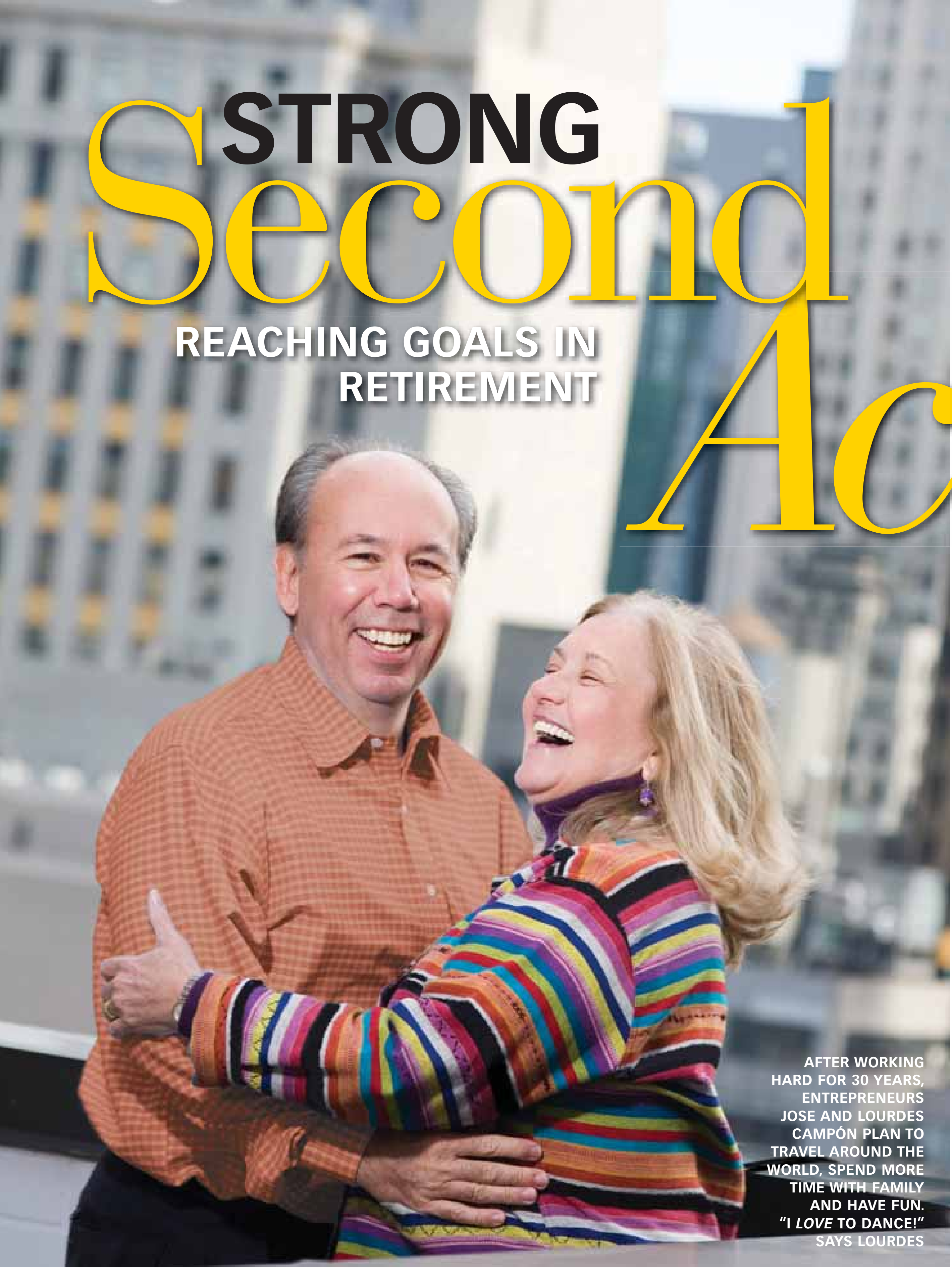
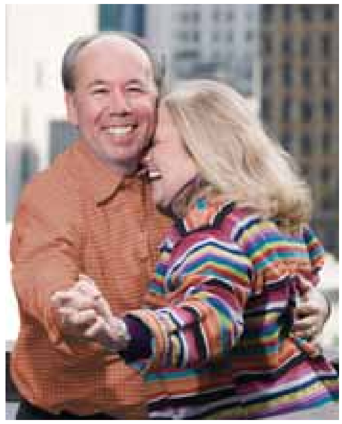
STRONG Second Act

