Karen Telleen-Lawton: Retirement Is for Babies — Boomers, That Is

There are several strategies to consider to help adjust to our changing times

By Karen Telleen-Lawton, Noozhawk Columnist | Published on 07.25.2011 2:54 p.m.

As we hit the three-year mark since the financial debacle, baby boomers have to ask ourselves how our finances are holding up.

According to a study by the Center for a Secure Retirement, two-thirds of middle-income boomers expect to have more difficulty in retirement than their parents. Some have had to adjust to a meaner and leaner lifestyle. As in all of our life stages, retirement for boomers is a contrast from that of our predecessors. We are different, and the times are different. How do we find our way?

Baby boomers like to remain in control, which is a good thing. Education is still a great investment, even in retirement. The more we learn now, the more flexibility we'll be able to maintain as we age. We can mold our future in adaptable clay rather than stone.

Adaptability is especially important because we expect to live longer in retirement and rely more on personal savings than the pensions of yesteryear. We may be used to a high standard of living, but our hippy roots (whether we lived it or watched it) may allow us to adjust where necessary.

The world we face in retirement has changed dramatically from the one in which we worked. Low interest rates and low inflation have prevailed since the crash. Nevertheless, health-care costs, which will consume an increasing portion of our spending budget, are out of control. And our nest-egg houses have declined in value.

Successful retirement strategies depend on recognizing the uniqueness of this stage as well as the changed conditions. Decumulation is vastly different than accumulation. Several possible strategies have emerged.

One common strategy is spending the interest on one's investments. As we age, a larger portion of our investments must be dedicated to cash or low-risk investments, since time is not on our side to recover from downturns. To earn more on cash, let your fingers do the walking on the Internet. There are high-yield checking accounts (typically you must make some debit transactions and subscribe to direct deposit and online statements), online savings accounts (usually a limited number of transactions per billing cycle), low-penalty CDs and I Bonds — inflation adjusted federal government bonds.

The 4 percent rule is another strategy that continues to be supported by empirical data. If a boomer expecting a 30-year retirement holds a broadly diversified and balanced investment portfolio of stocks and bonds, she can spend about 4 percent of her total retirement portfolio in the first year, and then adjust the budget each year for inflation. The probability is extremely high that her funds will not be depleted over 30 years. But take caution if you plan to retire at 62 and are blessed with family longevity!

A straightforward budgeting strategy is to divide expenses between mandatory and discretionary. Use only guaranteed sources of income such as Social Security, pensions and annuities to pay mandatory expenses such as food, housing and utilities, and medical expenses. Fund discretionary spending from your investment portfolio, adjusting lifestyle to fit your balance.

"Bucket" systems are another way to align spending with income. You can set up investment accounts with different levels of risk/return for spending in the first five years, next five years and so on, allowing time to determine the level of risk taken. Or set up investment accounts with different goals: vacation, health care, grandkids' education and so forth, allowing purpose to dictate the acceptable level of risk.

In a subsequent column I'll continue with more ways for boomers to thrive in retirement.

— Karen Telleen-Lawton's column is a mélange of observations supporting sustainability. Graze her writing and excerpts from Canyon Voices: The Nature of Rattlesnake Canyon *at www.CanyonVoices.com*.