Paying for Retirement

LOOKING FORWARD: AN OPTIMIST'S GUIDE TO RETIREMENT

Exclusive Book Excerpt by Ellen Freudenheim

Looking Forward offers a nonfinancial perspective on the wonderful and surprising range of things that people do in the years defined by *The Retirement Zone*. But you can't ignore money. This chapter is geared sympathetically for those people who feel a rising panic or run for an aspirin when they see the words "financial planning." It spells out the basics. You'll find quizzes to assess your risk tolerance, your spending style, and your level of financial literacy.

Before your palms get sweaty worrying about money, take a mental break from the consumer culture. Think for a moment about who you are and what makes you happy. Mountains of possessions and a huge stash of cash don't necessarily buy happiness. So whether you're a shop-a-holic Lucy or a frugal Fred, it's important to think honestly about what you need emotionally as opposed to what you might think you want materially. A five-day cruise might not be as satisfying as reestablishing a viable relationship with an estranged sibling.

That said, there's lots to learn about the financial aspects of retirement, and the majority of people over age 65 don't feel they know enough, according to studies by the National Council on the Aging. "Many workers struggle with making critical retirement savings decisions," notes Stephen Utkus, principal, Vanguard Center for Retirement Research. Sarah Sanford, executive director of the Society of Actuaries spells out the consequences of ducking realities. "Under-planning can have a severely detrimental effect on how people end up enjoying their retirement," she warns. "Without carefully considering future risks, retirees can face unexpected medical expenses, costs related to declining functional status, outliving their assets, decline in resources due to loss of a spouse, and the effects of inflation."

Search Time and Savings for Selected Products

Product	Median Savings	Search Time
RT, DC-Chicago Flight	$125	21 min.
RT, Houston-LA Flight	$139	15 min.
Car rental, two-day	$26	21 min.
Color TV	$100	16 min.

The initial part of this report is for people who are still receiving a salary.

The second part is for people who are no longer receiving a steady paycheck, and consider themselves retired, not unemployed.

Shifting Mind-sets: From Spending to Saving

Whether you are already retired or contemplating your future, saving money is a good practice for those in *The Retirement Zone*. You can start saving the very next time you set out to spend money. How? Price shop.

Most consumers underestimate the value of comparison shopping, according to research released by the Consumer Literacy Consortium, a group of consumer education leaders from government, consumer, and business organizations. "The fact is that shopping around for most products will yield savings far greater than 10 percent," says Jack Gillis, director of Public Affairs for the Consumer Federation of America. Those who don't comparison shop say the time spent is not worth the money saved. "The 50 percent of consumers who don't shop around are losing out on thousands of dollars of potential savings," says Gillis.

Check this out: In the fall of 2002, students at Virginia Tech University participated in a comparison-shopping study to determine typical price savings gained by shopping around

and the time it took to discover these savings. It took them just 73 minutes of phone shopping to rack up $390 of savings, albeit on fairly big-ticket items.

"Shopping—especially by phone or on the Internet—is easier than most consumers realize," said Robert Krughoff, president of Consumers' CHECKBOOK, a non-profit consumer information service. "For many products and services, consumers can save between one and nine dollars for every minute they devote to shopping. That's a much higher rate of return than most of us get on the job—and of course you don't have to pay taxes on money you save."

For Pre-retirees: If You're Still Working Full Time

After job-hopping through the 1980s and 1990s, you've amassed more than one 401(k) plan, a hodge-podge of investments, and possibly some real estate. If you haven't begun to think about the financial aspect of your long-term future, the time to do so is now. Retired attorney Judie Fernandez advises, "You need to plan four or five years in advance. Go, try out, read, and make a list of things you'd love to do, set goals, and make a wish list. You have to realize that someday is here, not five years from now, as you might not be healthy. Make a wish. Think about where you want to go and how much time to spend doing things. And crank that into your budget."

LIFESTYLE SCENARIOS

Do you need to work part time, full time, or can you quit soon? The answers are a matter of style, attitude, lifestyle, and comfort level about contingency planning.

