Financial Fitne$$

Boomers & Beyond: Not Your Parents' Retirement

By Kurt Rusch, ChFC, CLU

Once upon a time, people graduated high school, got a job, worked forty to forty-five years, retired and lived comfortably off their work pensions until... While this is still a retirement reality for some, it is becoming less and less for most.

Traditional pension plans are being replaced by 401(k) plans, which do not come with the guaranteed payout of traditional pension plans. Combine that lack of guaranteed return with the uncertainty of social security's future, plus the effects of inflation constantly increasing the costs of retirement living and the importance of getting the retirement savings equation correct is paramount.

First, let's delve into the contributory plans that many employers are offering. Whether your company offers a 401(k), 403(b), 457, SIMPLE, SEP, Keough or any other tax deferred retirement account, it is unimportant for this discussion because the main objective of all such plans is to fund them as heavily as you can possibly handle. Sure, a new plasma TV would be really nice to have now, but it won't heat your house or help supplement social security in retirement.

Often times your employer will offer you incentive to participate by matching a portion of your pretax contributions. Even if you are strapped, make sure that you contribute the maximum that your employer is matching. Not doing so is throwing away free money. Anything that you put in today will come back many times over in time if given a proper amount of time to grow. Another determining factor in computing the amount to be contributed from your paycheck is that a five percent contribution will reduce your paycheck less than five percent. This is true because none of the current taxes will be withheld from the percentage allocated to the retirement plan.

Now that the amount to be contributed has been determined, the matter of allocating the invested dollars must be addressed. Unfortunately, many workers when confronted with this issue don't understand how to approach this matter and do nothing, allowing the funds to be allocated to the default option, which is typically a money market fund. While money markets are a very secure investment option, chances are, allocating your retirement dollars there will almost guarantee your retirement goals will not be met. Because of the safety inherent in money market funds, they typically offer very low rates of return. That being said, there are appropriate asset mixes depending on factors such as risk tolerance, time frame, options available, contribution amounts and goals. In general, the longer the period of time that one has until retirement, the more risk that person can accept in his/her portfolio.

If you have thirty years until retirement, you may view a downturn as an opportunity to acquire stocks at favorable prices. Contrarily, if a person is nearing retirement, they should scale back on their risk exposure. The reason that this holds true is that risky investments (i.e. stocks, both US and international) are remarkably predictable over long periods of time but extremely volatile over short durations. If you only have three years until retirement, and you are invested in an aggressive manner, you will have no time to make up for a downturn in the market.

Once these primary tasks have been completed, one can assess based on projections whether their contributions and asset mix will meet their objectives in retirement. If so, nothing further need be done. If not, some adjustments will need to be made. Increasing contributions, delaying retirement in order to lengthen the accumulation period, or adjusting the portfolio mix in order to shrink the gap between what is needed and what will be accumulated per projection may be in order. If there is still a shortfall and there are additional funds available, they can be invested to fill in this gap according to factors such as tax brackets, risk tolerance, accumulation period, etc.

While we may yearn for the good old days when we didn't have to worry about these kinds of matters, it seems unreasonable to think that the pendulum will ever swing back that way again. The best advice would be to review your retirement now. If there are any adjustments that need to be made, the sooner they are made, the more time they'll have to make an impact. If you are equipped to do this analysis yourself, by all means, do it. If not, do not hesitate to seek the assistance of a professional. Retirement planning is not an area you should self-medicate.

Kurt Rusch is a financial advisor with over twenty years of experience in retirement and financial planning, investments, health insurance and property protection. Rusch works with individuals and small businesses to help them personally tailor health and wealth plans to their needs and preferences. For a free retirement review, contact Kurt at: 847-635-9126. –**CWM**

Top 401(k) Don'ts

Don't Spend it!

Avoid the temptation of spending your 401(k) rather than rolling it over when you leave a job. A thirty-five year old who cashes in his/her 401(k) rather than rolling it over will cost their retirement the tidy sum of, $174,494.02, assuming a 10% rate of return until they reach 65. Pretty expensive vacation, isn't it?

Don't Forget it!

Your options will be limited if you leave your 401(k) in the hands of a previous employer. Not only will you have to deal with your former workplace as an outsider, but also with the accounting nightmare that comes from having a scattered trail of 401(k) accounts.

Don't Ignore it!

If you choose to ignore the status of your various retirement plans (wherever they may be), you could be missing out on alternative opportunities which could significantly increase the value of your retirement nest egg.

Next issue

Our next cover story will be devoted to the benefits of preventive healthcare featuring Life Line Screening, the nation's leading provider of vascular screenings. To date, Life Line has done over 5 million non-invasive ultrasound screenings for risk of stroke, vascular diseases and osteoporosis. Stroke is the third leading cause of death in our country. It is known as the "silent killer" because more than 50% of all stroke victims never experience a pre-stroke warning sign or symptom. Are you at risk?