Market Update – November 17, 2009

Financial Focus 1903 Wright Pl., #150 Carlsbad, CA 92008 (760) 431-3040

Our usual Client Update takes a very different tact this time. Rather than an update on the various markets, we are providing an update on the perilous condition of many retirement plans. This is a topic that is of great concern to us.

Wishing is not a retirement plan....

A great many of us still in the workforce face a very different retirement picture than that of our parents. Our parents based their retirement on the three legged stool supported by a pension, social security and savings. That pension, sometimes the strongest leg, often supplied up to 70% of the worker's wages for retirement purposes. Social security added a nice cushion and in many cases the home mortgage had been paid off.

Fast forward to the baby boomer's retirement picture: Let's take a look at what has happened to that three legged stool!

Most of us do not have the traditional defined benefit pension that pays a percentage of our income for our retirement years. Those who still have pensions are employed by the government or are teachers. Over the past thirty years, the defined benefit plans have been phased out and replaced by the 401(k). The 401k was originally designed as a perk for the executive, not as a pension replacement. For the most part, the 401(k) leaves the majority of the saving up to the individual and, let's just face it, the average American has not been a diligent, disciplined saver! Left to our own devices, many of us have lived up to every last dime and more – remembering those equity lines of credit that ravaged many a home's equity. According to Time Magazine, "The average 401(k) has a balance of $45,519. That's not retirement. That's two years of college. Even worse, 46% of all 401(k) accounts have less than $10,000." (Time Magazine 10/19/09)

So what about the Social Security benefits? After all, we see 6.2% of our paychecks (up to $106,800 of wages for 2009) paid into Social Security and our employers must match that amount. No doubt you've already heard a lot about this problem. We caution you to read the caveat on your annual statement? It says "*In 2017 we will begin paying more in benefits than we collect in taxes. Without changes, by 2041 the Social Security Trust Fund will be exhausted and there will be enough money to pay only about 78 cents for each dollar of scheduled benefits.*" For an age 66 worker retiring this year, the maximum monthly benefit (assuming they were making the maximum income over a number of years) is $2,323 and the average retired benefit is $1,161. (www.ssa.gov). We think you'll agree that's not much of a retirement.

So what are some strategies for today's financial environment? Surely you've heard it said that *If it is to be, it's up to me.* In a nutshell, the average American is going to have to be more responsible to save for their own future. This means setting aside more of each paycheck and not living up to and beyond every last dollar. In the past, the Rule of Thumb was that we should put away 10% of every paycheck for future retirement. If you don't have a pension to count on or you are starting late, you may need to do much more than 10%.

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The government is also looking at various fixes. According to Time Magazine (10/19/09) they are kicking around three different types of plans. One would be an *Automatic 401(k)* that would automatically sign the worker up for contributions. The second plan would be a *Guaranteed Retirement Account* that would assure an income on top of Social Security. We would each pay in a set percentage - 5% currently is proposed. The third option would be policies offered by private insurers guaranteeing a set retirement income. We will keep you posted on the evolution of these options.

While no guarantees can be made, asset allocation and systematic, informed investing will be important than ever. This is the fine art of balancing risk and reward; keeping taxes at a minimum and keeping up with inflation. New investment products continue to be offered to help meet these goals. Over the past five or six years, insurance companies have become very creative in developing products that can help create a retirement income stream.

It also appears to us that many workers may need to count on working longer than they originally expected. For the worker born after 1942, for each year he or she delays retirement past the “normal” retirement age of 65, their benefit will increase by 8%. (www.ssa.gov) So if the expected benefit for a worker is $2000/month, it would increase to $2,480 by waiting three years. That can be a significant increase in the benefit amount when calculated over many years.

So whether it’s you or perhaps your grown children that are looking forward to retirement, remember that it takes more than wishing and hoping. It takes a plan and a strategy.

In the words of Irish philosopher and orator Edmund Burke (1729-1797) -

> “No one could make a greater mistake than he who did nothing because he could do only a little.”

If we can help you with setting and accomplishing your goals, taking disciplined action and developing an investment strategy, please contact us.

Happy Holidays

Gloria Foote and Barbara Williams