



Investment Insights

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Solving the Shortfall

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My recent columns on retirement planning (“How Much is Enough?” July 4th and 18th, 2006) elicited much positive response from readers. This isn’t surprising seeing that approximately 10,000 Baby Boomers are reaching retirement age every day! If you also consider that the Personal Savings Rate has declined over the past 20 years from 10% to 2% (US Dept. of Commerce), this topic is of interest and, for many nearing retirement, great concern.

Based on my experience with this issue, my guess is you either a) haven’t calculated for yourself how much you’ll need to retire because it’s too scary, or b) did the calculation and have survived the ensuing heart palpitations. Unfortunately, this exercise is frequently discouraging, but it does give you a realistic look at how ready you are financially for retirement.

In light of the fact that I’m not a total masochist, here are a few tips that may help sooth the sting of the exercise I put you through, and make you feel a little more confident in your financial future.

Tip #1: Consider all resources. When determining what you have available to support yourself in retirement, be sure to consider everything. This would include equity in your home, and any other real assets you have (coin collections, a Monet in the attic, etc). For example, you may have very little in savings, but your house is paid off and appraised at \$1million (very possible in this area). There are many ways to tap that equity to support your retirement, the most obvious being downsizing to a smaller home and freeing up hundreds of thousands of dollars to support yourself. Chances are if your income is tight you won’t have the money to maintain a large house anyway, so downsizing makes sense for a lot of reasons.

Tip #2: Reassess your lifestyle. I was recently in London, where it was easy to drop \$25 at Starbucks for a couple coffees and a muffin. Would it be neat to retire to London? Sure, but I’d need a ton of cash. According to studies, the Bay Area isn’t too far behind London in terms of cost of living. Although this is unquestionably a wonderful place to live, if retiring from the rat race is important to you maybe you should consider other, less-expensive areas to retire to. There’s a reason Florida, Arizona, or even the foothills of the Sierras are growing by leaps and bounds. Heck, they even built a Costco in Cabo San Lucas to serve all of the American retirees flocking to Baja!

Tip #3: Inheritance: A one-word tip. Pretty self-explanatory, and this will be the savior of many a retirement plan. The good news is nearly \$200 billion is inherited every year on average. The bad news is the average inheritance is only \$29,000 (according to CNBC reports, 4/19/06). Although I would caution you to strive to be self-sufficient exclusive of any potential inheritance, for some of you this can be a significant financial event.

Tip #4: Earn income. Retirement doesn't have to mean you suddenly go from working 60 hours per week to zero. Maybe you can find a way to scale down to a role that provides you with some cash flow, keeps your mind active, and is not stressful. For example, if you've built a career in one industry, maybe you can do consulting work, structuring your own schedule and commitments. Having a source of income for some period into retirement can make a world of difference in how long your savings will last: not only do you spend down savings more slowly, but those savings will continue to compound interest, providing you with greater benefit down the road.

The traditional definition of retirement is being re-written by the current generation of retirees: people are living longer, working later into life, and creating lifestyles that both support their goals and work within their financial picture. If your retirement plans don't fit into the traditional pattern, you're not alone. Be creative, think outside the box, and craft a life that works best for you.

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