



FIRST WESTERN TRUST BANK



HOW MUCH IS ENOUGH?

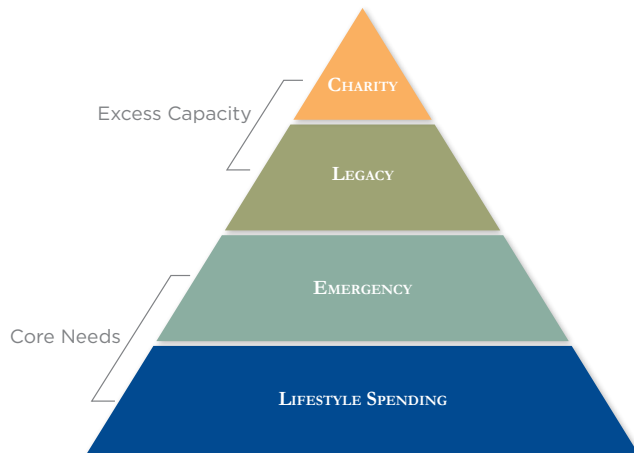
Planning For Retirement in a New Financial World

Somewhere around 75 million baby boomers were set to retire over the next few years, but “the times they are a-changin’.” People are living longer. Pensions are not. Inflation’s on the rise. Home equity is not. On top of all this, there is the reality of unruly health care costs, a fierce U.S. credit crunch, and a global recession. Suffice it to say, boomers are facing a new financial world of retirement that is drastically different from yesterday’s; it is rapidly roiling every facet of a pending retiree’s life planning.

The good news is people are saving for retirement. Today, nearly 80% of employees participate in their work-based retirement plans, and approximately 40 million people have active 401(k) plans. Despite a brutal bear market, there is reportedly more than \$13 trillion still stashed away in a variety of public and private retirement plans, more than double the amount invested 10 years ago.

However, the nation’s financial predicament has left many people adjusting the assumptions they had made about their retirement plans. With the economic crisis draining value from 401(k)s, IRAs, and pension plans, a lot of people are double-checking their retirement schedule. Many are responding accordingly. The Employee Benefit Research Institute reports that nearly half of those who have re-calculated how much money they need for a comfortable retirement have taken steps to bolster their savings, such as increasing their contributions or shifting investment allocations.

THE HIERARCHY OF RETIREMENT NEEDS AND GOALS



A successful retirement plan will also give consideration to the difference between core needs and excess capacity. Core needs refer to basic lifestyle expenses... food, shelter, clothing, health care, and so on. Excess capacity, on the other hand, is the amount of money left over to fund things like legacy or charitable goals.

Given the economic turmoil of the last couple of years, everyone should take a hard and comprehensive look at their specific situation. It is time to really “crunch” the retirement numbers and determine what percentage, or multiple, of a final salary will be necessary to maintain a current lifestyle throughout retirement.

In other words, people need to determine just how much will be enough.

There is no easy answer or a one-size-fits-all calculation any longer (if there ever really was one). The elusive “how-much” number is different for every individual, and it all comes down to circumstances and one’s outlook on life.



A New Financial World

The whole concept of retirement is fairly recent, an experiment that began with the creation of the U.S. Social Security system in 1935. With the country facing massive unemployment during the Great Depression, the system was intended to allow older workers to retire with guaranteed income and make way for younger workers. Retirees would begin receiving benefits at age 65. Curiously, the average life expectancy in 1935 was 59. Today, that number is 79.

For a married couple at age 65, there's a greater than 50 percent chance that one of them will live beyond age 92. In other words, many people could realistically spend 30 years—essentially one-third of their life—in retirement.

The Best-Laid Plans

So, how do you determine the lump sum you will need to support a comfortable lifestyle in retirement? What does it take to set a realistic goal for your retirement balance sheet?

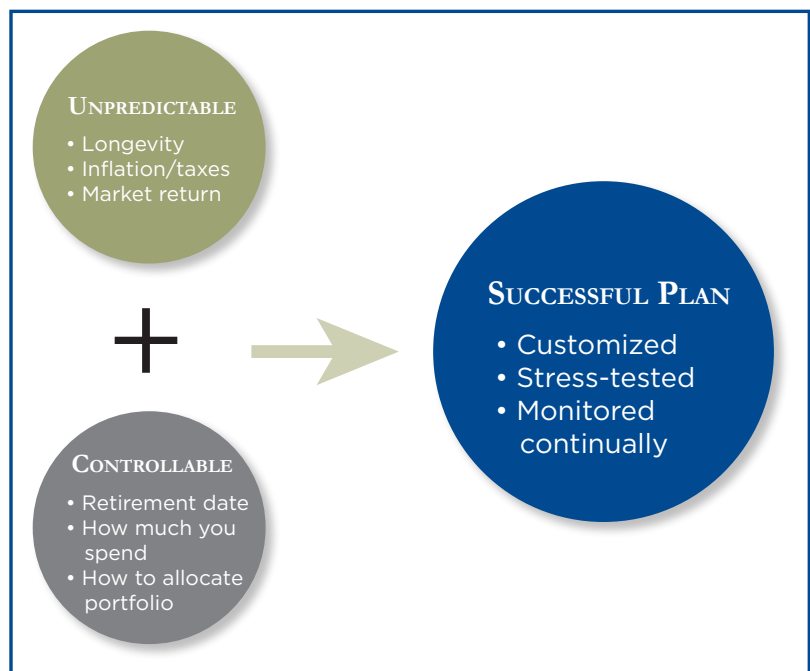
That depends on your adviser, your mindset, and where you are in life.

