LET US EDUCATE YOU ABOUT YOUR 401(K) CHOICES

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The ABC's and 1,2,3's of Retirement

ABC is a 1970 hit song by The Jackson 5, with the classic line, "ABC easy as 123". Alphabets and numbers can also tell you a lot about your retirement plan. Regardless of where you work, you probably have an alphabet and numbers type of retirement plan. If you work in the private sector, you are generally covered by a 401K plan. If you work for a public education organization or a non-profit employer chances are you are eligible to participate in a 403(b) plan (often called a tax sheltered annuity). The rules are similar for both.

Fewer and fewer employees today are covered by a traditional pension plan. This was the type of retirement plan most of your parents or grandparents may have had. When they retired, normally at age 65, they were paid a guaranteed income for life. If they didn't save any additional money, there was still a safety net for them. They had a lifetime income from both their employer's pension plan as well as Social Security.

We still work with clients who have a safety net. One couple, I'll call them Barb and Ken, were referred to our office by their son. I met Barb and Ken about a year before they retired. I really enjoyed meeting and working with them on their retirement plan. As I reviewed their questionnaire it was obvious that they had never saved a penny for their retirement. Luckily, he worked for a school district and was covered by the traditional pension plan. We helped evaluate which lifetime income option was the best for them. Even though they hadn't saved any money they are having a great retirement. They had no debt. Their pension and social security income will meet their retirement expenses until they die.

Unlike Barb and Ken, most of us work without a net, since we are not covered by a pension plan. Today if you don't save you may have nothing when you retire. We work with companies in the private sector and help them choose the investments for their 401k plans. These are open architect plans which basically mean we are able to choose the best available investments. If something happens, we can remove one investment and replace it with another one of the same type. We still see many plans with extremely limited investment options. With some plans the owners are severely restricted on what investments they can and cannot be add to their plan.

I'm still amazed by the number of employees who still don't participate in their company's 401k plan. The typical excuses range from "I can't afford it" to "I don't understand it". The first one is inexcusable. If you think you can't afford it now, wait until you stop working and have no money except for Social Security. Make adjustments in your spending <u>now</u> so you can participate. The second one may come from lack of education from the plan sponsor or the company they hired to represent them.

Let's start with the ABC's:

Always enroll in your company plan.

Better to contribute one dollar then nothing at all.

Consistent contributions may lead to a great retirement.

Now, let's look at the 1,2,3's: (based on a gross salary of $50,000)

1% contribution will barely alter your living style ($9.62 per week).

2% Contribution may be funded with the elimination of your morning coffee stops plus one lunch per week. ($19.23 per week).

3% Contribution may be funded by eliminating 4 lunches out per week ($28.85 per week).

Do you get the picture yet? The most important thing to remember about your company's retirement plan is to start. If you're already in the 401(k), increase your contribution. The most you can contribute is $17,500 or $23,000 if you're over age 50.

Next let's talk about how your company helps. Most plans will match part of your contribution. We recently did a company review which had a Safe Harbor Plan. Safe Harbor Plans may match 100% of the first 3% contributed, followed by 50% of the next 2% you contribute. In this example, employee participants received an 80% return before they even invested the money. Even if your company only matches $.25 on the dollar up to 4% of what you contribute, that is a 25% return on your contribution.

Any salary reduction contribution you make by having money withheld from your pay is always 100% yours. What your company matches is a different story. Under the example above, Safe Harbor plans vest at 100% immediately. This means that not only what you put in is always yours, but so is your company matching contribution.

Many plans vest 100% after 6 years at 20% per year. It is based on how long you work for your employer. Under this example, the vesting is 0% in year one, 20% after year two, 40% after year three; 60% after year four; 80% after year five and 100% yours after six years.

Other than the contribution amount and your employers match everything else in your retirement plan is noise. Keep it simple. Your plan will have loan provisions, which are generally 50% of the account balance or $50,000 whichever is less. It is for retirement, don't borrow from it.

In regards to which investment to select, again keep it simple. The first thing you need to do is figure out how much risk you're comfortable taking. If you panicked in 2008 you may be a more conservative or capital preservation type of risk taker. Review all of your investments and make sure to take a holistic approach. Start with your retirement plan since it will have a small amount of investment choices. Complement your retirement plan with your other investments since you can choose any thing that meets your comfort level.

Speak with your company retirement plan sponsor as they should be providing, at the minimum, investment education for you. There are more and more plans opting to have an Accredited Investment Fiduciary (AIF®) on board with the plan, as the investment advisor. The investment advisor should bring a higher level of explanation to you as well by offering suggested portfolio models to match your risk tolerance.

The difference between winning and losing is that the winner will always find a way to get it done. If you're the owner or HR representative of your company now may be the perfect time to get a fresh look at the plan you provide your employees. Are you compliant? Make sure that the investment selections and plan cost meet your fiduciary responsibility. If you are an owner, call me and I will be happy to point you in the right direction.

If you're an employee and unhappy with the available investment choices, talk to the owner or HR manager of your company. If you are an employee and not sure, set up an appointment with a financial adviser or call us. We provide a one hour complementary initial consultation to see if we can help! Now that your retirement plan is on track, head to the beach with your sun screen, chair and book. Have a super summer!

Fred Dunbar, CLU, ChFC, RFC, AIF®, is President of Planning Directions, Inc., a registered investment adviser, and Common Cents Planning, Inc. He is also a registered representative of and offers securities through Commonwealth Financial Network, member FINRA/SIPC. Advisory services offered through Planning Directions, and fixed insurance products and services offered by Common Cents Planning, are separate and unrelated to Commonwealth. Fred may be contacted at 800-647-0762, by e-mail at fdunbar@commoncentsplanning.com or by mail at 239 Baltimore Pike, Glen Mills, PA, 19342. He's always happy to meet with you 'down the shore' at 6606 Central Avenue N. Sea Isle City, NJ. 08243.