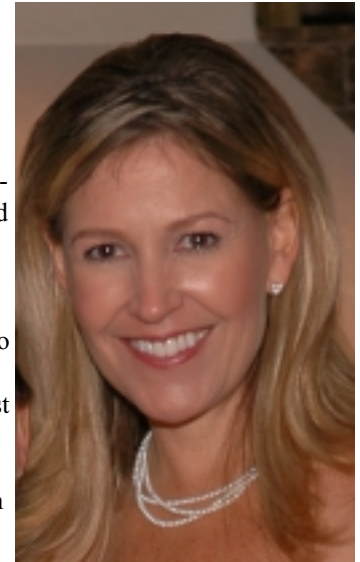


WORRIED ABOUT YOUR RETIREMENT?

by: Eileen O'Connor



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Whether you are a business owner or professional, you should be concerned about how to fund your retirement years.

Amazingly, while the average savings rate is less than 3% nationwide, the average worker is “very confident” about their retirement plan(s).

Several dynamics may influence a retirement funding crisis in the U.S.:

- **Increased life expectancies**
- **Decreased work-life expectancies**
- **Lack of employee-sponsored pension plans and a culture of working for several employers over one’s working life**
- **Uncertainty about the Social Security system and its benefits to individuals**
- **Rising healthcare costs and lack of long-term care coverage for the elderly**

Know Where You Stand

For younger workers in particular, there seems to be a misconception that one’s income level defines his or her financial success. How much you save is what matters, despite what your income level may be. No matter what stage you are at in life, knowing where you stand is a critical first step.

The chart below offers a general rule of thumb for assessing what percentage of your annual gross income you should have in invested assets for your age. Understanding this dynamic makes a strong case for starting early. You will have to start saving upwards of 30 percent more when you are in your 50’s than someone who is also in their 50’s but continually saved 10% of their earnings when they were in their 40’s. For example, a person who saves \$5,000 a year and earns a return of 10% annually will have \$286,375 at the end of a 20-year period.

Age	25	30	37	44	50	55	65
Ratio of Invested Assets to Annual Gross Pay	0.2 : 1	0.5 : 1	1 : 1	2 : 1	4 : 1	8 : 1	16 : 1
Annual Savings Rate	10%	10%	10%	10%	10%	10%	10%

*Assumes that you can live on 80% of your current wage throughout your retirement years

A person who saves for only the last 10 years will need to save \$17,968 a year in order to have the same ending value.

Put Your Savings in the Right Buckets

Making sure these invested assets are in the proper accounts may be just as important as accumulating the assets. One of the biggest mistakes you can make is not taking advantage of the retirement plan options that are available to you. Although these retirement plan options are subject to certain requirements, they offer significant tax advantages. Some of them include qualified pension plans, profit sharing plans, such as 401K’s, and traditional and Roth IRA’s. Nonqualified retirement savings can include Treasury Bills, mutual funds, stocks, bonds and real estate.

Imagine these different types of plans are buckets. Once you are able to fill the qualified plan bucket, the remainder of your retirement savings should “flow over” to the tax-advantaged bucket, and only then to the non-qualified and non-tax-advantaged savings.

If you have the opportunity to participate in a qualified retirement plan such as a pension plan, 401K plan, or profit sharing, this should probably be your first bucket. Such plans allow pre-tax contributions (2006 limit is \$15,000; pension plans can be higher) that grow tax-deferred until retirement. At retirement, payments or distributions are presumably taxed at your lower tax rate (assuming you have lower income in your retirement years). If your employer matches any contribution, your highest priority should be to contribute at least up to the match limit, otherwise you are leaving “free money” on the table.

If your employer does not offer a qualified plan option, you can contribute to a tax-advantaged account that is entitled to many of the same benefits as qualified plans. A traditional IRA allows pre-tax contributions but is taxed at distribution; the Roth IRA

accepts after-tax contributions and is not taxed at distribution. (To qualify, you must have an income less than \$95K if you are single and \$150K if married.)

If you participate in a qualified plan, your traditional IRA contribution may not be tax-advantaged. However, earnings on the contribution still grow tax-deferred (or exempt in a Roth) during your working life.

After those two buckets are full and you want to continue saving for retirement, your savings would then flow into non-qualified accounts. These accounts may also be an appropriate vehicle for shorter-term objectives, such as saving for a car or a down payment on a house.

Monitor and Adjust

As your life changes, your savings plan should be monitored and adjusted accordingly. Does my savings rate still get me where I plan to be at retirement? What changes in employment, family, or personal goals suggest a change is needed? In the new world of funding your own retirement, the only one responsible for you is you!

Eileen O'Connor of McLean Asset Management Corporation provides financial advisory services to high net worth individuals, business owners and families. She has more than 12 years management and consulting experience to executives and companies in the U.S., Europe and Asia. Ms. O'Connor holds the CFP professional designation, a B.S. from the University of Virginia, and a Harvard MBA.