

QUARTERLY RETIREMENT REVIEW

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DELAY YOUR RETIREMENT

A large number of plan participants, who had planned to retire early at 62 when they became eligible for Social Security benefits, are now faced with the reality that Social Security, combined with the money they have saved for retirement, cannot support the lifestyle they had dreamed about during their working years.

Too often, retirement plan participants discover that they will have to continue to work, and will not be able to retire within the timeframe they had planned. It's understandable that this discovery is affecting so many potential retirees, given the fact that their retirement accounts have suffered through the recent

global financial crises. Once the financial realities are known, pre-retirees usually have two choices: retire early with insufficient savings and ongoing income stream during their retirement years or delay retirement altogether.

Using the table below, let's see how this might work:

Strategies for "Practicing Retirement" During the Transition Years

Annual Income and Savings
First Year of Full Retirement for Both Spouses

Practice Retirement SM Strategy	Cumulative Income* Age 62-69	Social Security	+	Savings Withdrawals	=	Total Annual Income	Savings Balance at Retirement
Both Spouses Fully Retire at Age 62	\$413,100	\$30,700	+	\$21,100	=	\$51,800	\$583,200
Both Spouses Fully Retire at Age 66	\$671,300	\$40,700	+	\$27,300	=	\$67,900	\$676,400
Both Spouses Fully Retire at Age 70	\$800,000	\$54,100	+	\$34,900	=	\$89,000	\$784,500
Both Spouses Work Part Time From Age 62 to Age 70	\$400,000	\$54,100	+	\$34,900	=	\$89,000	\$784,500

*Sources of income include salary and/or Social Security plus savings withdrawals, in current dollars at age 60.

The table shows how much annual pretax income and savings at retirement this couple would have under various retirement scenarios. Each scenario assumes: the couple had \$500,000 in retirement savings at age 60 and \$100,000 in annual earnings (\$60,000 plus \$40,000) with 3% yearly inflation adjustments; 15% of earnings are contributed to a retirement plan annually until age 62 and no contributions thereafter; no Social Security benefits or savings withdrawals are drawn by either spouse until his/her retirement; savings earn 7% annually before retirement and 6% annually after retirement; amounts represent current dollars at age 60, assuming a 3% discount rate; Social Security benefits rise 2.8% annually after initiation; savings are withdrawn at a rate of 3.7% for age 62, rising by 0.1% for each year retirement is delayed; the initial withdrawal increases yearly by 3% inflation. Social Security benefits are from the Social Security Administration website's Quick Calculator (assuming 0% relative growth factor).

Sources: T. Rowe Price Associates and ssa.gov.

For some potential retirees, however, there may be another option: they may keep working, but discontinue making contributions to their retirement plan. Such a strategy could, potentially, place an employee in a position to combine his/her salary with small distributions from their retirement account. In other words, such a plan could increase discretionary income while delaying receiving Social Security benefits, which could position the employee for higher Social Security payments that would be adjusted annually for inflation.

Let's take a hypothetical couple, and assume that they are each 60 years old, and have a combined income of \$100,000, and that they have \$500,000 in retirement savings. Let's also assume that this couple has been pretty thrifty during their working years, and have been saving 15% of their income each year in their 401(k) plans. In this case, let's also assume that they plan to retire in two years.

Doing the math, here are some possible scenarios (reflected in the above chart), assuming a 7% preretirement return on investments and a 6% post-retirement return.

Stop Saving: Retire at 62

If our hypothetical couple began Social Security benefits at 62, they would receive \$30,700 a year (plus cost of living adjustments), currently averaging about 2.8%). In

addition, they could expect average annual withdrawals from their retirement savings of \$21,000 (plus annual inflation adjustments of 3%) from age 62 on.

However, their \$51,800 annual retirement income would be only 52% of their \$100,000 pre-retirement combined earnings.

In addition, their savings of \$500,000 at age 60 would only rise to \$535,200 by age 70.

Stop Saving: Don't Retire at 62

Now our hypothetical couple decides that they really want to enjoy their 60s to the fullest, so they decide to discontinue making contributions to their retirement plan after age 61. This provides them with an additional \$15,000 a year to spend while they continue working. With this extra income to enjoy life, working longer may not seem as much of a burden, and they actually might enjoy this scenario.

One of the primary reasons this scenario is effective is that each year that our couple works and delays taking Social Security benefits, their benefits increase about 8%; almost doubling in purchasing power by age 70. We would also point out that since these increases are based on Social Security formulas and not on investment returns, pre-retirees have a level of assurance that, even if the markets take another turn for the worst, their Social Security benefits will remain intact.

Stop Saving: Retire at 66

If our couple both work full time until age 66, their retirement income (from savings and Social Security) would be about \$67,900, or 68% of their pre-retirement earnings. This would mean that their retirement income is now 31% higher than if they had retired at 62; even though they discontinued making retirement contributions. In addition, their retirement savings, by age 66, would have grown to \$676,400 since they did not withdraw savings while working.

If they worked for just one more year to age 67, they would have a nest egg of \$702,000.

Stop Saving: Retire at 70

If our couple worked until age 70, without making any additional contributions to their retirement accounts, they could withdraw \$34,900 from their savings, annually, plus their initial Social Security benefits of \$54,100 for a total annual retirement income of \$89,000; an amount that would be significantly greater than the amount at 62, and the retirement nest egg would have grown to about \$784,500 by age 70. Obviously, if a worker decides to stop making contributions to his/her retirement account, working to age 70 is the best option. Before making your decision, check your company's policy on mandatory retirement and integrate any restrictions into your retirement planning.