How can you think that far ahead? Here's a method for organizing your thoughts on the subject, borrowing a concept from educational guidance counselors. High-school seniors competing to get into colleges are urged to think in terms of three categories of applications: "reach" schools that are their top picks, "target" schools that are in the realm of reasonable expectations, and "safety" schools, places where they are pretty sure of getting an acceptance. You can apply the same logic to other life transitions. Ask yourself: What's a reach—your dream retirement lifestyle—and how much will it cost? What's a target—a reasonable expectation of how you can live given your current resources and decent luck? And what's a safety scenario lifestyle—your most modest lifestyle—just in case things don't go quite your way? And for each, what's a thumbnail budget?

How Much Money Do You Need?

It's not a mystery. It's math. Call it the 80 percent rule of thumb. Many financial experts say that for every year in full retirement, you'll need about 80 percent of your pre-retirement annual income to support your lifestyle. In addition, some advisors recommend that you have from three months' to two years' worth of expenses readily available as an emergency fund—not cash under the mattress, but in such easily accessible investments as money market funds or Treasury bills.

The 80 percent rule means having saved and invested a considerable sum before you sever that umbilical cord to your paycheck. As of this writing, the most you can currently collect from Social Security is a bit more than $20,000 a year. Practically speaking, the question is: How much of your nest egg can you draw on every year after retirement and still have adequate money for your later years? And of course the big uncertainties include your own life span, future health and unforeseen expenses, and the performance of the economy, markets, and inflation.

Luckily, the calculations can be done fairly easily. A bevy of large investment firms offer free online investment calculators and a range of sophisticated service packages combining planning, investing, consumer education, and so on. To estimate what you'll need, you simply type in the following information: your current annual income requirements, the number of years until you retire, how long you think you will be retired, a guess on the rate of inflation, and what percent yield you think you can get on your investments. Their results may vary slightly (because they may use different underlying assumptions).

Retirement can bring you savings well beyond those ubiquitous senior-citizen discounts. For instance, assuming you are one of the four out of five householders over 65 who own the home they live in, free and clear, you could have the option of buying a smaller house, and even moving to a less-expensive area—and can garner a handy profit in the process. Smaller sources of savings add up, too. Typically, according to the U.S. Census Bureau, many people flip-flop their spending patterns in retirement. With no time pressure forcing you to buy prepared meals or lunch at work, you may eat in more often. And you may spend less money on clothing than when you were employed full time. And without needing to drive to work daily, you might trade in the SUV for a modest two-seater with greater fuel efficiency. On the other hand, there may be new expenses. In particular, it's wise to consider possible

health care costs—and whether you might be paying some of your spouse's, parents,' or in-laws' medical expenses, too.

ESTIMATE YOUR FINANCIAL NEEDS . . .
then try living on that fixed income.

If you aren't sure you are ready to live on what you've got saved for retirement, give it a trial run. That's the advice that ex-Boeing executive and retirement expert Henry K. Hebeler offers—along with free retirement planning tools—on his website, www.analyzenow.com: "During your last few working years, spend only the amount you can afford in retirement."

Saving Specifics for Pre-retirees

It's a good idea to put as much as you can into tax-deductible retirement plans while you are still employed. It adds up.

But, you may protest, it's impossible to save! Well, think carrot and stick. As a carrot, there are three good incentives to start saving for retirement now. First, you'll save a heap of money on taxes by squirreling away money in retirement plans, especially if you invest up to the legal limits. Second, when you start drawing down on your money, you might find yourself in a lower tax bracket and hence pay lower taxes on distributions from accounts like IRAs. Third, upping your contributions, because they're in

Practical Tips: 8 Steps to Your Financial Future

1. **Make a plan and stick with it.** Think long and hard about your goals—and write them down. Planning is more than just the nuts and bolts of managing stocks, bonds, and funds. What is the range of things you might want to spend money on during your decades in The Retirement Zone? Not just next year, but in five or ten? Consider the fact that your expenses will change over time.

