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Retirement by the Numbers

This year the first baby boomers will turn 62 and begin retiring. It is a milestone that was easy to anticipate, yet one for which the nation is not fully prepared.

As the 76 million people born to this leading-edge generation begin stampeding out of the workforce, a distressingly large number of them will find they don't have enough savings to live comfortably and securely in retirement. The latest Retirement Confidence Survey by the nonprofit Employee Benefits Research Institute (EBRI) points to some troubling signs:

- **Nearly half of all workers have less than $25,000** in total savings and investments other than their homes.

- The number of workers who are very confident about a comfortable retirement **has declined to less than 1 in 5.**

- **22% of workers have no retirement savings** of any kind.

This situation is not unique to baby boomers, though their large numbers will exacerbate the problem. Other generations that follow are in danger of winding up in the same state of unpreparedness.

How did we reach this point?

Experts often characterize retirees' financial security as a three-legged stool consisting of pension plans, personal savings and Social Security. A number of trends that have been developing over decades are weakening each of these legs, threatening not merely to topple the stool but to flatten it. Let's take a closer look at all three aspects of retirement security.

Pensions become do-it-yourself

The first corporate pension plan was established in 1875. It offered annual pensions of up to $500 to disabled workers 60 or older who had worked for the company at least 20 years. By 1980, a little over a century later, nearly 180,000 pension plans covered 38 million workers.

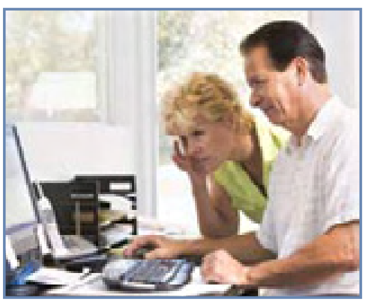
Most pensions were financed entirely from corporate profits and payouts typically stretched from retirement until death, so workers didn't have to

RETIREMENT EXPECTATION

Nearly **68%** of workers expect to work into retirement

REALITY GAP

Only **45%** end up working into retirement, due to layoffs, illnesses and other situations



Landmarks on the Road to Retirement

1935 Social Security Act passed

1940 Social Security issues first monthly retirement check

1946 Baby boom begins

1950 First Social Security cost-of-living increase

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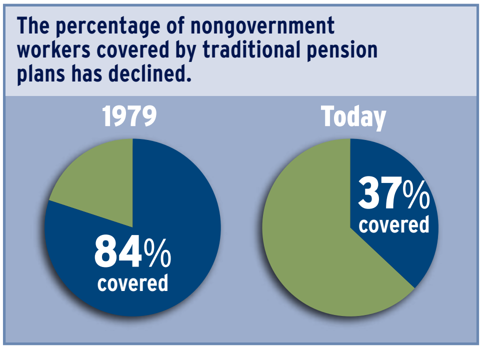
Retirement by the Numbers (2)

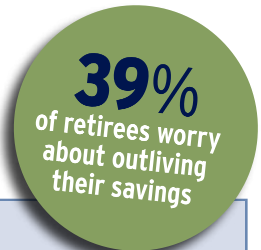


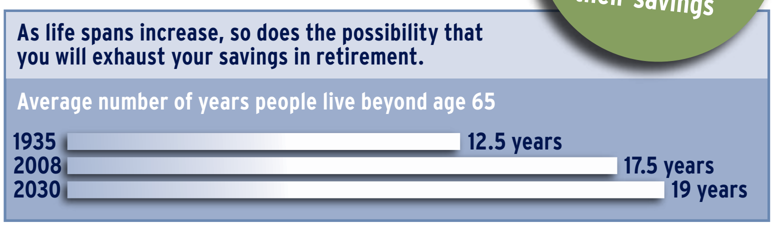
worry about outliving their savings. But these plans were expensive to maintain. In the 1980s many companies began shedding their pension obligations through bankruptcy. Others froze their plans, in effect locking out newer workers and sometimes reducing benefits for older workers. Today, just 37% of nongovernment workers are covered by traditional pension plans, down from 84% in 1979.

