The Four Key Factors of a Safe, Comfortable Retirement: What Every Baby Boomer Needs to Know

Every day, roughly 10,000 Americans turn 65. These are the baby boomers, the largest and wealthiest segment of our population. Unfortunately, The vast majority will retire without a pension, having contributed decades' worth of hard-earned savings into the ubiquitous 401(k) plan.

Many of these new retirees will begin drawing down their savings without properly planning for the next 30+ years. The new life expectancy tables for a married couple are 84 (husband) and 87 (wife); thus, to be safe, the baby boomer generation must plan to live to the age of 100.

Scott Mann, principal of Mann Financial Group and an independent financial advisor for nearly 25 years, finds this retirement planning crisis hard to stomach. An author and frequent contributor to CNBC, Fox News, and other major news outlets, Mann is passionate about opening people's eyes to the financial risks they face in retirement. His weekly radio show, Safe Money with Scott Mann, on KTRH AM740 in Houston, is still going strong as it approaches its 10th year.

"People need to understand the basic principles that will help them avoid retirement failure," Mann says. "They need a plan that protects against the impact of market losses and guarantees income for life. Plus, it must help to create a rising income to combat the inflation that's well on the way."

According to Mann, a safe, comfortable retirement is always based upon four key factors:

1. **Risk Tolerance**—Due to the "arithmetic of loss," a 40% loss requires a nearly 80% gain just to recover.

2. **Time Horizon**—Those near or in retirement do not have the time to recover from significant market losses.

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3. **Solving for Income Needs**—Without a pension in retirement, there's no guaranteed replacement for employment income, let alone periodic increases needed to combat the inflation that's on the way.

4. **Utilizing the Proper Mix of Financial Tools**—Investing in best-in-class products and strategies, in the right allocation, is the only way to succeed in retirement.

Having done the proper planning to solve for these four key factors, the average baby boomer (age 50+) with $500,000 in retirement savings may already be effectively retired and not realize it.

Thinking of Retiring on a 401(k) and a Prayer?

The biggest mistake baby boomers make is betting their entire life savings on the stock market. The 401(k), the defined contribution plan that was once an add-on to its big brother, the defined benefit (pension plan), is now the stand-alone financial vehicle for retirees. A devastating loss of 40-50%, like those of the 2000 "dot com" bubble and the credit crisis meltdown of 2008, could cause a baby boomer to run out of money in retirement due to "sequence of returns risk" in the income phase.

"No one can predict what the market will do," Mann says. "Think about it: your Svengali, or market-timing financial advisor, has to get you out of the market before the next major downturn and then get you back in. The research says that if you miss the best 40 days to be invested in the market in a 15-year period, you could cut your returns from an 8% average, roughly, down to approximately -2.63 on the S&P 500."

"Only people who are incredibly lucky, or incredibly wealthy, can afford to risk everything in the market." –Scott Mann

Risk exposure is only part of the problem for retirees with too much of their wealth tied up in the market. They must also increase their withdrawal rate over time to adjust for inflation. With a 3% inflation rate, $100 today will only buy $75 worth of goods and services in just 10 years. That's a 25% loss of purchasing power. If a rising cost of living isn't properly accounted for, inflation can easily derail retirement plans.

"How do you solve the risk tolerance problem, time-horizon problem, and income problem—otherwise known as the sleep-at-night problem?" Mann says. "The only free lunch is having the right asset and product allocations."

A Safe, Comfortable Retirement Requires a New Strategy: The "Four-Legged Stool of Retirement Security"

Financial plans that minimize risk and eliminate worry in retirement have four legs, according to Mann: Social Security, guaranteed lifetime income (pension or fixed index annuity with a guaranteed income rider), cash in the bank for liquidity, and money in the market as a hedge against inflation.

Guaranteed lifetime income is the most important part of the equation. Most retirees can't live on Social Security alone, and they aren't sure how to fill the gap.

“In the absence of a pension, a fixed-index annuity with a guaranteed lifetime income feature, and a critical care-type benefit, similar to long-term care, can be a good fit,” Mann says. “A pension or guaranteed income annuity is the only to protect versus longevity risk. The average consumer fears the word annuity because they’re not familiar all four types. Variable annuities, which have no guarantee of principal and nearly 4% internal fees, have given all annuities a bad name.”

The fixed-index annuity, which Mann uses, is entirely different. It offers interest-bearing gains, protection of principal, and guaranteed lifetime income.

“It replaces the pension people used to count on,” Mann says. “As a portion of your retirement dollars, you really cannot solve for guaranteed lifetime income any other way, or nearly as effectively.”

When it comes to managing money in the market, Mann hopes to increase his clients’ chances of success by using Nobel Prize–winning research from the University of Chicago to guide his clients’ asset allocation.

“The markets are unpredictable, and past performance is no guarantee of future returns,” Mann says. “We can’t guarantee anything in the stock market. However, the academic research offers the highest probability we have—going back to the 1920s—that our clients will not outlive their retirement savings or struggle with cost of living increases.”

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