

# planperspectives » RETIREMENT INSIGHTS FROM MORGAN STANLEY SMITH BARNEY



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The good news is that planning really does change the way you think.

## Retirement Planning: A Numbers Game Calculating what you need to live comfortably

“What’s my number?” These days, it’s a question millions of baby boomers are asking themselves, as in, “How much money do I need to stop worrying about retirement?” Figuring out that magic number has never been more challenging—or more important.

You have to figure out how to fulfill your retirement goals without sacrificing a comfortable life. Your money has to last, but you don’t know how long your retirement will last. (Today, the average American can expect to live nearly 78 years.) And longevity isn’t the most remarkable feature of baby boomers heading toward retirement—it’s what they plan to do with those years that really stands out. People retiring today are just as likely to be balancing tee-off times and family visits with a second career, entrepreneurship, world travel or pursuing an advanced degree. How can a person possibly fit it all in—and afford it?

Talking is a good start. Identifying shared goals with your spouse—and working out compromises—is vital to

successful planning. The next step is to calculate what level of income you will need to live comfortably in retirement. And then you’ll have to consider how best to manage the assets you have so that you can better achieve your goals.

The good news is that planning really does change the way you think. The 2008 Retirement Confidence Survey conducted by the Employee Benefit Research Institute shows that 47% of workers have tried to calculate how much they need for retirement. Once they crunched the numbers, 44% changed their retirement planning and, of these, 59% started saving or investing more. ■

# Savings Strategies

## Catching Up on Retirement Savings

**»** You finally decide to sit down and take a serious look at your retirement savings. Unfortunately, you have not prepared as well as you thought and now you are afraid the lifestyle you envisioned for retirement may be out of your reach. If you are facing a shortfall in retirement funds, there are three major steps you can take:

**1. MAX OUT EMPLOYER RETIREMENT PLANS.** The fastest way to build up retirement funds is to contribute the maximum amount each year to tax-deferred company plans. Annual catch-up provisions allow employees age 50 or older to contribute \$20,500

in 2008, versus \$15,500 for workers under 50. For example, if you are able to contribute the maximum catch-up amount to a 401(k) and earn 8%, after 10 years your retirement nest egg could have a sizeable balance of \$320,733.

**2. AUTOMATE IRA CONTRIBUTIONS.** Yes, it's only \$5,000 at a time, but funding an IRA annually will significantly add to your nest egg. To guarantee your current annual contribution, a Morgan Stanley Smith Barney Financial Advisor can set up an automatic funds transfer into your IRA for the beginning of every year. (Note: You have until April 15th of the year following the contribution

tax year to make a deposit, and nonworking spouses can also make a contribution to a separate IRA, thus doubling a couple's savings.)

**3. CONTRIBUTE TO A ROTH IRA, IF ELIGIBLE.** Unlike traditional IRAs, Roth IRAs may allow you to receive tax-free distributions during retirement. For 2008, individuals can make full Roth IRA contributions of \$5,000 (or earned income if less) if their modified adjusted gross income does not exceed \$159,000 on a joint return or \$101,000 on a single return. If you are older than 50 you may contribute up to \$1,000 as a "catch-up contribution." ■

### » THE GREAT RETIREMENT SHORTFALL

Amount of Savings Workers Say They Need for Retirement

Forty-two percent of workers think they need to accumulate at least \$500,000 by the time they retire to live comfortably in retirement. Sixteen percent feel they need between \$250,000 and \$499,999, while 25 percent think they need to save less than \$250,000 for a comfortable retirement.

Workers who have performed a retirement-needs calculation (27 percent) are over two times more likely than those who have not (11 percent) to expect they will need to accumulate at least \$1 million before retirement.

