The New Rules of Retirement Saving

THE SAVINGS RISKS NO ONE IS TELLING YOU ABOUT... AND HOW TO FIX THEM

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Contents

CHAPTER ONE

The New Rules of Retirement Saving

"Invest in the future because that is where you are going to spend the rest of your life."
~ Habeeb Akande

I did it wrong.

That's not easy for a person like me to admit. I'm an actuary. And actuaries are mathematical experts at managing risk.

Yet I was blind to some of the biggest financial risks I'd ever face.

There's a good chance you're doing it wrong, too. This book is an attempt to fix that.

What is the "it" I'm referencing?

Saving for your future.

I know. Not the sexiest topic (except to actuaries like me). But it may be the most important thing you change this year.

So what did I do wrong? I saved for the future in the wrong way.

It wasn't my fault. Not completely anyway. I had a lot of people — experts among them — encouraging me to save this way. Now, at age 65, I can see the tremendous mistakes I made.

Here's how I got into this predicament.

I graduated from Purdue University in 1972 with a degree in mathematics and physics. I was so eager to start my first job that I skipped my graduation ceremony altogether. While my classmates were tossing their hats in the air, I was settling into a new role as an actuarial student at Traveler's Insurance in Hartford, Connecticut.

At that point, saving for retirement was easy: I didn't have to do it personally because my company did it for me. In the 1970s, Travelers had a defined benefit pension plan, so each year I accrued a portion of my salary that would be paid to me at retirement for the rest of my life. Amazingly, I didn't have to contribute a cent to this plan. It was up to my employer to fully fund it.

If only it had stayed that easy.

By the 1990s, I was CEO of an insurance company called Integrity Life, headquartered in Louisville, Kentucky. And here's where my savings plans went astray.

At Integrity, we didn't have a formal pension program. Instead, we saved in what was, at the time, the hot new savings product in America: the 401(k).

If you're reading this book, chances are you're saving in a 401(k), too. And chances are, if you don't make a change today, you're going to be facing the same risks I am when you're in my shoes.

It doesn't have to be that way.

Here's the secret most financial experts know, but aren't telling you: today's most popular ways of saving for the future are creating some of the biggest risks in modern financial history. Yes, that includes 401(k)s and Individual Retirement Accounts, or IRAs.

What does that mean? This book will show you.

This book will teach you the **New Rules of Retirement Saving** and how you can use these rules to transform your savings strategy, eliminate risk and increase your ability to enjoy the relaxing retirement you envision for yourself many years from now.

As you read this book, you may get a sinking feeling as you realize you're saving for retirement in the wrong way. I'm here to tell you, it's not your fault. Our nation's savings infrastructure is slow to react when new risks develop, and most Americans are still saving under the old rules.

But you are responsible for what you do next. So don't save with the strategies of yesterday, strategies that can't overcome the risks of today.

Use these new rules of saving.

When you finish this book, I promise you'll feel more confident, more hopeful and more prepared about your future and how to save for it.

I promise that if you follow the New Rules of Retirement Saving, you'll never have to start a book by writing, "I was wrong."

Crisis in America

There's a crisis going on in America today, and you've inadvertently become part of it.

As a country, we have a problem using old financial strategies that no longer work to manage today's financial realities. We are using *old* rules to address *new* problems.

In most areas of life, we've kept up with the times. Certainly no one takes a photo at the beach, drives to the store, drops off the film, waits five days and then picks up the prints. Today, you just snap a picture of that sunset on your phone and share it with the world via Instagram. Likewise, if you want to watch a movie on Friday night, you're more likely to order it on demand or via Netflix than to drive to a video store, pick out a DVD (or VHS!) and bring it home.

In fact, we're using new rules for most things we do. Do you bank online? Avoid eating too much red meat? Drive a car with an airbag? Research TVs online before buying one? In all these cases and more, we've recognized that today's reality requires new rules. We've found better, more efficient, more rewarding ways to do many of the things we depend on for a happy life.

But not when we save for retirement. There, the vast majority of us still play by very old rules.

Your retirement savings represent your ability to enjoy a rewarding, happy future. And yet, most of us are using rules that are outdated and, worse, no longer valuable.

Imagine if every time you wanted to take a trip, you had to call the airline and have them mail you a ticket. That's the way it used to work. It's silly to accept that kind of inefficiency today, when you can get tickets electronically in a matter of minutes.

Or imagine if you broke your arm, but didn't use an X-ray to see what's broken. For years, doctors had to guess what kind of fracture you had. Today, no one with access to good medical care would rely on guesses rather than X-rays.

When it comes to saving for retirement, most of us are making do with approaches that are as inefficient as mailing airline tickets and as risky as setting broken bones without X-rays.

It's time to update our rules.

They're All Talking About You

Do you know what they're saying about you? No, not your best friends or work buddies. I'm talking about the media. Fox News. Forbes. The New York Times. USA Today.

Forbes

Why Gen X Isn't On Track For Retirement, 5/13

USA TODAY

Why Gen Y May Face The Least Secure Retirement, 4/12

CNBC

Spanked On Retirement, Gen X Still Doesn't Get It, 6/13

THE WALL STREET JOURNAL.

Only the '08 Crisis Scared Gen Y Into Saving, 4/13

They're saying you're not saving enough. They're saying you haven't planned ahead. And they're saying you're going to pay for it later. Basically, their message is the same. People in their 20s, 30s and 40s are the least-prepared generations in terms of retirement savings. And their retirements are at risk because of it.

They're right… to a point.

What the media is missing is that it's not your fault. You and your friends undoubtedly care about your future. You know you should be saving. You're just saving under an *old set of rules*!

And because you're saving under an old set of rules, saving has become so problematic, so unrewarding, that many of your peers have given up all together. The rest of you do it out of obligation, but not with any measurable satisfaction.

