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Nearing 60, Boomers need more retirement savings

Area financial advisers say it is not too late to start

By Dan McLeister

Some people in the 55-to-60-year-old range are belatedly coming to the realization that they have not saved enough money for retirement.

Many other people in that age range don't seem to have a clue about the retirement money they will need.

Financial planners and other experts say that Baby Boomers need to wake up to the reality that their retirement years will be different than the previous generation. They likely will have more years of retirement and higher health costs than their parents.

Social Security benefits and pension plans are likely to play a different and smaller role for many of the Boomers, the first of whom turned 60 last year.

The Employee Benefits Research Institute indicates that fewer than 50 percent of American workers have estimated how much they'll need to retire.

"The biggest risk retirees may face today is running out of money while they are alive," said Arthur S. Littlefield, managing director of Financial Strategies & Solutions Group in Naperville.

But it is not too late to improve the situation for people in large and small companies. If people do not have access to 401(k) savings plans from large companies, they can utilize Individual Retirement Accounts (IRAs) and relatively new options like a Simplified Employee Pension.

"It is never too late until the person walks out of the door and stops working," said John Kozuch, a registered financial consultant for Dugan and Lopatka CPA in Wheaton. "The most important thing is to get started."

These two financial advisers answered questions about saving and how many people do not save enough. Fortunately, they offer hope.

Why have so many people not saved enough?

"It may be the increased net worth people sense as a result of the housing market's strength over the years. This may make them think that they will be financially secure in retirement. They may think they will be able to sell their homes and take the gains and buy something smaller using the balance to support them in retirement," Littlefield said.

Kozuch explained that people have all sorts of different excuses for not saving enough. They talk about taking care of the mortgage, the kids, utilities and paying all the other bills. Then they save whatever is left.

"We tell them to do the opposite and put savings at the very top of the list and not to be embarrassed about putting yourself ahead of the bills. After saving money first, 99 percent of the people find a way to pay all the bills."

"I used to worry about telling people what the situation actually was. Now, I tell them like it is. After obtaining information from clients we give them a prescription or a roadmap toward the goal of saving more."



John Kozuch, a registered financial consultant for Dugan and Lopatka CPA

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Arthur S. Littlefield, manager director of Financial Strategies & Solutions Group

How can people get information about what they need to do to save more?

Most people in the general public lack the tools to find the answers to their questions about saving and investment, according to Kozuch.

"The majority of people do not have the knowledge to use the tools on the Internet," he said. "It is more complicated than plugging in a few figures to a model and hitting the send button to have a financial plan."

Littlefield noted that just relying on the old rules of thumb that you'll need 70 percent or 75 percent of your pre-retirement incomes is not enough.

"Today is different than when those numbers were first used as a guidepost. Today we are living longer, health care expenses are much higher," he explained. "Also, today it may be more of an imposition for parents to rely on their children for care should they suffer a long-term illness. That is one of the slices of bread for the sandwich generation (adults looking at the needs of their children and their parents)."

What guidance should people be given?

"Strategies might include saving as much as you possibly can, even if it means reducing your lifestyle, if you are close to retirement," said Littlefield. "If you start late, you are losing some of the impact that compounding of earnings on investments provide. Compounding is the process by which the investment earnings that are accumulated start to produce earnings on their own."

Kozuch said he gives people an honest appraisal. "I used to worry about telling people what the situation actually was. Now, I tell them like it is," he said. "After obtaining information from clients we give them a prescription or a roadmap toward the goal of saving more. Their reaction is, 'wow, I never knew that.' Our clients have options. We encourage them to kick the tires to see what they like about what we offer through a combination of stocks, bonds, certificates of deposits as well as 401(k) plans and Individual Retirement Plans. They should do that with any financial advisor."

What part might a reverse mortgage play in financial planning and savings?

Kozuch said he agreed with recent newspaper articles that reverse mortgages are gaining more popularity.

"Federal agencies are endorsing them," he said. "I don't know all the details and implications of this type of mortgage. What happens if a person dies soon after the reverse mortgage is made. Is there some residual amount that goes back to the estate, or does the financial institution get the money which is left? In general I like the idea, but I would make it the last asset to use on the financial roadmap."

Littlefield said he has not dealt with reverse mortgages so he does not know a lot about them.

"But I would ask about the possibility of the person outliving the time when money would be coming in payments," he cautioned.

What should the overall philosophy or attitude be when people are seeking to save money for retirement?

Kozuch said people who have not saved enough money by 55 or 60 years of age should realize that they have one last window of opportunity.

"Don't blow it. Here is your last chance," he said. "The general idea is to look at the retirement years as a marathon race. You don't need to be first with investments. You need to keep from tripping and falling. You need to finish the race. That is done by not putting all the investments in aggressive stocks."

Littlefield said it is never too late to begin saving for retirement.

"If a 60-year-old has five years until retirement, the person should still take advantage of the benefits offered by a 401(k) plan or an IRA by contributing as much as possible. The dollars that are deposited in the account are pre-tax, so they have not been reduced by income taxes. That leaves a larger base upon which the growth in the investments will occur.

"Secondly, there are tax-deferred accounts so that income from the investments is excluded from the current year's taxable income. Money in a 401(k) or IRA is not taxed until it is withdrawn from the account at which point it is treated as ordinary income."