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## **O.K., Financial Planners, Grab a Calculator and Let's Get Started**

by

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The only way to know whether you have saved enough for retirement is, when you suck in your last breath, for someone to show you your bank statement.

And you smile.

Until then, you'll have to depend on financial planners and software.

In all the debate over whether Americans are saving too much or too little, there is considerable agreement on a few things. For instance, it pays to start saving early because the power of compounding, especially in a tax-free account, means you'll have more money later. The other advice that everyone gives the nod to is that you need a plan and you need to revisit that plan every year.

Start with the calculators provided by a company that manages 401(k) plans and individual retirement accounts. Fidelity discovered that just doing that is intimidating for the majority of people. It created a really simple one called myPlan Snapshot, which is available to anyone on the main page of [fidelity.com](http://fidelity.com). It asks five simple questions that require no research or digging up old brokerage statements to answer.

The result is a simple graph showing what you need and how close you are to getting there. Then it offers to take you to a more sophisticated analysis, called Retirement Quick Check, that requires about 30 minutes of effort.

Both of those calculators, like most offered by financial services companies, use industry-accepted rules of thumbs to determine how much you need to save. “One of the downfalls of an online calculator is they take middle-ground assumptions,” said Geoff Brooks, senior vice president for retirement services at [HSBC](#), the financial services company. So the advice is not finely tailored.

When you are comfortable with retirement planning, you need to take a step further. The two hardest things for most people to figure out on their own is how long they will live in retirement and how much risk they should take in their retirement investments. The industry’s rule of thumb for determining longevity is add two years to what your parent of the same sex lived, if, of course, that parent died of a natural cause. But that rule needs to be stretched if you are fit and active and dad was not (and not terribly helpful if your parents are still living).

“People are underestimating longevity consistently,” by about five years on average, Mr. Brooks said. “It is that kind of thing that undermines the planning.”

Determining risk tolerance is important because, said Christopher Jones, chief investment officer for Financial Engines, “if you take less risk, you need to save more.”

The retirement calculator at [FinancialEngines.com](#), which costs \$150 to use for a full year, helps solve that problem. It runs what is called a Monte Carlo simulation to give you an idea of what the risks are. You are presented with a series of portfolios containing different kinds of investments and the probability of meeting your retirement goals through each one.

For example, a rich person can afford to take less risk and could be in safe government bonds like Treasury inflation-protected securities or TIPS. What does it matter if a rich person’s money does not double in a decade; she’s already rich. But a poor person has to take the higher risk of investing in stocks. He needs the money and actually has less downside risk than he thinks. Why? He didn’t have that much to lose. A well-designed program or a well-informed planner up on the latest economic research can sort this out.

The research by Laurence J. Kotlikoff, a [Boston University](#) economics professor, adds another dimension to retirement planning. He argues that most current

calculators overestimate the amount of savings needed because they rely on the rules of thumb rather than an analysis of spending habits.

Mr. Kotlikoff's ESPlanner software, which he sells for \$150 at [esplanner.com](http://esplanner.com), springs from that work. Like FinancialEngines, it requires considerable effort by the user. It asks for a lot of financial details about investments, life insurance and even your Social Security contributions.

When it has all the information, ESPlanner presents a series of graphs and charts that offers recommendations. It also runs Monte Carlo simulations so you can adjust the types of investments you make.

"Everyone is different," Mr. Kotlikoff said, "and the small ways they are different makes a difference in how they plan to save and spend."