REACHING GOALS IN RETIREMENT



AFTER WORKING HARD FOR 30 YEARS, ENTREPRENEURS JOSE AND LOURDES CAMPÓN PLAN TO TRAVEL AROUND THE WORLD, SPEND MORE TIME WITH FAMILY AND HAVE FUN. "I *LOVE* TO DANCE!" SAYS LOURDES

Baby Boomers have ambitious goals for the next stage of their lives—and are creating plans to make their dreams come true.



In 2030, Baby Boomers between the ages of 66 and 84 will make up about 20% of the total U.S. population.[1] As members of the Boomer generation finish their primary careers, they will energetically pursue new goals and growth opportunities—and in the process, redefine retirement. The next several years represent the culmination of the Boomers' efforts to craft plans that will allow them to achieve their unique post-career goals. Meet two couples who are approaching the home stretch of their careers, and planning ahead to create fulfilling second acts.

JOSE AND LOURDES CAMPÓN

Jose Campón, 59, is a risk-taker. At age 14 he immigrated to the U.S. from Cuba with his family, and in his early 20s he began working in sales for a major pharmaceutical company. After six years Jose decided to take a chance by opening his own small pharmacy in Manhattan. Unbeknownst to him, he and his wife Lourdes, 57, were also about to start a family. "I came home and told my wife that I had signed the lease on the building," he says. "She said 'I have good news too: I'm pregnant!'"

Starting a business while expecting son Joey, now age 29, was challenging. "We were short on cash, the baby was on the way and we weren't sure the pharmacy would succeed," remembers Lourdes. But with long hours and hard work Jose and Lourdes managed to thrive. They had another son, Julian, two years later, and soon opened a second pharmacy in Queens.

Then, in the early 1980s, Jose bought a building next door to his Queens pharmacy and turned it into office space. Finding renters was easy—and he eventually sold the property at a healthy profit. He repeated the process over time, and eventually amassed four pharmacies, sold three office buildings and held onto four more buildings that he continues to rent to professionals. Meanwhile, the value of the Campóns' real estate holdings surged along with the rest of the New York market. "It's been quite a ride," says Jose.

Jose and Lourdes have given three decades of their lives to their business ventures. Now they're looking ahead to retirement, and considering how they want to spend their time. They've decided on one major goal: to travel widely. Lourdes picked up the travel bug working for an airline in the 1970s, and the couple looks forward to spending time in Europe. Jose also looks forward to free time for reading—a luxury his business hasn't afforded him—and playing poker and tennis. Lourdes hopes to spend more time with family and to get her husband out on the dance floor more often. "I *love* to dance!" she says.

Seeking guidance

The Campóns have considered turning over the operation of their four pharmacies to their two sons, who currently manage two of the stores—Julian full-time, and Joey part-time while attending law school. But Jose thinks he and Lourdes are more likely to sell the pharmacy business and hang onto their real estate. Selling the pharmacies would boost their nest egg, and keeping the real estate would generate rental income. "Running pharmacies is very difficult today," he says. "I don't think the boys will want to do it forever, and selling the business will free up a good deal of cash."

Selling their pharmacies would represent a significant shift for the Campóns. Like many self-made Baby Boomers, they have spent decades accumulating financial assets. Now they must use that money to create an

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[1]civicventures.org

inflation-proof income stream that can provide for their needs and goals in retirement. And since Jose and Lourdes—along with many other Boomers—plan to retire in their late 50s or early 60s, their savings may need to last for several decades. With that in mind, in 2004 the couple sought the help of Schwab Financial Consultant Douglas Castro.

