CFO Magazine

Are You Ready for Retirement?

For many CFOs, life after work may not be a day at the beach.

Don Durfee, CFO Magazine
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When Guy Alton, CFO of St. Bernard Hospital in Chicago, thinks about retirement, he doesn't envision long strolls on the beach or leisurely tours of the Italian Riviera. Instead, the 53-year-old Alton wonders whether he can cover the basic expenses of life after work.

That concern is understandable. With three children in college, Alton faces a nearly six-figure annual education bill. In addition, a late start in saving means he must build his retirement fund in a relatively short period of time. "Earlier in my career I was definitely not saving as much as I needed to save," he says. "The unfortunate thing is that when you're younger and have kids, you often don't have the spare cash to put away as much for the future as you should."

A surprising number of Alton's peers share his concern. A recent *CFO* magazine survey of 476 finance executives at companies of all sizes found that nearly 40 percent lack confidence that they will achieve their long-term financial goals. That figure may be understated, contends Michael Leonetti, CEO of Leonetti & Associates Inc., a Chicago-based wealth-management firm. "I have a feeling that the actual number of finance executives who aren't prepared for retirement is higher than 40 percent," he says, speculating that it may be closer to 55 percent. While many if not most fall in the top 1 percent income brackett, Leonetti explains, "they have built a lot of things into their lifestyle that they don't want to pull back from." Moreover, since many CFOs are in their 40s and 50s, they face the classic problems of the "sandwich generation" — paying for their children's education while helping their aging parents.

Compounding the problem are worries shared by just about anyone facing retirement. These include the soaring cost of health care, tepid investment markets, and the prospect of reduced Social Security payments (see "Planning for the Future," below). Health care — chosen as a top concern by 80 percent of respondents — looms especially large. Since only a dwindling number of companies offer retiree health benefits, and because workers aren't eligible for Medicare until age 65, most who retire at a younger age will have to pay for their own health care. Alton says that employer-provided coverage is one reason why he will wait until at least 65 to retire.

Still, shouldn't CFOs, who spend their days creating and enforcing corporate financial plans and serving as fiduciaries of their employees' pension assets, be in the best position to prepare for retirement? After all, most start from a position of strength: the average total cash compensation for CFOs was nearly $500,000 in our last CFO Compensation Survey (see "Changing Fortunes," October 2004). Moreover, 71 percent believe that they can invest their funds as well as any professional money manager. Yet, as with many investors, concerns about savings levels and uncertainty about the future have tempered their confidence about meeting retirement goals. One thing is clear, though. Judging from the finance executives we talked to, there's certainly no lack of attention being paid to the issue.

A Conservative Bent
Cautious by nature, CFOs have learned that their financial expertise doesn't necessarily translate into personal investment acumen. When asked about their biggest investment mistakes, the top response was related to "buying into the Internet bubble." And many of the other answers — "not pulling back in 2000"; "opening a margin account"; "trying to time the market"; and "overloading on employer stock" — speak of investor confidence gone awry. (For more, see "Best and Worst Investments," below.)

Those mistakes have been magnified, says **Ted Yoos**, wealth manager for Boston-based Back Bay Financial Group Inc., because we've "been in a five-year period in which the broad stock market — as measured by the S&P 500 — had close to a zero percent return through the end of June."

Not surprisingly, CFOs have grown more conservative in response. Only 6 percent now call themselves "very aggressive investors," compared with 29 percent five years ago. And the percentage calling themselves "conservative" has increased from 24 percent to 38 percent.

A case in point is Jules Fisher of Possis Medical Inc., a medical-device company based in Minneapolis. Although the crash in technology stocks affected only part of his portfolio, it reinforced his conviction that retirement investing requires attention, patience, and diversification. "I want to be careful to stay focused on the long term, which is hard to do," he says. For Fisher, this has meant steady allocation among a mix of mutual funds, including value, growth, and international funds. His long-term focus has paid off through such investments as the highly regarded SoGen International Fund (now the First Eagle Global Fund), which has returned more than 17 percent in the past five years.

Gil Borok, global controller of Los Angeles-based real estate firm CB Richard Ellis (CBRE), is another finance executive taking a cautious stance. Borok, 38, puts half of his 401(k) money in bonds and half in equity mutual funds, with the rest invested in his house or held in cash balances. In Borok's case, this approach is not a reaction to any market losses but a long-standing strategy that reflects his attitude toward retirement planning. "I don't think you should be aggressive about investing for retirement, because this is your future," he says. And while he concedes that the approach "may be a little conservative for someone my age," Borok says, "it reflects my personal philosophy. I don't believe in overextending myself."

