

But it is how you calculate the amount of income a retiree needs that really matters, not what a ratio says a retiree should have or is "allowed" to have. Retirees have real expenses expressed in dollar terms, not percentage ratios. So a good approach to calculating their need is by adding up what their essential expenses are and what their discretionary expenses are. A replacement ratio might be nice to know, but the monthly reality for retirees is whether they have enough income to pay their bills and live the lifestyle they want—and to get there, they need dollars, not ratios.

Longevity

Imagine a bell curve drawn on a graph that represents the incidence of death, on a unisex basis, for a group of 65-year-olds based on a typical mortality table. The highest incidence of death in any given year (between ages 65 and 100) is slightly over 4%. While the average life expectancy for the overall cohort is approximately 85 years of age, only about 4% of the cohorts will die at that age. Planning to average life expectancy, therefore, is going to be wrong 96% of the time!

Longevity planning for couples is different than for individuals, according to data from the Society of Actuaries. At age 65, males have a 60% chance of living to age 80, while females have a 70% chance. For a couple, there's nearly a 90% chance one of them will live to age 80. Even at later ages, couples have greater chances of one survivor living longer. At age 95, there's nearly a 20% chance one member of a couple will survive to that age.

"Safe" Withdrawal Rates

A fixed dollar systematic withdrawal plan (SWP), such as $1,000 per month, is exposed to inflation over the many years of retirement. An inflation adjustment, such as $1,000 increased by 4% per year can address this risk, but it runs the risk of depleting the portfolio earlier than desired if there are several down years of returns in a row (such as 2001 to 2003). SWP is simply dollar cost averaging (DCA) in reverse.

The very leverage that worked for DCAs as a saving tool in the accumulation phase can work against SWPs in the distribution phase. As a retirement saver (worker), a lower investment price meant you would purchase more shares of an investment. As a retirement spender (retiree), a drop in an investment's price means *more* shares of that same investment need to be sold in order to generate the targeted dollar amount.

But most retirees have been taught not to spend principal. From an income-tax perspective however, investments held for more than one year receive the best tax treatment, as capital gains. Spending only interest sounds good in theory, except interest is the worst type of earnings for income tax purposes.

For instance, assume a retiree will receive $100 in interest from a CD. That $100 will be taxed as ordinary income at her marginal tax rate of 25%. After taxes, she will have $75. This same retiree also owns a growth and income mutual fund, which she has owned for four years. If she sold $100 of that fund at a gain, she would pay maximum capital gains tax of 15%. After taxes, she would have $85 to spend on her needs. Even though she may be spending "principal" from her mutual fund, she has more after-tax money for living expenses.

Investment Risk

For many retirees, it is very counter-intuitive to understand how asset allocation can help them maintain purchasing power. In order to *minimize* the greatest risk of retirement, inflation, they have to take *more* of another risk—market risk. And for many retirees, that means a greater exposure to the stock market and other inflation hedges like real estate than the conventional, historical rules of thumb they've been told for years—to invest more conservatively as they grow older.

But if you define asset allocation to include "virtual" long-term bond positions from sources like Social Security and pensions, many retirees may be able to comfortably take on more market risk than they've been led to believe. For most retirees, their investment time horizon is over 20 years, which provides plenty of time to recuperate any temporary drops in asset values.

Another way to deal with investment risk is to group assets into "buckets." With a retirement bucket strategy, a retiree divides her retirement assets into three buckets, each corresponding to three time periods in retirement. While the actual length of the time periods is somewhat arbitrary and based on the advisor's direction, the overall length of time should cover the agreed-upon life expectancy planning period. Let's assume you want a 25-year time horizon for a 65-year-old retiree.

The first bucket covers the first 10 years of retirement; our retiree puts 50% of her total retirement money into very conservative short-term fixed income products such as CDs, money market funds and intermediate-term bonds. The second bucket covers the next 10 years of the 25-year period, which will be years 11 through 20. Here the retiree invests 30% of her total funds in stocks, bonds and real estate. This portion of her portfolio breaks down into the

...continued on next page

traditional 60/40 stock/bond split used by many institutional investors.

