



Financial Focus

Baby Boomers

LINCOLN BENEFIT LIFE
AN ALLSTATE COMPANY

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Redefining Retirement

Born between 1946 and 1964, you are a member of the Baby Boom generation. From the time of your birth, your generation has served as a catalyst for social and economic change. Today, you're on the cusp of retirement and again poised to alter the landscape as your generation begins to redefine what it means to "retire".

Now you're at least 40 years old, you probably find yourself juggling a number of financial priorities like your mortgage, children's education, and caring for elderly parents. With so many demands on your time and resources, it's important to take a break periodically and make sure you're on track, financially, to make your retirement a reality.

Survey says!

Allstate recently completed its third annual "Retirement Reality Check" survey, gauging consumers' attitudes about—and preparation for—retirement. This course will explore some of the survey results and put them into an action-oriented context appropriate for members of your generation. You will learn:

- How to set achievable goals
- About factors that will affect when you can retire
- How to maintain your retirement income—throughout retirement
- About savings and investment options that can help you reach your income goals



“Money is only a tool. It will take you wherever you wish, but it will never replace you as the driver.”

— Ayn Rand



Time for a Retirement Reality Check

With retirement quickly approaching, it's critical for you to know whether you're on track to make retirement a reality. According to the Allstate survey, 80 percent of you report that you are prepared for retirement, but are you? Let's look at some facts.

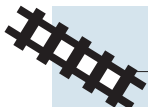
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|----------------------------|---|
| Social Security – | The average monthly social security benefit for retired workers is \$917.00 ¹ |
| Living longer – | Of 100 65-year olds alive today: 61 are expected to live to age 85 41 of the 61 are expected to live to age 90 ² |
| Income and assets – | Think \$150,000 in your 401(k) will be enough to retire? If you expect to be retired for 20 years, that \$150,000 will generate an annual income of \$10,908 before running out. ³ |

Retirement goals

So how do you know—for certain—that you're on track to make retirement a reality? For starters, you need to have clearly defined goals. If not, you could find your retirement plans derailed. Your goals should adhere to some basic principles and should be:

- Specific
- Measurable
- Achievable

Are you on track?

|  On track | Derailed |
|--|---|
| You have established specific, measurable, and achievable retirement goals. | You haven't established specific, measurable, and achievable goals. |

¹ Social Security Administration, Annual Statistical Supplement, 2003.

² Based on individual annuity mortality rates from the Annuity 2000 Table, Society of Actuaries.

³ The calculation here assumes an 8 percent annual rate of return compounded monthly, as well as 4 percent annual inflation. These hypothetical investment results are for illustrative purposes only and should not be deemed a representation of past or future results. This does not represent any specific product.

When Do You Plan to Retire?


Survey comparison:

At what age do you plan to retire?

Are you really on track? The first step is figuring out when you will retire. There are many important factors to consider as you decide when you will retire. Some of those factors are listed here.

| Factor | Considerations |
|---|--|
| Social Security | When are you eligible for Social Security? Does it make more sense to take partial benefit payments at an earlier age or wait until you are eligible for full benefits? Do you plan to work during retirement and will that reduce or eliminate your Social Security payments? |
| Pensions | When are you eligible to begin drawing on pensions? How will delaying retirement beyond your eligibility date affect your payment? |
| Retirement accounts | If you plan to retire before age 59½ will you need income from your retirement accounts? Do you understand the penalties for early withdrawal? Do you know if you qualify for an exemption from the early withdrawal rules? |
| Employer provided health insurance | Will your employer provide health insurance in retirement? If so, when are you eligible? Will the benefit cover all of your health care needs or will you need supplemental coverage? |
| Medicare | If you retire before age 65 how will you cover the cost of your health care? Once eligible, will Medicare cover your health care needs or will you need supplemental coverage? How much will supplemental coverage cost? |

Are you on track?

|  On track | Derailed |
|---|---|
| You know when you will retire and have considered the factors discussed here in making that decision. | You don't know when you will retire and/or haven't considered the factors discussed here. |

How Much Income is Enough?

Survey comparison:

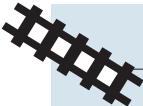
What annual income do you think you will need to cover daily living expenses in retirement?

