



OPTIMIZING YOUR FINANCIAL HORIZONS

15 things to know now about retirement planning **BY** AMY WESTERVELT

We've all heard that you need to start saving for retirement early and that credit card debt is the worst debt to have — but are there other factors to consider? To find out, we checked in with experts in the area to get more detailed advice about how Marin County residents in particular should be planning. Not surprisingly, the recent economic climate has impacted how people think about retirement planning, but where we live has an effect, too, as do several other factors that just may surprise you.

1 WHAT RETIREMENT MEANS

“Retirement is one of these words that gets thrown around a lot, but people don't necessarily know what it means,” says Jonathan Lee, CEO of Opes Advisors in Larkspur. Today,

Lee, who is retired himself, helps provide clients with the sort of advice he always wished he had. “We have an actual definition of retirement: a part of your life in which you live off your assets and not your work,” he says. “It's fundamental and simple, but it's an important piece to have in place as you begin to plan.”

2 DEFINING YOUR RETIREMENT

Retiring happily requires a more personal definition of retirement, one that gets at what a satisfying retirement would look like for you personally. “You need to really drill down and determine what's important to you in your life,” says Richard Stone, founder and CEO of Private Ocean in San Rafael (formed from a merger of Salient Wealth Management and Friedman and Associates). “Why is money important — what are you going to do with

it? Buy groceries? Give it to your kids? Donate to a wonderful charity?”

3 UNDERSTANDING YOUR BALANCE SHEET

“Regardless of wealth level you'd be surprised at how many people don't know where they spend their money,” Lee says. “A lot of people don't even have a personal balance sheet, and you've got to get that before you do any sort of planning.” Start now and pull together a recent accounting of everything you've got, how much you're spending each month and what you're spending it on.

4 PUTTING YOUR ASSETS TO WORK

Once you're retired, your assets will need to generate your monthly income. Lee points out that it's important to understand not only what assets you have but also which ones

actually generate income. “Not all of your net worth generates income,” he says. “If you’re retired or nearing retirement and you want to retire well instead of just cope, you need to think about what we call your ‘income-generating capital at work.’” In other words, if your net worth is \$10 million but only \$1 million is generating income, with average returns that’s about \$40,000 a year. And as an annual income in the Bay Area, that’s not going to go far. “People think, ‘I’m well off, I’ll be fine,’ but that’s not necessarily the case,” Lee says.

That advice holds true whether your net worth is \$10 million or \$100,000, but there are certain retirement vehicles that are best suited to those with a net worth of less than a million. Leidy, founding principal of Larkspur’s Portico Wealth Advisors, highly recommends putting 10 to 15 percent of your income each month into

a Roth IRA. “People often operate under the assumption that their tax rate will be lower in retirement, but what we find is that most retirees not only don’t see a reduction in their tax rate but also often see an increase in that rate.”

That false assumption drives many people toward tax-deferred accounts, but since the tax you’ll eventually be paying is likely to be higher and we currently have historically low income tax rates, Leidy recommends the Roth IRA, where you might pay some income tax now but won’t be taxed when you withdraw the funds. This is a particularly prudent move for those who are renting and may include Social Security as part of their retirement plan.

If you do own a house here, Leidy says there is still money there for those who are willing to relocate, as unappealing as that might sound at first. “Some people find

themselves in the position of needing to significantly reduce their spending upon retirement, and they just can’t make it work,” he says. “The good news is that there is equity in your house, and if you’re willing to relocate you can free up some capital.”

5 THE FIXED-INCOME FALLACY

The rule of thumb used to be that the bonds in your portfolio should be equivalent to your age. So, for example, if you’re 70, you should have 70 percent bonds and only 30 percent stocks. “That makes no sense today at all,” Stone says. “Every portfolio should be driven by two things: First, what is your need for income from your portfolio? And second, is that consistent with your tolerance for risk? It may be that you have a high tolerance for risk and your portfolio would require a lot



REASSESSING THE AMERICAN DREAM

Jonathan Leidy of Larkspur’s Portico Wealth Advisors offers the following insights when it comes to long-term financial planning and home ownership versus renting.