2. **Know what you already have and where it is.** Collect and organize your papers. If you've job-hopped, you could have investments in numerous 401(k) plans, and consolidating them will doubtless involve headaches and paperwork. If you're not sure how to proceed, seek help. Find out when you will be eligible for government benefits such as Social Security and Medicare, and file in a timely fashion; these don't just fall out of the sky on your 62nd or 65th birthday. Log on to the Social Security Online website for extensive, user-friendly information (www.socialsecurity.gov). To learn more about your Medicare coverage, you can log on to the official government website (www.medicare.gov) or contact the Medicare Rights Center (www.medicarerights.org).

3. **Clean up your personal money management act.** Like good personal hygiene, good personal financial management habits will serve you well. Do you take simple steps to save money and financial hassle—like balancing your checkbook, reconciling your bank statements, and paying your bills on time? Do you dispute charges, negotiate rates, and keep track of what others are doing with your money? A first step is to pay off all your double-digit credit card debt. For additional information, see the National Foundation for Credit Counseling website at www.debtadvice.org.

4. **Work out some numbers, and resist wishful thinking.** Do some projections using online calculators. Take advantage of retirement planning seminars at your place of employment, a local college, or faith-based organization. Or peruse the shelves at a bookstore or library for resources on this topic. When making financial assumptions—about inflation, or your rate of return—don't be a cockeyed optimist. Plan for emergencies and be realistic about factors that may diminish your nest egg—inflation, fees to financial advisors, taxes, and other investment costs.

5. **Know your own tolerance for risk.** Getting comfortable with your own risk-tolerance level is essential if you are going to formulate a well-crafted investment plan—and one that you'll stick to. If you are married or have a significant other with whom you are pooling funds, discuss this thoroughly. It helps to see the big picture. For instance, what financial generation are you? Depression-era men and women often feel permanently insecure financially. As Princeton, New Jersey, resident George Fox mused, "I was born in 1939, and the Depression was very real to my parents. I have a solid nest egg. What worries me is that I will be like Silas Marner and not want to spend, that I'll never think I have enough." On the other end of the spectrum, some baby boomers run up debt faster than a squirrel runs up a tree. Try to be realistic about your own assets and future needs. (See the Financial Risk Tolerance quiz on the next page.)

6. **If you're in The Retirement Zone today, start thinking about tomorrow.** Rethink those expensive habits and make necessary lifestyle adjustments now.

7. **Is your interest or willpower already flagging? Give yourself an incentive.** Say you've always wanted to spend a year in a villa in rural France, à la Peter Mayle. One observer suggests this strategy: Tape up a photo of your dream scene in the place in your house or office where you make your financial decisions. Look at it periodically to remember why you're saving.

8. **Consider changing to a job with a pension plan that's better than what you've got.** As you are still working, you might consider whether the retirement benefits at your current job are as good as you can get. If not, consider a job switch. Or maybe now is the time to get started moonlighting and setting up that home-based business, something that perhaps you could grow into when you quit working full time.

pretax dollars, may translate into lower taxes, since you'll only pay taxes on your income after the contribution.

As for the stick, without scaring yourself to death, just dwell for a moment on the uncertainties—such as the possibility that you may have to kick in more for health insurance, prescription drugs, and even eyeglasses in retirement than you do while you're covered by an employer health care plan.

If all else fails, consider tricking yourself into saving. You can set up an automatic transfer from your checking account into a mutual fund, for instance. If you don't see it, maybe you won't spend it.

3 PLACES TO SAVE MONEY FOR RETIREMENT
(not including under your mattress)

■ 401(k)s: If you are an employee, the biggest piece of your retirement portfolio should be an employer-sponsored plan like the ubiquitous 401(k). Most 401(k) plans (if you work for a not-for-profit your plan might be called a 403(b), but they're essentially the same) let you put away pretax dollars in an account that grows tax free until you start making withdrawals in retirement. Some plans offer matching contributions. You'd be foolish to pass up the match by not enrolling in the 401(k). It's free money! Think of it this way: Say your company offers a 50-cent match for every dollar you put in up to a limit of $5,000, for example. That's an immediate guaranteed 50 percent return on your investment. Ordinarily, you'd have to do something of dubious legality or have great luck to pull in that kind of return. Even if the investment choices offered are limited, the most important thing is to choose the best of the lot and to save.

