5 Frightening Facts About Retirement in America

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Introduction

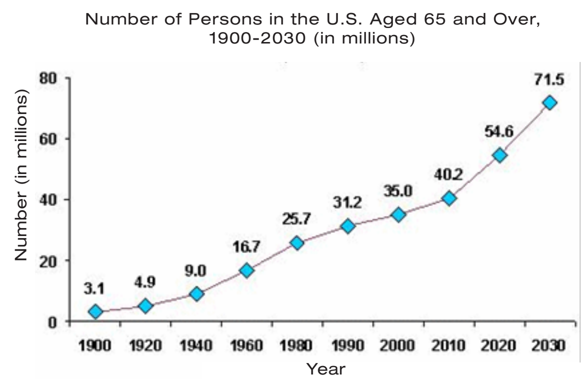
If you are reading articles about retirement, make sure you read this one. It takes no more than 10 minutes to increase your awareness of key facts that impact the achievement of your retirement goals.

Why are these five facts frightening? They can destroy your dreams of a secure, comfortable retirement.

1. Increased Performance

You have read a lot about people living longer, but have you applied that fact to your retirement plan. If you retire at age 65 you or your spouse have a good chance of living well into your 90's. This means your assets have to produce income, retain their purchasing power, and preserve principal for 30 years or more.

That's 30 years of inflation, recessions, rapidly rising healthcare costs, stock market declines, fluctuating interest rates, wars, global economics, political scandals, the pending collapse of social security, and a rapidly rising national debt of $17 trillion.



Sources: January 2004 Census International Release and Current Population Reports, Special Studies, "65+ in the United States"

You may have thought your days of taking investment risk to produce higher returns were over. But that is not the case and you can thank longevity for the problem.

There are two new retirement risks:

- Becoming too conservative too soon when you have a 30-year investment horizon
- Bad advice when you invest to improve performance

Investment risk tolerance definitely declines with age. However, there is a second risk that should not be ignored. It is the risk of running out of money late in life when you need it the most. Taking some additional risk during early retirement years may be the more prudent strategy.

Increased longevity is a blessing or a curse depending on your physical and financial health. Your physical health is a function of genetics, lifestyle, and the avoidance of life threatening diseases. Your financial health is the amount of money you have accumulated in relation to your desired lifestyle and longevity.

The bottom-line: Rolling CDs and short-term bonds is an obsolete investment strategy until very late in life.

Why is this one on the Top Five List?

You cannot offset all of the forms of erosion You need more performance from your assets and for a longer period of time than previous generations.

2. Stock Market Crashes

The two most recent stock market crashes occurred in 2000 (Internet Bubble) and 2008 (Toxic Mortgages). Future crashes are inevitable. Rising stock markets produce excessive P/Es that are followed by corrections (losses of 15% or less) and crashes (losses of 16% or more). Wall Street greed and corruption also create higher volatility.

What is most ominous for current and future retirees is the number of years it takes to recover from crashes. For example, if you have a dollar invested in the market and it's value declines to 50 cents you experienced a 50% loss. But, due to your reduced asset base of 50 cents, you need 100% appreciation to get back to a dollar. And, you really need more than that to offset investment expenses and inflation that reduces the purchasing power of your assets. These two sources of erosion could add another 20% to your break-even point.

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Nobody has a crystal ball that can predict when the next crash will occur or why. But crashes, just like bull markets, are inevitable due to the speculative nature of the securities markets. The worst-case scenario is a stock market crash that occurs the year you want to retire. In a short period of time your assets could decline in value by 20% to 40%. You have no quick way to recover losses and still retire when you want to.

Why is this one on the Top Five List?

You have to accumulate enough assets to survive crashes and still achieve your retirement goals.

3. Erosion

Future retirees, who are solely responsible for their own results, will have to take more risk because they need higher performance to offset the four primary types of erosion that impact retirement assets.

4 primary types of erosion that impact retirement assets.

1. Investment expenses (Deductions from your accounts)
2. Inflation (Reduces the purchasing power of your assets)
3. Taxes (dividends, interest, gains, distributions)
4. Distributions (If retired and taking money out of accounts)

If you are not taking distributions your total erosion might be 4% to 5% (2% for expenses, 2% for inflation, and 1% for taxes). If you are currently taking distributions from your accounts add another 4% to the number that applies to your sources of erosion.

