Testimony of

Deena Katz, CFP®
Associate Professor, Texas Tech University
Lubbock, Texas

on

"**Boomer Bust? Securing Retirement in a Volatile Economy**"

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Thank you, Mr. Chairman, Ranking Member Martinez, and other distinguished members of the Committee, for providing me the opportunity to address this critical issue from the perspective of the financial planning profession.

INTRODUCTION

I am Deena Katz, a CERTIFIED FINANCIAL PLANNER™ practitioner, an associate professor in the Department of Personal Financial Planning at Texas Tech University in Lubbock, Texas, Chairman of Evensky & Katz, a Coral Gables, Florida based, fee-only, financial planning firm, and a member of the Board of Directors of the Financial Planning Association. I am honored and sincerely appreciative of the invitation to address a number of concerns regarding boomer retirement during in the present financial crisis..

Although I have the privilege of serving in a leadership role in my profession, I am attending this hearing at my own costs and I am speaking solely on my own behalf, although not for my own benefit. I am speaking also as a professional concerned for the generation of Baby Boomers who are now in or will soon be contemplating retirement.

I am a full-fledged boomer, having made my initial appearance in 1950. There were 77 million of us born between 1946 and 1964. Boomers are the products of a post-war, global phenomenon that started abruptly and ended the same way. For most people the term “boomer” conjures up rebellious, protesting hippies of the 1960s, who became the materialistic *uber*-consumers of the 1990s.

A nineteen-year span separates the vanguard boomers of the late 1940s and the later boomers of the early 1960s. When the early boomers were staging protests, the late boomers were barely into grade school; nevertheless, society tends to view us as a monstrous homogenous cohort. But we’re not. Yes, we’re big, but we’re diverse—in lifestyle, experiences, and values.

Today you have listened to a number of leading experts on retirement and been presented reams of statistical data. My contribution will be that of a generalist practitioner/academic who has devoted over three decades to advising clients regarding retirement and instructing financial planning students on this issue. The general theme of my testimony is that as Boomers rapidly approach the traditional age for retirement, we realize that after years of uncontrolled consumption and extravagant lifestyles coupled with the new demands of family circumstances, we simply have not saved enough to retire. So in inimitable boomer style, we find an alternative: we won’t retire. But we’re not likely to admit that the decision to reject traditional retirement is forced on us by lack of resources. Boomers have never seen themselves as limited by a lack of resources. No. Boomers will undoubtedly “retire” conventional retirement by redefining it. However, in order to successfully redefine retirement, we will need help.

My testimony addresses a number of issues facing Boomers retiring during this turbulent market environment. First, I briefly review the boomer financial history, followed by a review of the risks Boomers face in what financial planners call the de-cumulation phase of life. Third, I review a number of actions and investment strategies considered by Boomers in managing these risks. Finally, I conclude with a few thoughts on the actions Boomers and you, our political leadership, might consider in helping us reach and maintain our retirement goals.

1. BOOMER FINANCIAL HISTORY

There are 77 million of us. According to research in the marketplace, one Boomer will turn 59 ½ every seven seconds between now and 2025. According to the U.S. Census Bureau, by 2020 more than 115 million people will be over age 50. That's an astounding 50 percent increase from 2005. But despite our getting older, we don't feel older.

Earlier this month I turned 59. I am that Boomer. We are the product of the post-World War II birth explosion, born between 1946 and 1964. We have been big consumers, known for driving or wearing all our assets, rather than saving or investing them. My 12-year-old nephew walked into our house one day and announced, "This house looks just like Sharper Image." Sadly, Sharper Image went bankrupt when it became clear that we Boomers already bought every single gadget they'd ever offered.

Not only have we been uber-consumers, we have made massive use of credit and are still paying for it. I like to tell people that the difference between my generation and my parents is that when my folks needed a new refrigerator, (the operative word being "needed,") they saved for it, then bought one. When my generation wanted (operative word, "wanted,") one, we put it on credit, had it delivered instantly, and paid for it for years afterward. This over-reliance on credit has threatened our future security. We are seeing the terrible effects of that right now.

We're products of the "immediate now" and the paper-plate generation. We are used to getting what we want instantly; we thrived on instant gratification. More importantly, we always tossed out what was worn or broken, because it always cost less to just get a new one. Recently, I think, we've made the connection to ourselves, just like our vintage goods, we're older, but not useless, and perhaps even more valuable because of our age and experience.

Let's look at other issues facing Boomers. We haven't done a very good job of teaching our children to be fiscally responsible, otherwise why would they wind up back in our spare bedroom with three kids, a dog and no job? I maintain that children have little boomerangs on their behinds when they are born. We hurl them out into the world and someday, they return to us, with more problems for us to solve and more need for financial support. Add to that the fact that many of us are caring for our aging parents, either physically or financially or both. These circumstances strain our already limited resources earmarked for retirement.