First, you need a target number. How much income will you actually need to maintain your lifestyle? Most financial experts recommend that you try to replace 75% to 85% of your preretirement income (the spending rate) through distributions of a combination of personal retirement savings, pension, and Social Security.

To achieve that goal involves the consideration of all the variables. There are controllable behaviors, like spending, retirement age, asset allocation, health insurance plans, and the like, and there are other variables outside of our control, unpredictable events. How long will you live? What are your health risks? Is cancer prevalent in your family? Heart disease? Will you need to provide for your grandchildren? How will a roller-coaster market swing impact the value of your investments?

For a plan to incorporate all of these elements, it needs to be customized to meet an individual's or family's circumstances. Moreover, to be successful, a plan needs to be

“stress-tested” for adverse events—for example, when there's not just one terrible year in the market but two years back-to-back at the worst possible time (e.g., right when you are planning to retire). Even after stress-testing, plans need to be monitored and occasionally modified.





Doing the Retirement Math

This chart is built around the maximum annual spending rates that most financial planners suggest for a couple who is retiring at these different ages. The investment portfolio is assumed to be a 60/40 mix of equities and fixed-income assets.

Age	55	60	65	70	75
Annual Budget	Size of Core Portfolio You'll Need (60/40 Allocation)				
\$100,000	\$2.9mm	\$2.8mm	\$2.6mm	\$2.3mm	\$2.0mm
\$150,000	\$4.4mm	\$4.2mm	\$3.8mm	\$3.5mm	\$3.0mm
\$200,000	\$5.9mm	\$5.6mm	\$5.1mm	\$4.7mm	\$4.0mm
\$300,000	\$8.8mm	\$8.3mm	\$7.7mm	\$7.0mm	\$6.0mm
\$500,000	\$14.7mm	\$13.9mm	\$12.8mm	\$11.6mm	\$10.0mm
Spending Rate*	3.4%	3.6%	3.9%	4.3%	5.0%

* Spending rates as a percentage of assets at the various ages; annual (after-tax) budgets grown with inflation.

The point on the chart where the retirees' age and annual budget intersect reflects the estimated amount the couple must have invested in their portfolio in order to meet core needs. The chart indicates older retiring couples can afford to spend more dollars as a percentage of their savings. It also shows how a 55-year-old couple intending to retire and spend \$150,000 a year needs approximately \$4.4 million in accumulated assets, while a 70-year-old couple planning to spend the same \$150,000 would require just a \$3.5 million portfolio.

Those who have saved more than the amounts indicated will begin their retirement with excess capacity, which they can spend without jeopardizing their lifestyle. On the other hand, those who have saved less need to accept the extra risk or rethink their plan, perhaps even pushing out their retirement date.

The Longer You Work, The Less You will Need to Save

Every year you work past age 62 boosts your financial well-being in retirement. Not only do you avoid a reduction in Social Security benefits and increase your annual income, but you also avoid having to touch your retirement accounts, so they can grow tax-deferred for another year. In addition, you shrink the period during which you have to draw down your savings, trimming the size of the nest egg you need in retirement.

For years, a majority of retirees elected to take Social Security at 62 rather than their normal retirement age. (Early retirees accept a permanent reduction in benefits of 20% or more for the rest of their lives.) Today, however, many baby boomers are postponing retirement or are working part time, most often for the challenge and satisfaction of the job. Whatever the reason, working longer is a boost to the financial security of any future retirees.



Not All Plans Are Created Equal

Not too surprisingly, the baby boomer generation has started and continues to transform the retirement marketplace. It could be said that retirement today is far more about retiring “to” something rather than “from” something.

Still, a successful retirement plan is about having enough money to do the things you have always wanted to do. Given the current economic situation, this is an extraordinary time to sit down with an experienced retirement planning professional and hammer out your best, long-range investment strategy. This difficult stretch in the financial markets presents an opportunity to reset your objectives, fine-tune your risk tolerance, and develop an appropriate asset allocation tailored to your goals.

When it comes to the elusive “how-much” number, there are no cookie-cutter solutions, but studies have shown that people happiest in retirement are those who have stuck most closely to a well thought-out plan. That may be just enough.

Survey indicates First Western clients remain optimistic about retirement prospects

First Western Trust Bank recently conducted a survey investigating the effects of current economic conditions on retirement planning attitudes. Survey results indicate that an overwhelming majority—70%—are still looking forward to a “successful and meaningful” retirement. Moreover, an almost identical number—69%—are confident in their advisor’s ability to help them manage the asset distribution phase of their lives.

The survey, completed in October 2009, generated a pool of 174 respondents whose retirement assets have been impacted by the dramatic changes in the economy and financial markets. Of the respondents, 25% were under the age of 50, 35% were between 51 and 60, 15% were between 61 and 65, and 20% were over the age of 65. Most (71%) were men.

Melissa Montgomery-Fitzsimmons, Director of Wealth Planning for First Western Trust Bank, noted that the survey’s positive results were encouraging in light of the far-reaching uncertainties that exist about the economy. The economic downturn has left many workers around the country to plan on working longer and supplementing their income in retirement by working for pay.

In contrast, the First Western survey showed a full 40% of respondents expecting no change in their spending patterns during retirement, with another 40% expecting to maintain the 75% spend rate recommended by many advisors. A full 92% look forward to increased travel during retirement.

The largest single concern among the respondents was rising healthcare costs, with 73% identifying that sector as the greatest retirement challenge they will face during retirement.

Surprisingly, with more than three-fifths of the survey’s respondents expecting to live beyond 80 years of age and a full third expecting to make it to 90, only a small percentage—36%—had incorporated long-term care planning into their overall retirement plan.