	All Workers	Did Retirement-Needs Calculation	
		Yes	No
Less than \$250,000	25%	17%	33%
\$250,000–\$499,000	16	18	15
\$500,000–\$999,000	23	25	22
\$1 million–\$1.9 million	11	17	7
\$2 million or more	7	10	5
Don't Know/Don't Remember	12	8	15

Data Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2008 Retirement Confidence Survey®



## RETIREMENT SHORTFALL, PART 2

According to the 2007 Retirement Confidence Survey from the Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., only 20% of respondents age 55 or older have saved more than \$100,000 for retirement. Here are some other sobering findings from this study:

- Nearly one-third of respondents over age 55 said they have less than \$25,000 in retirement savings
- 43% of all respondents said they have not done a retirement-needs calculation
- Approximately four in 10 respondents were forced to retire before they intended to retire
- 75% of respondents underestimated their projected lifespan

## Investment Strategy Retirement Portfolios for the 21<sup>st</sup> Century

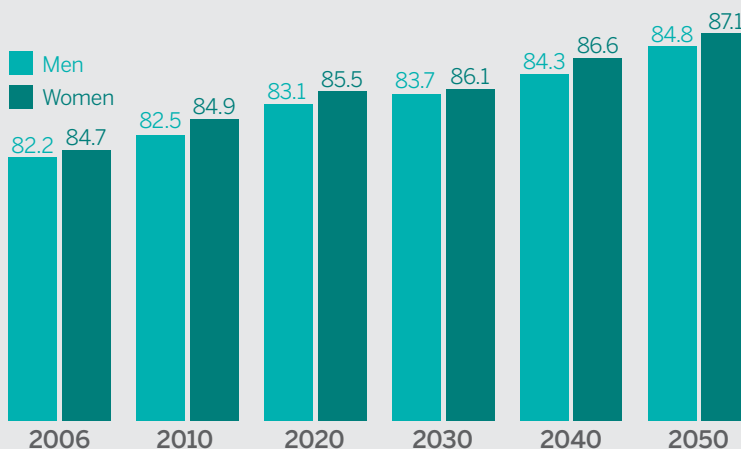
» A commonly heard piece of financial advice holds that as you near retirement age, you should gradually reduce your exposure to equities and increase allocations to fixed income or cash instruments. The logic behind this advice may be sound—investors with shorter time horizons generally should be more conscious of shorter-term risk. The problem is that the postretirement investment time horizon for many people is getting longer all the time.

While a bond-heavy portfolio might leave you less exposed to short-term

volatility, it could also fail to generate the returns needed to support your desired lifestyle through a 20-year or even 30-year retirement.

To avoid this risk, you need to recognize that higher portfolio returns typically can't be achieved without higher levels of risk. A more aggressive approach, involving larger allocations to stocks—including small cap and international—may be necessary. At the very least, any shift toward a lower-risk, lower-return asset mix may have to be postponed until after retirement. ■

### » PROJECTED LIFE EXPECTANCY AT AGE 65



Data Source: Social Security Trustees Annual Report 2007; Intermediate Cost Projections

International investing may not be suitable for every investor. There may be additional risk associated with international investing involving foreign, economic, political, monetary and/or legal factors. Small-cap stocks carry greater risk than investments in larger, more established companies.

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# When to Take Social Security?

## A Few Things to Keep in Mind

One of the few things you can control about Social Security is when you start taking this benefit. Should you take it when you become eligible at age 62 or wait until “normal” retirement age, which is a function of your birth date?

If you wait until the normal retirement age, you will receive 100% of what you were promised. If you take it at age 62, however, the payments will be permanently reduced for the rest of your life.

To help you make this decision, consider that, on average, Americans are living longer than ever before—and obviously the longer you expect to live, the more sense it makes to delay your benefit. If you will have earned income prior to your normal retirement age,

you should consider delaying the starting date. It also makes sense to delay if you want to ensure that your spouse gets the maximum widow’s benefit.

On the other hand, some people who may not need the money right away still like to get it as soon as possible. Why? So they can invest it and earn a potentially higher return than the cost-of-living increase determined by the Social Security Administration. Of course, that means giving up a

guaranteed source of income in favor of an unguaranteed source that relies on market performance.

Your Financial Advisor can help you decide the best time for you to begin taking your Social Security benefit. ■



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