Traditional pension plans have now largely been replaced by defined contribution plans, though most people know them as 401(k) plans. Some 90% of nongovernment workers are now covered by defined contribution plans. With these plans, the burden of saving and investing has been shifted. Though many employers contribute money to these plans, it's now up to workers to choose to set aside a portion of their wages for retirement. And while skilled portfolio managers oversee investments of corporate pension plans, it's now up to workers to manage their own retirement savings.

Planning for a retirement that is years or even decades away is no easy task. It requires at least some ability to anticipate future salary levels, inflation rates and household spending requirements. It is a process that can confound experts much less individuals with no specialized training. A 2007 study found that assets in defined contribution plans underperformed those of traditional pension plans by 2% to 4% annually. Over a 40-year working career, that gap can lead to a tremendous loss of wealth.

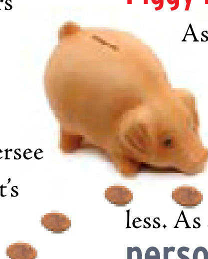
More problematic, though, is that 401(k) plans cannot protect you from longevity risk – the possibility that you will outlive your savings.



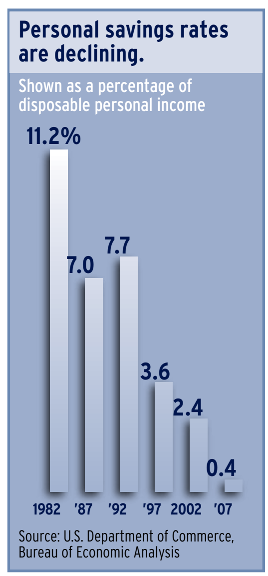


In 1935, a 65-year-old could anticipate a 12½-year retirement. Today, that has increased to 17½ years and by 2030 it will be 19 years. No wonder the EBRI's 2008 Retirement Confidence Survey found that 39% of retirees fear outliving their savings.

Piggy banks are nearly empty



As employer-sponsored pension plans become less and less of a sure thing, people are, unfortunately, not responding by saving more money on their own. In fact, they're saving less. As a percentage of disposable income, **personal savings fell to a historic low of 0.4% last year,** according to Department of Commerce statistics. The personal savings rate can be calculated in



1956 Social Security disability benefits begin

1962 Keogh Act makes pension plans available to small businesses and self-employed

1965 Medicare and Medicaid established, Older Americans Act passed

1974 Employee Retirement Income Security Act (ERISA) establishes Individual Retirement Accounts

Retirement by the Numbers (3)

76 million baby boomers start to retire this year

several ways, and not everyone agrees on the methodology. But the trend is unmistakable. Savings rates, which were in double digits in the early 1980s, have been declining steadily since the early 1990s. Collectively, we are putting almost nothing away for the future.

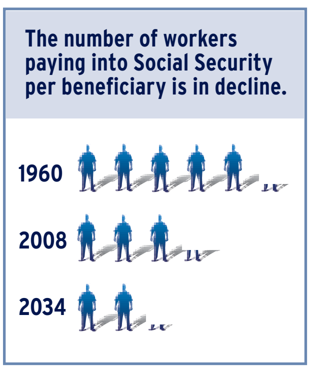
The root causes of this troubling trend are unclear. One possible explanation is that the explosion in consumer credit encouraged consumers to take on credit card debt rather than save up for major purchases. The steady rise (until recently) of home values also made it easy to turn home equity into a ready source of cash. Others theorize that the booming stock and real estate markets of the past three decades made people feel wealthier, making the need to save seem like less of a priority.

The nature of 401(k) savings plans also may be a factor. They became widespread only in the 1980s, and remain a relatively new concept. Many people simply do not understand how they work or how to manage the assets in their plans. Only about 11% of 401(k) participants contribute up to their maximum allowed annual contribution, an indication workers don't grasp the full potential of a retirement savings plan.

Only about **11%** of 401(k) participants contribute up to their maximum

The insecurity of Social Security

Social Security's looming shortfall is well known.