■ SEPs and Keoghs: If you're self-employed, you've got to fund your retirement all by yourself. Simplified Employee Plan IRAs (SEP IRAs) and Keoghs are plans that let you stash away retirement assets in pretax dollars. Just like a 401(k), these investments grow tax free until withdrawal. They can be set up for self-employed people whether or not they have employees. The contribution limits are much higher for these types of retirement accounts, and are particularly useful for those who don't have access to a 401(k) plan.

■ IRAs: For years, the individual retirement account was the investment of choice of people saving for retirement. Though it's taken a backseat to the 401(k), the IRA is still a workhorse of retirement, and it is worth having. Unfortunately the annual limit on an IRA is a piddly $4000, though older savers can put away $4500 in a recently enacted "catch up" provision. A Roth IRA is best for most people because while you put in after-tax dollars, your investment grows tax free and withdrawals in retirement are also tax free. Over decades, you win back the amount that you paid in taxes many times over. (There are income limits for contributors to Roth IRAs. If your income is above these fairly high limits, then a regular IRA is your best option; it's best to have your individual situation reviewed by a professional financial planner or investment advisor.)

Investing for Pre-retirees

Experts stress that it's important to diversify. Think of it as spreading your eggs out among more than one basket. The usual ingredients that go into the mix are stocks, bonds, cash, and real estate, but you have to work out the precise allocation. One basic rule of thumb says that you should subtract your age from 110 and allocate that percentage of your investments to stocks. So, as Wall Street wisdom goes, a 70-year old would have 40 percent of his or her portfolio in stocks.

Of course, your personal risk tolerance will also be a factor. How would you feel if your investment declined by 10 percent a year? What about 20? If you're a moderate risk taker where your money is concerned, then you'll want a plan that has some risk, but not enough that it gives you a sick feeling each time you think about the stock market's huge swings. Conservative investors shouldn't be surprised that they won't make as much as the market when stocks start to zoom, but at least they don't stand the chance of losing their shirts when the closing bell marks a down day. And if you have an investment philosophy that is not dependent on how stocks are doing on any given day or any given year, you more easily stay the course for years on end.

THE PRE-RETIREMENT INVESTMENT PIE

■ Stocks and mutual funds: Stocks should form the centerpiece of your investment portfolio, whether you're 10 years *from* retirement or 10 years *into* retirement. Remember that baby boomers today are expected to live, on average, well into their 70s and many will live to be 90 and 100 years old. Only stocks—not bonds or cash—can be expected to keep up with or outpace future rises in inflation.

Unless you're well versed in stock picking, consider investing in mutual funds. Just make sure you're well diversified across industries and investment styles so one blow-up won't take down your entire portfolio.

Experts suggest that blue-chip stocks (like General Electric or Microsoft, for instance) should be at the core of your investment portfolio. Why? With some exceptions, the stocks of large, well-established companies tend to be more stable than those of start-ups. Certainly, small company stocks have an important place in a diversified portfolio, but they should play a supporting role, not take centerstage. A broadly invested mutual fund comprising many large company names that's also low-cost and keeps turnover to a minimum is the thing to look for. To round out your large stock holdings (i.e., stocks in large corporations), experts say, you'll also need to allocate about 20 percent of the stock portion of your portfolio to "small cap" stocks (i.e., stocks in small companies). In addition, take a helping of international stocks, also about 20 percent, and a slice of real-estate stocks, which generally don't move in the same direction as other equities.

■ Bonds: The other big piece of most investment portfolios is bonds. This asset class usually behaves differently from stocks, and therefore offers some protection from volatility. The same rules apply to bond investing as to stock buying. Pick a well-diversified fund that doesn't charge high operating expenses. Remember, bonds can take a hit if interest rates rise sharply. So it's safest to spread your risks among different bond types that don't all react the same way. And as you get older, increase the bond portion of your portfolio.

