

Forward - This article required more revision than any of the other articles offered on our web site. Several others required a series of date changes to make them pertinent to contemporary readers. For instance, articles discussing fixed income investments needed to have the maturity dates edited, (the year 1994 changed to 2004). Change ran rampant in the financial markets during the last ten years. Managing retirement money felt the full weight of that change. While maintaining it's original intent and flavor, this article has been revised to reflect the changes that confront retirees of the 21st century when they approach the problem of managing their retirement dollars.

RETIREMENT MONEY MANAGEMENT

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Complaining about your boss and job is certainly a God-given right. This privilege continues until that final day of work when retirement begins. That's the day when, among other things, you get to start managing your retirement nest egg.

Few of us spend an entire career investing money for others, let alone our own. Most of us do benefit from some form of employer-sponsored retirement plan, usually a 401K. These plans are very effective; they allow professionally managed employee and employer contributions to accumulate without being taxed. A pretty good deal by anyone's standards. Sadly enough, when an employee retires, the employer quits contributing. On that same day the taxman starts wanting his money and the employee becomes the fund manager. The responsibility of managing these dollars is overwhelming for many.

Options at the Employer Level

Most retirees have two distribution options. The first election is usually an annuity. This option guarantees a fixed income for a specific period of time (or life) for the retiree and the surviving spouse. Although this certain flow of income has its advantages, it is made less attractive by the loss of any remaining capital upon the death of the annuitants. The inability to retain title to this capital is a great disappointment to most people. As a result, the second election - a lump sum distribution, becomes extremely attractive.

When selecting a lump-sum distribution from an employer sponsored retirement account, a retiree should be offered counsel by his employer as well as the plan custodian. These dollars are yours and you have the right to leave them with the plan's current custodian or move them to an IRA-rollover account. This transaction can be easily executed without incurring a tax burden. If counsel is unavailable or offered in the form of an 800-number and a series of recordings, you may want to seek professional advice.

Managing a Rollover Account

The rollover tactic allows the lump sum to continue to grow in a tax-sheltered environment. The retiree is free to withdraw smaller sums periodically to provide retirement income. Once a lump

sum distribution is elected and executed the money needs to be managed. The retiree is usually the first managerial candidate. Chances are that he or she is poorly equipped to handle the project... becoming a good steward to what is probably the largest sum of money that the individual will ever acquire. However, some are up to the task... if you feel capable, by all means give it a try.

Most people are just plain scared, there's nothing wrong with that either. Advice is often sought from friends considered worldlier than the retiree. Since friends do not earn commissions, their advice is considered fair and for some reason, good.... if nothing else it is free. Unfortunately, when you ask four friends for advice it is not unusual to get four different opinions. If you add your own to the mix you now have five... it becomes very difficult to just "follow the yellow brick road."

For the sake of discussion, let's assume that most retirees want to own some mix of stocks and bonds. The most economical way to manage an account like that would be to use government bonds and an index fund. Index funds emulate a visible icon of the market place, like the S&P 500. They are cheap to own and typically have management fees in the .20-.30% range. Government bonds can be purchased directly from the U.S. Treasury at little to no cost. Once again, for the sake of discussion, let's assume the retiree can manage this account for a total of .25%.... we now have a "yellow brick road."

As we all know, one size does not fit all. A retiree may shun managing his own retirement account for a variety of reasons. As we offered earlier, some are just plain uncomfortable with the task, while others seek validation or hope to maximize performance by hiring professionals. If you choose to hire a manager, develop a list of goals that will help you measure your success or failure. Shopping for help in the financial arena is not a whole lot different than shopping for a new refrigerator. You should be able to buy what you want if approach the problem logically.

Here is a list of ten items you may want to consider:

- 1) Impartial advice
- 2) Security
- 3) Performance
- 4) Counsel
- 5) Access to your funds
- 6) Experience
- 7) Access to your manager
- 8) Compatibility with other advisors
- 9) Staff
- 10) Price

Items 1-9

Impartial advice is very hard to find. Everyone wants your business. They also want to profit from it. In order to be impartial, an advisor must have a business plan that eliminates conflicts of

interest. If he or she doesn't have such a plan, then there is huge need for integrity. Integrity is a high priced commodity.... It's a lot easier to find an advisor with a good business plan that eliminates conflicts of interest.