As the population ages, fewer and fewer workers will be paying into the system as more and more retirees are drawing money out of it. In 1960 there were 5.1 workers for every Social Security beneficiary. Today that figure is down to 3.3. By 2034, a mere 2.1 workers will be paying into Social Security for every beneficiary that is drawing money out of it.

Reserves in the Social Security trust funds are expected to peak at $5.5 trillion by 2026. By 2041 those reserves will be exhausted. At that point, Social Security taxes will still pay about 78% of benefits due for an indefinite period. But if nothing is done, benefit levels obviously will have to be reduced. That will result in hardship for many. For one in five people age 65 and older, Social Security is the only source of income.

Health care costs: An unhappy surprise

The rising cost of health care has the potential to wreak havoc on even the most diligent retirement savers. A couple retiring in 2010 will need more than $200,000 to cover out-of-pocket health care costs in retirement, according to a study by the Center for Retirement Research at Boston College. Meanwhile, fewer and fewer employers are covering health care costs for their retired employees. And Medicare, which pays medical expenses for one in seven Americans, faces a financial squeeze even more dire than Social Security's. It is estimated that Medicare's Hospital Insurance Trust Fund, which covers about half of Medicare expenditures, will be depleted in 11 years.

RETIREMENT INCOME

Experts estimate that retirees will need **at least 70%** of their pre-retirement income to meet everyday living expenses.

REALITY GAP

Nearly 40% of all workers guess that they will need **less than 70%** of their pre-retirement income to live comfortably after leaving the workforce.

1978 — 401(k)s established

1983 — New law raises retirement age for full Social Security benefits to 67 by 2027

1984 — Widows entitled to pension benefits if spouse was vested

1986 — Mandatory retirement eliminated for most workers

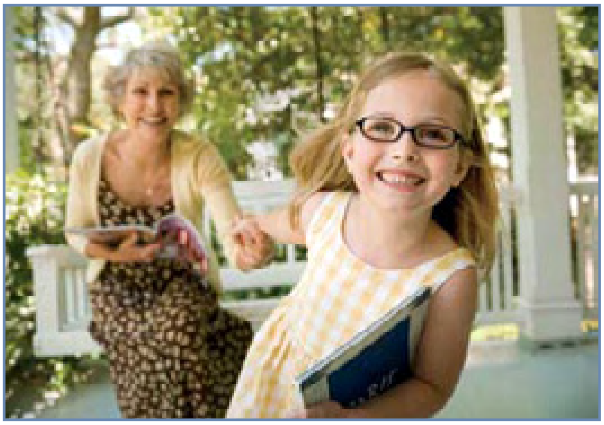
1996 — Veterans' Health Care Eligibility Reform Act passed, creating access to community-based, long-term care for all enrollees

2000 — Social Security earnings test eliminated for full retirement age

Retirement by the Numbers (4)

Start planning now.

A secure retirement doesn't just happen. You have to make it happen by maintaining a systematic savings plan and educating yourself about your investment options. The financial services industry is trying to help by developing new products that simplify the investment process and automatically maintain the proper mix of stocks and bonds as you age. If you're not sure how to get started, or you want reassurance that your plan is on the right track, talk to a financial advisor. If you don't know how to find one, ask a trusted friend or the human resources department at work for a referral.



The new retirement: More active and engaged

Planning for a financially secure retirement is just half the battle. Reaching the end of your active working life raises another important issue: What will you do with the rest of your years? With the average retirement period stretching toward two decades, that's no small issue. Finding ways to stay active and busy will be a key part of a happy and fulfilled retirement.

Of course, retirement doesn't necessarily mean not working. In fact, the American Association of Retired Persons says eight of 10 baby boomers plan to keep working into their retirement years. And as they do, they'll transform the nature of retirement, just as they've transformed every other phase of our life cycle. Here are some trends to watch for:

Phased retirement. A recent AARP survey found a high level of interest in the idea of a gradual reduction in work schedules over time. Nearly 80% of over-50 workers who expressed an interest in phased retirement said they'd stay at their jobs past retirement age if it were available.