Investing for Retirees: Now That You've Stopped Getting a Paycheck

You're retired, and have probably made some significant financial decisions already. However, ongoing post-retirement financial management is important, too. That's especially the case in the current era when the face of retirement is changing.

Retirees were always told that they should have their money mainly in bonds or certificates of deposit. Not anymore. The reason? Bonds rarely keep up with the pace of inflation because the income they generate is fixed. That holds doubly true for bank CDs, which typically produce even lower rates of income—substantially below the rate of inflation. And remember that some costs like health care and fuel rise at an even faster clip than inflation.

A portfolio that's comprised of 50 percent stocks is no longer considered risky and outrageous. Follow the general investment guidelines above for your stocks and place the bonds in a mixture of long-term bond funds on one end and short maturity bonds on the other in case you should need immediate access to your money.

Reducing Living Expenses in Retirement

On the seesaw of income and expense, one way to influence the financial equation in your favor is to bring down your expenses. Here's a list of some of the things you should consider:

■ Where you live: You might consider selling your home if you've lived there a long time and it's too big now or hard to keep up. It's probably appreciated quite a bit over the years. You'll be able to put the proceeds into a smaller house that requires less upkeep and costs less in taxes. Or you might think about moving to a less expensive area. It's no wonder that areas like St. George, Utah, and communities in Tennessee are drawing lots of transplants from the coasts. A 2004 survey by the development company Del Webb found that one in three baby boomers say they plan to relocate in retirement.

Hola, Mexico? Another option is to move abroad where Americans can raise their standard of living while paying less for it. La Paz and San Miguel de Allende are two such currently popular expatriate retiree havens in Mexico. You

What's Your Financial Risk Tolerance Level?

HOW MUCH DO YOU AGREE or disagree with the following questions?

1. Agree Strongly **2.** Agree Somewhat
3. Maybe **4.** Disagree Somewhat
5. Disagree Strongly

1. If I lost 20 percent or more on the value of my portfolio, I wouldn't sleep for a month. ____

2. I'm willing to give up some upside potential in my investments if that means my portfolio won't go the way of Enron. ____

3. Keeping the capital I have is more important to me than catching the next eBay or Microsoft. ____

4. I have enough liquidity in my portfolio (cash or other short-term, low-risk investments) to get me through six months' worth of expenses and maybe even a trip to Hawaii. ____

5. I will need my money some time in the next five to 10 years. ____

Where do you come out on the risk tolerance quiz?
To score, see key on page 6.

can continue to collect your Social Security check and pensions anywhere in the world. You won't be able to use Medicare to pay for health care, but costs for routine doctor visits are just a fraction of what they are stateside. Just make sure you have emergency evacuation coverage in your health insurance to enable you to get to a U.S. hospital in a jiffy in case of a medical emergency.

Boomtowns abroad sometimes make for a good investment, too. If you bought a home early in the cycle, say, in Costa Rica, or Dublin, or Acapulco—before your neighbors back home made the same discovery—you would have benefited from rapid appreciation in value.

Online, you can find articles on moving and retiring overseas at two websites, www.escapeartist.com/retirement/havens.htm and www.liveabroad.com.

■ **Insurance:** Examine your insurance situation. Do you really need life insurance if you have no dependents and the house is paid for? You could take that money and put it into a long-term care policy that will pick up the cost of major medical bills should you get seriously ill. And if you're not driving as much, you can ask your auto insurance company for a rate reduction. Check your homeowners insurance, too, as your home is probably your biggest asset.

■ **Barter Clubs:** If you're an enterprising sort, you might consider bartering to get the goods and services you want in your area. Each member gets an account. You "sell" your goods or services for a certain amount of "money," which then gets deposited in your account. You can then spend those "dollars" for something you need. Why not trade gardening for dinner out at a Chinese restaurant or baby-sitting for a time share in Puerto Rico? Try finding barter situations on www.craigslist.org, a community message board. For those with businesses, products, or services to barter, check the International Reciprocal Trade Association, based in Rochester, New York (www.irta.com).

