MorganStanley SmithBarney

# Dialogues » WEALTH STRATEGIES FOR DISCUSSION

We know how hard you worked to accumulate your wealth, and that key concerns go beyond investing in stocks and bonds. We make wealth work by helping you determine what's important to you, then developing actionable strategies to help you realize your goals and guard against the things that might undo them.

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## How Much Money Do You Need for the Next Phase?

**IT DEPENDS ON THE KIND OF RETIREMENT YOU ENVISIONED.**

These days, "What's my number?" is a question millions of baby boomers are asking themselves, as in, "How much money do I need to stop worrying about retirement?" Figuring out that magic number has never been more challenging—or more important.

You have to figure out how to fulfill your retirement goals without sacrificing a comfortable life. Your money has to last, but you don't know how long your retirement will last (today, the average American can expect to live nearly 78 years). And longevity isn't the most remarkable aspect of baby boomers heading toward retirement—it's what they plan to do with those years. Golf and grandchildren still have their place, but people retiring today are just as likely to be balancing tee times and family visits with a second career, entrepreneurship, world travel or pursuing an advanced degree. How can a person possibly fit it all in—and afford it?

Talking is a good start. You may be surprised to learn that your retirement expectations differ from your spouse's. Perhaps you want to stay put in your suburban house, while your spouse envisions a move to the city. As you work out compromises, each decision will help you assess how much money you will need to finance your retirement.

Identifying your shared goals is vital to successful planning; but crunching the numbers definitely plays a role since the amount of income you'll need in order to live comfortably once you retire may be higher than you think. So, doing the math and finding your number sooner rather than later are definitely key steps.

Your number is as unique as your set of aspirations and needs. Together, we can work to clarify your priorities and calculate your number—and then help convert this number from a daunting prospect to the retirement you always wanted. ■

# Staggering Retirement:

## When One Spouse Leave the Workforce

When one half of a working couple decides to bid adieu to the working life, it can be a major life change for both partners, with its fair share of pitfalls and unknowns. If you or your spouse is considering this step, some of these questions will inevitably arise in your discussions: Are we financially prepared? Can we maintain our lifestyle on just one income? What will we do about health insurance?

Staggered retirements can be financially complex, especially if the retiring spouse immediately must begin drawing on a nest egg. More typically, one-retirement couples have to evaluate varying Social Security benefits and pension estimates. If savings are tapped before age 60 there might be early-withdrawal penalties for 401(k) and other retirement plans.

You'll also need to figure out how much money you'll need every month to maintain your standard of living—or to achieve the one you envision for retirement. This process will involve analyzing your accumulated wealth, forecasting future income and crafting a budget consistent with your expense and income predictions.

Your investment strategy should also be reviewed, since goals often change in retirement. But depending on your investment time horizon and other key factors, your primary objective may still be long-term growth, meaning you would likely focus on managing risk, investing in growth-oriented stocks and holding investments for the long term. We can help you calculate the funds you will need to make your staggered retirement a reality—and help you adjust your investment portfolio accordingly.

### OTHER IMPORTANT CONSIDERATIONS

Health insurance is another vital consideration for one-retirement couples, particularly when retirement occurs before Medicare eligibility begins at age 65 or before a company pension plan with health benefits kicks in. Couples must decide whether the retiring spouse is better off covered under the working spouse's plan or through coverage offered by a previous employer. In addition, COBRA coverage—federal legislation that allows some workers and their family members to maintain health care coverage after working—lasts only 18 months in most states. If neither the working spouse's plan nor the retiree's previous employer offers coverage, more expensive private insurance may need to be purchased.

Besides developing a comprehensive financial plan, you and your spouse or partner also need to think about the psychological implications of retirement, as well as retirement on different schedules. Winding down gradually may help ease the transition.

Many successful retirees find meaning and purpose in life's next chapter, whether through a second career, volunteer work, new interests or old hobbies. As with the financial side of planning for retirement, the key is to take control of the situation, rather than having the situation take control of you.

### Discussions You Should Have *Before* Retiring

Planning for retirement should begin years before you think about ending your career. Having the right discussions with your Financial Advisor can lead to new strategies. The sooner you know where you stand, the more options you'll have to help build the lifestyle you envision for retirement.