The third bucket, which covers the remaining 20% of her overall assets, is invested very aggressively in stocks and real estate. This bucket is targeted to provide income for years 21 through 25. Once the first 10-year period is over, the assets in the second bucket are redeployed into vehicles in the first bucket—CDs, money market funds, etc. The assets in the third bucket are then switched into second bucket vehicles, as well. After the second 10-year period is over (about 20 years into retirement), the assets originally in the third bucket—but now in the second bucket—would be moved into first bucket assets.

Investment Return Assumptions

Many simplistic income calculators will use a constant portfolio rate of return to determine a withdrawal rate. Of course, in the real world, investment returns vary from year-to-year, sometimes dramatically. It would be like assuming the average year-round temperature in Minnesota is 45 degrees. You'd never bother to buy a winter coat, because on average, it's never winter in Minnesota.

Since many retirement income projection calculators do not have the ability to conduct Monte Carlo simulations yet (see *Sharing Ideas, Volume 7, Issue 1, 2006* for more info on Monte Carlo analysis), counselors should at least run scenarios with a low rate of return, a mid-rate of return, and maybe a high rate of return of no more than 8%. The idea is to help retirees realize that investment returns can and will vary from year to year, and to see how those variations in return can affect their retirement income levels.

Long-Term Care Needs

Contrary to public perception, Medicare does not cover long-term care needs. That means purchasing some type of long-term care insurance (LTC) is a financially sound strategy for many retirees. Depending on the retiree's age, these policies can be expensive. But one often overlooked source of funds for these policies and other necessary expenses can be the retiree's home. In fact, for many average retirees, home equity will become an essential income resource.

One strategy is to use a home equity loan or a line of credit to purchase an LTC policy. Another option might be downsizing the home and moving. The equity freed up by purchasing a less costly home could be used for LTC insurance. Or if the retiree has no desire to move, a reverse mortgage might make sense as an income source to fund an LTC policy.

Retirement Changes

Times have certainly changed in the automobile market. Oldsmobile is no longer even around. Because it's not our father's retirement anymore, as retirement counselors we need to change what and how we counsel retirees. InFRE is committed to bringing forward the most current thinking regarding retirement planning in our ever-changing retirement environment, so retirement counselors can better serve the American worker now and in the years to come.

Quiz Answers: All of the statements are false. How did you do? Now go back and review your answers after reading this column; has your retirement thinking changed?

ABOUT THE AUTHOR *Mike Wilson, CFP®, CRC®, MBA is the Managing Editor for InFRE's Sharing Ideas. He owns Integrity Financial Planning and is an instructor for Kaplan College's CFP® Education Program. You may reach him at mwilson@infre.org.*

Expanding Solutions for Retirement Income Management

By Anna Rappaport, FSA, MAAA

EDITOR'S NOTE *InFRE played a role in designing and delivering this retirement income track at the LIMRA, LOMA, and SOA Retirement Industry Conference in April. This article highlights the most important issues identified with bringing retirement planning and income management products and services to workers today, and gives insights into future directions that may affect how retirement counseling is provided in the future.*

Retirement income is a big focus today for many players in the financial services industry, and the recent Retirement Industry Conference in Atlanta provided an opportunity for this diversity of interests to share both varied and mutual concerns in an effort to reach solutions in the exciting but increasingly complex drive to achieve greater retirement security.

The Retirement Income track was organized by the Society of Actuaries Committee on Post-Retirement Needs and Risks. The first five sessions provided perspectives from the primary stakeholders in delivering retirement income products and services to consumers. These are 1) the consumers/employees themselves, 2) financial service company providers, 3), employers, who sponsor retirement plans, 4) regulators, and 5) advisors to individuals (see Figure 1).

Figure 1 – Retirement Income Stakeholders

Consumer Perspective

The major focus of this session was a review of focus group studies that looked at how retirees with significant assets are investing and managing their funds. The fact that many retirees do not or did not plan effectively for retirement is demonstrated by these key findings:

- Retirees tend to plan in the short-term, not long term.
- It is common for retirees to take, say, 6% of assets, compare it to expenses (less income from other sources) and use this as a measure of affordability of retirement.
- Most of the retirees (in the focus groups) did not have an organized comprehensive risk management program. Rather they took each day at a time; dealt with things as they occurred; and rarely took stock of where they were.
- Most of the retirees did not do formal retirement planning before or after the event.
- There was a lot of awareness of long term care insurance, but few bought it, and a number thought it was too expensive.
- There was very limited use of lifetime income products such as annuities.

