Personal Finance

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Money Matters: Savers beware, it’s time to rethink retirement planning

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We believe in the American Dream — the pathway albeit maybe not quite as apparent in present times, than in the past.

The notion of working, improving one’s self, and saving for future endeavors, such as retirement, is not obsolete. However, there have been significant changes in the world that have adjusted “how” and “when” many will retire.

If you currently work with a financial advisor, planner or wealth manager, you more than likely ... Performance is not

If you set aside the reference made regarding a disclaimer and take a moment to consider the simplistic meaning of the phrase, ponder the environment in which we currently invest in and how it differs from prior years and decades. Furthermore, consider the impact of low interest rates, demographics, government regulations and the ensuing stock market (even temporary) volatility, how it has changed how retirement is afforded, the ability to changes jobs, and financial planning for lifelong goals and objectives.

Imagine back 20 to 30 years ago when you or your parents retired - a very simple and feasible strategy was to migrate a large portion of savings into bonds and CDs to generate retirement income. This plan of action was viable then, but is arguably dangerous now.

Since the early 1980's, interest rates have been steadily declining. Using the US 10-year Treasury note as a general proxy, interest rates have been declining to the present day rate of 1.68% at the time of this article. This has been detrimental to savers, whose paradigm was to invest in bonds for income. Without monitoring and making amendments to this long-held thought process investors and savers are almost guaranteed a lower standard of living, as the current interest rate is below long-term inflation rates.

Demographics are another factor impacting how people plan and retire like never before. The aging populations in US, Japan and Europe for example, will impact demand for retirement income and health care in ways that current interest rates cannot support. Retirees are in a sense "checking out" and retiring early, late-life career changes, and longevity have increased the need to think about income planning differently. Simply put, people are living longer and may have multiple careers over their lifetime.

A major factor that isn't on everyone's radar and should be is - longevity! People are living longer and a foreseeable issue is the fact that the retirement age hasn't adjusted to the increasing life expectancy. Equally or possibly more importantly peoples' mindset needs to shift. For the next fifteen years, 10,000 baby boomers a day will turn 65, they still want to retire in their 60's, but the increased life expectancy potentially can cause the reality of outliving their money, if adequate planning and monitoring isn't in place and actively monitored by a professional.

With the historically low interest rate environment, we have witnessed a shift in client's mindsets over the years to work past the age of 50. This is typically in a field they enjoy as a part time "job" and also volunteering their time. This is in stark contrast to prior generations' view of working and retirement. Being able to afford this lifestyle change requires a fundamental change in how one plans and thinks about their finances.

"Old habits die hard." People tend to find it challenging to change behavior and habits that have been engrained.

This is especially true with regards to one's personal and business finances, which have formed over many years and some have been passed down from prior generations. The parable described in best selling book, "Who Moved My Cheese" by Spencer Johnson is very applicable to the financial times we now live in.

Our income cheese has been moved!

Being able to afford your lifestyle and goals means going down new and unfamiliar paths. There's no better time to get organized than the present. Each day that goes by becomes the past and you cannot get that time back. Taking a quote from Warren Buffett, "The chains of habit are too light to be felt until they are too heavy to be broken."

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