

Coping Skills for Retirees during a Recession

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Overview

- Impact of the Recession on SURS Pensions
 - Defined Benefit Annuitants
 - Money Purchase Annuitants
 - Current Employees
- Investing during a Recession
 - What to do
 - What not to do
- Preparing for the Post-Stimulus Inflation
- Wise Insurance Decisions
- Estate Planning (Recession or Otherwise)
- Conclusion
- Recommended Reading

Impact of the Recession on SURS Pensions

- Impact on current annuitants - None
- SURS funding ratio (assets/liabilities) has declined:
 - 68.4% as of 6/30/07
 - 42.7% as of 12/31/08
- This decline may affect future funding requirements but will not affect current obligations
- Impact on current employees
 - Defined benefit – None
 - Money purchase – Future credited rates may decline
 - Self Managed Plans – Likely to have a significant decline in account value

Investing during a Recession

- What to do
- Investment horizon
- Diversification
- FDIC coverage
- Invest in what you understand
- What not to do

Investing during a Recession: What to Do

- Make sure you have an investment plan that fits with your objectives
- Review how your current investments fit with your plan
- Adjust your investments to match your plan
- This may involve buying asset categories that have fallen in value
- View this as a sale – everyone likes a bargain on everything else

Investment Horizon - 1

- If you need money in the near future
 - Money market funds
 - Short term CDs
 - Short term government bonds
- If you need the money in a few years
 - Longer term government bonds
 - Longer term CDs
- If you don't need the money for 5-10 years
 - Long term bonds – watch for rising inflation
 - Stocks
 - Real estate

Investment Horizon - 2

- Determining your investment horizon
 - Life expectancy for a 65 year old*
 - Male 16.67 years
 - Female 19.50 years
- Joint life expectancy even longer
- These represent averages – you may live longer
 - 5% Chance of a 65 year old surviving to
 - Male Age 95
 - Female Age 97
- Some of your investments have a long horizon

* Source:

<http://www.ssa.gov/OACT/STATS/table4c6.html>

Investment Diversification

- Don't invest too heavily in any single investment
 - Enron employees 2001; Bear Stearns employees 2008
- Invest in different asset categories
 - Bonds
 - US stocks (large, small)
 - Foreign stocks (developed nations, emerging nations)
 - Real estate, commodities
- Allocating your portfolio
 - Financial advisors will recommend precise allocation
 - Splitting equally may be just as good
 - Couch potato portfolio: 2-10 investment categories

FDIC Coverage

- Bank insolvencies are back
- Coverage is \$250,000 per depositor, per bank (until 12/31/09 as of now)
- IRAs are covered up to \$250,000
- Each co-owner in a joint account qualifies for \$250,000 in coverage separate from deposits held in other ownership categories
- If you have more than coverage limit in a bank that fails, you may lose some or all of the excess
- Don't put more than the covered amount in any bank, even briefly

Invest in What you Understand

- If you don't fully understand an investment, don't invest no matter what anyone else says
- Advisors get paid for selling you an investment
- It is your money to lose
- This applies to companies as well
 - Recent example – credit derivatives

Investing during a Recession: What Not to Do

- Don't panic
- Don't sell all your risky assets (stocks, long term bonds) and wait for the markets to stop declining
 - Market timing is not a successful strategy
 - Markets are likely to move quickly when a recovery is evident
- Don't get discouraged
 - Keep investing even if others are not
 - Best long term strategy is to buy when others are selling

Preparing for the Post-Stimulus Inflation

- Differing views about greatest economic threat
 - U.S. is haunted by the Great Depression
 - Europe is haunted by German hyperinflation
 - 75,000,000,000% in 1923
 - These differences are leading to different policies
 - U.S. likely to err on side of inflationary policies
 - Trillion dollar stimulus programs could really stimulate inflation

Inflation is the #1 Threat to Retirees

- Wages will likely increase in line with cost of living over time
- For most retirees, only social security benefits increase with inflation
- Retirees need to consider impact of inflation on investments
- Study inflation of the past
- Analyze current conditions

Impact of Inflation on Investments

- Poor inflation hedges
 - Long term fixed income bonds
 - Long term CDs
- Better inflation hedges
 - Inflation indexed bonds
 - I Bonds
 - TIPS
 - Stocks of companies with pricing flexibility
 - Real estate

Other Inflation Strategies

- Forever stamps
 - Now 42¢, May 11, 2009 44¢
 - 4.8% increase in one month
- Buy necessities ahead, in bulk and on sale
 - Andrew Tobias advice
- Make major purchases before prices go up
 - Car
 - Home repairs



