Retirement Planning for Success

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Retirement is not what most people in American think about until they hit 50. Then, many panic as they realize they have not saved enough. Several years ago, I wrote an article, citing a study that surveyed families whose total household joint income was between $50-100,000 annually. Of those in their 50s, the average savings (not counting any home real estate equity, personal property such as cars, and any pensions) was under $30,000. What do you do if you are in your 50s and have not saved enough?

Plan on working until age 70 so that you can maximize your Social Security retirement benefits. The average Social Security (SS) check for retired workers in 2014 was $1,294. Among elderly SS beneficiaries, 52 percent of married couples and 74 percent of unmarried persons receive 50 percent or more of their income from SS. Among elderly SS beneficiaries, SS is 90 percent or more of the income for 22 percent of married couples and for 47 percent of unmarried persons.

By working until 70, one can get 80-90 percent more SS income than if one started SS benefits at age 62. Yet, only 5.2 percent of men and 11.4 percent of women waited until age 66 (considered Full Retirement Age for older Baby Boomers). Only 1.2 percent of men and 2 percent of women waited until age 70. For more information, read my 5-part Social Security series, with the first article published on 5/23/2014, found online on www.DrWongInvestorGuide.com.

Really understand and follow Warren Buffett's Rule of 100. This means one subtracts one's age from 100, and this is the maximum percentage of one's life savings that should be in "red money. This is also known as risky money", which is any asset that can lose principal. Example: if the average age of a couple is 58, no more than 42 percent of their life savings should be invested in risky assets. When one reaches age 50 and realizes one has not saved enough, many will panic and say to themselves "The only way I can retire is if I take huge risks with my money to try to make huge returns". That's akin to the gambler at a blackjack table who started with $100,000 but has lost $50,000. It's tempting to "double down", but that usually means losing most of your life savings faster.

Understand that it is impossible to reach the "Efficient Frontier" the way most people invest. Harry Markowitz won the Nobel Prize in Economic Science in 1990 for his pioneering research on modern portfolio theory. Here's a passage from Wikipedia, "A *Markowitz Efficient Portfolio* is one where no added diversification can lower the portfolio's risk for a given return expectation (alternately, no additional expected return can be gained without increasing the risk of the portfolio). The Markowitz Efficient Frontier is the set of all portfolios that will give the highest expected return for each given level of risk. These concepts of efficiency were essential to the development of the capital asset pricing model." It's mathematically impossible to reach the "Efficient Frontier" with only stocks and bonds, which are the two basic asset classes that have historically composed Wall Street investments. Most investors have an inefficient portfolio,

meaning they are taking way too much risk for the returns they get; or, are getting way too little return for the given level of risk they take.

Free 6-hour "Retirement Planning for Success" course: will be held Part 1: Wednesday 4/8/15, 1-4 pm and Part 2: Friday 4/10/15, 1-4 pm at Desert Foothills Library, 38443 N. Schoolhouse Road, Cave Creek, AZ 85331. **Please RSVP at (800) 955-1408**. The course is free but many students will want to purchase the optional student workbook for $15, cash or check only, at the class. The class is based on recent academic research.

Contact Dr. Wong at (480) 706-0177, haroldwong1@yahoo.com, or www.drharoldwong.com.
For his archived research or seminar schedule, click on www.DrWongInvestorGuide.com.