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Where Did My Savings Go?

By Dave H. Barton

As a result of the free-credit revolution that started in the 1980s and culminated in the Great Recession of 2008–2009, the United States has witnessed a corresponding and breathtaking decline in personal savings rates.

Before the 1980s, personal savings rates were rising each year. Why? Because, prior to the mid-1980s, there was no readily available consumer credit. But since then, credit has become cheap and abundant, and in exchange, has taken a deep bite out of Americans' savings.

For example, in 1960, Americans were saving 5.4% of their personal income. The savings rate steadily increased until 1982, where it leveled off at 12%. As credit became easier and cheaper to obtain, Americans' savings steadily declined, reaching a 50-year low 1% in 2009, according to the US Department of Commerce Bureau of Economic Analysis.

Generally speaking, assuming a 5% expected real rate of return (over inflation) over the pre-retirement

period, high net income individuals who hope to retire "comfortably" should be saving a minimum of 12% of their net income each year while investing that same amount in their retirement accounts.

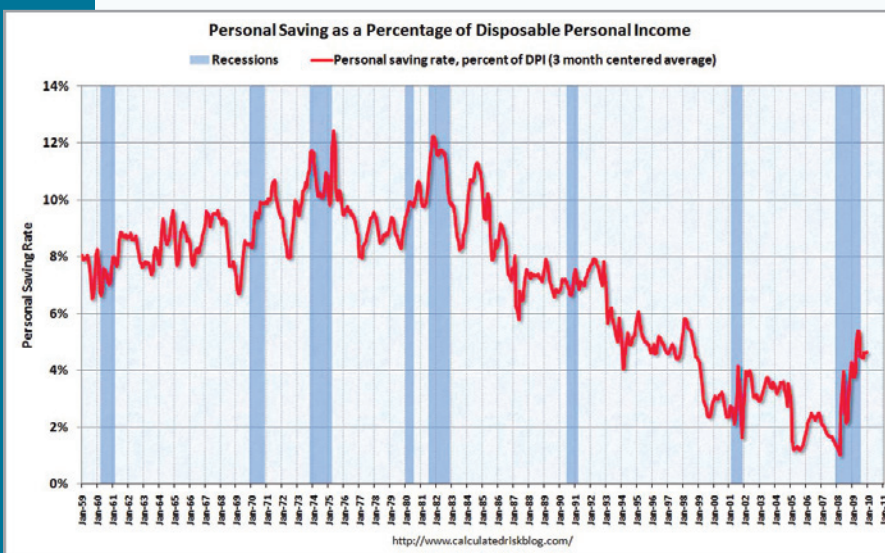
To clarify, comfortable retirement is defined as replacing 80% of your pre-retirement annual net income — including Social Security benefits — and net income is defined as annual pre-retirement gross income, less the amount saved for retirement each year.

As a quick check of your savings for those of you still working towards retirement, if you have saved 10–15% of your annual income throughout your career and you are in your 40s, then you should have around 2–4 times your annual income in savings right now to be on track to retire at age 65 comfortably. If you are in your 50s,

then that amount jumps to 5-8 times your annual income in savings to retire at age 65 comfortably — provided in both cases you continue to save 12% a year up to your retirement date¹.

If you haven't been saving 12% a year, then your savings rate needs to dramatically increase to offset the early failure to save. For example, if you are 45 years old and have no savings, you will have to save 30% of your annual income every year up to your retirement date to retire comfortably².

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ANNOUNCING INSURANCE SOLUTIONS FOR YOUR ECONOMIC FREEDOM® GAME PLAN

By Ralph Ujano

After receiving numerous requests for assistance with insurance selection and implementation, it gives me great pleasure to announce

Mercer Advisors has expanded the *Economic Freedom Planning* service to focus on insurance solutions for life, long-term care, personal disability, and business overhead coverage for all of our clients.

With this exciting new addition to your Economic Freedom Plan, we can now take your Game Plan one step further than simply creating the best insurance strategy for you; we can now also offer you the best of the top-tier insurance solutions from the strongest insurance companies at specially negotiated, cost-saving rates — often lower than if you were to acquire the policies on your own.