\$

Did you answer the question above with your best guess or do you really know how much income you'll need in retirement? Many people find that some monthly expenses shrink while others grow in retirement. Anticipating these changes will help you determine how much income you will need. The following worksheet illustrates a sample monthly budget before and during retirement.

| Expenses | Before Retirement | During Retirement | Before Retirement | During Retirement |
|------------------------------|-------------------|-------------------|-------------------|-------------------|
| Housing | \$900.00 | \$900.00 | | |
| Transportation | 550.00 | 650.00 | | |
| Essentials | | | | |
| Food | 400.00 | 400.00 | | |
| Clothing | 125.00 | 75.00 | | |
| Medical | 100.00 | 200.00 | | |
| Insurance | 300.00 | 375.00 | | |
| Taxes | | | | |
| Income taxes on: | | | | |
| Employment | 800.00 | 60.00 | | |
| Investments | 100.00 | 700.00 | | |
| Social Security (FICA) | 500.00 | 40.00 | | |
| Savings and investments | | | | |
| Retirement plans | 600.00 | 0 | | |
| Other | 400.00 | 0 | | |
| Activities and entertainment | | | | |
| Hobbies | 75.00 | 150.00 | | |
| Volunteer work | 25.00 | 50.00 | | |
| Entertainment | 75.00 | 250.00 | | |
| Vacation and travel | 150.00 | 750.00 | | |
| Total monthly | \$5,100.00 | \$4,600.00 | | |
| Total annual | \$61,200.00 | \$55,200.00 | | |

Are you on track?

|  On track | Derailed |
|--|--|
| You have determined your retirement income needs and they are realistic. | You haven't determined your retirement income needs and/or those income needs are not realistic. |

Inflation and Your Retirement

Survey comparison:

I'm confident I know how much money I'll need in order to maintain the lifestyle I want in retirement.

Yes No

Over time, inflation erodes purchasing power, requiring more money to purchase the same amount of goods and services. In order to maintain your standard of living in retirement your income will need to keep up with inflation—throughout your retirement years.


Let's take a look at what you might expect to pay for some common goods in the future.

| | Today | 10 years ¹ | 30 years |
|-------------------------|----------|-----------------------|----------|
| Dozen eggs ² | \$1.57 | \$2.79 | \$9.99 |
| New car ³ | \$26,150 | \$37,673 | \$84,797 |



Reality check: In order to keep up with inflation, an annual income of \$55,000 will need to grow to \$81,996 in 10 years and \$182,242 in 30 years**

Are you on track?

|  On track | Derailed |
|---|--|
| You've factored inflation into your retirement expenses and income goals. | You haven't factored inflation into your retirement expenses and income goals. |

¹ Projections are based on the average annual increase since 1994 for each item.

² One dozen, Grade A, large eggs, Bureau of Labor Statistics, January 2004.

³ Average new vehicle retail selling price, 2003 NADA Data Report, National Auto Dealers Association.

**The calculations assume a four percent annual rate of inflation.



Know Your Income Sources

We've looked at how much income you'll need in retirement and how it needs to grow to keep up with inflation, but do you know where that income will come from? The following example illustrates some of the common sources of retirement income and the resulting annual retirement income gap.


| The income gap ¹ | Example | My income gap |
|-----------------------------|-------------|---------------|
| Income needed | \$55,000.00 | \$ |
| Income sources | | |
| Social Security | \$11,000.00 | \$ |
| Pension | \$ 8,000.00 | \$ |
| Employment | \$ 6,000.00 | \$ |
| Total | \$25,000.00 | \$ |
| Income gap | \$30,000.00 | \$ |

Few retirees will have all of their retirement income generated by the sources listed here. As a result they have to find a way to fill their retirement income gap. Your income gap will need to be filled with your personal savings and investments.

“I used to think that money was the most important thing in life. Now that I’m old I know it is.”

