THE KEY TO FINANCIAL INDEPENDENCE IN RETIREMENT

PARADIGM LIFE

GROWTH | INCOME | LEGACY

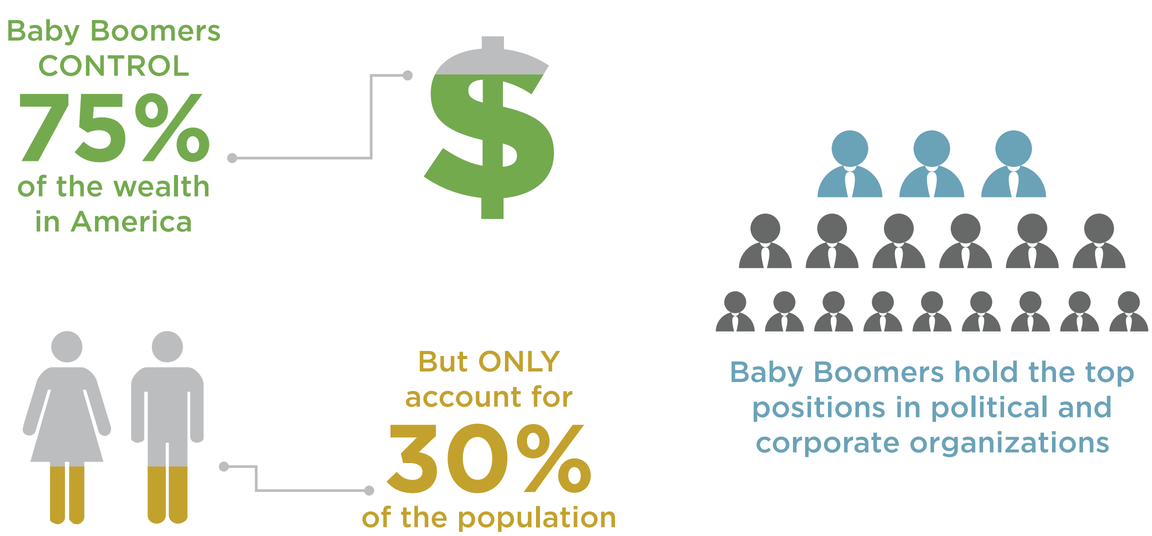
THE WAY BABY BOOMERS AFFECT YOUR RETIREMENT

Open up any financial paper today and you're likely to see an article referring to the 'Baby Boomer' generation. For those of you unaware of this terminology these are the people born roughly in the post WWII years of 1946 to 1964 and it's fair to say they've helped our country to become the great nation that it is today.

Having worked hard, many baby boomers are now moving into their retirement years and if you think that doesn't impact you, then think again.

In some circles this generation comes in for much criticism.