Easing off the gas

Before consulting with Douglas Castro, Jose aggressively invested the couple's savings on his own, primarily by trading stocks and options. Jose's penchant for investment risk is common among entrepreneurial Baby Boomers, many of whom have built substantial wealth by taking financial chances. But Douglas believes the Campóns no longer need to assume so much risk. "I told Jose, 'You've already won the game—there's no need to keep playing it so aggressively,'" says Douglas.

Douglas set out to make his case by calculating the income the couple's investments would need to generate to meet their needs and goals, including ordinary expenses and frequent travel. He then showed them that a more conservative portfolio gave them the best chance to meet their target income. "The moderate portfolio gave them a better than 95% chance," he says. "They just didn't need to take on so much risk."

THE CAMPÓNS PLAN TO SELL THEIR FOUR PHARMACIES TO BOOST THEIR RETIREMENT NEST EGG

Douglas helped the Campóns gradually sell their stocks and options, and used the proceeds to purchase bonds—ultimately shifting their portfolio to a mix of roughly 60% stocks and 40% bonds. "That mix can help give them enough growth potential to last for a long retirement," says Douglas. "But it doesn't expose them to the kind of market risk that could really hurt their savings." Both Jose and Lourdes are happy with the combination of growth and stability. "I feel great about having less risk," says Jose. "I'm tired of taking chances." Lourdes, not a risk-taker by nature, couldn't agree more. "I feel much better now," she says.

Tax considerations

Any financial plan for retirement must consider the effect taxes will have on income. That's especially true for the Campóns: They are in a high tax bracket, and they hold almost 90% of their financial assets in a Schwab brokerage account, with the rest in two IRAs. Douglas helped Jose and Lourdes build a tax-efficient portfolio by shifting some investments in their taxable account into municipal bonds, which pay income that is free of federal, state and local taxes.[2]

> **"I feel very confident that we're doing the right things with our money. It's a nice feeling to have that kind of confidence."**

Jose already planned to pare back the portfolio's risk after the couple retired. Douglas explained that gradually shifting some investments into more stable assets *before* retirement offered a number of benefits. For one, the gradual approach helped mitigate the risk that a bear market or a few bad investments during their pre-retirement years would imperil the couple's savings and force them to scale back their retirement goals. Douglas also helped the Campóns avoid large tax liabilities on sales of the portfolio's stock holdings by selling stocks with capital losses at opportune times and shifting that money to bonds.

Planning ahead

The next step for the Campóns is estate planning. "Jose, Lourdes and I have been discussing the need for them to update their estate plan," says Douglas. "As it stands now, they'd be giving a lot of money to the government." He has advised the Campóns to meet with their attorney to establish trusts for passing down their financial and real estate assets. Lourdes is looking forward to setting up a plan that can help future generations. "Hopefully we can make it so the road won't be as tough for our sons as it was for us," she says.

With Douglas' help, Jose and Lourdes now see their retirement goals less as far-off hopes and more as tangible opportunities. "It's been great," says Jose. "I feel very confident that we're doing the right things with our money. It's a nice feeling to have that kind of confidence."

[2]Income may be subject to the Alternative Minimum Tax (AMT), and capital appreciation from discounted bonds may be subject to state or local taxes. Capital gains are not exempt from federal income tax.

GIL VAKNIN

FOLLOWING HIS 30–YEAR CAREER IN HUMAN SERVICES, PETER THOMPSON PLANS TO SPEND HIS SECOND ACT WORKING WITH AT-RISK CHILDREN

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PETER AND MARTHA THOMPSON

While previous generations often thought of retirement as a permanent vacation, many Boomers plan to pursue active, busy lifestyles after concluding their primary careers—including part-time or even full-time work. Meet Peter and Martha Thompson of Syracuse, New York, who intend to combine savings, pensions and ongoing employment to meet their retirement goals.

