RETIREMENT

WHAT IS IT ?

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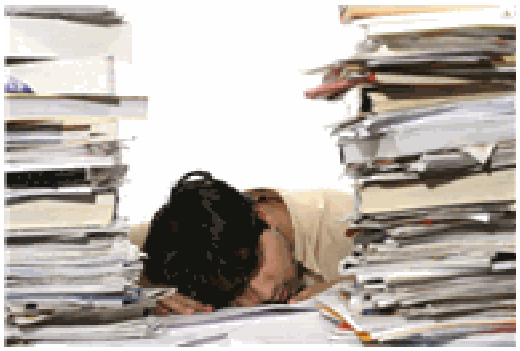


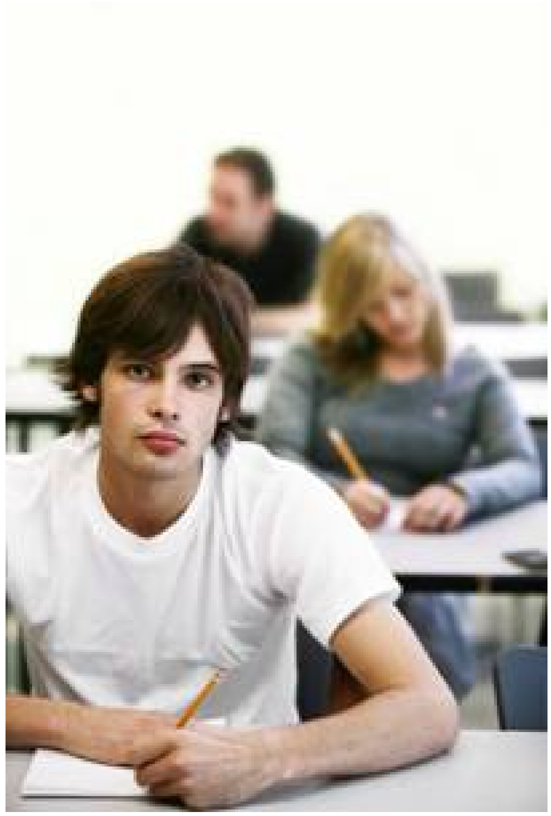
I realize there is a great temptation to young readers to skip this section, but really the earlier retirement planning is begun the happier those later years will be. You cannot tell if an individual led a lucky, successful or happy life until the end is reached.

I realize it is hard for many young people to look ahead. More and more Americans live for today with the hope that tomorrow will take care of itself. The excuse most often heard for living only for today is the threat of war. "We may not be here tomorrow," it goes, "so why plan for it?" There have been fears of the world ending which have tempted every generation into that kind of thinking. It is only recently and in America, however, that the government itself has fostered the "live for today" attitude by subsidizing consumption and penalizing savings, by offering tax deductions for consumer interest payments.

The fact is we as a nation are just beginning to recognize the fallacy of such short-term thinking. If we are to compete with nations whose people habitually sacrifice short-term desires for the good of the long-run, we must re-educate our politicians. Individual citizens must also adopt long-range planning when dealing with their own economic realities.

Oscar Wilde once said, "When I was young I thought that money was the most important thing in life; now that I am old I know that it is." Of course, that was said in jest, but it is amazing how many people minimize the important role money will play in their old age. In many cases it is not being replaced, only consumed and that’s why all the assets you have upon retirement should be working for you; bringing in interest, dividends or rents. Even though they may be active, not many people will be generating income at the same level they did during their most productive pre-retirement years when they had reached the top of their field.

IT'S NEVER TOO EARLY TO PREPARE



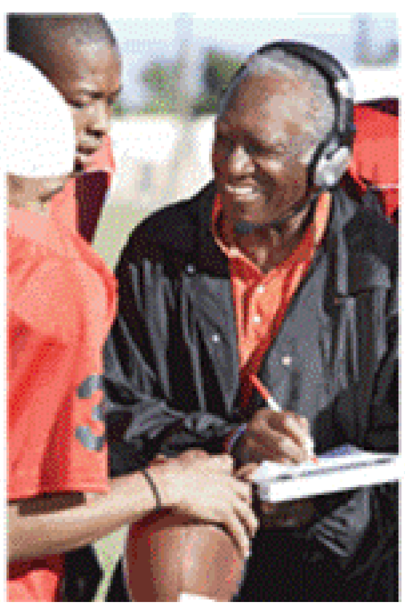
Most of us start fantasizing in our forties about all the things we're going to do when we retire, but those ambitions will remain fantasies with no chance of attaining reality unless preparation is begun early. The early bird may catch the worm but let me show you an example of what the *early investment bird* can catch.