Additionally, we can consolidate the underwriting of your policies into a single process, streamlining the applications, physical examinations, blood work, and other actions required to apply for your insurance into a centralized, one-time event for all four policies.

To accomplish this, Mercer Advisors engaged in a stringent search of the insurance industry for an advisory solution in line with our own core values and dedication to always seek out what is in the best interest of your needs. After several months of research and interviews, we recently partnered with a best-of-the-industry, fee-based insurance advisory firm to perform the policy analysis for your financial plan, policy implementation, and policy management. And with sweeping reform about to take place in the insurance industry, having our insurance experts on your side will become extremely valuable in the near future.

Knowing Mercer Advisors' success is due to the comprehensive approach to life and financial planning, this is an excellent opportunity to schedule a review of your entire Game Plan with your Strategic Advisor. In fact, if you haven't updated your plan in more than a year, we highly recommend you have your plan reviewed, and this is the perfect time to do so.

As a part of your comprehensive Game Plan review, we will re-examine your entire current situation and life goals and work with our advisors to make objective recommendations of the most suitable insurance products to best fit your changing needs. You may already own individual or group insurance, but we can review if it is accomplishing its objective as efficiently as possible in relation to your entire Game Plan. We will then work with you to help ensure the right insurance solution fits soundly in the plan we have developed together for your life.

There are certain risks that no one can afford to incur so your options are to try avoiding these risks, retaining them, or transferring them. Insurance is the integral and intelligent strategy for transferring risk and keeping your assets safe from the risks you cannot predict, control, or afford to incur. And with the economic changes of the last few years, the need for control and a sense of protection is stronger than ever. We are thrilled we now have the ability to offer you insurance options that can reduce the stress of research and selection, streamline the application process, provide top-tier protection, manage the implementation, and offer all of this at a cost potentially lower than if you acquired the insurance on your own.

Our goal is to help you find new ways to save more while shoring up the security of your assets. By scheduling a comprehensive review at this time, we can help you navigate the uncertainty of legislative, personal, and professional changes and take advantage of these new, valuable insurance offerings to keep your Game Plan current with your ever-changing life.

As your life-long advisors, this is just one more way we are continually working to improve our services so you can live your ideal life, achieve Economic Freedom, and rest assured your financial future is protected by the best policies, at the best rates, with the best fit for your Economic Freedom Plan.

Does your insurance need an upgrade?

As your life changes, your insurance needs change along with it. Review the list of life changes below. If you check one or more of the items, consider contacting your Strategic Advisor to schedule an insurance review. Not only will you ensure your assets are properly protected, you may be able to move to a better policy at a lower cost than what you are paying now.

Insurance Review Checklist

- Marriage or divorce
- Birth of a child
- Death of a family member
- Adding new debt
- Change of employment
- Increase in total family income
- Increase in business income
- Age 50 or older
- Change in estate planning
- Desire to transfer wealth to heirs
- Family history of declining health when elderly
- Family history of longevity
- Desire to protect assets from being liquidated to pay for unforeseen events

IMPORTANT STATISTICS TO UNDERSTAND



Life Statistics

Unintentional injury deaths occur every six minutes¹.

Disability Statistics

Every 0:01 second another disabling injury occurs in the U.S. Every four minutes the injury is fatal².

One in seven of us can expect to be disabled for more than five years³.

Long-term Care Statistics

One out of five Americans over the age of 50 is at risk of needing long term care in the next 12 months⁴.

For couples 65 and over, there is a 75% likelihood that one partner will need long-term care⁵.

There's a 68% probability that people age 65 and over will become disabled in at least two activities of daily living or of being cognitively impaired⁶.

¹Source: National Safety Council. www.sunlife-usa.com/group/grp_9.cfm.

²Source: National Safety Council, Injury Facts 2008 Ed.

³Source: Commissioners Disability Table, 1998, Health Insurance Association of America, *New York Times*, Feb 2000.

⁴Source: Americans for Long-Term Care Security, www.ltcweb.org, August 2000.

⁵Source: *The Wall Street Journal*, June 2000. www.wallstreetjournal.com.

