REINVENTING Retirement
YOUR RETIREMENT PLANNING NEWSLETTER
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Your *Personal Recovery* Plan

What Do I Do Now?

Global investment markets had one of their worst years ever in 2008. The S&P 500 Index fell 38.5%. Overseas stocks did even worse. The Dow Jones World Index dropped by 46%.[1] And 2009 began with a continuation of this severe bear market. The S&P 500 fell another 11% in the first quarter of 2009. Investors are understandably very anxious. The following questions and answers address some common concerns of retirement plan participants.

Q. ***Should I stop contributing to my retirement account?***

A. No. As difficult as it is to watch the value of your account decline month after month, you still need to save for your future. In fact, you may have to save even more to make up for a difficult period in which the value of your retirement account has fallen substantially. Don't think in terms of suspending or decreasing your savings. Instead, figure out how to increase your retirement savings or at least maintain them. Instead of asking, "Should I stop contributing?" ask, "How much more can I contribute?" For the year 2009, the maximum total annual employee contribution is $16,500. Also, if you will turn age 50 by the end of the 2009 calendar year, you are eligible to make an additional contribution of up to $5,500 to your plan account. Speak to your financial advisor to determine the savings strategy that is best for you.

Q. ***Should I sell all my mutual funds and put all my money in a bank account?***

A. Making radical moves is risky. Before you do anything, first review your investments and your overall asset mix. Keep in mind how long you'll have until you begin making account withdrawals in retirement. Stock mutual funds are more volatile than other more stable or conservative investments, especially for the short term, but investors may be compensated for that risk through higher potential returns. A broadly diversified approach, with a mix of stocks, bonds and stable value investments, made sense before the bear market began and should make sense now. It tends to limit risk while tapping into potential long-term gains.[2] Bank accounts are suitable for short-term needs, but they won't generate high enough returns to keep up with inflation or provide sufficient long-term growth.

Q. ***Doesn't it make sense to get out of the stock market and return once it starts to recover?***

A. Whenever the stock and bond markets begin to recover, they could easily outperform the limited interest that a bank account, certificate of deposit or money market account would earn. Unfortunately, it's impossible to identify the best time to get in or out of the stock market. In hindsight, an ideal time to sell may have been around October 2007. By selling now and waiting until the market begins to rebound before buying again, you could easily miss some of the rebound, whenever that occurs.

Here are five actions to take:

1) Review your account balance, asset mix and fund performance.
2) Rebalance or reallocate your investments into a more suitable mix if appropriate.
3) Use an online retirement savings calculator to project how much you'll need.
4) Save more to make up any gap.
5) Reconsider plans for when you'll retire. Working a few more years could give you more time to save and fewer retirement years to fund.

1 Wall Street Journal, http://online.wsj.com/public/page/quarterly-markets-review-010209.html
2 Diversification does not assure a profit or protect against loss. Asset allocation cannot eliminate the risk of fluctuating prices and uncertain returns.

Do You Need a Financial Makeover?

Like millions of other people, your financial situation may need some attention, possibly even a makeover. Here are some steps to take to create a new financial you.

Take a "Before" picture

Take a financial snapshot to capture the state of your current finances. Do you know how much you earn and spend each month? Do you have enough cash on hand to pay your bills on time? Are you weighed down by excessive debt? Put all your assets (what you own) and liabilities (what you owe) on a scale. Subtract your liabilities from assets to determine your net worth. How does it balance out?

Set goals

Do you have a vision of your "After" life? Set some realistic and achievable goals. Then, monitor your progress and hold yourself accountable. For example, you might set a goal of paying off all credit card debt in one year, or building an emergency cash reserve of $15,000 over the next three years.

Pay yourself first

Whether you are saving for retirement, to pay future college bills, or building an emergency reserve fund, put aside the money every month so you'll have less cash to spend.

Use self-discipline

Review your spending habits, especially for discretionary items. To separate your needs from your wants, ask yourself, item by item, 'Is this really necessary?' Could you drive your car a year or two longer? Could you trim your heating bill by 10%? Could you dine out less often? Are you really using your gym or club membership? Seek to make thoughtful choices.

Be an informed consumer

To make smart choices, comparison shop, and avoid buying on impulse. To cut grocery costs, buy certain items in bulk, shop less frequently, clip coupons, look for sales, buy generic items when they are equal in quality to name brands. Could you save money by bundling services such as telephone, television and internet access? Could you cut unused or underused services? For example, if you and your spouse both have cell phones, do you need a landline?

Be green

Being energy efficient can save you money in many ways, whether it's buying energy-efficient appliances, cutting your heating bill, driving a more fuel-efficient vehicle or car-pooling.

Use your home as a financial asset

Although your home is primarily a shelter, it's also a financial asset. You build equity as you pay down your principal. You can also use your home equity to pay college tuition, consolidate high interest-rate debt or make home improvements, among other things. Used wisely, a home can be a powerful financial tool. With interest rates very low, consider refinancing your mortgage if you can lower your monthly payments enough to recoup refinancing costs within three years or so.

Rid yourself of debt

If you are endlessly carrying debt, to break free, first acknowledge that you have a problem and commit to deal with it. Buy only what you can afford. Draw up a budget and stick to it. Visualize how good it will feel to be debt-free. Don't shop just for the sake of it; find other hobbies that are less costly. Get assistance through credit counseling.