Some CFOs, however, do not have the time to be conservative. Because of his late start in saving for retirement — he began six years ago — Alton is keen to make up for lost time. Consequently, he has taken on more risk by shifting away from bonds and exclusively into equity mutual funds. His hope is that he can avoid an anticipated drop in bond prices due to interest rate increases. And the plan is to put 20 percent back into bonds once the Fed finishes raising rates. "I felt I needed to be a little more aggressive to catch up," says Alton, who checks his progress at least biweekly and spends part of his vacation time making adjustments.

Sticking to Their Knitting
Whatever their investor profiles, finance executives need to make a plan for retirement just like any other investor. This means evaluating how expenses would change upon retirement, doing

projections to see if there will be enough money to cover those expenses, and creating a plan with annual benchmarks. After all, "you're investing now in order to create an income stream later on to meet a certain lifestyle," says Leonetti.

Jim Holtzman, the CFO of Fieldglass Inc., a Chicago-based services procurement solutions provider, is one example. The 44-year-old is currently embroiled in a four-month retirement-planning blitz that includes spending weekends researching different investments, scenario planning, and interviewing financial planners. "I'm very serious about setting a real plan for retirement that identifies what I need and can be adjusted when necessary. The world changes in the blink of an eye, after all," he says, adding that the final result only has to allow him to "know that he can retire," even if he never does.

Holtzman has a good head start, however. In his investment portfolio, he includes microcap companies, a sector with which he is very familiar: after a career as an investment banker, Holtzman has served in a financial and operations capacity for five different start-ups, three of them as CFO. And he uses that background to guide his investments.

Now, before committing any money, he analyzes the companies' financials, focusing on cash flow and the quality of management. "I can't predict [the right time] to move from one stock to another, so I buy stocks I firmly believe in and hang onto them," he says. Other than an investment in Intel, which he bought at $3 and sold at $30, Holtzman is proudest of his investments in two small companies — Tractor Supply and Middleby Corp., a restaurant-supply company. "These were companies doing things that as a manager I believe my company should do," says Holtzman.

Jonathan Rogers, treasurer of Jacksonville, Florida-based Mac Papers Inc., also applies his financial expertise to his investments, although the resulting approach could hardly be more different. Rogers, who is 46, has been trading in equity derivatives since 1976. His strategy is to sell puts on companies within industries that are out of favor, but that he expects to rise. Conversely, he sells calls on industries he is bearish about. (In the past year, he has done well betting in favor of oil companies and against pharmaceuticals.) He maintains more than 100 positions, and collects the premiums from those buying the options. "I'm like an insurance company taking premiums on all these stocks," says Rogers. "One might crash, but hopefully the others won't, so overall I make money."

And like an insurance company, he manages the risk in this portfolio, concentrating on less-volatile, larger companies, and balancing the puts and calls so they offset each other. "There's substantial risk," he says, "so I'm very careful. I don't use any debt and I write only what I can afford to cover." To track his progress toward his retirement goals, he uses spreadsheets, even going to the length of producing a personal balance sheet as well as income and cash-flow statements. So far, his strategy has been successful: Rogers's portfolio appreciated 30 percent last year and is up 17 percent this year.

Comfort Levels

Still, for many executives, much of the money needed for retirement will come from a far more traditional investment: real estate. About 20 miles north of Palm Springs in Yucca Valley, Edward Muzik, CFO of the Hi-Desert Water District, has already discovered that fact. And the 54-year-old insists he "could retire right now if I wanted to."

Muzik has taken advantage of housing values in California that have risen by up to 40 percent in the past few years. Each time Muzik has sold one of his homes, he has made a significant profit. And with every sale, he and his wife have set aside some of that profit, using a mortgage to buy their next home. The house they currently own has doubled in value in less than four years.

Such returns explain why some 27 percent of survey respondents plan to move money into real estate during the next six months. Like Muzik, those respondents believe real estate will give them an extra cushion. Wayne Kapral, CFO of Franklin, Massachusetts-based EC Hilliard Corp., for example, believes that he hasn't put enough money into his 401(k) over the years. But he's confident that the soaring value of his home — it has quintupled in four years — should make up for any shortfall on the savings side.