- For a homeowner with a retirement plan that is on the margin success-wise, selling the house and renting may be the only viable option, as a home represents a great deal of pent-up cash flow. “We often see plans with 50 percent success rates jump to over 80 percent when home sale is included,” Leidy says.
- Renting is often cheaper than buying. “The debate between renting and buying is age-old, but if you strip out appreciation on the home side it becomes very lopsided in favor of renting,” he says. “Stripping out appreciation altogether is a bit aggressive, but given the decades of above-normal real estate growth, a modest figure like 3 to 4 percent growth may not be overly conservative and likely makes renting the winner for the foreseeable future.”
- Lifestyle plays a large part in the rent-versus-ownership decision. “If your passion is gardening or DIY weekend projects, then home ownership will be more satisfying. On the flip side, renting is relatively responsibility-free and allows for a tremendous amount of flexibility in terms of relocation,” Leidy says.
- Leidy notes that for renters and buyers alike, keeping the cost of housing limited to about one-third of gross monthly income is key. “You need to have enough savings for emergency expenses as well as longer-term retirement spending, and home ownership almost always has higher costs attached to it,” he says.

of equity exposure to achieve these things you want in retirement, and you go for it. Someone else might say that risk is too painful, and they're willing to adjust those goals so they can sleep at night."

6 IT'S STILL ALL ABOUT REAL ESTATE ... JUST NOT THE WAY IT USED TO BE

Our homes have often been thought of as piggy banks. "In Marin County in particular, a lot of people depended on the rising value of their homes as an investment vehicle," says James E. Demmert, managing partner of Main Street Research in Sausalito. "That was a bad idea, and we are not so sure home values will pop back up as dramatically."

It's easy to see why people would believe that purchasing a home in Marin would be a good investment. Historically, real estate returns have been great in the Bay Area, much higher than the national average. But post-recession, experts are predicting that returns on Bay Area real estate will be closer to the national average, which is about 3 percent. Of course, there are other reasons to buy a home besides eventual financial returns, but as sure-fire investments go, property may not come with the guaranteed ROI it once did.

"And yet most people live historically," Lee says. "They think, 'I did well with real estate, my parents did, my friends did, so overbuying real estate is fine.' That's dangerous because the past is not a guarantee of the future."

7 RISK HAS CHANGED, AND IT'S PERSONAL

Understanding risk, real estate and your comfort level with both have always been a big part of retirement planning, but the past few years have brought with them new and powerful lessons. "As a client, even for me, until I lost money my understanding of risk was academic," Lee says. "Now we see risk as a permanent loss of capital, rather than cyclical.

And we also learned about real estate as a risk. This is the first time in the U.S. that personal residences really lost value, and there's been a big shift to see real estate as a high-risk investment."

8 INSURANCE IS IMPORTANT

Leidy and his partners launched their firm in 2010 precisely because of new and emerging understandings of risk. "It's all about risk," he says. "Nothing derails retirement faster than a risk left unaccounted for." For that reason Leidy looks not only at stocks, real estate and other assets but also insurance. "We plan for an untimely death with life insurance, but the fact is that disability is six to seven times more likely to happen, and most people don't carry disability insurance," he says. Self-employed people are particularly vulnerable in this scenario, as a sudden reduction in the number of years they can work could completely derail a retirement plan. The solution, for Leidy, is to calculate all risks, eliminate those that can be eliminated and mitigate the rest with a smart strategy.

9 DIVERSIFICATION CAN'T PROTECT YOU

It was once widely accepted that diversifying your stock portfolio mitigated your risk, but in the global economic meltdown everyone got hit. "Boy did investors learn a huge lesson there in 2008," Demmert says. "Everything fell and right at the same time. This is a globally linked world. To think you'll mitigate loss by simply diversifying is not the way it goes anymore."