Second careers. For some, retiring will still mean full-time work, but at something new and different. A recent survey of 44- to 70-year-olds found between 5 million and 8 million already working at second careers in education, health care, government and the nonprofit sector. Among those in this age group still in their first career, more than a third hoped for a second career as an advocate for a group or issue. Other popular second careers: working with children, working on behalf of the environment and teaching.

Volunteering. The volunteer sector already relies heavily on retirees. It is estimated that people 55 and older account for roughly half the national total. Watch for the ranks of volunteers to swell as newly retired baby boomers give back to their communities.

Nearly **50%** of American volunteers are age 55 or older

Legacy planning. For those with substantial wealth, retirement raises an additional issue: how to pass on assets to the next generation. Many boomers will spend their retirement years channeling their assets and efforts into things about which they feel passionately, whether it's patronizing the arts or eliminating disease and hunger. The Boston College Center on Wealth and Philanthropy estimates some $41 trillion will change hands by 2052, the largest intergenerational wealth transfer in history.

2003 Medicare Modernization Act passed

2006 Medicare prescription drug benefit implemented

2008 First baby boomers turn 62 years old and become eligible for Social Security retired worker benefits

While they personally will be very different, most successful investors:

- Seek objective advice.
- Learn and apply discipline.
- Work from a long-term plan.
- Partner with a professional.

Your plan should be as unique as you are. No two investors have precisely the same goals, exactly the same attitudes about risk or precisely the same finances. Yet, no matter where you are in life and with proper planning, Raymond James advisors can help provide the right investment diversification for managing risk and achieving the retirement you envision.

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30s AND 40s

It's still early in your career as you buy a home and start a family. Your future stretches far into the horizon – but don't forget it.

- Work with an advisor to develop a plan. Establish a regular savings habit, however modest, and adjust it upward as your income grows.
- Contribute as much as possible to your company-sponsored 401(k) plan or to an IRA. Determine whether traditional or Roth versions of those plans (if available) are best for you. Consider rolling over your retirement plans if you change jobs.
- Beginning early taps you into the magic of compounding. That is, money saved in your 30s, if compounded at historic market rates of return for 30 or 40 years, can help provide you with an impressive retirement nest egg.
- Of course, you have other obligations – like saving for college – but don't neglect your future needs.

