How many legs does your stool have?

By Peter Murphy

It wasn't long ago when conventional wisdom compared retirement financial security to a three-legged stool. The analogy suggested that three sturdy legs provided for a worry free retirement. Today those three legs; Social Security, an employer sponsored benefit plan, and personal savings, are less likely to offer the financial security most of us desire in retirement. Have you evaluated or reexamined your personal retirement plans lately? If not, why not? Time is one of the most important ingredients in building wealth. Don't pass up this opportunity to plan and prepare for the most wonderful time in your life – retirement!

Our **Social Security** (Old Age, Survivors, and Disability Insurance) trust is forecasted to remain solvent until 2041; however changes to this program are eminent and necessary to provide longevity as our work force ages and 74 million "baby-boomers" enter retirement. Will employees and employers pay a higher contribution percentage? Will the taxable income cap move upward? Will we have to wait longer for benefits? Will Social Security be means tested? It's too early to predict which course of action our government will select, but I believe the final solution will protect the lifetime income and cost of living adjustment Social Security provides to our aged citizens.

Employee sponsored benefit plans changed significantly over the last several decades. According to the Pension Benefit Guaranty Corporation, **employer defined benefit plans** decreased from 114,396 in 1985 to 30,460 in 2007. Much of corporate American shifted from these more costly defined benefit plans to less expensive **defined contribution plans** like the 401(k) or 403(b). This difference is significant, as increasing numbers of retired employees are no longer guaranteed lifetime income benefits from previous employers. To build significant retirement assets within defined contribution plans, employees must contribute earnings to their plans and participate in investment decisions. This is no simple task, and with U.S. citizens living an average of 19 years in retirement, underfunding a retirement plan or making poor investment choices could mean running out of money before running out of life!

Personal savings rates in the U.S. are on the rise. According to the U.S. Bureau of Economic Analysis, the personal saving rate increased to 4.2% in March 2009. This is low compared with other industrialized nations; however it's greatly improved from the negative savings rate we experienced in 2005. This bodes well for investors as increased personal savings improves retirement security.

There is no limit to the variety of resources one can include in a retirement portfolio. Do you own a business which can be sold when you retire? Do you own rental property that can provide income for life? Have you considered a reverse mortgage to eliminate mortgage payments and increase retirement capital? Can you postpone retirement a few years to reduce pressure on your retirement assets? Is semi-retirement an option? Can you delay Social Security benefits a few years to increase your annual payments? These suggestions and other options are available to support you in retirement. Additionally, diversifying resources provides retirees added security.

If much of your retirement portfolio consists of personal saving and a defined contribution plan, should you withdraw a percentage of these assets monthly, or are you better off creating your own "defined benefit plan" with lifetime income guaranteed by the claims paying ability of an insurance company? What about inflation? Do you plan on increasing income year after year, or reducing your lifestyle to accommodate rising expenses?

One thing is certain, we are accountable for our own retirements, and don't believe otherwise. The earlier we take personal responsibility for our financial well-being, the more likely we are to reach our goals. A 2009 study conducted by the Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc. indicated only 44% of U.S. workers and/or their spouses have done a retirement needs calculation. If you have not considered your retirement needs, I highly encourage you to contact a financial professional who can help you prioritize retirement goals, discuss investment portfolio options and create a personalized investment plan. Share your plan with your children to teach them the importance of retirement preparation. It will provide them an inheritance far greater than any monetary reward you leave in death. Retirement planning is ultimately your responsibility, so act now and reap the reward during your retired years.

Captain Peter Murphy, US Navy Ret., is a Retirement and Estate Planning Specialist with American Prosperity Group. You may contact him at (505) 216-0838 or PeterMurphy@1APG.com. Check out our website: www.1APG.com