Provider Perspective

This session provided perspectives on products and services to deliver income during retirement. The main conclusion of this session was that providers are coming out with many new annuity product innovations geared to income in retirement, with different products reflecting a range of consumer concerns and needs. However, it is a real challenge to get distribution systems well educated in the pros and cons of these products, let alone consumers.

Employer Perspective

The distribution of benefits and making funds last during retirement is an important issue for a retirement plan to address in order for the plan to achieve its goal of providing employees with retirement security. Plan sponsors are currently reluctant to offer annuity options directly because of spousal consent requirements, "safest annuity rule issues," and/or fiduciary responsibilities, etc. Instead, companies such as IBM are beginning to offer annuity options outside of the plan but with institutional pricing through a third party IRA rollover program. Under the program described, the annuity can be purchased at retirement or later, and in steps over time.

Government Perspective

The focus of this session was on the regulation of annuity products and pension plans. When the regulatory issues from the so many regulatory bodies facing all of the stakeholders are merged, the total impact is overwhelming. While employers often choose defined contribution plans

...continued on next page

as a way to escape from extensive regulation, these plans come with their own set of rules. A result of these rules is that employers often do not provide more opportunities for the use of retirement assets to provide regular lifetime income. The more active an employer is in addressing post-retirement issues, the more rules apply.

We have a dream

The final session in the series provided an opportunity for the participants, working in small groups and drawing in part from the first five sessions, to provide their ideas for solutions to better serve the retirement income needs of people in retirement. The ideas developed that are most relevant to retirement counselors are presented below. Many of these ideas would require changes in regulation or the environment and therefore can be viewed as still a dream. Moreover, there was no attempt to develop consensus and we do not know how many participants supported or opposed each idea. The list below is presented as a set of ideas for exploration with the understanding that some of these ideas may already be in the marketplace in one form or another.

Recognize that the market is segmented and different groups have different needs — It is important to recognize that different solutions work for higher income versus middle income individuals. For low income individuals, Social Security benefits may be all or virtually all that they have. Each player in this arena needs to determine which market segments can be served and how to do so effectively.

Educate the public, employees, employers and distributors of financial products — Provide education about options for managing resources during retirement to all of the affected stakeholders. As part of this, it was suggested that employees should have an incentive to encourage them to get advice.

Advice and planning tools — In addition to education, individuals need access to usable planning tools and services that offer advice. These might be provided through the employer, by financial services companies, or online. For the average individual, it is not always practicable to have a system that requires a lot of one-on-one time with an advisor, even though this is the most helpful method for many employees. Use of group workshops when personal data is collected followed by 30-minute one-on-one appointments with retirement counselors at the worksite provides the foundation for offering some kind of cost effective counseling desired by many workers.

Evaluate combination annuity-long term care product offerings — From the point of view of managing risks, it would be ideal to combine various product offerings, or offer them as a holistic package. As such, they could be priced more effectively and would help people manage multiple risks through a single product purchase.

Consider other product innovations — Longevity insurance, further development of reverse mortgages, other programs to use housing wealth, and critical illness coverage are examples. Unbundling retirement annuities would be a clearer way to think of the product, parallel to universal life and could open the way to innovations and different risk protection riders.

Risk protection riders — The participants suggested risk protection riders be made available with the withdrawal account and with regular annuity purchases to provide for medical benefits and long term coverage. Other options, such as critical illness insurance, could be offered.

Recognize the employer as an ideal way to reach the middle market — Participants recognized that the market needs to be segmented and that it is very difficult to reach the middle market through one-on-one interactions with financial professionals. They suggest that the employer is the best route to reach this market.

Model solutions — When employees enroll in 401(k) plans they are often given a set of asset allocation models to choose from that vary by risk tolerance. Similarly, models of solutions for retirees could be developed for people in different retirement income management situations. This could greatly simplify the advice and decision process for the mass market of retirees.

The retirement income track offered an opportunity for professionals with different perspectives to share them and see how the many challenges interact. Several participants observed that they did not realize the totality of the challenges, and how the interactions made building good solutions more complex. If you have a dream for improving the retirement security for retirees, I hope that the ideas presented here will jump start your thinking.