The economic typhoon of the last year has seriously damaged Boomer portfolios and even the gurus in Washington and on Wall Street have no clue how long recovery may take. Although the risks of outliving one's assets are present in any economic climate, the current crisis has unquestionably heightened those fears and caused professional advisors and their academic colleagues like myself to review how our investment strategies correlate with system risk in the marketplace.

2. DE-CUMULATION - FINANCIAL RISKS BOOMERS FACE IN A SEVERE MARKET DOWNTURN

This new phase of life; that is, the withdrawal of funds for living expenses, moves Boomers into their financial "de-cumulation" phase. As planners, we recognize that "de-cumulation" is not just about withdrawing money, it's about how and when you will withdraw, and how you can structure your portfolio to last your lifetime. I call that making the peanut butter and jelly last to the end of the sandwich. De-cumulation also includes making lifestyle changes and considering alternatives that may naturally come with the "next phase" choices.

This de-cumulation phase as certainly required financial planners to address more questions from their clients than ever before, given the trillions of dollars in paper losses -- and depending on their phase of retirement, real losses -- in their accounts. It has also caused us, as professionals, to re-examine our client's understanding of market volatility and the true meaning of risk.

As a result of this perfect storm in the marketplace, our Boomer clients are asking us more questions than ever before. But the same basic principles that planners use in retirement planning remain unchanged in working with Boomers. For one, Boomers have an unrealistic view of their own mortality. Many Boomers say they don't intend to live into their 90s. My partner and husband Harold always tells his clients who say this: "Go ahead, die; make my day. What keeps me up nights (and ought to keep you awake) is that you will outlive your assets." The 2000 mortality tables suggest that a couple 65 years old would have a 95% chance of one of them living to age 91.   If that's not sobering enough, we have begun "squaring" the mortality curve, so that we living more active and healthier lives for much longer. We have enjoyed better healthcare than our parents and medical advances have helped improve our quality of life.   Our generation is living an extended middle age. Forty is the new 60, as they say.   The good news is that we are living longer; the bad news is that we're living longer and need to figure out how to pay for it.   And with the uncertainty of today's economic crisis, the question is hitting home with Boomers who are still years away from retirement.

Additionally, Boomers face far more daunting financial issues such as family obligations, healthcare, housing, and probably the most critical, inflation.
The events of the past two years has devastated Boomers' plans toward a successful retirement. The recent housing crisis has considerably reduced the value of Boomer homes and in some cases has resulted in over-leveraged and underwater assets.   Many Boomers expected to follow in their parents footsteps by using the built-up equity in their homes to help fund their retirement years. This strategy has been seriously damaged.

Our migration in the last three decades from defined benefits plans to defined contribution plans have continually eroded the income stream "pension" concept. Behaviorally, Americans are dominated by the "paycheck syndrome," quite reliant upon receiving period payments to care for the monthly expenses. They simply do not have the education or the emotional security to turn their portfolios in to inflation-proofed income streams. The financial impact of these issues is the risk of outliving their assets. As I've noted, we are likely to live much longer than our parents. Even better, we're likely to stay vibrant and healthy longer. However; a long healthy retirement means more time to spend money. Our retirement resources need to be managed wisely.

The most common "solution" is to search for a "safe" investment, yet most retirees believe that a safe retirement portfolio should be 100% in bonds, reasoning that only fixed income vehicles can generate the income they need post-retirement. Our paycheck mentality demands that we try to replicate our periodic payment methods at retirement. It's a concept we are used to. Unfortunately the focus on bonds confuses certainty with safety. The payment on bonds is certain but it's certainly not safe, especially in terms of purchasing power. One of the biggest risk exposures is inflation. Can anyone name a major purchase that is cheaper today than it was 10 years ago? Certainly not; inflation ensures that prices go up, not down. Over the long haul, even a modest inflation rate can substantially erode future purchasing power. Bonds do not protect a portfolio against inflation.

The fact is Boomers don't need income at retirement; we need real cash flow; that is, an income stream that grows regularly with the inflation rate.

Other product-centric alternatives are offered as a "one shoe fits all" solution; unfortunately, there is no single "safe" investment product that can guarantee long term financial success. As a professional financial planner I am obviously biased; however, that does not negate the truth of my belief. Namely, investment safety is based on good strategic, long term financial planning, one that focuses on an investment portfolio’s net-net-net total return – after expenses, after taxes and after inflation; not fixed interest payments.

