## Save NOW for Retirement

The U.S. Department of Commerce reports that the personal savings rate in this country dropped to negative 0.5 percent in 2005. That number is the lowest since the Great Depression more than 50 years ago. It indicates that a large number of Americans spent all of their after tax earnings, AND they dipped into savings or took out loans to finance their expenses.

With millions of Americans set to retire in the next few years, and the savings rate in negative numbers, how will people be able to afford their living expenses during retirement?

### Why Save?

Savings is critical for all of us, but it is especially so for those of us getting ready to retire.

Americans are living longer than ever, and retirement is getting more and more expensive as the cost of living - especially medical care and prescription drugs - and inflation continue to grow. The 78 million baby boomers getting ready to leave the work force will require savings of their own, to ensure a comfortable future.

The “three legged stool of retirement” concept introduced by President Roosevelt is still in place today. It relies on three sources for an individual’s retirement income: the government, through Social Security; employer provided retirement plans; and individual savings. Unfortunately, Social Security only offers a minimum layer of protection for retirement needs, assuming Congress acts to shore it up. In addition, far too many employer provided retirement plans do not offer any type of guaranteed benefit. Therefore, individuals need to have a sturdy personal savings leg of the stool, in order to have a comfortable retirement.

### How do you make sure you have enough to retire?

- **Review your financial health**

Reassess your assets, liabilities and net worth. Your goal should be to create a positive net worth that grows each year. Ensure that your income does not exceed expenses, and try to cut expenses where possible.

As you begin planning retirement, you need to determine what assets will be available to you and your family.

Social Security is based on a “defined benefit plan” model calculated on the amount of time you spent in the work force and your salary history. A mathematical formula will determine the exact dollar amount you will receive each month for the rest of your life. The good thing about an annuity such as this is that no matter how long you live, the Social Security check will arrive in your mailbox (and might even continue after your death to your surviving spouse or to any dependants). Many refer to this type of guaranteed benefit as a "fixed income."

If your employer sponsors a retirement plan, it will either be a defined benefit plan that looks a little like social security, with a guaranteed monthly benefit paid to you each month for the rest of your life after retirement, or it will be a defined contribution plan, paying you whatever the account is worth on the day you take the distribution.

For planning purposes, a defined benefit plan will offer you a guaranteed level of monthly income that, when added to your guaranteed Social Security amount, gives you a clear idea of your income each month in retirement. Knowing what you will receive each month can help you to determine when is most advantageous to retire, where you may be able to afford to live during retirement, and how you can best enjoy your retirement. If on the other hand, you participate in a defined contribution plan, then you simply get a pot of money that you will need to manage during retirement so that you don't deplete the entire balance while you are still alive.

Review your individual savings and general net worth. Do you own your house? Even if totally paid off, you might want to take equity out of the house to pay some living expenses. Do you have a whole life insurance policy? Again, you might be able to take out a loan.

For those close to retirement, most financial planners would recommend keeping assets and investments in a conservative portfolio, which minimizes the risk of losing principal. The "cost" for a conservative investment strategy is giving up a chance for better-than-expected rates of return. It is a good idea to discuss how to manage your investments with a professional who can offer unbiased advice.

- **Build your personal savings:**

Start saving now; it's never too late! Several investment vehicles may be available to you. Check with a financial planner to see which best suit your needs. Among the available options are: mutual funds, index funds, stocks, bonds (such as US Savings Bonds), real estate, CDs, company retirement plans, IRAs and Simplified Employee Pensions, and regular savings accounts.

If you participate in a tax deferred 401(k) program at your place of employment, try to maximize employer matching funds and educate yourself on the vesting rules. This is free money! However, you may have to direct your company on how you would like your retirement savings to be invested and review the return on investment statements. It is in your best interest to find out about your 401(k) plan’s administrative fees, investment fees, and service fees; read the plan document carefully.

401(k) rules state that you may elect to defer up to $15,000 each year from your salary into the plan, and if you are over age 50, you can defer up to $20,000 each year.  For example, an individual aged 60 who participates in an employer-sponsored 401(k) plan can contribute $20,000 each for the next 10 years until he or she retires at age 70.  At that time, she will have an account worth about $240,000 (assuming a modest 4% annual rate of return).  Double that amount for a married couple!

If your employer does not maintain a 401(k) plan, then you can still contribute money into an Individual Retirement Account (IRA).  In either a traditional IRA or a Roth IRA, for 2006 and 2007, you can contribute up to $4000 (or up to $5000 if you are at least 50 years old), and starting in 2008, up to $5000 (or up to $6000 if at least 50 years old).  Married couples can each contribute to an IRA even if only one had an IRA for the year if the working spouse earns enough to cover the IRA contributions for both.

In a traditional IRA, you can deduct your contributions from your taxable income, depending on your Adjusted Gross Income; you will then pay taxes on distributions when you receive them in retirement.  In a Roth IRA, you do not get the immediate deduction, but as long as the money remains in the account for at least 5 years, all distributions will be tax free.  Many banks and financial institutions offer traditional IRAs and Roth IRAs, so you might want to discuss all of the restrictions and rules with your advisor.

- **Think like a saver:**

Establish accounts in which a set dollar amount is automatically deducted each month and dedicated to your retirement account.  When you receive additional income in the form of a bonus, raise, tax refund or inheritance, direct a significant portion of this extra income to your emergency funds, savings and retirement accounts. The IRS, for example, offers to directly deposit your tax refund into your account.

Do not try to keep up with the Joneses.  If tempted to keep up appearances, remind yourself that those who are economically secure, have more options in life and can pass on status and opportunities to future generations. Being financially independent and debt free also has a positive psychological, social and civic effect that enhances your well-being.

- **Think what it means to retire:**

The final point is that retirement does not mean the same thing to everyone. Some people want to simply cut back their hours, but continue working. If that is your preference, be certain to speak with your employer to make certain a job will be available. Many people get subsidized health insurance and prescription drugs benefits while still employed, and those benefits may be eliminated upon retirement. Also, determine where you want to live. Some senior-oriented residential communities might have hidden expenses, such as long term care facilities. If you want to travel to visit family, you may have travel expenses to consider.

**These are just a few of the issues to consider when facing your financial future during retirement. For additional information, you may want to contact a financial planner, lawyer or other professional who can help advise you on your saving needs.**