MONEY
MANAGEMENT
INSTITUTE

Class Notes
Baby Boomer Investing

A. Why it is important to address the financial needs of the baby boomer generation
- Baby boomers are those individuals born between 1946 and 1964
- It is estimated they represent over 76 million Americans
- Baby boomers hold over 90% of the country's net worth
- Baby boomers account for 78% of all financial assets
- By 2030, 72 million people will be over 65 years old (up from 40 million in 2010)
- American seniors are richer than ever (more older people, especially older women, are working than before)

B. Baby boomers have greatly impacted our society

i. Affect on college admissions

ii. The types and sizes of houses that have been built recently

iii. Numerous luxury cars from which to choose

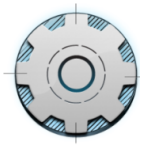
iv. Influencing the way the investment advisory industry is providing service

a. Mindset of the baby boomer investor/how they got there
- 2008 changed the way baby boomers view the future. What happened:
  - In an 8-week time period in September and October 2008, major financial institutions went out of business or were sold at fire sale prices
  - The housing market collapsed
  - The U.S. government stepped in to lend money to financial institutions
  - Europe followed with a collapse of its own
- Reasons for 2008 disruption still being argued today - contributing factors:
  - Mismanagement at corporate levels
  - Mismanagement at individual household levels
  - High levels of debt
  - Questionable oversight
- Result of 2008:
  - More are seeking advice from a professional
  - Increasing savings
  - Decreasing debt

b. Reality of baby boomer situation today:
- Many work well past conventional retirement age
- Many do not know how much they spend today or how much they need to retire comfortably
- Looking for more predicable income solutions

C. What does all this mean?
- Increasingly lucrative market for products and services focused on the elderly
- More sophisticated financial planning, management, tracking tools
- More investment options available

D. Changing landscape of employer-sponsored retirement plans
- Defined benefit pension plans
  - Funded by the employer



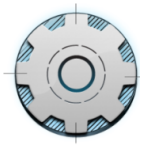
- Pay a "defined" amount of money, typically monthly, to a retiree
- Employer's responsibility to ensure the plan is funded adequately to provide the promised benefit at retirement
- Today, approximately 20 percent of Americans are covered by a defined benefit plan
- Fewer companies are offering defined benefit plans
- From 1980 through 2008, employees covered by a d/b plan dropped from 38% to 20%

- Defined Contribution Plans
  - Majority of today's workers are covered by defined contribution plans
  - Amount received at retirement from d/c plan depends on how much accumulates in the account
  - The most common types 401(k)s and IRAs
  - Americans now forced to save for their own retirement

E. Effect on financial advisors
- As clients age, financial planning becomes more important
- Move from investment performance to social-emotional issues of retirement:
  - Consistent income
  - Sense of identity
  - Opportunities for leisure pursuits
  - An encore career
  - Legacy planning
- Moving away from selling specific investment solutions to comprehensive "living plan":
  - All of the client's assets must become retirement assets
  - Sole objective of maintaining the client's desired lifestyle
  - Meeting other objectives (e.g., legacy planning)

F. Current state of the baby boomer
- Lack of understanding about how much they must accumulate, plus
- Unrealistic expectations for post-retirement income and lifestyles lead to a real danger of outliving assets due to:
  - Increased life expectancies
  - Decline in retirement benefits
  - Uncertainty about whether SS benefits will be available for them
  - Increased health care costs
  - Low savings rates

G. Solution
a. Investor must fund own retirement by creating own "defined benefit retirement plan"
b. Shifts the investor focus from "beat the benchmark" mentality to needs-based approach
c. Define retirement in stages
- "Honeymoon" phase:
  - Active, traveling, pursuing hobbies, exploring personal goals
  - Most expensive stage
- Stage two:



        - Expenses typically decline
        - Possible housing downsize
        - Planning for the possibility of long-term care, retirement home
    - Third and final stage:
        - Disengagement of the investment process itself
        - Drawdown phase
        - Retiree focused on day-to-day living, health care, grandchildren
d. Creation of "living plans" for our aging population
    - Managing by objective:
        - Comprehensive approach to a client's financial arrangement
        - Upon retirement, a retirees' singular objective is to live an acceptable lifestyle, with all of the assets working together to achieve this goal
        - Most, if not all, of the client's assets become retirement assets
    - Some of the items to consider when formulating the living plan are:
        - Retirement
        - Death of a spouse
        - Health care concerns
        - Where and when will the client moves
        - Continuity plan
e. For years, baby boomers typically look at their savings as different "buckets"
    - Sample buckets baby boomers saved for:
        - Children's' educations
        - Wedding funds
        - Vacations
        - Charities
        - Retirement savings.
f. The baby boomer living plan - four components it provides:
        - Inflation-adjusted lifetime stream of income
        - Increasing expenses (health care)
        - Legacy and charitable giving
        - Plan for continuity

H. Evolution of the financial advisor
a. Expand from being a "product expert" to a pension plan manager
b. Become an "insight" manager:
        - Able to fully determine, understand the client's life objectives so they can be met

I. Financial advisor tools to "Manage by Objective"
- Planning tools
    - Technology that allows all of the client's assets considered as having one objective and structure them in such a way that an appropriate distribution strategy is constructed
- Execution tool
    - The ability to manage all of the client's assets across all types of accounts and their registrations
- Tracking tool

- Allow the client to see where he/she is at any given time in relation to their comprehensive goals

J. Conclusions:

a. Because the baby boomer market is such an enormous market, financial advisors must continue to understand the needs of the baby boomer and develop new ways to meet these needs.

b. The most efficient way for an advisor to meet the baby boomer's retirement goals will be through management by objective. Living plans will be created, making all of the client's assets retirement assets.

c. Tools have been, and will continue to be, developed that will allow the advisor to efficiently plan and manage the baby boomer's retirement account, including distribution strategies and tracking.

d. All of this leads to the fact that planning strategies to navigate retirement is increasing while research and investment product selection is becoming of less importance for this group of individuals.