Why is this one on the Top Five List?

You cannot offset all of the forms of erosion by investing in 1% CDs or 3% bonds. You will have to take more risk by investing in longer-term bonds and the stock market.

4. Total Return Investing

In the past, retirees limited their investing to bonds to avoid the volatility of the stock market. But, low interest rates the past few years have made this strategy obsolete. In the future, newer retirees will have to invest in the stock and bond market for the following reasons:

- They have very long investment horizons (30+ years)
- Stocks outperform bonds over longer time periods
- They need higher returns to offset all forms of erosion
- They need a reinvestment amount to grow their assets

Your performance expectations should be a combination of income and appreciation. For example:

- Your asset amount: $800,000
- Your average rate of return: 9%
- Your distribution rate: 4% of assets ($32,000 per year)
- Your reinvestment rate: 5%
- Your interest and dividends: 3% of assets

Two things happened in this example. The distribution rate was expressed as a percent of assets that was not tied to dividends and interest. And, the reinvestment rate offset the other forms of erosion: Investment expenses, inflation, and taxes.

Why is this one on the Top Five List?

Your retirement distributions should be a percentage of your assets. Performance is your primary method for growing your assets and preserving their value.

5. Wall Street: Myths & Realities

There are three Wall Street myths that advisors use to sell investment and insurance products. Myths are myths, but they sound real when they are presented by a personable advisor who has strong sales skills.

Financial Advisors

Would you believe most financial advisors are not advisors. 75% of advisors are licensed sales representatives who masquerade as advisors. They claim to be financial advisors or financial planners to reduce your sales resistance when they sell investment and insurance products.

Why use deception to sell products? They know you do not want salesmen investing your retirement assets. They sell more products. They make more money.

Your Interests Always Come First

Wall Street firms make this claim in their advertisements. Reps make the same claim in their sales pitches. They know this is what you want to hear, but the claims are false for the following reasons:

- Wall Street makes more money doing what is best for its firms, executives, and advisors than it does doing what is best for you
- Wall Street spends millions fighting regulations that would increase ethical standards and increased disclosure for sales representatives

How do you know this major conflict of interest exists?
Read the headlines. Greed and corruption run rampant on Wall Street.

Why should you avoid sales representatives?

1. They are paid commissions by third parties
2. They do not provide ongoing advice and services
3. They are not accountable for the performance of their recommendations

Beat the Market

Following is an example of a frequent sales pitch that advisors use to gain control of assets and justify higher fees.

They say: "You should be willing to pay higher fees to beat the performance of the stock market".

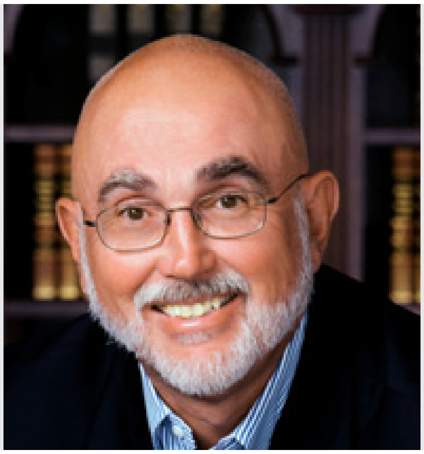
How can these advisors predict the future returns of the stock market and your portfolio? They can't. This is a blatant sales pitch that is designed to appeal to your need for performance. And, it works. Most people buy the pitch because they want higher performance.

Also, beware of the advisor who shows you the performance of a portfolio of mutual funds and says the funds' performance is his track record. There is a 90% probability he selected the funds after the performance occurred.

Why is this one on the Top Five List?

You may hire a financial advisor to help you accumulate and preserve retirement assets. This is the most important decision you will make for your financial future.

About the Author



Jack Waymire is the founder of PaladinRegistry.com and InvestorWatchdog.com. He spent 28 years in the financial service industry and is the author of Who's Watching Your Money?

You can follow Jack on Twitter: @PaladinRegistry