ABOUT THE AUTHOR *Anna M. Rappaport, FSA, MAAA, is the Chairperson, Society of Actuaries Committee on Post-Retirement Needs and Risks. You may reach her at anna@annarappaport.com.*

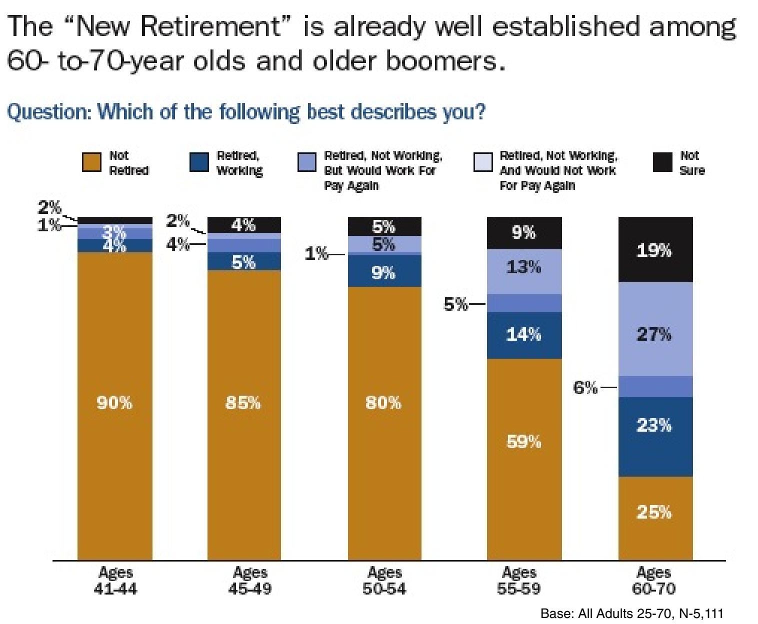
The New Retirement Is Here

EDITOR'S NOTE *In this quarter's newsletter, we share with you two newly-released retirement studies related to staying active in retirement. For many retirees, some kind of employment or volunteering is the preferred method of keeping engaged and more fully enjoying retirement.*

The findings from *The 2006 Merrill Lynch New Retirement Study*[1] demonstrate that the traditional retirement paradigm has already shifted, and individuals are not just thinking about or planning for the New Retirement. They are living it today by continuing to work and preparing for new careers.

Facts to keep in mind when counseling for retirement:

1) Working during phases in retirement is now a reality for many Americans. Be sure to ask clients about their intentions to work in retirement and adjust your recommendations to take this into consideration, while being aware that 25% of retirees cannot work in retirement due to their own ill health or that of their spouse. (See figure 1 below)



Question: How many hours per week do you work, on average?

Retirees Age 41-44	23.4 hours per week
Retirees Age 45-49	20.5 hours per week
Retirees Age 50-54	20.8 hours per week
Retirees Age 55-59	20.2 hours per week
Retirees Age 60-70	17.4 hours per week

Base: Retired and working

Figure 1

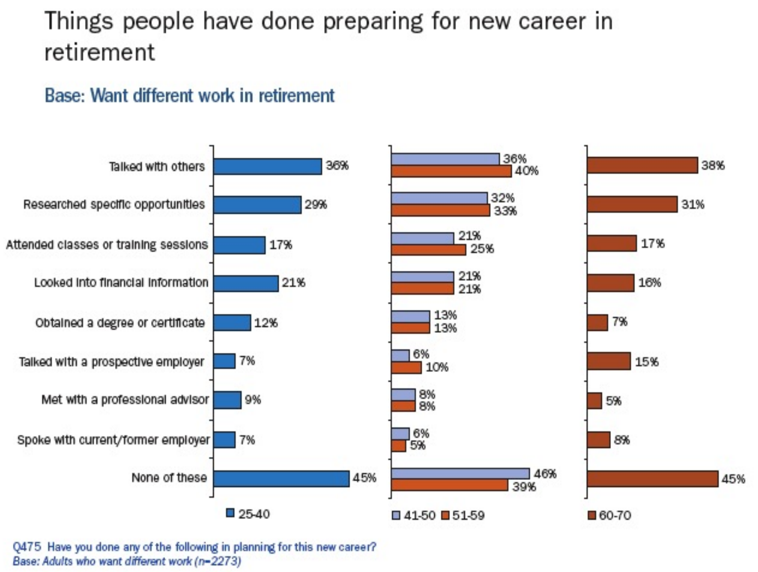


Figure 2

2) But almost half of Americans age 60+ are not doing much to prepare themselves for a new career in retirement. One of the greatest roles retirement counselors play is to help employees identify what they are retiring to—not just what they are retiring from. (See figure 2 above)

What People Want

In 2006, HSBC released its international report *The Future of Retirement: What People Want*[2]. This survey, which includes respondents from 20 different countries, is structured around three key questions.

