

How baby boomers are likely to affect stock market

By MARY DEIBEL
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It's happy half birthday to the first of 76 million baby boomers who turn 59 1/2 on Friday July 1 and can take money out of their retirement accounts without paying a 10 percent early-withdrawal penalty.

But there a few matters to take care of to keep the celebration going for the next 20, 30 or 40 years that boomers can expect to live.

From cradle to grave, boomers have been "the pig moving through the python," as money manager Harry Dent puts it, starting with Dr. Spock's spoiled kids, through youth-culture days of "never-trust-anyone-over-30," onto the double-income families of today. That isn't about to change now that boomers have started turning 59 1/2 and can tap their retirement accounts.

Sure, at first there will be a trickle of withdrawals from Individual Retirement Accounts and 401(k)-style retirement savings plans. But what happens when those withdrawals turn into a torrent as the largest generation in history pulls its money out of the markets for retirement expenses?

Some see a boom starting as most boomers hit their peak earning-and-investing years, as Dent advises in "The Next Great Bubble Boom, or How to Profit from the Greatest Boom in History, 2005-2009." After that, he and others say: Watch out, as boomers cash in assets worth at least \$14 trillion.

Jeremy Siegel, a Wharton finance professor, is more optimistic. He predicts in his new book, "The Future for Investors," that Wall Street will return an average 6 percent after inflation in coming years with foreigners taking up the slack as boomers gradually liquidate their holdings.

A.G. Edwards chief market strategist Al Goldman says bearish predictions are overblown: "It's not the snake you can see that bites you," he says.

Personally, most "pigs" in this python are likely to draw Social Security when they turn 65, whether or not they are collecting a paycheck, since Social Security benefits are not reduced for anyone who works past 65.

But the rules may change as Congress and President Bush debate cutting benefits

and raising the retirement age to keep Social Security solvent long term.

Currently, full benefits are available at age 65 and 6 months for people born in 1940 under a 1983 change that is gradually increasing the full-benefit age to 67 for those born in 1960 or later. Reduced benefits are available at age 62.

If you're among 44 million workers and retirees with traditional pensions, know that the rate at which large companies froze or terminated these pension plans accelerated sharply last year for the fourth straight retrenchment, benefits consultant Watson Wyatt says.

With those caution flags, the dawning of the day of penalty-free withdrawal for boomer retirement savings is cause for cautious celebration.

"Just because you can tap your retirement accounts doesn't mean you should: Instead, figure how to replace your paycheck and pay yourself an inflation-adjusted income for the next 30 years," said Craig Brimhall, vice president for retirement wealth strategies for American Express Financial Advisors.

Here are points to consider:

- Your inflation risk. Your investment and income strategy should keep pace with price pressures on your wallet, which is routinely 7 percent inflation because of rising health care costs for seniors. Today's 3 percent inflation rate is geared to younger households making mortgage and car loan payments, feeding the family and driving a carpool.
- Your investment risk. Boomers are more comfortable with stock market risk than the current group of seniors, University of Missouri researchers report, but at retirement age, there is less time to recoup from market volatility. Withdraw no more than 4 percent to 5 percent from retirement accounts a year, not the 7 percent or 8 percent they may earn, Brimhall advises. If you have a half-million dollars saved and withdraw 4 percent in the first year of retirement that would add \$20,000 to your household income.
- Unforeseen events, such as poor health or your employer discontinuing retiree health coverage. Company coverage of retirees too young for Medicare plunged from 43 percent a decade ago to 28 percent now with few employers offering "Medigap" coverage to new retirees 65 and above, Mercer benefit consultants

report.

- The biggest risk of all: longevity. Pay no attention to average lifespan tables when at least one member of a couple retiring today at 65 can expect to live to 90 and beyond, and you could be the one.

Heed these risks and get on with life. Brimhall predicts that boomers will live long and prosper.

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