GETTING EVEN

Looking back, the U.S. stock market recovery is now more than two years old, dating from the last low of the Standard & Poor’s 500 Index (S&P 500) on March 9, 2009. Nevertheless, the portfolios of plan participants and retirees, alike, still have some ground to make up.

The S&P 500 Index gained 104% from the market low through the first quarter of 2011. Even so, most investors who had \$100,000 invested in the companies of the S&P 500 at its last high point on October 9, 2007, were still “not there” yet by the end of the first quarter of this year, with a portfolio value (including dividends) of only \$91,511. The top graph on the chart to the right, however, shows the results of a number of portfolios that were diversified over a number of different asset allocations.

We would like to point out, however, that plan participants who invested throughout the downturn and recovery fared better than those plan participants who stopped investing. (See the bottom portion of the above chart.)

Contributing \$416.67 each month, \$5,000 per year,

meant that all three of the asset allocations, represented in the top chart, as well as the 100% stock portfolio, reached \$100,000 even earlier.

Having said all of this, we want to emphasize that investors should not incorporate a high degree of speculation in an attempt to

recoup losses from the losses brought about by the global financial crises. Set a time horizon for your retirement and gear your asset allocation to accomplish year goals within that time horizon. Resist the temptation to deviate from that asset allocation because of short-term stock and bond market fluctuations.

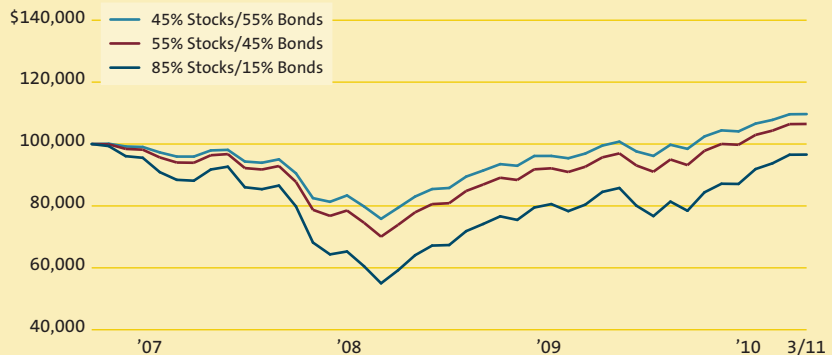
Getting Even

The Performance of Three Portfolios Since Last Market Peak (October 9, 2007, Through March 31, 2011)

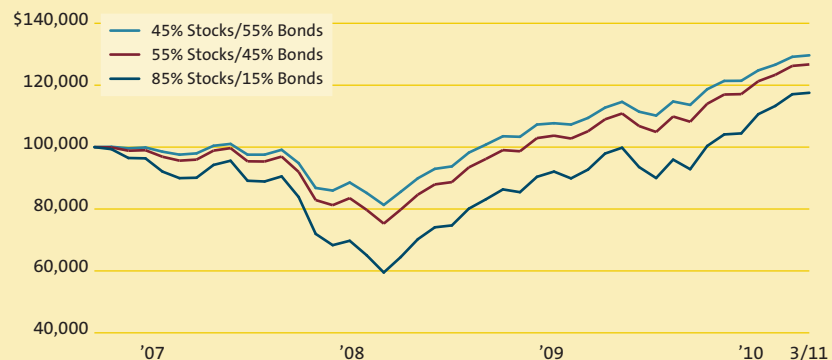
These charts show that diversification and savings helped investors better weather the market crash of 2007–2009. In the top chart, investors started with \$100,000 and did not add more savings. In the bottom chart, investors also started with \$100,000 but added \$416.67 a month, or \$5,000 a year, to their portfolios.

In both cases, portfolios were rebalanced monthly to sustain the following stock/bond asset allocations for the three portfolios: 45%/55%, 55%/45%, 85%/15%. Stocks are represented by the S&P 500 Index and bonds by the Barclays Capital U.S. Aggregate Index. Past performance cannot guarantee future results. It is not possible to invest directly in an index.

\$100,000 Portfolios Without Additional Savings



\$100,000 Portfolios With Additional Savings of \$5,000 Annually



Source: T. Rowe Price.

YOUR LONGEVITY AFTER RETIREMENT

It is important that plan participants realize that they are likely to live a lot longer in retirement than they might think. This realization should be factored into their retirement savings, and most plan participants should know that they probably need to increase the amount of their savings if they do

not expect to outlive their retirement income.

Actuarial tables tend to show that a couple retiring at age 65 have a 50% chance that at least one of the spouses will be alive at age 91; that's 26 years after retirement. Taking the longevity issue even farther, there is a 25% probability

that one of the spouses will still be alive at 95 and a 10% probability that one of the retirees will live to be 99. In other words, you need to start thinking about the difficulty of accumulating enough retirement savings during your 40 or 50-year working life to support a 34-year retirement.

THE EFFECTS OF INFLATION

While your Social Security benefits will be adjusted for inflation; your retirement savings will not. Various rates of inflation will affect your buying power differently, however, a 3% rate of inflation could cut a

retiree's purchasing power by as much as 50% over a 25-year retirement.

Not knowing how long you will live after you retire is a major problem for most plan participants. Our advice is to utilize every tax-advantaged

retirement investment that you are able to fund. Increase your 401(k) deferral rate, open an IRA and monitor your spending habits closely.

HAS ANYTHING CHANGED?

S.L. Reed & Company can help:
 401(k) Rollover from Previous Employer
 Rollover IRA out of a Retirement Plan
 Traditional or ROTH IRA
 Taxable Accounts
 Annuities
 Insurance

Additionally, we can work with you on:

Managed Accounts

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