— Oscar Wilde

Are you on track?

|  On track | Derailed |
|--|---|
| I know the sources of retirement income available to me, and the income I can expect to come from each source. I know how much of my retirement income will need to come from my personal savings and investments. | I don't know the sources of retirement income available to me, or the income I can expect to come from each source. I don't know how much of my retirement income will need to come from my personal savings and investments. |

¹ The calculations here assume an 8 percent annual return both before and after retirement compounded monthly, as well as 4 percent annual inflation. These hypothetical investment results are for illustrative purposes only and should not be deemed a representation of past or future results. This does not represent any specific product.

Retirement Savings

Survey comparison:

I am currently saving for retirement.

Yes No

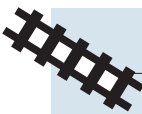
How much do you need to save to fill the income gap? Don't assume that the act of saving—in and of itself—is enough to ensure you're on track for meeting your retirement goals. Rather, you need to make sure you're saving an appropriate amount relative to those goals.

Are you sure you're saving enough?

To give you a rough idea of how much saving and investing it takes to reach a given retirement income goal, take a look at the table below. For two different hypothetical income goals, the table shows first, the size of the nest egg needed at retirement to fund that income goal; and second, the amount of monthly saving and investing needed to accumulate that size of nest egg. For the purposes of this example, the hypothetical income goals are expressed in today's dollars, and we've assumed 10 years of investing followed by 20 years of retirement.¹

| | A \$20,000 annual retirement income goal | A \$55,000 annual retirement income goal |
|---------------------------------------|---|---|
| requires a nest egg at retirement of: | \$402,500 | \$1,106,000 |
| and a monthly saving rate of: | \$2,186 | \$6,005 |

Are you on track?

|  On track | Derailed |
|--|---|
| I know how much I need to save each month to reach my retirement income goal. | I don't know how much I need to save each month to reach my retirement income goal. |

¹ The calculations here assume an 8 percent annual return both before and after retirement compounded monthly, as well as 4 percent annual inflation. These hypothetical investment results are for illustrative purposes only and should not be deemed a representation of past or future results. This does not represent any specific product.

What if You Need to Catch Up?

Survey comparison:

I have to save more money for retirement to catch up to where I should be.

Yes No

The state of the economy has prevented me from saving as much as I'd like.

Yes No

While the savings required to fund your retirement may seem big, even overwhelming, don't let that stop you from taking action. If you need to catch up, you still have a number of options to help you reach your retirement goals.

Max out employer retirement plans

If your employer offers a retirement program such as a 401(k) or 403(b) make the maximum contribution you are allowed.

Consider IRAs

If you're eligible, you may want to invest a portion of your retirement savings in a Traditional or Roth IRA. Annual contributions are capped at \$4,000 for 2005 through 2007. If you're 50 or older, you may qualify for an additional contribution of \$500 in 2005 and up to \$1,000 in following years.

Take advantage of other tax advantaged retirement savings vehicles

Variable and fixed annuities are another way to save money for retirement while deferring taxes on the growth of the investments. Annuities also offer features such as access to the stock market and the ability to annuitize your account, turning it into an income stream in retirement.

When annuitizing an annuity, a portion of each payment will be considered taxable and the remaining portion will be a non-taxable return of investment in the contract, which is also called the "basis". Once the investment in the contract is depleted, all remaining payments will be fully taxable. If the contract is tax qualified, generally all payments will be fully taxable. Payments taken prior to age 59½ may be subject to an additional 10% federal tax penalty.

Developing Your Retirement Strategy

A successful retirement strategy contains several elements to help you arrive at your goal. Use the following checklist to help evaluate whether you have considered several important aspects.

- I have put my goals in writing.
- My goals are specific, measurable and achievable.
- I am confident that the amount I am saving each month is enough to meet my savings goal.
- I am confident I have used a realistic inflation estimate and have factored inflation into my projected retirement income needs throughout my retirement years.
- I have used sound investment principles to choose my investments.
- I am confident I have chosen investments appropriate for my time horizon and return expectations.
- I am comfortable with the level of risk my investments carry.
- I regularly monitor the progress of my strategy and make changes if necessary.

If developing and implementing a retirement strategy seems overwhelming, consider working with a financial professional. Financial professionals have the skills and the resources to help you develop and implement strategies to achieve your financial goals.

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