Let's say Sue, age 20, began putting $2,000 away at ten percent. Twenty years later, at the age of forty, she has invested $40,000 (2,000 per year for twenty years) which has grown to $126,000. On the other hand, Mary consumed all her income when she was age twenty but began investing at age 40 using the identical procedures as Sue. Twenty years later when both are sixty years old, Mary has an investment worth $126,000 but Sue now has an investment worth, not double Mary's, or $252,000 as you might expect since she put in twice as many investment dollars over the years, but Sue has an investment worth $973,704! Sue's total investment of $80,000 worked for her over the years, interest earning interest until it was worth almost a million dollars. Of course this is a simplistic example not taking in the economic and personal family changes that are bound to occur over such a long period of time. More will be said about compounding interest later. It is enough to know now that the *magic* that occurred in the example for both Mary and Sue is attributed to compound interest.

RESULTS WITH COMPOUNDING

SUE			**MARY**		
age	cumulative contributions	cumulative total	age	cumulative contributions	cumulative total
20	$2,000	$2,200	--	--	--
25	10,000	13,432	--	--	--
30	20,000	35,062	--	--	--
35	30,000	69,900	--	--	--
40	40,000	126,004	40	2,000	2,200
45	50,000	216,364	45	10,000	13,432
50	60,000	361,886	50	20,000	35,062
55	70,000	596,254	55	30,000	69,900
60	80,000	973,704	60	40,000	126,004

THE BEST THING TO SAVE FOR YOUR OLD AGE IS YOURSELF



All the skills you have built up over a lifetime can be put to good use in your retirement years. In most cases, you will have the time; you only need the confidence and determination. What you're able to produce for your own use is tax-free and also reduces your expenses. What you can make or do for others can make you self-sufficient, give you a sense of pride, a circle of admiring friends and/or customers and, of course, great pleasure.

RETIREMENT YEARS
CAN AND SHOULD BE FULFILLING

Before 1937 only the wealthy could look forward to retirement. With the advent of the social security system and the proliferation of pension and profit sharing plans, retirement has become the province of the average man.
Many people dream of traveling, improving their golf score, sailing, fixing-up the boat, antique car or house they way they always envisioned, gardening, painting, working on that stamp or coin collection or maybe getting more education at the local college and branching out into an entirely new field. An old Jewish Proverb says, "For the ignorant old age is as winter, for the learned it is a harvest."
There is now ample evidence to support what was at one time only speculation; that being active in body and mind prolongs life. Taking an interest in living is necessary for health and happiness. People need to feel useful. We hear so much about the dangers of stress but total lack of stress—boredom—can also menace your well-being. It only goes to show what the Ancient Greeks knew thousands of years ago, that the "golden mean"; the midpoint between extremes, is the surest way to health and happiness. Too much of a good thing, even relaxation, can be harmful. Lying in bed or sitting in the sun doing nothing most of the day is a luxury when we are on vacation because our bodies and minds need that rest, and it may even feel great for the first few weeks after you retire; no longer having to rush for that 7 a.m. commute — but something purposeful, meaningful must soon take its place or boredom and discontent will set in. I once read that one must not lose desires. They are mighty stimulants to creativity, to love, and to long life. Henry Thoreau put it this way: "None are so old as those who have outlived enthusiasm."

WiserWorker.com and AARP are only two of the many organizations dedicated to providing quality employment opportunities and volunteer resources to seniors. These organizations try to provide older citizens with productive work in exchange for reasonable compensation. Hopefully more organizations like this will someday replace senior citizen centers which are generally non-productive in the sense that the training and years of experience of the seniors that attend is not fully utilized in watercolor classes, bird watching, folk dancing and card playing activities.

INFLATION

Thirty-five years ago the destructive force of inflation was more visible than it is today. Alan Greenspan managed to keep our inflation rate down for so long that it is easy to discount inflation as a threat to our future security.

For many years inflation fluctuated between three to four percent. Interest rates, which generally run about three percent higher than inflation, were in the six to seven percent range during those same years. In the mid-eighties we had high interest rates, in spite of low inflation as a reflection of the large government deficit. The Internet revolution that gained momentum during the Clinton years reduced the deficit but the national debt—the trillions of dollars that demand interest payments—was neglected. Until the national debt is resolved we can expect inflation to rise again.

Many seniors on fixed incomes had savings at 5.25 percent when inflation was running at thirteen or fourteen percent. They saw the purchasing power of their dollars shrink before their eyes.

Most people realize by now that high prices and high wages are results, not causes of inflation. Inflation occurs when an increase in the money supply is unaccompanied by a corresponding increase in the production of goods and services. For example, let's take the imaginary town of Contentment, population, 1,000; full employment; no rich; no poor but the entire population is quite content.

Suddenly a dozen limousines drive up loaded with wealthy tourists who like the quaint little town so much they decide to stay. The price of food, lodging, services suddenly zooms up. There just isn't enough to go around. The wealthy tourists have increased the money supply without increasing goods and services; the result is skyrocketing prices-- inflation!

In the United States the money supply increased more than 700 percent from 1945 to 1980 and the average price for goods and services increased 1200 percent. For example, a cup of coffee went form $.05 to $.50, magazine from $.05 to $1.25, movies from $.25 to $3.25, and an average house from $5,000 to $80,000. Production rose, of course, but not at the same rate. Both the government and its individual citizens expanded their desires faster than their real incomes. Deficit spending was possible for so long because the Federal Reserve, through the banks, made money available. When the policy was reversed by the tight money policies of Paul Volcker (Head of the Federal Reserve beginning in 1980), of course, interest rates went up because enough money was no longer available to meet the demands of eager borrowers. We should all be grateful to Paul Volcker for calling a halt; that is all of us who avoided bankruptcy and unemployment.