■ **Staying healthy:** An ounce of prevention saves a pound of cure, and thousands of dollars worth of doctors' bills as well. Living healthfully—quitting smoking, exercising regularly, watching your cholesterol and other basic health indicators—can result in real dollar savings. It's never too late to start.

Other Sources of Income in Retirement

IRAs: As noted earlier in this report, you can start tapping into your retirement savings at age 59½ and you'll be required to take a minimum distribution at age 70½. But these don't have to be your sole sources of income.

■ **Home equity loans:** According to the U.S. Administration on Aging, about 80 percent of Americans over age 65 own their own homes. And in many cases, the homes have appreciated greatly in value. You can establish a line of home equity credit while you are still working (that will enhance your ability to obtain a good rate) and keep it for a rainy day. Check such details as "inactivity" fees, requirements for a drawdown within a certain period of time, and other fine print.

■ **Reverse mortgage:** This is certainly not for everyone, because in the end it's understood that the bank, not your heirs, will own your home. But it is a way to keep receiving checks. You can get a reverse mortgage if you've built up a significant amount of equity in your home, and the home is owner-occupied. The bank will pay you a monthly check, which may be tax free since it's principal plus interest, the same interest you would have written off on your taxes if you were paying a traditional mortgage. You do not have

Answer key

TO SCORE QUIZ ON PAGE 5, "What's Your Financial Risk Tolerance Level?" Tally up your score. Where do you come out on the risk tolerance quiz?

20-25: You're an aggressive investor with a long-time horizon. You're comfortable putting money into aggressive investments that may lose money as long as the potential pay-off is big.

15-19: You know that stocks are the way to go, but you're not comfortable throwing all of your money into a risky investment, even if the windfall could be huge. You'd prefer a little mix of bonds and cash in addition to your core stock positions.

10-14: You think that both stocks and bonds have their proper place in a well-diversified portfolio, so you're careful to make sure all of your bases are covered. Stocks are great, but bonds let you sleep at night when the market tanks.

5-9: You recognize that the stock market is a scary place, so you'd rather focus your efforts on a sure thing. You've got just a touch of equities for some zip, but for the most part, you leave it to the daredevils.

1-4: Admit it, you're a scaredy cat. But as the saying goes: No pain, no gain. You must take some risk if you want a return that's higher than what's offered by your mattress.

If You Hire a Pro, If You Manage Your Own Money...

MANY PEOPLE HIRE SOMEONE to help them decide how to manage their investments. You have a range of specialists from whom to choose, including investment advisors, CPAs, lawyers, and certified financial planners. Tempting though it is to hope that one advisor can perform all these different functions, there are risks in combining these roles. Make sure you find out what each one can and can't do, and how each one gets paid—fee, commissions, or whether they are based on performance, or some other basis. And always, always get references. You can start your search for a qualified professional on the Certified Financial Planner Standards Board website and other online sites. If you are seeking a consultant who will just help you get started with an investment strategy that meets your needs, you could expect to be charged between $1,000 and $2,000 for the equivalent of one day's consultation work.

If you choose to manage your own finances, there are ample sources of information to guide your investments. Here are three low-cost options:

Newsletters: Find one you can—and will—follow. That means it's written so that you can understand it. But be certain you can make a commitment to following the advice, which means the philosophy should fit your own in regard to such strategies as trading versus buy-and-hold, market-timing, funds, stocks, bonds, gold, and exotic investments. Be aware of charlatans and hyperbolic claims of getting something for nothing, such as outstanding performance for low risk.

Investment Clubs: Sharing information with others reduces the work and offers you new perspectives. For information on the pros and cons, as well as legal paperwork, tips on assembling a workable membership group, and so on, check the National Association of Investors Corp. (www.better-investing.org).

Websites: The Internet offers a wealth of worksheets and calculators and can provide you with good historical information about investments. But be aware that the advice can come from any number of sources and may not be consistent. Experts suggest that you use the web for calculators, but not actionable advice.

to leave your home once the reverse mortgage is paid off. When you die, the home is sold to pay the balance of what you owed the bank. The remainder, if any, goes to your estate. You must be 62 years or older to apply for a reverse mortgage. Remember to discuss this option with your heirs so that the first they hear that they won't be inheriting the family home isn't at the reading of the will. For more information, go to www.aarp.org/revmort.