That confidence, says Leonetti, might be better placed elsewhere, given the growing evidence of a housing bubble in many parts of the country. Instead, he advises his clients to consider adding commercial and industrial real estate and commodities to their portfolios as a way to improve returns. While prices for commercial real estate have increased sharply over the past few years, some economists believe that they can rise more, since the value of such property tends to move with corporate profits. Furthermore, commercial and industrial real estate tends to produce a reliable cash stream — after all, companies are likely to keep paying their rent even if they fall on hard times.

CBRE's Borok, for one, buys the argument. He says that his next investment will likely be an income-producing piece of real estate. "That's how I plan to retire," he asserts. "Have a few properties, my home, my 401(k), and Social Security."

Time to Panic?

In any case, CFOs are unlikely to end up destitute — especially given the advantages they have over other employees. "I'd guess that most finance executives are like me, and have had experience in a number of different financial areas, such as accounting, investment banking, or real estate," says Rogers of Mac Paper. So when it comes to retirement investing, "it doesn't mean that we get all of our investments right, but we should certainly know more about how to do it than the average employee." Adds Alton simply, "We should be more astute."

The key to a more carefree retirement, of course, is to save more. But that has proved to be a sticking point, with a quarter of survey respondents admitting that they haven't put aside enough for retirement. While that may be in keeping with the poor savings rate in the United States in general — currently estimated to be 1 percent of income — Leonetti cautions that it might come back to haunt them. "Executives often will look at the changes they need to make for future gratification and say, 'I could be dead tomorrow, so I might as well enjoy some of this now,'" says Leonetti. "But a lot of that is rationalization. The fact is if they don't save, when they reach retirement, they'll be forced to make the changes."

Of course, that assumes that finance executives plan to fully embrace retirement — a life stage not many can relate to. "We all need to have some purpose in life," says Holtzman. "Once I don't have to fear the future financially, I'd like to apply my skills helping as a volunteer for nonprofits." Besides, says Holtzman, laughing, "if I ever really retired, I'd probably shoot myself."

But if a finance chief does want to hit the beach or tour the Italian Riviera — at least part-time — the best approach may simply be to adopt the cautious strategy he or she would recommend to employees: steady saving while avoiding the riskier investments that decimated many portfolios after the dot-com crash. "I speak at the orientation for new hospital employees," says Alton. "I tell them to start early, put something aside every month into their 403(b), and get used to it. You need time to work for you to help you grow your nest egg. I wasn't able to do that."

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Do-it-yourself Retirement

Are CFOs as good at managing investments as professional money managers? Most think they are: 71 percent say they can do at least as well. Not surprisingly, only 38 percent rely on a financial professional, up from 30 percent five years ago.

For many, the aversion to investment advisers stems from having received bad advice in the past. When he began managing his wife's 401(k) assets, for example, Jonathan Rogers of Mac Papers Inc. listened to the experts who were recommending large pharmaceutical companies as a safe bet — but he lost 50 percent of the investment when stocks like Pfizer and Merck plummeted as a result of shareholder lawsuits. "I bought Big Pharma because people were saying it was the proper thing to do," says Rogers. "But I'm tired of listening to other people. I've decided that when someone tells you something is the proper thing to invest in, it's usually the wrong thing."

For others, there's the natural inclination to cut costs. Jules Fisher of Possis Medical Inc. once hired a brokerage firm to manage his investments, but soon resumed managing his own money. "They did a good job, but the costs were high, which really ticked me off," he says. "I'm a big believer in the advice of John Bogle [the founder of Vanguard], who said that the hidden costs will kill you."

Of course, not all CFOs avoid money managers. James Holtzman, CFO of Fieldglass Inc., recently turned over a significant portion of his aftertax investments to Private Capital Management. The firm, which has a strong investment record, requires investors to sell off previous investments and it, in turn, invests the cash. Holtzman looked closely at a number of money managers before choosing PCM. "A lot of these investment groups — including some of the big names — aren't as strong investors as their pitch suggests," he says. "But I concluded that I had enough money under my own management and not enough time to do it the justice it deserved."

Holtzman also intends to turn over his retirement planning to a professional once he's satisfied that he can oversee it properly. In his view, as long as he can ask the right questions and challenge decisions, he shouldn't spend his time on the day-to-day minutiae. "My life is like my business," says Holtzman, who expects to have a solid investment plan by the end of the year. "I have to delegate when it's appropriate, but delegate to the right people." — *D.D.*