Peter, 59, expects most of his retirement to look a lot like his working years—complete with a job. That said, he does anticipate two important differences: "More freedom and less aggravation," he laughs.

Peter worked in human services for over 30 years. Twenty–five of those years were spent at a variety of local government jobs in which he investigated child abuse allegations, worked with children placed in foster care and facilitated adoptions. He retired in September 2005, but he's about to start looking for another position that allows him to continue helping kids. "I like staying active and challenging myself," he says. "I figure I have at least another 15 good years of work in me."

His wife Martha, 57, has a more traditional outlook on retirement. She intends to work for eight more years, until her full retirement age of 66, at her job in accounting for the Syracuse police department, and then stop working altogether. She plans to keep active with reading, gardening, traveling and auditing classes at the local college. "I don't think I'll ever get bored," she says. "I'm really looking forward to having control over how I spend my time."

Different reasons for working

Peter and Martha could get by without the extra income from a new job: Peter's pension payments are nearly as large as his paycheck used to be, and Martha will receive a substantial pension after she retires. What's more, both Peter and Martha have saved diligently throughout their careers, so they have a healthy nest egg as well.

Peter plans to find a position that allows him to set his own schedule, so he and Martha can exert greater control over how they spend their days. "I'll be able to be much

PLANNING AND SAVING HAVE ALLOWED PETER AND HIS WIFE MARTHA TO PURSUE THEIR PERSONAL INTERESTS

more selective about my job in retirement, because I don't really need the money and benefits anymore," he says.

That flexibility will free him to pursue one of his passions: volunteering for Court Appointed Special Advocates (CASA), a group that provides advocates for children going through the court system. Peter also expects to spend a good deal of time caring for his parents, who are in good shape financially but need his help after recently experiencing health problems. Meanwhile, the Thompsons hope to see a lot of the world during the coming years. They'd especially like to visit and travel with their two grown sons, Keith and Ben, who live in New York City and the Netherlands, respectively.

Although the couple doesn't expect to need the income from Peter's new job, his paychecks should help them live comfortably without withdrawing much, if any, money from their retirement accounts. Leaving those funds untouched should boost the tax-deferred and tax-free growth potential they generate, ultimately giving the couple a greater financial cushion—so they won't have to think twice if they want to fly to Europe at a moment's notice. "It's nice to know our finances could support that kind of flexibility," says Martha.

Protecting their futures

Baby Boomers tend to be independent, and that trait often extends to their investing practices. Peter and Martha worked with an expensive broker for years, but got fed up with paying high fees in commissions per trade for what they considered to be poor advice. "Our broker was making us broker!" Peter jokes. In March 2005, the couple transferred all their assets to Schwab, and Peter now manages that money himself. He currently holds all the couple's long-term savings in stocks and mutual funds, picking the investments by drawing on research and ideas from **schwab.com's** "Research & Strategies" page, Schwab newsletters and Schwab's local seminars, as well as outside sources such as morningstar.com. "I think Schwab's research is phenomenal," he says. "It has helped me to invest much more successfully than I believe our former broker ever did."

Peter recently began using those resources to research mutual funds, with an eye toward toning down a bit of the portfolio's stock market exposure as he and Martha head into the next stage of their lives. They also started to consider long-term care insurance, to protect themselves against the risk that a serious illness would drain their savings. "I think we'd be okay financially if the market dropped, or something happened to one of us," says Peter. "But we'd like to give ourselves some more protection, so we can be more confident that we'll be able to afford the retirement we want."

Baby Boomers like Jose and Lourdes Campón and Peter and Martha Thompson have redefined every life stage they've experienced and retirement will be no exception. Millions of Boomers are planning ahead to make sure their "second act" is meaningful, stimulating, inspiring—and financially secure.

NEXT STEPS

>>For more ideas on planning your own retirement go to **schwab.com** and click on "Planning & Retirement," then "Retirement."

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