Retirement Planning

Strategies for Catching Up

by Kate Fitzgerald

Even if retirement planning slipped away from you this year, it isn't too late to take action and start catching up. Here are some ways to help you save for retirement today and for a fast-approaching future that might involve tighter budgeting and working a bit longer than you planned.

In today's sped-up society, we often wait until the last minute to tackle complicated tasks such as retirement planning. It's easy enough to postpone something that sounds so far away. But failing to plan adequately for retirement could leave you lying awake at night, wondering whether you saved enough to get you through it.

Even if you didn't give much thought to retirement until now, however, top financial planners say there's probably still time to catch up. And when the economy is volatile, it's more important than ever to revisit your plans to ensure you'll have enough to live on when you're no longer receiving a paycheck.

One action you can take right now to help catch up is to begin socking away money in retirement accounts such as employer-sponsored 401(k) accounts and individual retirement accounts, says Bob O'Hara, a Certified Public Accountant and Personal Financial Specialist with O'Hara & Co. PC in Chelmsford, Mass. The government recently introduced catch-up contributions enabling people approaching retirement to put a bit more money into their 401(k) accounts. Those who will be 50 during this calendar year can contribute up to $20,500 from their salary to their 401(k) plans, $5,000 more than the usual limit. The deadline for employees to make 401(k) contributions is Dec. 31.

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Anyone who's recently divorced needs to catch up fast on retirement planning, say many financial advisers, especially women who previously left financial planning to their husbands. "It always surprises me how many women have deferred investing and retirement planning to their spouses," says Shana Won, a Pasadena, Calif.-based Certified Financial Planner with AXA Advisors LLC. "As they approach retirement, all women should take an interest in these plans."

For most people, reaching age 50 should be a wake-up call to get retirement planning in gear, says Hal Rogers, a CFP with Jacksonville, Fla.-based Retirement Services. "Suddenly you realize that in 10 years you're going to be 60," he says. "This is when people typically begin putting money away in retirement plans and stepping up their future income through investing."

"If your company is giving you money to use toward your retirement (in matching contributions), you should definitely take advantage of it, and if you're nearing retirement, you should put the maximum into a 401(k)," O'Hara says. In many cases there's still time to increase the percentage of your paycheck you're contributing.

You should also determine whether your income allows you to make a contribution to an IRA, O'Hara says. Those under 50 can contribute $5,000 in tax-year 2008 (in other words, until April 15, 2009) to an IRA. For those over age 50, the limit for this tax year is $6,000. Financial advisers also tell those who are self-employed to put away as much money as they can reasonably afford into a SEP IRA (SEP stands for Simplified Employee Pension) or individual 401(k). In 2008 there's a $46,000 maximum contribution limit for SEP IRAs and individual 401(k)s. Individual 401(k)s also allow for the $5,000 catch-up contribution. Your contributions depend on your earnings from your business, so consult with a tax adviser to determine your maximum contribution.

If you're in your 50s or 60s and haven't started saving for retirement, financial planners say it isn't too late to start. Know that you aren't alone, but don't waste any time getting started.

"It's never too late to start to plan for retirement," says Rogers of Retirement Services. "I have clients who didn't start saving for retirement until they were 55, and they're in great financial shape today."

First Steps

Wherever you are in the process, the first step in retirement planning is to make a realistic budget of your current living expenses, O'Hara says. This will help you figure out how much income you'll need to live on in retirement, including medical and insurance costs. Thanks to a trend toward greater longevity, you may live longer and need more money for retirement than you realize. O'Hara also recommends eliminating any debt as early as possible to get a clear idea of what your costs will be in retirement.

Next, determine your anticipated income from all potential sources, including existing savings, pension plans, liquidation of other assets and income from Social Security. You can learn your expected Social Security income by contacting the Social Security Administration or going to its website *(see "Web Watch," page 9)*.

Once you've established the budget and know your approximate income in retirement, you may discover you're likely to fall short, says John Ritter, a CFP with Cincinnati-based Ritter Daniher Financial

Advisory. "If there's a gap in what you need for retirement and the money you expect to have, make changes now to cut your expenses," he says. "As you approach retirement, live within your means and realize that you have a lot of control over how much money is going out the door. You might be amazed at how dramatically you can affect your future retirement by cutting unnecessary expenses now."

Many financial planners are advising people arriving late to the retirement-planning process to rethink the age they thought they would retire. "If you're not on track with the amount of money you've saved and where you need to be, you may need to resign yourself to working longer than age 62 or 65," says Mike Martin, CFP, with Columbia, Md.-based Financial Advantage. "Staying in the workforce longer makes the biggest difference in preparing yourself for retirement, because as long as you're working, you're not drawing down the assets in your portfolio."

Another common tip — especially given today's economic uncertainty — is to try to stash two to three years of living expenses in a money market or other easily accessed savings account.

"If you have enough money set aside to live on, you'll be less likely to panic about the economic news and the stock market gyrations," Ritter says. "This will help you stay on course if stock investing is part of your retirement planning."

Asset Allocation

Investing is a big part of retirement planning for people several years away from leaving the workforce. Besides stocks and stock mutual funds, bonds and cash, annuities have become a popular retirement-planning vehicle. A combination of immediate, variable and indexed annuities can provide some powerful financial benefits, Rogers says, but he warns that crafting an annuity-investment strategy requires skill and research. "Don't fall for the first pitch you hear for an annuity," he says. "The marketing material for certain annuities giveth, and the fine print taketh away."

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The recent economic volatility is giving many preretirees the jitters over whether they're properly allocating their portfolio between cash, bonds and stocks.

Your retirement date should dictate when you make major adjustments, Ritter says: "If you're eight to 12 years away from retirement, you shouldn't make any dramatic shifts in your stock portfolio. The basic buy-and-hold advice still applies if you're not going to need that money right away, and although the market goes up and down, it's still best to stay invested in stocks for now."

But if you're five or fewer years away from retirement, you should begin to gradually shift your portfolio away from stocks, many advisers say.

"Traditionally, it wasn't unusual to see people approaching retirement with 50 percent to 60 percent of their assets in stocks," Mike Martin says. "But in this year's volatile market, I'm advising people who are getting close to retirement to hold no more than 30 percent of their assets in stocks."

Marne Anderson, a Chartered Financial Analyst with UBS Financial Services in Seattle, advises those very close to retirement to have 70 percent of their assets in simple, easily liquidated vehicles, with 15 percent in bonds and another 15 percent in large-cap stocks that pay high dividends. The rule of thumb, many planners say, is that if you think you're going to need the money to live on in the next five years, you shouldn't have this money in stocks.

The Critical Years

The five years before you reach retirement and the first five years of retirement are crucial to setting the course for how well retirement goes, says Manisha Thakor, a Houston-based CFA and co-author of *On My Own Two Feet,* a book to help women take more control of their own planning for retirement. "Commit to a minimum of annually reviewing your portfolio — both for your investment results and your asset allocation — while you're in this critical five-year zone," she says.

Many financial planners recommend keeping at least a small slice of your portfolio in the stock market for as long as possible. "The stock market is one of the best hedges against inflation," Martin says, "and even after retirement, you should think about staying in equities with a portion of your portfolio that you can spare."

Whether you started early or are just now getting off the ground with retirement planning, it's never too late to make strategic adjustments to your plan. Recognizing your options and taking action ought to give you peace of mind, even in the most volatile economic times. BI

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