⁶Source: AARP. Beyond 50: A Report to the Nation on Independent Living and Disability, 2003. www.research.aarp.org.

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For those of you who have retired and are successfully living in Economic Freedom, it was your dedication and diligence to saving and investing the right way with Mercer Advisors' long-term strategies that funded your plan enabling you to arrive where you are now. And, it is the diligence to continue to spend appropriately and according to your Economic Freedom Game Plan that allows you to continue enjoy your retirement "comfortably."

Personal Financial Ratios			
Assuming 5% Return, 5% Distribution Rates			
Age	Savings to Income	Debt to Income	Savings Rate to Income
30	0.1	1.70	12%
35	0.9	1.50	12%
40	1.7	1.25	12%
45	3.0	1.00	12%
50	4.5	0.75	12%
55	6.5	0.50	12%
60	8.8	0.20	12%
65	12.0	0.00	12%

One of the powerful benefits of the Economic Freedom Planning process is that no matter where you are in your timeline, you can defy the alarming national savings statistics and set your life up for a long and comfortable retirement through strategic savings plans.

How Mercer Advisors can help is twofold: first, we help you maintain your discipline so you are spending appropriately and saving according to your Economic Freedom Game Plan. Second, we partner with you to ensure we are protecting your lifestyle needs while ensuring your annual savings goals are met in good times and in bad.

Right now, many people are failing to plan for retirement savings until the Great Recession ends, or until a bull market returns, and this is simply planning for failure — something you don't have to do as a Mercer Advisors client.

Rest assured, right now there is no reason to postpone or reduce your required annual retirement savings. In fact, right now you should be doing everything in your power to maximize savings as today's dollars are more valuable than tomorrow's. Then it is our job to help you create new wealth that funds this endeavor

Savings Statistics

71% of American employees live from paycheck to paycheck³.

According to the Federal Reserve, 44% of U.S. families spend more than they earn⁴.



while maintaining and even expanding your existing lifestyle needs.

While it's true, paying into your long-term savings during a tough economy can feel like you are pinching your lifestyle budget, sure enough, there will come a day when you reach Economic Freedom and life is there to live fully on your terms. And when that day arrives, you will thank yourself for sticking to your long-term plan through the good and the bad times.

The short of it: If you have not retired, do not postpone savings and do not wait for the economy to turn around; you cannot afford to be passive about your future. Instead, keep saving at least 12% of your income.

If you have retired, continue the spending, savings, and investing diligence that helped you achieve Economic Freedom.

And just as importantly, if you haven't updated your Game Plan within the past year, right now is the opportune time to set up a meeting with your Strategic Advisor to ensure you are maximizing every opportunity you have. If your savings amounts are below what they need to be, commit to improving how much you are putting away for your future.

With diligence, commitment, and the expert counsel of your Mercer Advisors team, Economic Freedom is more than just a dream or a plan... it is a reality you can reach and live each and every day of your life.

Sincerely,

David H. Barton
President and CEO

¹ "Personal Financial Ratios: An Elegant Road Map to Financial Health and Retirement" (Farrell, 2006).

² "National Savings Rate Guidelines for Individuals" (Ibbotson, 2005).

³ Source: American Payroll Association, "Getting Paid in America" Survey, 2008.

⁴ Source: Federal Reserve Board, Survey of Consumer Finances 2004.

Starting at the Top

When the heads of the largest banks were called before Congress last January, they famously testified that they didn't know how the financial crash happened. By that time, the fifteen leading economists of [The Squam Lake Report](#) had traced back the causes of the crash, figured out what could have prevented it, and formulated recommendations to prevent as many kinds of future financial crises as possible. They have been and continue to be working with Congress to develop financial reform. We sat down with one member of the group, Matthew Slaughter of Dartmouth, to discuss the state of financial regulation.

How did this project come about?

Toward the end of 2008, when the capital-markets crisis was particularly ugly, Ken French, my colleague at Dartmouth, had the idea to gather a panel of leading economists together and create recommendations for Congress to prevent future financial meltdowns. He contacted some people, and I contacted some people. We considered personality as well as scholarship to create a well-functioning group. Some of us had never met face to face before, so it was a great opportunity.