BABY BOOMERS

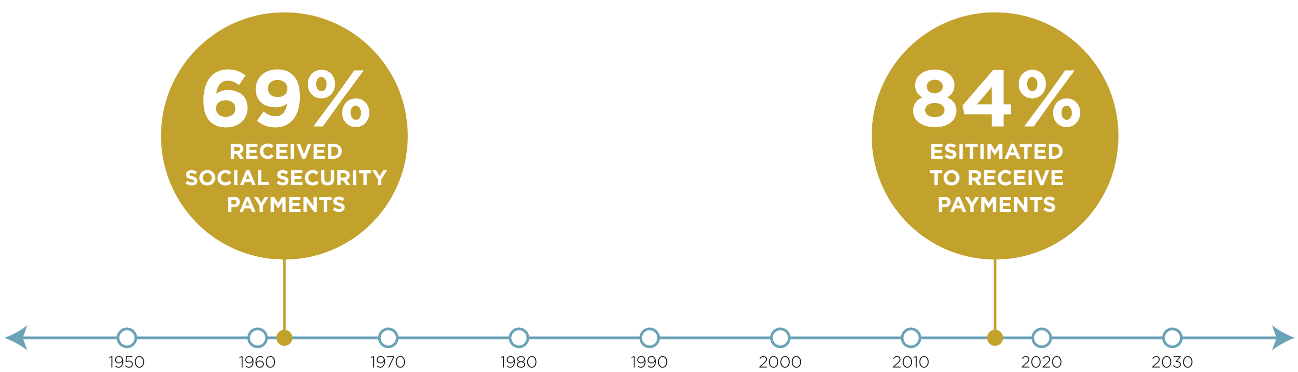


The fact that so many of them are now turning 65 – more than 250,000 each month – and looking to start drawing on their pensions, puts a lot of pressure on the remaining 70% of the population that only controls 25% of the wealth.

This unbalanced distribution will undoubtedly cause headaches for pension fund providers as people start to take out more money from the pot than what's being put in. The only way for fund providers to address this issue is to make those still paying in cover the costs, either now or in the future.

To many this seems like an unfair situation. Here we have a group of people that have amassed tremendous wealth, have benefited from a rising housing market since the 1960's and who have influenced the way we live our lives today, being indirectly supported by a younger generation.

In fact, some suggest that 84% of those retiring today will be in receipt of Social Security payments compared with 69% back in 1962. This is going to put a big strain on those coffers.



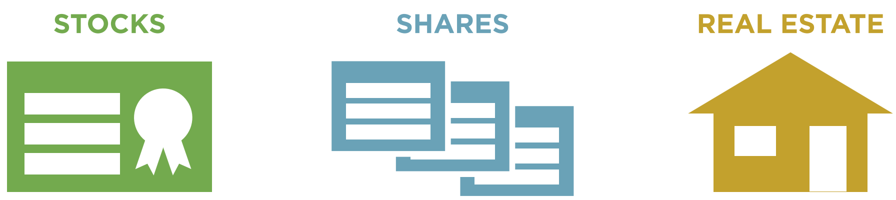
KEY TAKE AWAY

What the newspaper headlines won't tell you is that within all of this there are **opportunities** for younger people to **boost** their retirement income if they start the planning now and take advantage of the baby boomers retiring!

THE WAY BABY BOOMERS HAVE STORED THEIR WEALTH AND WHAT IT MEANS TO YOU

It's worth recognizing where the wealth held by the baby boomers is sitting. The vast majority of it is either held in stocks and shares or, metaphorically speaking, stuffed under their mattress in real estate.

BOOMERS' WEALTH STORAGE



In order to continue to live comfortably the baby boomers **are going to have to release** some of the value from these holdings, as they'll no longer have a paycheck coming in each month.

Let's not forget that this is a generation who have got used to spending. It is estimated that they currently outspend every other generation on consumer goods and services by around $400 billion each year.

No one likes to give up on a life they've become accustomed too so in order to maintain their lifestyle some of that 75% wealth is going to have to change hands.

We are already starting to see some of the effects of this, as for the first time since the Great Depression, we are seeing more people leave the stock market than enter it. And here's the first point of why the baby boomers retiring has a direct impact on everyone.

KEY TAKE AWAY

You don't need to have studied economics to know that if the supply of an item outstrips the demand then **the price is going to fall**.

THE WAY THE COOKIE CRUMBLES

STEP **01** Baby boomers start cashing in their stock

STEP **02** Over supply pushes the price down

This is great news for buyers – but here are the catches.

Catch 1: The younger generation doesn't have the money to buy stocks – only 2% of the income of those under 50 is going into savings. As demand falls even further so will the prices.

Catch 2: Pension funds invest heavily in the stock market and if prices fall then so does the size of pension pots which impacts directly on the annuity market and any pensions to be paid out to the next generation.

Catch 3: As share prices fall so do dividend payments which will drive away other investors.

