



American Heritage Securities, Inc.

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Redefining Retirement

Work to age 65, collect a gold watch, take your pension and health benefits to a warm climate, and golf every day until happy hour. That is the retirement stereotype you've long been told to aspire to. The reality will likely be nothing like that—and that may not be a bad thing.

New thinking on retirement suggests twentieth century concepts of retirement no longer meet the physical, mental, emotional or financial needs of today's sixty-plus generation. The Baby Boomer generation is accustomed to being intellectually challenged, physically active and emotionally rewarded. At the same time, they've long epitomized a society that emphasizes material gratification over frugality or saving. Meanwhile, employers shifted the burden of retirement income savings to them via the ubiquitous 401K and any savings they might have managed have been diminished by two ferocious bear markets. All these trends, along with greater longevity and changing demographics, are converging to demand a re-think of retirement.



The concept of retirement as one's rewarding "golden years" began to evolve about one hundred years ago. Social Security brought "retirement" to the masses and it became the standard after WWII when employers vying for workers, along with pressure from unions, provided attractive pension income benefits.

Much has changed over the decades since retirement first became an entitlement; the biggest being our longevity. The average life expectancy at birth in the U.S. is 75 for men and 80 for women. That's 14 years more than the life expectancy at birth when the Social Security Administration first began issuing monthly checks to those who retired at age of 65. Plus, today's 65 year-old, can count on living another 17 to 20 years. Another change related to the viability of Social Security is demographics. As recently as 1955, the worker-to-beneficiary ration for social security was 8.6. By 2020 it is projected there will only be 2.8 workers

supporting each social security beneficiary. (And it is a transfer of payments program—but don't tell that to anyone over 65 who is convinced they "earned" every dollar of benefit.) These trends, along with the expense of Medicare, are demanding dramatic changes to the financial structure of the government programs supporting the retired.

Another change is the shift in responsibility (back) to the individual for his or her retirement. With the exception of government workers, pensions are nearly a thing of the past in the U.S. In most cases, they have been replaced by 401K's which place the burden of saving and efficient investing on the individual. The 401K experiment has not gone well. Our poor savings rates, combined with two recent bear markets has resulted in an average 401K balance of just \$135,008 for those aged 60-69, according to an October 31, 2013 report by the Employee Benefit Research Institute. Of course those numbers apply only to workers who have 401k's. According to US News, about 51% of all workers have a 401k option and only about 40% of those take advantage of their program. Bottom line: 401K's are going to support only a small percentage of future retirees.

Beyond the financial issues, a third major change is lifestyle. Baby Boomers spent a lifetime actively engaging in causes such as civil rights and gender equality. Boomers aren't ready, or willing, to withdraw from society and lead a life filled with bingo and golf. Today, many Boomers are busy launching second careers, volunteering or taking care of family. Moreover, boomers are finding the physical and mental demands of meaningful work are a requirement if they wish to continue their active and rewarding lifestyle.

The new vision of retirement is driven by longer life spans, better health, financial considerations and a desire to remain engaged in life. Here are some common threads to help you achieve the ideal retirement:

- **Financial freedom:** Financial freedom was once defined as having enough money in the bank to quit work for good and do whatever you like. Today's retiree must assess various sources of retirement income along with healthcare costs. In many cases "financial freedom" may include extending employment. Still, retirement may be opportunity to leave a grinding career to do something you love but still generates income and give you the flexibility to spend time with family, travel, or pursue a passion.
- **A Sense of Purpose:** Retirees look forward to living a less structured life, but finding a purpose is what the new retirement model is all about. Retirees are using their professional experience to become consultants, pursue new careers or volunteer. The goal is to find a pastime that provides personal satisfaction.
- **Good Health:** Thanks to medical advances, today's retiring Boomers are relatively healthy, vital, and with plenty of life in front of them. Mental health plays an even more important part in a successful retirement. Research shows that engagement, social connections, and continued employment are key factors to overall good health. Physical activity and diet, as always, remain critical components of good health.
- **Retirement Planning:** Although the divorce rate has declined, it has doubled for people past age 50. Common relationship problems occur when couples spend too much time

together with few shared interests, one partner loses self-worth without a career, and differences arise over money, traveling and spending time with family. Planning for your retirement can make the transition easier.

In other words, maybe the old idea of retirement was never such a good idea anyway. It isolated older Americans from mainstream society and didn't tap into the wisdom and experience of older adults. It's even possible it contributed to dementia, depression and other illnesses. Americans should plan on working as long as they are able and consider de-intensifying, versus ending, their work as their abilities decline. The additional years of earning will help fill the funding gap and keep retirees active and healthier.