Security in this case is the safety of your money.... don't compromise, use a high profile custodian that will allow you to sleep at night. Performance is a big subject, don't just bite on the biggest numbers you see. Pursue a discipline that gives you peace of mind and reasonable returns. Consider the performance of your whole portfolio on an after-tax basis.

Don't hire people you don't like. Good counsel can only come from people you are receptive to, make sure you can respect the people that advise your financial affairs. Don't let a set of rules and institutional barriers keep you from using your money. This is the new millenium, we should all have checkbook access to our dollars.

Experience is a relative thing. It would be nice to hire someone that you won't out live, but you will need to satisfy yourself that your advisor has had plenty of "reps" at what he does. Extremely well traveled investment advisors should be avoided, they always have a good reason why their last job didn't work out. Make sure your advice comes from someone qualified to give it. Look for professional designations, job tenure, an established clientele and a substantial personal net worth. Don't put yourself in a position where you are taking advice from someone in a new suit with less money and a poorer education than yourself. It is also important to have access to these people. Your calls should always be answered or returned on the same day.

In reality, you are assembling a team. The financial advisor you chose should be compatible with your accountant, attorney and spouse. If that is not the case weed your garden until it works.... by the way, divorces are expensive. Avoid solo players. Look for financial advisers with adequate technical support and a well-trained staff. It is very conceivable that you will develop a staff relationship of equal or greater utility than the principal relationship. This will only make the job of managing your money easier.

Item 10 - Price

This should be the easiest decision you make. As we discussed earlier, you can manage your own money with a bare-bones Index Fund/Government Bond approach. This method will cost you roughly 25 basis points (.25%). If it provides you with the level of service you need, (see items 1-9) by all means use it. If not, recognize the fact that you will have to pay for these additional services and make sure you only pay a fair price.

A portfolio of no-load, diversified mutual funds managed to satisfy market cap and industry specific goals will have a management fee of about .75%. The fund companies will probably provide you with 800-number advice. Continue to use the government bonds for the fixed income portion of your portfolio or turn that work over to the mutual fund companies as well. This rather basic change in portfolio management costs you about .50%.

The next step is rather broad.... Independent investment advisors, trust departments and all sorts of brokers will deliver some or all of the services in items 1-9 for about 1%. This category will

be tough to analyze.... these guys have account size minimums, abbreviated service packages, number of trade limitations, 800-number service packages, etc. Watch out for business plans that do not eliminate conflicts of interest in this group. In some cases you will be restricted to proprietary products or find yourself taking advice from people paid on a transactional basis. This is the first pricing level at which you can expect to receive personal service and actually talk to human beings.

It's not always easy to get what you want by paying a premium. Lots of brokers, banks, insurance companies, mutual funds, trust departments, investment advisors and assorted hangers-on offer "full-service" managed accounts with prices ranging from 1½ -3%. These products come with 8½" x 11" glossy brochures and offer to hold your hand, blow your nose and take the dog for a walk. We recommend you avoid any products priced over 1½ %.

Conclusions

Pittenger & Anderson, Inc. is in the business of offering investment advice and financial planning for a fee. We do not participate in any transactional commissions and have striven to build a business plan that is void of conflicts of interest. The principals have been in the investment business since 1970. Interestingly enough, even if you spend some time reading this article and like the idea of using our "10 items" to help make your choice of an investment advisor..... you may not select Pittenger & Anderson. We know that, and it doesn't surprise us.

In the end, selecting an investment advisor is a personal decision. It is not unusual to see investors pay a premium just to do business with people they like. As we said earlier, one size does not fit all. We do not covet the business of those of you who are self-directors and prefer to be in charge of your own investment affairs. It is also clear to us that some investors just plain prefer a bank, trust department or someone from out of town to manage their assets. Just like you, we are looking for Clients that represent a good long-term match for Pittenger & Anderson.

Take your time and make a good decision. Who knows, you may decide that taking the proceeds of your retirement account in the form of an annuity is a pretty good deal after all. If you decide to take a lump-sum distribution, we wish you the best of luck making a good decision. Feel free to give our 10 item method a try. After you make your decision be sure to review and analyze the results periodically. The same process will tell you if you're on the right track.

Finally, don't let these events sneak up on you. Get out ahead of the retirement dates you have selected and see if you can't take some of the advisors you are considering out for a test drive. Above all, be long-term in your thinking and have a great retirement.