It was a challenge, too. At the initial meeting, we agreed on recommendations. Afterward, we kept working together in subcommittees by long distance to hammer out each chapter.

What did you consider the biggest problems in the economy?

There is no single magic wand that can fix the economy and the World Financial Crisis — not even two. The problems are systemwide, from the high level to the detailed, and need a thorough approach before any lasting improvement can occur.

At a high level, in the last financial crisis, financial regulators were struggling because they did not have the kind of data that could have better guided their decisions. For example, the Fed was unaware of AIG's losses until days before the crisis when AIG asked for help. With better information mechanisms in place, we might never have gotten to that stage.

Then, there was no entity charged with using that data to oversee the entire financial system. We recommend that each country's central bank (ours is the Federal

Reserve) be that entity. That function is synergistic with what central banks already do.

One of the details we discuss is how to improve the mechanism of executive compensation in the financial industry. Not the amount, but the structure of how it's paid. For example, part of an executive's compensation could be delayed; the executive effectively becomes an unsecured creditor of the company. This would raise the executive's incentive to see the company succeed in the long term without the need for taxpayer support. Hybrid securities are also a recommendation to smooth a failing institution's liquidation.

How happy is your group with the current financial regulation bill?¹

The bill only addresses some of the problems, but we understand that. Change is incremental, and political change always moves slowly. Congress passed economic legislation for years after the Great Depression, and the financial world is much more complicated now than it was then. Just bringing back Glass-Steagall, as some have suggested, wouldn't magically fix things. We've been working with Congress, and they have incorporated many of our recommendations — for example, the principle that banks should not have a call option on taxpayers.

That said, a major concern is human discretion in terms of how ideas articulated in the legislation actually play out in regulatory practice. It will be up to whoever carries out the legislation to determine how much change there really is.

¹As of the interview, the bill had passed the House and was still in debate in the Senate

Do you favor more transparency?

Yes. We recommend that the systemic financial information that is collected be released to the public with appropriate aggregation and time delay. The private sector can supplement the oversight of the public sector.

How would you handle derivatives?

First, we need to build greater incentives for transactions to be more in the open through clearinghouses. The risk of jumping in and regulating them without knowing their size and scope is that you could create unintended consequences. You even could trigger the next crisis unknowingly. It is better to know what you're dealing with first.

What is the next major issue you are working on with Congress?

The next item is the housing market and Fannie Mae and Freddie Mac. Housing was at the epicenter of the World Financial Crisis, and much of this sector has not yet been addressed.

What has been the group's overarching purpose?

We don't know where the next crisis is coming from. We wanted to go beyond what would have prevented this crisis — though we covered that, too — to address systemic issues throughout the financial system and look to the future. Systemic regulations are not meant to be punitive. They are meant to guide behavior by creating the right incentives. The right systemic regulations can promote behavior that improves economic growth and risk sharing for everyone.



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Term Member, Federal Reserve Board, 2000–present;

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A Sampling of The Squam Lake Report's Recommendations

- All large financial institutions should report information about asset positions and risks to regulators each quarter.
- If everything else is the same, capital requirements, as a fraction of either total assets or risk-adjusted assets, should be higher for large banks. Capital requirements should depend on the liquidity of a bank's assets and should increase with the proportion of its debt that is short-term.
- The government should promote a long-term debt instrument that converts to equity under specific conditions. Banks would issue these bonds before a crisis, and, if triggered, the automatic conversion of debt into equity would transform an undercapitalized or insolvent bank into a well-capitalized bank at no cost to taxpayers. The cost would be borne by those who should bear them—the bank's investors.
- Investment products for Defined Contribution plans should have simple standardized disclosure labels to encourage comparison shopping on important attributes.
- Eligible employees who do not explicitly opt out should be automatically enrolled in their firm's defined contribution plan, and the default savings rate should be a substantial portion of the employee's compensation. For example, the default withholding rate (the fraction of annual compensation withheld) might start at 5% in the first year, then grow by 0.5% per year to a maximum of 10% (subject to IRS limits).

The Squam Lake Report: Fixing the Financial System

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