KNOCK-ON EFFECT

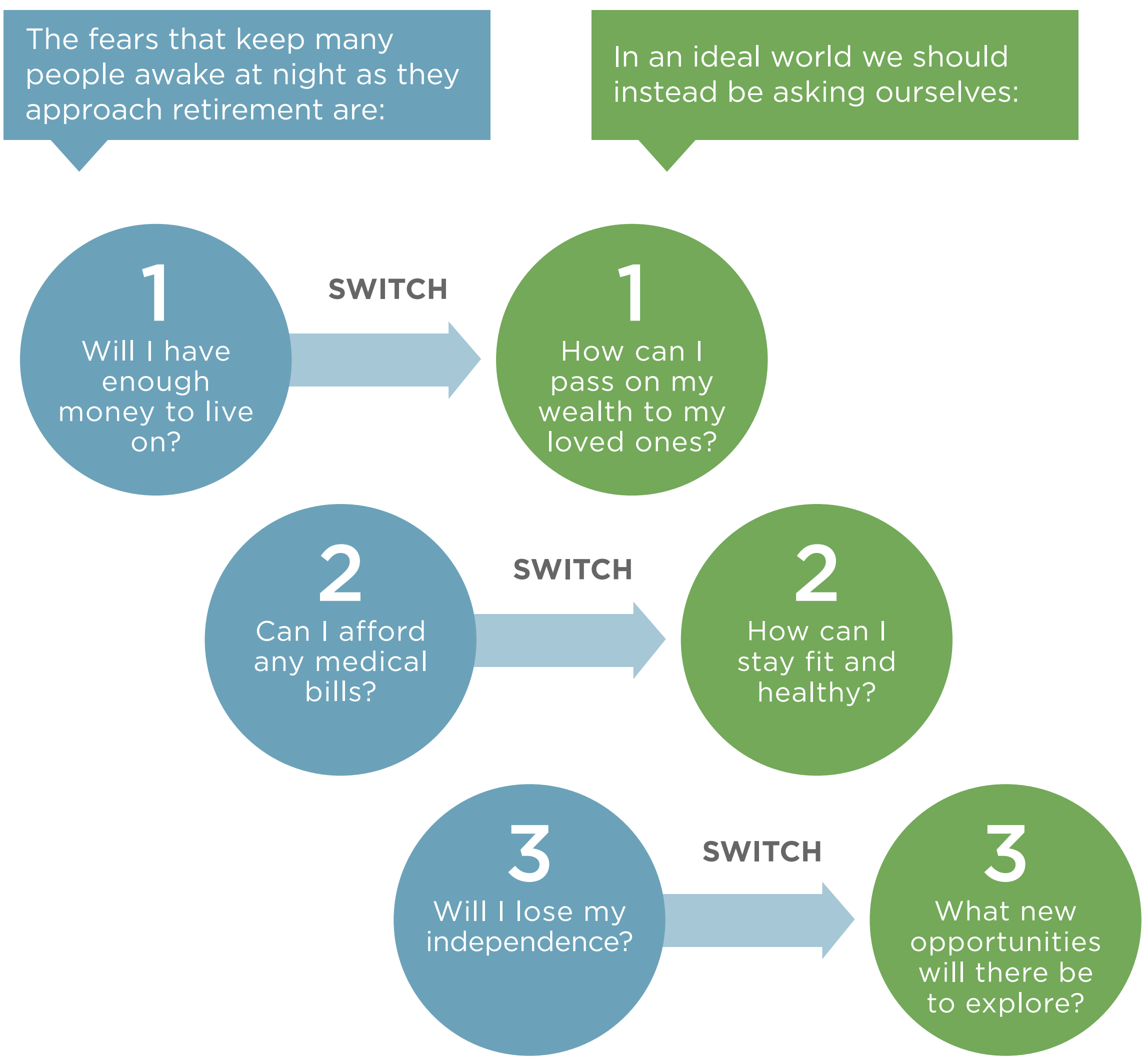
As pension payments drop due to a decrease in pension fund sizes then there will be an increase in the reliance on Social Security which can only be paid for by taxing more those still in work, which then puts a further strain on that generation saving. And so this cycle continues until the markets collapse.