1. What is retirement?

"I want to do something new when I'm older."

So long as they are healthy and able, people increasingly want to do something active in their retirement rather than just resting. This is also true of many trendsetters in transitional economies (such as Brazil, China, India, Mexico), who appear to be looking forward to an active old age. These individuals may be "leapfrogging" the idea of retirement as a period of rest and relaxation, going straight for the new model of active retirement.

...continued on next page

PUBLISHED BY THE INTERNATIONAL FOUNDATION FOR RETIREMENT EDUCATION (InFRE)

Executive Editor
Betty Meredith, CFA®, CFP®, CRC®
InFRE, Director of Education and Research

Managing Editor
Mike Wilson, MBA, CFP®, CRC®

P.O. Box 1860
Lubbock, TX 79408-1860

(806) 742-6100
(866) 56-INFRE (Toll Free)
(806) 742-6102 (fax)

You may also reach us via e-mail at: info@infre.org

Sharing Ideas for Retirement Education and Administration is distributed via e-mail. Subscriptions are free upon providing e-mail address and other information. Quotations permitted upon written permission only.

Readers
Direct all subscription inquiries and changes of address notices to Contact Us at: www.infre.org or call or fax the numbers above.

InFRE
International Foundation *for* Retirement Education

InFRE provides the most effective, practical, retirement-specific curricula in the industry for preparing and designating professionals to help enhance the retirement preparedness of the American worker. Over 75 public and private institutions and companies were represented on the various InFRE committees which created the CRC® and CRA℠ designations between 1997-1999.

Our designation and continuing educational programs address the retirement planning, investment education, ethical and communication, regulatory responsibilities, fiduciary concerns and other issues that retirement professionals such as counselors, administrators, plan sponsors, financial service providers, or financial advisors address in their everyday jobs.

In addition, InFRE identifies and voices important retirement issues by initiating and participating in groundbreaking research whose results are then incorporated into our Certified Retirement Counselor® (CRC®) and Certified Retirement Administer® (CRA℠) designation and continuing education programs.

Continuing Education Credit for *Sharing Ideas*

To earn 1 hour of CE credit, please take our on-line exam @www.infre.org.

Prior newsletters are available for on-line CE as well.

"Family, friends and fitness are more important to me than money in old age."

Many people in the advanced economies have a positive view of old age and retirement, and this optimistic view is now spreading in transitional economies among those who are pioneering a more active retirement. In most countries and territories surveyed, families, friends and fitness are seen as the key to a happy retirement and old age.

2. How will we pay for retirement?

"I don't believe my government will bear most of the financial cost of supporting me in retirement."

People are increasingly recognizing that governments will not be their sole source of support in old age. This is true in both advanced and transitional economies. In the advanced economies there is still a strong view that governments should provide for our old age, but a growing reality that they will not be able to.

"Given help I will save for my old age."

In almost every country and territory the majority of people reject the traditional policies for funding retirement – raising taxes, lowering pensions or lengthening working life. Given the choice, they would rather save for old age – but they know they need help to do so. The favored option in all countries and territories across all age ranges is enforced additional private savings.

3. When should we retire?

"I don't believe anyone should lose their job because they are too old."

Across the globe, irrespective of respondents' age, the majority of people reject enforced withdrawal from the workplace at a fixed age. A large proportion of employees and employers feel that people should be able to carry on working to any age so long as they are still capable of doing their job well.

Clearly retirees want something to do in their retirement years. Paid employment may fit the bill for many reasons, such as doing something "worthwhile," staying socially active, and generating more income to make ends meet in retirement. As a retirement counselor, you are in a unique position to encourage near-retirees to examine their "retirement" career options. Many Americans need your help!

[1] *The 2006 Merrill Lynch New Retirement Study.* To download the entire report, visit http://www.ml.com/media/66482.pdf.

[2] *The Future of Retirement: What People Want, from HSBC, 2006.* For more information, visit www.thefutureofretirement.com.