This book is a guide to breaking that cycle.

Yes, I'm Talking to YOU

Are you saving in a 401(k) or IRA? Great job! You're doing more than many of your peers.

I know it's tempting to say, "This book isn't for me. I already know what I'm doing."

But this book is for you. It's for every saver who has been misled by what's popular in today's savings market, with little regard for whether what's ***popular*** is also what's ***successful.***

My client Andrew is a perfect example.

Andrew is a CPA, and he knows numbers. He also knows how to evaluate risk. After one of our meetings, he remarked to me, "You know, when I first met you, I always assumed you were talking about other people. I figured I was smart enough to know how to save. Heck, I advise my clients on some of the same strategies you're dismissing. But you know what? I needed help, too. I was relying too much on the talking heads and not enough on the level heads."

So before we begin, let me say: I AM talking to you. I promise. If you're like the vast majority of savers today, no matter how smart you are, you're saving under the old rules.

The Old Rules of Retirement Saving

Save through your employer. Invest in the market. Defer your taxes.

Lots of today's common savings rules were created for a far different kind of saver.

They were created for savers like my Uncle Irwin. Irwin would be 88 this year, and he did something that is pretty foreign to most people reading this book: he worked for the same company *his entire career*. Irwin worked his way up the ranks, from salesman to management and finally to the senior leadership team. As a reward for his decades of loyalty, when Irwin retired, his company gave him a pension. During his later working years, he also saved in a 401(k), which his company matched handsomely.

The current rules of saving were created for people like Irwin. They were created for a time when employers shouldered most of the financial commitment for an employee's retirement fund, either through pensions or high 401(k) matches. My uncle didn't contribute much to his retirement accounts: his pension was entirely funded by his company, and his 401(k) was heavily subsidized by his employer. Most of his annual salary went to daily use, not long-term savings.

If you're reading this book and you have a pension like Irwin, good for you! Keep on saving under the old rules.

If you're reading this book and your employer matches 10 percent or more of your 401(k) contributions like my uncle's did, that's great! Keep saving under the old rules, too.

If you're like most Americans and you're saving for retirement without generous support from your employer, these rules aren't going to work for you.

That's why I've created a new set of rules.

Three Rules for a Better Future

This book is about the New Rules of Retirement Saving. It's about taking the same kind of insights and advancements that have taken place throughout our world, and applying them to retirement saving.

These three rules are based on a blunt assessment of the risks you face today as a saver. Follow them, and you'll be on a better path to saving.

Why three rules? I could have created 20 or 30 new rules, from broad statements on savings philosophy to minutiae about daily savings activities, but I know you're not going to remember 20 rules. Besides, I've found it really boils down to three big actions. And if you take these three actions, you'll be better prepared for retirement… not based on the past, but based on the present and the future.

So what are the three New Rules of Retirement Saving?

Rule #1: Know Your Risks

Rule #2: Choose a Strategy that Addresses Your Risks

Rule #3: Take Action Now

Sounds simple? It's actually a fundamental shift from the way you're saving today.

Over the rest of this book, I'll help you learn about each rule and put it to work in your own savings strategy. By the end, you'll see how these three simple rules can transform your approach to the future.

Picture You at 75

Take a moment to imagine: What will your life be like when you're 75?

No, I'm not talking about the iPhone 84, or getting robots to fold your laundry (which I'm all for, by the way). I'm talking about how you envision yourself living as time goes by. Look through the telescope of the future and allow your mind to focus on what your life will be like then.

This type of future-gazing is something too few of your peers do, but it's essential to retirement planning.

Here's how I see my life at age 75: My wife and I have sold our current house and moved to something smaller within walking distance of restaurants and shops. When a new restaurant opens, we will be among the first to try it out. I'll continue going to the Broadway theatrical series for my wife, and she'll continue going to University of Louisville men's basketball games with me. Each summer, we'll spend a week on Hilton Head Island with our daughters and grandchildren. We'll travel to visit friends across the country, and maybe even get a condo on the beach in Florida. I'll have more time to volunteer and support organizations that are important to me. And you can bet I'll make as many of my grandkids' T-ball games and ballet recitals as I can.

When I think about my life at 75, very little of it has to do with money. And yet, the picture I see can only be supported if I have the income to make it a reality. Will I have the money to go to Hilton Head? Will I be able to give generously to United Way? Will I be able to eat out when I want without worrying too much about what's on the right side of the menu? Or, will I be anxious about fitting an occasional expensive meal into a tight monthly budget?

When people in their 20s, 30s and 40s tell me they don't have time to think about their future (let alone save for it), I ask them to go through the same exercise mentioned above. Picture life at 75.

Take a moment and do it yourself. Write down five or six things you want to be sure you'll have. It's OK if these things change over time. The important thing is to picture them now:

At 75, I want to:

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What did you write down? Even if you chose not to put anything on those lines, I want you to at least think about it. After all, these are the things that will make up your retirement.

The new rules of saving will make sure the goals on the above list become reality. They can save you from sacrificing pleasures down the road because you didn't plan well today.

"Outside the Box" Thinking

I'm here to give you a new lens through which to view your finances. It's going to feel different than what you've done before.

I'm reminded of a story from the early 1900s when the automobile was just being introduced. A spokesman for Daimler Benz was asked about the future of cars, and he remarked, "There will never be a mass market for motorcars because there is a limit on the number of chauffeurs available." His assumption was, of course, that every car needed a chauffeur. That blinded him to the potential of the personal automobile.

The same is true with savings today. Too many of us are saying, "There's a limit to how successful I can be because there's a limit to the strategies I'm using to save."

As you've probably guessed by now, we're about to blow that assumption out of the water. Let's start with the first New Rule of Retirement Saving: Know Your Risks.