When the markets crashed in 2007 many baby boomers delayed their retirements as they waited out the storm and gave their stocks time to rise in value. So here we are now almost 10 years later about to experience the potential doomsday scenario painted above.

Sounds like an Armageddon story, but it doesn't have to be.

THE WAY TO SWITCH OUR THINKING

According to the American Psychological Association, 72% of Americans report feeling stressed about money at least some of the time and that stress or worry doesn't go away as we move into retirement.



With the right retirement strategy in place we can start to focus more on these positive aspects of retiring.

HOW FAR WILL YOUR 401K GET YOU?

Your 401(K) is a useful starting point for any retirement planning particularly if you've got an employer who's paying in too. But it shouldn't be your only method of saving and here's why.

Most 401(k) planning involves setting a target figure for each individual to aim towards saving, which is great, having goals is a good thing, but when it comes to the math it just doesn't add up. Let's go through an example:

KEY TAKE AWAY

Your 401K **shouldn't be** your only method of saving for retirement.

A BETTER WAY TO CALCULATE HOW MUCH TO SAVE

One million dollars might seem like a lot of money but it doesn't allow for an increase in inflation. For example, you wouldn't want to be living today earning what you did 25 years ago and it's the same with pension payments.

Rather than using a fixed amount of money to aim for, another method of calculating how much money to save is to take your age when you starting saving and half it to give you the percentage of your earnings you should be saving each month. Here's how it works.

$$\frac{\text{YOUR AGE}}{2} = \%$$

YOU SHOULD BE SAVING EACH MONTH

$$\frac{28}{2} = 14\%$$

14% of $3,500 = $490/month

This is quite an ask when there's around 38 million households that currently live paycheck to paycheck. But by shifting our understanding of how we plan for retirement we can start to look forward to retiring rather than worrying about money.

THE WAY WE PLAN

When we work with our clients to start planning for their retirement we take on board the 2 biggest influences on how much money they'll need.

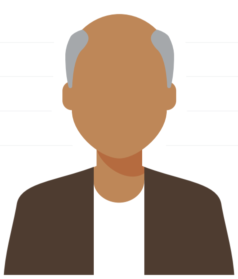
1 INTEREST RATES

We all know what interest rates are, they're the rate of return – or sometimes lack of – that you get on your bonds, savings, ETFs etc. Any fluctuations in the rate can have a huge impact on the amount of money you have to play with when it comes to retiring.

2 ACTUARIAL SCIENCE

Actuarial science on the other hand – without getting too technical – involves the playing around with numbers to apply statistical analysis to asses risks associated with financial products. In practice what it means for monthly pension payments is something like the below.

ACTUARIAL COMPARISON




	Person A	Person B
Pension pot size	$500k	$500k
Gender	Male	Female
Age	65	64
Health	Poor - History of diabetes and heart problems in the family	Good - No medical problems individually or in the family
Lifestyle	Smokes 20 cigarettes a day and drinks an average of 12 units of alcohol a day	Doesn't smoke, only drinks on special occasions and gets regular exercise
Life expectancy	75	92
Monthly pension payment	$2,500	$1,000

This is a very crude example of how actuarial science will be applied when a pension firm sets out what a monthly pension payment will be. Based on health and lifestyle Person B is likely to live longer so in order to make the money last, a smaller amount needs to be paid each month.

Going back to our point about having a set figure for your 401(K). If a figure is set then it's unlikely to allow for actuarial science or interest rates to be considered.

THE WAY TO UNLOCK RETIREMENT FREEDOM

"September and October of 2008 was the worst finiancial crisis in global history, including the Great Depression."

-Ben Bermanke

If you've heard of the phrase, '*don't put all your eggs in one basket*' then the volatility buffer strategy is that saying in operation.

So now that I've explained the problems faced with traditional retirement planning I come to my 2 retirement planning strategies which can unlock the door to financial freedom in your retirement.