Insurance for Retirees

- Automobile Insurance
- Homeowners Insurance
- Umbrella Liability Insurance
- Health Insurance
- Life Insurance
- Long Term Care Coverage

Automobile Insurance

- Need for high liability limits
 - 250/500/100 or \$500,000 single limits
- Fatal accident records by age of driver
- It takes an accident for many older drivers to decide they will no longer drive
- Without adequate limits, your last day's driving could cost you dearly

Homeowners Insurance

- Protects real and personal property
- Provides liability coverage
 - Injuries on premises
 - Injuries caused by insured's actions off premises (other than driving)
- Also available for condo owners and renters
- Need at least \$100,000 limits

Umbrella Liability Insurance

- Provides protection against liability awards over your auto and homeowners limits
- Available for limits of \$1 million or more
- Cost is reasonable considering the risk
 - \$200 for \$1 million coverage
 - \$300 for \$2 million coverage
- You've worked hard to accumulate your assets
- Don't give them away as the result of a careless mistake

Health Insurance - 1

- Medicare is available for most retirees over 65
- Covers doctors visits and hospitalization for participating providers
- Participating providers agree to accept Medicare reimbursement rate
- Example - Surgery
 - Surgeon bills \$10,000
 - Medicare allows \$1,200 and pays \$1,000
 - Patient (or other insurance provider) pays \$200
 - Surgeon cannot charge patient more
- Fewer providers may participate in the future

Health Insurance - 2

- Employer provided or other health insurance
- Pays some or all of costs not covered by Medicare
- Do not require use of Medicare participating providers
- Need to keep track of paperwork for any significant medical procedures
 - There will be errors

Life Insurance

- When does a retiree need life insurance
 - If pension benefit does not pay (or reduces payment to) a surviving spouse
 - If there is a need for cash to pay estate taxes or other obligation
- In many cases retirees do not need life insurance
- Options for dealing with unnecessary coverage
 - Cancel for cash value
 - Sell for life settlement backed security (death bonds)

Long Term Care Insurance - 1

- Many people will try to sell you this coverage
- May quote statistics such as:
 - 40% of all individuals over 65 will spend time in an assisted living facility
 - Annual cost of care is \$60,000 or more
- Medicare and most health insurance policies do not cover assisted living facilities
- However, think carefully before buying this coverage

Long Term Care Insurance - 2

- Most assisted living stays are for relatively short time periods
 - These expenses should be budgeted, not insured
 - Don't trade dollars with insurers – you will lose
- Medicaid covers these expenses for those with few assets and low income
- If you do buy long term care insurance
 - Only consider coverage for catastrophic losses
 - Make sure your insurer will be around to pay
 - Make sure that benefits will be adequate to cover future expenses

Long Term Care Insurance - 3

- If you buy this coverage:
 - Long waiting period (6 months to a year)
 - Inflation adjusted daily benefit level
 - Highest rated insurer based on several rating agencies
 - Look for benefit flexibility (home care, generalist caregivers)

Estate Planning

- Plan A can be immortality
- Have a Plan B just in case
- Unless you don't like your nearest relatives:
 - Grant Power-of-Attorney
 - Medical decisions
 - Property
 - Have a current will
 - Name a currently qualified executor
 - Specify your final wishes
 - Give everyone in a position to make decisions a copy
 - Make it easy to find out about your assets and liabilities

Conclusion

- Retirement is a significant achievement
 - Congratulations!
 - Goal of many students and most workers
- Take Bobby McFerrin's advice
 - Don't worry (too much) about the recession
 - Be happy!
- Keys to a successful retirement
 - Purposeful
 - Active (even if reading is main activity)
 - Engaged

Recommended Reading - Books

Yes, You Can Still Retire Comfortably! – Ben Stein and Phil DeMuth

Aging Well - George E. Vaillant

A Random Walk Down Wall Street – Burton Malkiel

The Only Investment Guide You Will Ever Need – Andrew Tobias

Against the Gods: The Remarkable Story of Risk – Peter Bernstein

New Financial Order: Risk in the 21st Century – Robert J. Shiller

Buffet: The Making of an American Capitalist – Roger Lowenstein

Irrational Exuberance – Robert J. Shiller

Just in Case: How to be Self-Sufficient When the Unexpected Happens – Kathy Harrison

Recommended Readings - Articles

- Death bonds

http://www.businessweek.com/magazine/content/07_31/b4044001.htm

- Long term care insurance

http://www.aarp.org/money/financial_planning/sessionfive/longterm_care_insurance.html

- Couch potato portfolio

http://assetbuilder.com/blogs/scott_burns/archive/2007/02/10/Still-More-Couch-Potato-Building-Block-Portfolios.aspx

http://assetbuilder.com/couch_potato/couch_potato_cookbook.aspx