Retirees Face a Different Type of 'R and R'

With retirement account balances falling sharply in the last year or so, you may have to rethink your plans, especially if you are close to retirement. The "R&R" you may have envisioned—rest and relaxation—might have to take a back seat to another kind of R&R—reviewing and revising your plans.

Here are some options to consider if you aren't on track to retire when you would like to or you don't expect to have enough money saved to live your desired lifestyle in retirement:

Delay retirement

A logical solution if you face a retirement funding shortage is to delay retiring. Working longer means your retirement savings can continue to grow and you'll reduce the number of years that you'll be withdrawing from your savings.

Meanwhile, for every year that you delay collecting Social Security benefits between your normal retirement age (currently ages 66 to 67 for those retiring right now) and 70, you'll increase your annual benefits by 8% for the rest of your life. On the other hand, if you take benefits at age 62, your monthly benefits would be reduced by at least 25%. If you live beyond your early 80s, then you'll end up better off by delaying your Social Security benefits.

Be safe, hold steady

Maintain a "safe" annual withdrawal rate of no more than 5% of your retirement account balance. Studies indicate that if you withdraw no more than 4% or 5% of your retirement savings each year, your savings will have the best chance of lasting as long as you will. Also, by holding your level of withdrawals steady for five years, rather than increasing them at the rate of inflation, you'll significantly improve your chances of not running out of money in your retirement.

Keep a foot in the door

Either as part of a gradual transition into retirement or an ongoing plan, earning money from a part-time job could help you meet expenses in retirement. Many retirees also enjoy the continued social interaction with people in the working world.

Pay tax now

Shifting when you receive a tax benefit on a retirement account could make a big difference. For example, by converting from a traditional IRA to a Roth IRA, you could be ahead of the game in retirement. In essence, you'd transfer a tax reduction from the current year to the year in which you withdraw your retirement savings.

You may have to tighten your belt now, but the reward could be substantial. Aside from having your money potentially compound to a significant sum over many years, all of that growth would be yours, with nothing taxed. And because of the government's current budget deficits, income tax rates could rise over the coming decades, as the federal debt eventually must be paid off.

Keep saving

Retirees in their 60s who have earned income can keep contributing to a traditional IRA. People 70 and over may still contribute to a Roth IRA if their income is within eligible levels each tax year.

Retirement in Motion

TIPS AND RESOURCES THAT EVERYONE CAN USE

Boomers on the Brink

Issues facing participants approaching retirement

Boomer roommates wanted

With real estate values and stock prices falling sharply in the last year, many people in their 40s, 50s and 60s have lost substantial net worth and have had to rethink their plans and living situations. One outcome is a growing tendency for baby boomers to share their housing by taking in boarders, sharing an apartment, or buying a home with others. Aside from saving on living costs, many people of all ages who share housing say they feel safer, sleep better, are less lonely and are happier.

Q & A

Common questions asked by retirement plan participants

My retirement fund keeps losing money. Where should I transfer it?

Since the stock market peaked in October 2007, the drop in the value of stocks has been deep and broad. There's no way to know whether stocks might fall farther, but if you are invested for the long term—a decade or longer—stocks still have the potential of achieving the highest returns, based on long-term historical trends. A broadly diversified portfolio, including stock funds, remains a recommended approach by many. For shorter-term goals, a more conservative mix may be appropriate. Review your investments and make some adjustments, if necessary, but don't panic. If you are concerned about a fund's performance, compare it with similar funds over periods of three years or longer.

Tools & Techniques

Resources and ideas to guide you in your retirement planning efforts

Need large savings? Try big-ticket items

There are many ways to cut expenses. You could trim a small amount in many areas: Clip coupons, buy no-name brands, grow your own vegetables, do your own auto and home maintenance, cancel your gym membership, and buy secondhand clothes. Those savings will add up. But it may be easier to focus on a couple of large items. Drive your car an extra few years. Instead of an expensive family vacation, take a "staycation": Being a tourist in your own town could save thousands of dollars and put you back in touch with local history, attractions and culture. Or, move to a smaller, less expensive home. You'll lower your mortgage payments as well as your property taxes and utility bills.

Quarterly Reminder

Review and readjust

If you haven't conducted a thorough review of your investments in a while, do it now. The results for the last year have been dismal almost everywhere, so if you make performance comparisons, be aware that the vast majority of stock funds have lost a lot of value. Maintain a broad mix of assets and try to stay focused on long-term results. If your asset mix has shifted away from stocks because of their diminishing value, it may be time to rebalance back to your original mix by transferring some retirement savings from bonds to stocks.

Corner on the Market

Basic financial terms to know

Deflation

Deflation is the flip side of inflation. While inflation means a rise in prices, deflation means a decrease in prices. That may not seem so bad, but deflation can be a symptom of something undesirable—a decrease in spending, which has been happening for months among consumers and businesses. Deflation could also lead to further problems, including rising unemployment, due to lower demand for goods and services, a further decline in business profits (or larger losses) and a downward economic spiral. Government efforts have recently targeted deflation, rather than inflation.

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