THE VOLATILITY BUFFER STRATEGY

As we saw earlier, the retirement of the baby boomers is likely to cause some movement in the stock markets and with this strategy we look to position portfolios to maximize the potential in that movement. We do this by carefully investing in stocks that will rebound when the markets recover as well as splitting the portfolio into tax free money saving vehicles to act as a safety zone.

This is a long-haul approach to saving but by using this model we can extend a client's retirement income by up to 10 years which immediately alleviates some of those fears covered off earlier.

If you've heard of the phrase, 'don't put all your eggs in one basket' then the volatility buffer strategy is that saying in operation. Here's how it works.

Typically someone retiring will have one retirement basket – 401k for example – where assets are correlated against each. Put simply, as stocks and shares fall in price so does the pension fund. The trouble is when the markets pick up after a fall you never recoup what you've lost because you've had to take money out on which to live on.

With the volatility buffer, money that would traditionally go into 1 basket is split between 2, one of which is invested in non-correlated assets.

LET'S LOOK AT SOME FIGURES

You start the year with $100,000 and the market drops by 15% but you also take out 10% to live on. So you end the year with a fund size of $75,000.

Next year the market picks up by 15% taking the value up to $86,250 and you withdraw $10,000 just like you did in the first year, so at the end of the year the value is $76,250.

Over that 2 year period you've taken out $20,000 but the actual value of the fund has gone down by $23,750 so you've lost $3,750.

With the volatility buffer, money that would traditionally go into 1 basket is split between 2, one of which is invested in non-correlated assets. Using the example above, rather than withdrawing $10,000 in the second year, money is instead drawn out of the non-correlated assets basket.

The non-correlated basket is only drawn from in years following a market correction which gives basket 1 time to rebound so you don't lose as much money.

You can find a more detailed explanation of this in a video we made, available directly by typing in the address below or by visiting our website.

http://www.screencast.com/t/2fVUvCvB

KEY TAKE AWAY

With the Volatility Buffer Strategy you put your "eggs" in more than one basket. You can **minimize your losses** due to market fluctuation, even while you are taking money out of your investments to live on.

THE COVERED ASSET APPROACH

With this we use insurance products designed by actuaries to provide a guaranteed income in your retirement along with a guaranteed inheritance for your family. With this you'll know how much you're going to get each month once you retire, which therefore allows you to plan your retirement years with more confidence. Many of these products will be inflation linked so again it allows you to focus on the positive side of retiring rather than the negative.

Using this approach it is not uncommon for us to boost our client's retirement income from anywhere between 25%-100%.

HERE'S AN EXAMPLE

You pass the money you've saved up to an insurance company who agree to pay you a set amount back each month for the rest of your life – that's the annuity. The trouble is that once you die no more money is paid out so you could get back less than you put in.

To cover this potential shortfall you use some of the money paid to you each month to buy a life insurance policy through that same insurance company. When you pass away a guaranteed amount is paid to your beneficiaries, potentially tax free.

Current pay out rates on life insurance policies when combined with annuities are up to double what some investment houses are offering.

What needs to happen with this strategy is that the right balance has to be struck between the annuity and life insurance policy, which can only come about from careful planning.

THE WAY FORWARD FOR YOU

Both of these strategies can be used in conjunction with each other and while they may appear straight forward, it's imperative that you consult a qualified Wealth Strategist before putting them in place.

They'll be able to take you through the solutions and explain in greater detail how it all works so that you can start to look forward to and enjoying the retirement you deserve.

It's never too late nor too early to get started on planning for your financial freedom in retirement, so contact us today and we'll set up a free, no obligation consultation either over the phone, face-to-face or via a web chat to discuss your options.

20 minutes will be all it takes to get the ball rolling on securing a better financial future for you and your loved ones.

Alternatively, if you simply require more information before making a decision then we have lots of free resources and information available on our website, where you can watch videos, download documents or listen to podcasts. Simply follow the link below.

http://paradigmlife.net/resources/

And if you are looking to take that next step now then email us at info@paradigmlife.net or call us on 1-855-801-6306 today to set up your consultation.

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