Johnny RetirementSeed

By Kerry Pechter *Fri, Oct 24, 2014*

Steve Vernon, actuary-turned-retirement-guru, travels the country spreading retirement planning wisdom... and promoting his books and website: "I joke that I'm a 'one-rat' experiment. I'm living the lifestyle I advocate. And then I write about it."

Steve Vernon shares a simple message as he criss-crosses the USA, addressing audiences large and small and promoting his financial self-help books, his *MarketWatch* column, his website, restoflife.com, and his research projects at the Stanford Center for Longevity.

Work longer, says the actuary-turned-retirement-guru. Delay Social Security. Use guaranteed income to cover your essential expenses. Invest in dividend-paying stocks. Exercise and eat right. And get your investment advice from unconflicted advisers.

At 61, Vernon preaches what he practices. After retiring from Wyatt Watson in 2006 after 25 years as a pension consultant, the southern California native looked in the mirror and saw a person still too energetic to be idle and, despite a nice pension, not rich enough to stop working altogether.

"I'd paid for my kids' education, I had enough savings and I didn't need to make the salary I used to make," he told RIJ recently. "I just needed to cover my living expenses. I tell people to think about retirement this way, because retiring too early is too expensive. I joke that I'm a 'one-rat' experiment. I'm living the lifestyle I advocate. And then I write about it."

Vernon spotted the Boomer retirement opportunity early. He published his first book on the topic, *Don't Work Forever: Simple Steps Baby Boomers Must Take to Ever Retire*, almost 20 years ago. He followed that with *Live Long and Prosper!* In 2012, he published *Money for Life: Turn Your IRA and 401(k) into a Lifetime Retirement Paycheck.*

This year Vernon published *Recession-Proof Your Retirement Years: Simple Retirement Strategies That Work Through Thick or Thin* (Rest-of-Life Communications, 2014). It's aimed at educated, affluent Boomers not unlike himself.

"I'm talking to people who are not millionaires but who have savings," he told *RIJ*. "If you have a few million and a good adviser, you don't need me. And if you don't have any savings at all, I can't help you, because I'm teaching people how to use their savings."

Although *Recession-Proof Your Retirement Years* is written for near-retirees, retirement advisers should read it too. Vernon's holistic approach—an overused phrase but an accurate one—will remind you that retirement planning means much more than managing money. The retirement income challenge requires a 360-degree treatment, and this book touches all or most of the essential compass points.

Grounded advice

Vernon's advice about retirement income turns out to be quite traditional; the book's greatest value of the book lies in the amiable asides and observations, all grounded in Vernon's personal experience.

Here's an example of the traditional. His three basic "Retirement Income Generation" (RIG) strategies, for instance, are unsurprising: 1) Just spend your investment income; 2) just spend 4% of your principal each year; or 3) buy an income annuity.

But Vernon (below) customizes the conventional wisdom with practical suggestions. For example, he suggests following RIG #1 in your 60s (while still working part-time), RIG #2 in your 70s (when, as life expectancy shrinks, it's safer to increase the withdrawal percentage), and using RIG#3 in your 80s and beyond. He likes the idea of time-segmentation—a bucketing strategy based on linking risky assets to longer time horizons. He calls it "age-banding," and notes astutely that choosing the right time to transfer assets from bucket to bucket won't necessarily be easy.

Annuity sellers and broker-dealer reps probably won't love this book. Like many do-it-yourself investors, Vernon has a Bogle-ish aversion to fees. He warns his readers away from all but the cheapest no-load deferred annuities and against whole life insurance. For professional advice, he prefers guidance from fee-only advisers.

But he’s not risk-averse. He advises people over 50 to put no less than one-third (but no more than two-thirds) of their investable assets in equity funds. He attributes this rule of thumb to his stockbroker grandfather: Don’t invest more in stocks than you can afford to lose 50% or more of.

Recognizing that many Boomers fear the risk of incurring large medical bills in retirement, Vernon devotes ample space to buying health and long-term care insurance. He advises all near-retirees to shop for long-term care insurance, even if they don’t end up buying it, because the search will acquaint them with the challenges they face.

But buying LTC insurance is not his first choice as a hedge against late-life medical expenses. The best lines of defense, he suggests, are to stay fit and get home-care from family members. The next-best lines of defense are to self-insure by setting up a side fund or by reserving home equity for medical expenses.

Personal meets professional

Vernon’s book benefits from his credibility as a pension actuary, his amiable writing style, his lack of a sales motive and, perhaps most of all, the fact that the advice is grounded in personal experience. When RIJ asked him whether he would advise paying off one’s house with a lump sum from savings, he knew what it felt like to make such a decision.

“I can argue this both ways,” he said, and gave the usual reasoning that you should keep the mortgage if you’re paying less in interest than you can earn in the market. But his own preference would be to live mortgage-free whenever possible. “When I first retired in 2006, I took a chunk of savings and paid off the mortgage. Emotionally, you just feel better if you pay off the house,” he said.

Vernon’s writing is also informed by his position as a researcher in financial issues at the Stanford Center for Longevity, where last May he and Nobel laureate Bill Sharpe organized a conference on retirement funding. The Center “has three areas of focus,” Vernon said. “One is financial, one is physical, and one involves the brain. I like what the founder of the Center [Laura Carstensen] has said, ‘If you arrive at older ages physically fit, financially secure and mentally sharp, you’re in pretty good shape.’”

On the public policy front, Vernon favors shoring up Social Security. “Privatizing it would be a disaster. The vast majority of people don’t know how to manage money,” he told *RIJ*. “The question is, how do you make it financially viable? I’d prefer a combination of raising revenues and making modest benefit reductions. We’ve done that in the past and we could do that again.”

We asked Vernon if thinks there’s a retirement crisis or not. “Not in the sense that Ebola or Syria is a crisis,” he said. “On one hand, I think we overuse the word ‘crisis’. Lots of people will be able to work until they’re 70. And if they work and save until then, they’ll be OK. But Webster’s describes a crisis as ‘a serious issue that demands attention.’ I think retirement is a serious issue that demands attention.”