3. BOOMER SOLUTIONS

Boomers are nothing if not resourceful, inventive and creative. While planners have figured out that it is getting harder to make the peanut butter and jelly last to the end of the sandwich, Boomers have concluded that we aren’t ready to make that sandwich just yet. So, in the quintessential Boomer style, we have reinvented retirement. We aren’t planning to sit on the porch in the rocker until we drop dead. We aren’t going to play golf until we can’t see the ball anymore. We are going to work at something we would love to do. Those of us who can will assume leadership roles, in government, in teaching, in counseling and consulting. We’ll work on public policy such as older-worker rights or we’ll find creative jobs like florists or event planners. We will work but it will be a positive action, not a forced reaction to lack of resources (even if that’s true.)

The 2007 Annual Gallup Personal Finance Poll discovered that 78% of the people surveyed will continue to work. What is unclear is whether they will stay in their current jobs or move into lower-paying but more personally satisfying ones. I believe that the current economic crisis may have them planning to stay a few years longer (if they have the option) but then pursuing more personally satisfying work that, quite frankly, will seem less like work and more like the fulfillment of a dream. We have been seeing this trend in our practice recently. Of course, for many Boomers, there may be fewer work opportunities and less flexibility in their choices. Unfortunately, with the neither myriad of financial risks facing us, neither working longer nor simplistic “safe” product solutions are likely to be a total solution to funding our retirement.

The solution is to design a total return portfolio, one that focuses on the return and not fixed interest payments. As planners, we can then help our clients implement a more flexible strategy by diversifying assets to generate higher investment returns over the long-term, and protect ourselves against inflation and the real risk of outliving our assets.

4. SOLUTIONS

Truthfully, I am not comfortable with the word "retirement." Few Boomers do. From a positive standpoint, we are entering our "next phase."   As a country, we need to keep the positive spin, encourage our Boomers to plan that next phase with the independent advice of a financial planner who will holistically examine their lives, not just their investment issues.

I recognize that all of these issues are complex. However, I believe that if you recognize the fundamental nature of the problems we Boomers face you will arrive at the right solutions to empower us to help ourselves.

As a professional adviser, the common recommendations we make to our Boomer clients are:

- Acknowledge reality. Don't focus on how much you were worth yesterday. Begin you planning with a realistic appraisal of your financial position today.
- Plan your future holistically and with care. Do not look for simple solutions and adopt rules-of-thumb.
- Continue to invest in your 401k, even if your employer is no longer making matching contributions.
- Utilize any available "catch-up" provisions that may allow you to put more money away for your future.
- In your planning, recognize that you have no control over investment markets; however, you do have significant control over expenses and taxes and

minimizing those costs may make the difference between a penurious and a pleasant retirement.

- Recognize that investment market returns historically have been relatively modest and do not come in smooth patterns. Don't count on winning the lottery, plan accordingly. Base your expected investment returns on realistic forward looking market returns.
- Remember, all you can really count on is what you have earned after expenses, after taxes and net of inflation.
- Seek competent financial planning assistance. Do your due diligence to insure that the advisor you select has the education, experience and resources appropriate to your unique needs.
- Insist that your advisor acknowledge in writing that he or she will place your interest first and will clearly disclose all significant conflicts of interest.

My suggestions for actions that this legislative body might take to ensure that as many Boomers as possible can enjoy a satisfying retirement include:

- Use the prestige and visibility of the federal government to remind the financial services industry of its responsibilities to its clients.
- Insure that ALL financial advice offered to investors be based on fiduciary principals; i.e., the simple and equitable concept that recommendation will be made based on the best interest of the client, that conflicts of interest will be minimize and that any remaining conflicts be clearly disclosed.
- As in the case with ERISA, hold all professionals who provide advice to retirees to that fiduciary standard.
- When developing plans and solutions for us, remember we are Boomers, not Senior Citizens.
- Encourage the offering of financial education for retirees that will focus on financial planning as a process, not one that promotes product-centric solutions.

- Help us help ourselves. Do not restrict our ability to continue to participate in an active way in our economy. Revisit legislation that makes it difficult or impossible for us to continue working into our 70s or possibly 80s.
- Again, acknowledging my bias as an academic, fund research directly related to developing improvements in and solutions for Boomer retirement income funding. Examples would include the impact of expenses and taxes on sustainable withdrawals and the efficacy and use of immediate annuities and longevity insurance in retirement planning.

CONCLUSION

Mr. Chairman, and ranking Member Martinez, I thank you for addressing a topic so important to the investing public and Boomers such as myself. As you well know, the financial services industry represents billions of dollars of economic clout. Notwithstanding the recent anger and frustration with Wall Street, it can well afford to provide professional and sophisticated representation for its interests before Congress. Although in some ways I suppose financial planners are part of the financial services industry, my professional affiliations are with organizations that identify more closely with the public's interest, not those of Wall Street. That's why I, along with my academic and professional colleagues and the investing public are pleased that you, the true representatives of the public interest, are taking the time to consider the issues related to securing a good retirement in these volatile economic times. I am confident that your collective wisdom will result in actions that will benefit us all. Once again, thank you. I am happy to respond to any questions.