50s THROUGH EARLY 60s

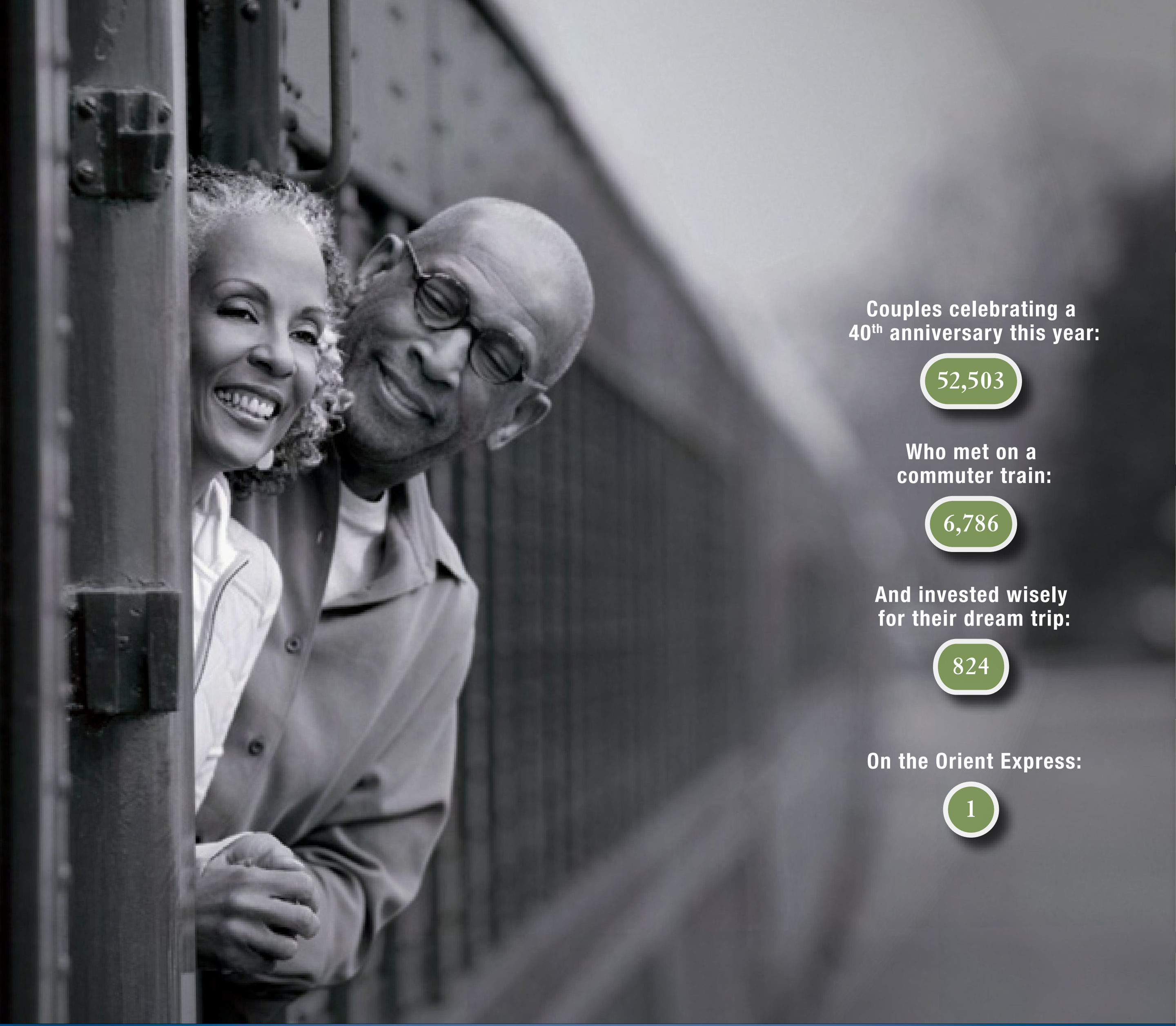
These are likely your prime earnings years. Take advantage of them.

- Maximize IRA, 401(k) or other retirement plan contributions. Even with a shorter time horizon, contributions that earn historic market rates of return can grow substantially by the time you reach full retirement age.
- Maintain a strong equity component in your portfolio, but consider preserving capital with a slightly more conservative blend of investments.
- Together with your professional advisor, assess the roles of life insurance and long-term care insurance in your portfolio.
- Be attentive to your health. You'll want to be able to fully enjoy the benefits of your wealth.
- Look ahead to your retirement years as an exciting phase of life, especially if you've built a sound financial foundation to support your goals.

60s AND BEYOND

Whether you retire in your 60s or work into your 70s, your financial portfolio may need adjustments.

- With your advisor, choose a mix of assets designed to provide the income you need to outpace inflation, while also protecting you against the extremes of market volatility.
- Set spending goals that reflect lifestyle versus essential expenses, as well as possible medical expenses.
- Financial planning doesn't end, it merely shifts into a new gear. Align 401(k) and/or other retirement assets with your chosen diversified asset mix. With your financial professional, decide how best to arrange an income stream.
- Maintain a long-term view of your investments – your retirement may last 20 to 30 years or more.
- Consider the kind of legacy you wish to leave for your family. Let your estate plan reflect your values and your philanthropic interests – your take on the meaning of your life.



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Raymond James, member SIPC, received the highest numerical score among full service brokerage firms in the proprietary J.D. Power and Associates 2008 Full Service Investor Satisfaction Study℠. Study based on responses from 4,528 investors measuring 19 investment firms and measures opinions of investors who used full-service investment institutions. Proprietary study results are based on experiences and perceptions of consumers surveyed in April-May 2008. Your experiences may vary. Past performance is not indicative of future results. Visit jdpower.com.