This is a simplified explanation of inflation. Actually, inflation is an interdependent worldwide phenomena and it cannot be licked permanently as long as government debt, fueled by huge annual deficits, casts its shadow. If I hadn't lost my respect for experts who often disguise their own ignorance by claiming something is "too complicated to go into," I'd make that same claim right here. One thing is crystal clear; we cannot trust the politicians to discipline themselves. Although we can hope for low inflation we must also hedge against the possibility of high inflation.

UNCERTAINTY CALLS FOR SHORT-TERM INVESTMENT STRATEGIES

In a fluctuating market, diversifying your investments is more important than ever. In uncertain times like the early 1980s have shown themselves to be, the best advice may be to invest short-term and plan long-term. It is not wise to get locked into any investment over a long period of years when so many *expert*s differ on the call of interest (up? or down?) and on whether inflation has really been licked.

FREE ADVICE CAN BE EXPENSIVE

Unfortunately, there are profiteers waiting to prey on the fears and anxieties of older newly retired people. Salesmen, annuity peddlers, bank employees or anyone who acts beyond the scope of his expertise will only mislead you. Never take technical advice from just anyone because it is free. Huge profits may well be the motivation of unscrupulous persons who smilingly offer this ultimately very costly advice. An honest-to-goodness desire to help may also be the motivation, but if the person is not an expert in the area in which he offers advice good motives will not make him any less a danger to you. On the other hand, if you can tell the difference between good and bad advice then you probably don't really need it anyhow.

SUMMARY

Chance are you will live long enough to retire and you had better make preparations for that time; intellectual and emotional as well as financial preparations. The earlier you set funds aside for growth towards retirement the cheaper your retirement will be because those funds have a longer time to compound. Don't be too certain that inflation will still be under control when you retire. Diversify your retirement investments including some traditionally inflation hedged such as hard assets. Don't get into long term commitments because the present market is far too volatile, on the other hand don't park all your assets on the sidelines either (in money market funds or savings accounts) waiting until you're shown some sign as to what the stock and real estate markets are going to do and which way inflation and the national debt will turn. Diversify time as well as investment vehicles. Have some investments maturing in one, two or three years and some in five years. Don't go out more than five years without an escape. The following worksheet will help you discover what you expect and desire your retirement to be.

Worksheet

We began this chapter with a discussion of the fantasies people have about retirement. In the worksheet that follows you will attempt to come to terms with your own dreams about the future. Once your idea of retirement is defined steps can be taken, prudent investments made and skills and education acquired if they should be the ingredients necessary for the fulfillment of those dreams.

Some expenses connected with health care, entertainment and travel may rise upon retirement, however many more expenses will decrease or disappear entirely. Smaller living quarters with their accompanying smaller utility bills; lower or a paid-off mortgage and life insurance policies; no more commuter and other job-related expenses; lower food bills and use of dollars once siphoned off to support the now self-sufficient kids are a few benefits you might look forward to. In addition you'll find Medicare will go a long way towards lowering hospital and doctor bills. Tax breaks will also be a part of your status as a senior and should be remembered in your planning.

Use your own notebook to record your thoughts.

1. When do I want to retire?

2. What do I intend to do with my time when I retire?
3. What is my anticipated standard of living with regards to?
housing? food? travel? entertaining?
clothes? automobiles? charity? other?
4. What inflation rate do I anticipate between now & retirement?

		CURRENT BUDGET	BUDGET WHEN I RETIRE
Housing Costs	mtg. pymt or rent	________________	________________
	property taxes	________________	________________
	insurance (HO)	________________	________________
	utilities	________________	________________
	maintenance	________________	________________
Food	regular meals @		
	home	________________	________________
	restaurants	________________	________________
	at home entertaining	________________	________________
Transportation	car upkeep	________________	________________
	ordinary gas cost	________________	________________
	auto insurance	________________	________________
commuting expense	gas	________________	________________
	parking	________________	________________
	tolls	________________	________________
	airfares	________________	________________
	train, bus, other	________________	________________
Life & Other Insurance	Premiums		
	(except HO)	________________	________________
Investment Savings		________________	________________
Medical Expenses		________________	________________
Education, Books Papers, Magazine Subscriptions		________________	________________

Travel & Entertainment (Including Vacations)		________________	________________
Miscellaneous		________________	________________
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Recommended Reading

Strategies for the Second Half of Life, by Peter Weaver
The Best Years Book, by Hugh Downs & Richard Roll
Where Will You Live Tomorrow, by Sumichrast, Shafer & Suichrast
Tax Tactics for the Retired, by Terry & Susan Schandel
Don't Die Broke, by Melvin Jay Swartz
60 Plus in California, by William & Laurie Wishard
Public Policy and the Aging, by William W. Lammers