

In This Issue

[Upcoming Seminar](#)

[NEEBC Tradeshow](#)

[Series on Risks Facing Retirees at Distribution](#)

[Dan Cassidy Cited in New Book](#)

[Resources](#)

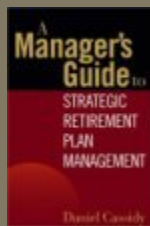
Quick Links

[CRG Website](#)

[Newsletter Archive](#)

[Related Articles](#)

Check out Dan's book:



[Buy from Amazon.com](#)

Upcoming Seminar

Dan will be moderating an investment seminar contained within the upcoming Employee Benefits Meeting co-sponsored by the Society of Actuaries and the Conference of Consulting Actuaries. The meeting will be held at the Saddlebrook Resort in Tampa, Florida on June 4-June 6. The seminar will cover new investment strategies, liability driven investment methods, and new areas of risk transfer in the plan freeze and termination world.

NEEBC Tradeshow

Cassidy Retirement Group will be an exhibitor at NEEBC's Annual Benefits Fair and Trade Show on May 21, 2008 at Gillette Stadium in Foxboro, MA.

For details, please visit www.neebc.com.

Series on Risks Facing Retirees at Distribution - Inflation Risk

One of the major risks faced by retirees is inflation. For the most part, we can assume a constant increase in the cost of living. This puts continually increasing demands on a retiree's assets - just in order to maintain one's standard of living. In fact, the U.S. Government studied the **actual** inflation experienced by retirees - and found that it is in fact **higher** than that faced by workers (see [CPI-E](#)). So, if we compare a retiree's effort to maintain their standard of living to a sailor in a leaky boat, it is harder to keep bailing out the water to stay afloat for retirees than a comparable younger person. [*We'll stay with this analogy of a sailor and leaky boat throughout our series.*]

For your typical U.S. retiree, there are four pools of assets in retirement - and only one that is typically indexed with inflation.

1. Social Security - indexed to inflation and a major source of income for lower income retirees.
2. Company Pension Plan - for most retirees, these pensions are not indexed with inflation. In addition, fewer and fewer retirees will have pension benefits given the shift in company retirement programs.
3. Individual Retirement Accounts (IRA)/401(k) Accounts - typically invested in various accounts, e.g. mutual funds that are not explicitly indexed to inflation. This category will be the largest source of employment-based benefits for the vast majority of retirees in the near future.
4. Personal Savings - bank accounts, CDs, etc. that provide high security, low risk returns.

So if a retiree is concerned about inflation (and they should be), the IRA/401(k) account is the place where decisions will need to be made about asset allocation and distribution levels. For now, the mutual fund industry has answers for both questions:

- Asset Allocation - between 20 - 40% in equity with the rest in fixed income and cash
- Distribution Level - withdraw no more than 4% of the outstanding balance in any one year

The second answer - about distribution levels - goes directly to the longevity risks faced by retirees. We'll deal with this in next month's column. For now, we'd like to focus on the equity exposure. We have two major comments about this level of equity exposure in a retiree's IRA/401(k) account:

- Equity returns are not highly correlated with inflation - in fact, during the period of high inflation in the 1970's, equities were negatively correlated. This relationship of negative correlation also holds true more recently with the returns of age-based retirement funds targeted to retirees.
- Risk of ruin - going back to our analogy of a sailor in a sinking boat. If the boat actually sinks at any time, i.e. the retiree's account goes to \$0, the sailor dies. The sailor can't say, "The boat only sank by seven feet, so I'll just hang out until it rises up above the water". In the retiree's world, their account going to zero is comparable to the sinking; they can't wait for it to re-float and recover.

The financial services industry has many tools available to help retirees with this inflation risk. Many of these have been around for a long time, e.g. annuities. Others have more recent origins, e.g. treasury inflation-protected securities. We would encourage all parties involved - retirees, plan sponsors, financial services firms and advisors - to focus more on the risks faced and less on the products used to deliver income to retirees. We agree with others who have talked about

redefining ROI from "Return-on-Investment" to "Reliability-of-Income" - it's a first step in helping retirees face the daunting inflation risk.

Dan Cassidy Cited in New Book

Dan is cited as a thoughtleader in Ken Lizotte's new book [The Expert's Edge](#), published by McGraw-Hill, which details different strategies for entrepreneurs who want to raise their profile, expand demand for their services, and increase profits. Ken highlights CRG's overall marketing and sales efforts supported by publishing articles and a book, speaking, and other PR activities.

Ken Lizotte is the Chief Imaginitive Officer at emerson consuting group, inc. To visit his website, please [click here](#).

Resources

For more information on Cassidy Retirement Group, please visit www.cassidyretirement.com.