10 AVERAGES AREN'T REAL

When you make a solid plan and build out a model for how much money you need each year for the next 20 or 30 years, it's just that: a plan, a model. Unfortunately, many people stick to what Leidy calls a "static



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THE PLACE YOU THOUGHT YOU KNEW

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withdrawal” plan, wherein they’re withdrawing the same amount of money each month. Instead, he recommends people adjust their withdrawals — and spending — according to context. “If it’s a good year economically take out the extra money to do that kitchen remodel, because it won’t hurt your retirement as much,” he says. “If it’s a bad year, rein in your expenses a bit.”

11 YOUR PLAN NEEDS TO CHANGE WITH YOU

A financial plan is a living document that needs to change as your life changes and as the economy changes. You need to update your plan annually and update your strategy along with it depending on what is happening. “Don’t be afraid to rebalance your portfolio,” Stone says. “What I mean by that is this: When 2008 hit there were clients who had equities drop, which resulted in more bonds than they initially had in their portfolio — that was a trigger point to rebalance. In the midst of the fear, some people would not rebalance after the crash and thus missed the opportunity to buy when things were really cheap. They just wouldn’t sell those nice safe bonds and buy cheap stocks when the markets were down, even though that’s what modern top-level thinking has proven time and again is a successful strategy.”

12 STOCKS AND BONDS ARE JUST ONE PART

Retirement planning has often been thought of as simply which stocks and bonds you’ll invest

your money in so that it’s earning a return for you once you retire. Now, planners are starting to look at the whole picture. How would a divorce affect your retirement? How would the home you’re purchasing affect your retirement? “People think retirement planning is all about how you invest in stocks and bonds, but stocks and bonds are not where people usually get into trouble with retirement preparation,” Lee says. “Also, stocks and bonds are usually never enough, unless you’re ultra-rich, to support retirement until you die. They are maybe a very small component for some people, even in Marin County, and it’s also typically not where people really mess up their retirement. Yet most people’s retirement view is all about stocks and bonds.”

13 HONESTY REALLY IS THE BEST POLICY

You must, of course, be honest with yourself and with any financial planner about how much you have and how much you spend on what. But the honesty street runs two ways, and the economic meltdown made it difficult to trust anyone — from planners themselves to banks to CEOs even down to the rating agencies that were trusted to vet public companies. To mitigate risk, Demmert recommends only working with certified planners and really doing your due diligence before investing in any company. That is advice that has been out there for a while, but it’s being embraced with a new level of commitment now. “We used to have confidence that public companies are run

well and that CEOs are working on behalf of shareholders, but that illusion got shattered and it makes our jobs harder,” he says. “We have to do a lot of homework to make sure a company’s numbers are correct, and we didn’t have to do that as much 10 years ago.”

14 DON'T FORGET ABOUT HUMAN VALUE

Both leading up to and during retirement, you are still capable of creating value, and that’s a simple fact a lot of people forget. “Yes, you have tangible assets that have value, but one of the greatest values you have is your efforts, especially people who are still working,” Stone says. “What you produce in terms of revenue probably has more value than assets in your portfolio. So don’t underestimate the human value.”

15 EMOTIONS AND MONEY DON'T MIX

Our emotions can play tricks on us when it comes to money. Leidy points out that in the Bay Area, where new millionaires are minted daily, it’s easy to develop an “easy come, easy go” feeling about money that can be dangerous, especially with respect to retirement planning.

On the flip side of the coin, Stone notes that markets are driven by fear and greed, and those who play the markets well avoid making decisions fueled by either of those emotions. “People who are usually very rational do very irrational things in finance,” Stone says. “We know from various studies that under stress, the logical part of your brain shuts down and no longer functions. We revert back to fight-or-flight responses, and people do not make good decisions there. That’s why you need a plan in place for those times so that when a crisis comes you already know what to do about it.” ■