■ Employment income: Support your expensive lifestyle habits with a part-time job. An increasingly popular choice to perk up a paltry retirement account is extending the work years. Service jobs that were once filled by college and high-school kids have some appeal: a paycheck, possibly some benefits, and they lend structure to the week without the stresses of a full-time career.

Aside from keeping money coming in, you're also delaying the time that you need to start tapping into your capital. Delaying retirement by just two years can have a profound effect on your savings rate, enabling your 401(k) to grow a bit more and increasing your Social Security income later on.

■ Social Security retirement benefits: Currently, the "full retirement age" under Social Security is 65. Social Security retired-worker benefits are first available at age 62, but benefits that begin before the full retirement age are equal to 80 percent of the amount that the worker would have received at 65. Social Security full retirement age is being increased to 67 over time (effective for those born in 1962 and later).

Historically most people begin receiving Social Security retirement benefits before age 65. Approximately 75 percent of men and 80 percent of women who began receiving Social Security retired-worker benefits between 1990 and 1999 applied for benefits before age 65. Among women, this percentage has remained steady over the past 10 years, while among men, there was a slight increase in the proportion of applicants younger than 65 years.

When thinking about the potential value of your Social Security income, don't forget to factor in an average annual inflation rate of about three percent.

Women, in particular, should look into their Social Security benefits. Our Social Security system is based on anachronistic assumptions about family patterns that were characteristic of the mid-20th century, when few women worked. A fascinating if disturbing report called *Social Security: Out of Step with the Modern Family*, issued by the nonprofit Urban Institute in April 2000, documents how spousal and survivor benefits shortchange married working women across all income brackets, and also single working mothers. The report summarizes, "Social Security rules designed mainly for one-earner, married-couple families are out of place in today's world of two-earner families, single-parent households, short-lived marriages, and domestic

relationships that don't involve marriage at all. This mismatch deters real benefit increases and may even increase poverty among the elderly—the exact opposite of what Social Security was designed to achieve" (see www.urban.org).

Special note for gay and lesbian seniors: Social Security pays survivor benefits to widows and widowers but not to surviving partners of same-sex life relationships. Similarly, Medicaid regulations protect the assets and homes of married spouses but offer no such protection to same-sex partners. Tax laws and other 401(k) and pension regulations do not recognize same-sex partners. As we go to press, these policies are being challenged by activists in California, New York, and elsewhere.

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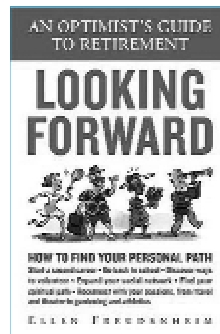

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Adviser Investments believes there are no great funds, but there are indeed great fund managers. While it is true that most mutual funds fail to generate returns that exceed a benchmark index, our 25 investment professionals use our proven proprietary research to find the institutional quality managers that have a proven expertise in producing index-beating returns.

We use sophisticated return analysis to study manager performance over many different time periods. That analysis includes studying a manager's losses as well as their returns. We look for managers who are able to keep shareholder losses to less than the decline of a target index or are able to overcome losses rapidly when markets turn.

In seeking an even deeper understanding of a manager's investment philosophy and commitment, we also personally interview many of the fund managers we invest with, as well as many we don't. And we believe it is always a plus when we find a manager who has a substantial personal stake invested alongside his or her shareholders. When a manager is also a fund shareholder it gives us extra confidence that the manager is highly motivated to do well. That "eat your own cooking" approach is also something we believe in at Adviser Investments: The principals at Adviser Investments (and their families) invest their liquid assets alongside our clients. In fact, we manage nearly 100 portfolios for friends and family members. Our 401(k) plan, which is available to all employees, also invests in many of the same funds we purchase for our clients.

If you would like more information on how we manage client assets, please contact Adviser Investments at (800)-492-6868 or info@adviserinvestments.com.