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Retirement fund as puzzle, not pot

By Janet Pinkerton

For The Inquirer

The modern retirement fund is not a single pot of money but a jigsaw puzzle of savings and other resources – possibly including 401(k)s, IRAs, stocks, bonds, the rare pension, property, long–term–care insurance, annuities, life insurance, and Social Security.

With spiraling health costs and a volatile stock market, saving for retirement has never been trickier, but financial planners say getting a retirement plan on track after the Great Recession can be done with careful saving and prudent use of all resources.

At any age, the first step is to create a budget, said Jane Berryman, investments vice president at the Philadelphia office of advisers Raymond James Financial Inc. "Trim the fat and actually live on that budget. People are much more successful at any stage of life if they are aware of what they are doing with the money they have."

Beyond that, "everybody has to look at their options," said Bruce H. Sham, special–care planner and vice president of agency sales at insurance broker ***First Financial Group*** in Bala Cynwyd. "There's no more cookie–cutter, 'every–65–year–old–does–this,' " solution, he said.

Experts, though, still have some general advice for retirement planning at different stages of life.

Approaching retirement

People at age 65 should have at least 50 percent of investments in bonds or bond funds and one year's worth of take–home pay in an emergency fund, Berryman contends.

Take care of big–ticket items such as a major home repair or a new car purchase before that last paycheck, she said. "Why? Because you don't touch principal on your investments to fix things on your house."

Sham urges all holders of universal–life or variable–life insurance policies – in which the cash value is tied to interest rates – to request an "in–force illustration" describing the current value of their policy. The market's recent poor performance may have decimated the policy's value, and the policyholder might have to pay higher premiums to keep it in force.

Midcareer

Planners say many midcareer investors want more conservative ways to save for retirement – in tweaked stock–bond ratios or investments such as annuities and life insurance policies that offer some level of guaranteed income.

"Annuities do cost more than mutual funds," said Berryman. "Only an annuity can give you a guaranteed income stream that most people are seeking."

Those in their late 40s should seek out long–term–care insurance from firms with long track records in such policies and top ratings from services such as Moody's, Standard & Poor's, and A.M. Best, Sham said.

Midlife is also the time to eliminate debt. "The only acceptable debt at midlife is your mortgage," said Berryman.

Starting out

Those entering the workforce should use income to pay down all student loans or credit card debt, build up an emergency fund – ideally six, but no less than three months of take home pay – and set up a save–to–spend account for major purchases planned for the next three years, Berryman said.

"Max out the 401(k)," she added. "If you are not putting as much as you can to that account, you are just paying too much in tax to the government."

"The power of compound interest is huge," Sham said. "How many of us go to Starbucks, spending $5 here, $10 there. . . . Wouldn't your life be better with the extra $200,000 or extra million dollars? And you're not even going to miss it."

For everyone in this era, investors should be wary of the relationship between risk and return, said Ed Baldrige, president of Baldrige Asset Management in Allentown.

"You just have to be careful," Baldrige said. "An 8 percent bond – that's going to have a lot of risk in it if general interest rates are 4 percent."

Sham said retirement plans required creative but prudent solutions, such as obtaining Social Security benefits for a dependent special–needs child to bring more money into a retirement household, or tapping the "living benefits" of a life insurance policy.

Of course, the experts urge consumers to hire independent advisers – like themselves – to help calculate and meet retirement goals.

"A lot has changed, and people can't do it on their own as they used to," said Susan V. Boehm, a financial consultant with Karr Barth Associates/AXA Advisors L.L.C. in Bala Cynwyd.

On the advice of a financial adviser, Harry Shreckengast and his wife, Susan Fletcher, did not panic in the economic downturn. They left their portfolios untouched, cut household expenses, and avoided major expenditures to add to their daughters' college funds. The Media family's strategy was profiled in The Inquirer's Retirement Guide last year.

Shreckengast, 57, said the family saw the retirement and college funds drop by nearly half during the financial collapse, but by April they had rebounded by about 85 percent.

"We're doing much better from a portfolio standpoint," Shreckengast said. "But that's only paper wealth, and it never became more clear than last year."