Here are five questions that you and your spouse or partner should answer and then discuss with us before retiring:

- How do we want to spend our time and what kind of lifestyle do we plan to live?
- What will it cost to fulfill our goals and what will our budget look like?
- Where will the income we need to finance our goals come from (e.g., retirement accounts, stocks and bonds, Social Security)?
- How will we manage health risks—and do we have adequate health insurance and long-term care insurance?
- Are our legal documents in order, with updated wills, living wills and clear instructions—if we're incapacitated—as to who should have durable power of attorney on financial decisions and who should serve as health care proxy for medical care decisions

# Addressing the Wealth Planning Needs of Women Investors

Despite the fact that the great majority of women will be in control of their household finances at one point in their lives, some women may lack the confidence or knowledge to make wise financial decisions alone.

Although patterns are changing, a woman will generally spend more time out of the workplace, earn less and live longer than her male counterpart. With less money needing to last longer, women need to be prepared to handle all of their own financial decision-making.

## GETTING STARTED

It's never too late—or too early—to start taking an active role in your finances. If you haven't been involved in your family's finances to this point, becoming organized is a good place to start. Everyone, both men and women, should keep an organized, updated record of all assets owned in their name, their spouse or partner's name and their minor children's name. This record should contain account numbers, institutions where accounts are held, approximate value and legal ownership. This information will be helpful should an unexpected event occur, such as the death of a spouse or divorce.

In addition to keeping an organized record of assets, you should begin reading financial publications and meeting with your Financial Advisor. Your Financial Advisor can help answer any questions you might have about your individual circumstances.

## WHEN THINGS DO NOT WORK OUT

A sad fact of American life is that the majority of married couples will at one point separate or divorce. With this in mind, it is important to try to keep a clear head when it comes to finances, even during this emotionally trying time. Your organized record of family finances should help make the process of dividing property a little smoother. Some steps to consider once a divorce seems inevitable:

- Set up your own checking, savings and credit card accounts if you did not maintain these separately during your marriage. Many experts advise husbands and wives to maintain some separate accounts during their marriage.
- Close or freeze joint accounts.
- Update your will and any beneficiary designations that will change because of your divorce.

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## PREPARING FOR THE UNEXPECTED

While death is an inevitable event, no one likes to think about it. Having a plan in place will make handling financial arrangements much easier should you find yourself suddenly widowed. Again, the key to a good plan is knowing what you and your husband have. An organized record of all accounts, including retirement, insurance and Social Security benefits will help you quickly settle accounts and continue to receive the income you are entitled to. For most communication with institutions that your husband had accounts with, you will need to provide a copy of his death certificate. Some important steps to take right away include:

- Keep all accounts current. Pay all of your husband's bills on time.
- Complete paperwork for multiple copies of death certificates.
- Notify the administrator of his IRA accounts, your insurance agent and his employer if he was still working or had a pension through them.
- Contact Social Security. They will need to be notified of your status as a widow to continue receiving benefits.
- Change ownership on all accounts and real estate. Any assets that were held jointly will need to be changed to sole ownership in your name for future estate planning.

## TAKING CONTROL OF YOUR FINANCES

Taking an active role in your finances is an important step for many women. While preparing for the unpleasant possibility of divorce or becoming a widow is not something you want to do, it can help ease some of the stress should one of these events occur. Continuing to work with a Financial Advisor you can trust can help you prepare for the unexpected and gain confidence in your financial decision-making. ■

# Ten Tips for Smart Investors
## Avoiding Classic Errors

A good grasp of the fundamentals is key to avoiding mistakes while investing for your future. Take a look at some essential thoughts that might help prevent some classic errors.

1. **Live within your means.**
2. **Designate funds for short-term and long-term use.** Don't invest money you may need to keep liquid, otherwise you may be forced to sell assets at an inopportune time.
3. **Determine your risk tolerance.** Once you identify how comfortable you are with taking risks, you can make informed investment decisions.
4. **Set reasonable expectations for return on your investments.**
5. **Diversify your holdings.** Different assets, markets and industries do not rise and fall in tandem. Keep your portfolio balanced among several types of investments.
6. **Invest in quality securities.** Solid companies that have stood the test of time tend to do well during periods of market strength, and to recover more quickly after periods of market weakness.
7. **Never let a low share price be your only reason to buy a particular stock.** The one or two low-priced stocks that soar in a given year are the overwhelming exceptions.
8. **Enroll in dividend reinvestment programs.** The returns you earn from stock dividends could add up over the years.
9. **Learn all you can about the companies in which you invest.** Read the annual reports and go to the websites. We can also send current research to you.
10. **Develop a good source of investment information and service.** Be sure that your investment firm provides a comprehensive range of services and that your Financial Advisor is familiar with your individual situation. ■

Past performance is not a guarantee of future results. Diversification does not ensure against loss.