The

Broadcasters' Desktop Resource

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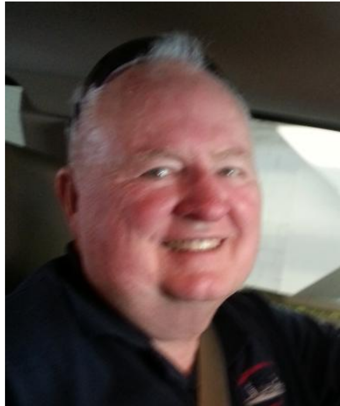
Broadcast Economics

What You Need to Know About Retirement



By Gil Gillivan

[November 2014] Whether you are on the verge of retirement, in danger of being involuntarily retired by a company more interested in profit, or think of retirement as a long way off, Gil Gillivan wants to give you some important points to think about right now.

Allow me to start by pointing out some thoughts about how to pay for retirement:

- Social Security will never be enough to cover your expenses.
- Unless you have a very rich uncle, the obligations of funding your retirement fall on you.
- The odds of winning the lottery are approximately the same, whether or not you buy a ticket.
- How much do you want to – or expect to need to – move in with your kids?

SS NOT A FULL PENSION

Social Security was not intended to be – and *is not intended* to be – your total source of retirement income.

Created in 1935 as the Old Age Survivors and Disabled Persons Benefit, the average retirement age at the time was 65, with a corresponding life expectancy of living to about 67. (Nowadays, the retirement age for Social Security is creeping up, to 67, but the life expectancy is now over 82 years of age for males.)

You probably know where the Social Security funds come from: employees pay 12.4% of their income, up to $117,000, via FICA (the Federal Insurance Contributions Act). There is an additional 2.9% tax for Medicare. You pay half, and the employer pays half, so your obligation is 6.2% and 1.45%, respectively.

You can start drawing Social Security benefits as early as age 62. That is the good news. The bad news is that the Social Security Administration imposes a healthy haircut on the amount you would normally receive, ranging as high as 27%. Again, officially it is not supposed to be your sole source of retirement funds.

OK, so that is what you need to know about Social Security. Now what?

WHO WILL PROVIDE YOUR PENSION?

Look in the mirror – pretty much, you are it!

The first question to ask would be: does my employer offer any sort of retirement plan? This will usually take the form of a 401K Plan, or, if you are extremely lucky, a defined benefit or defined contribution plan. (These last two items have pretty much disappeared as employers have moved the responsibility for retirement funding from their wallet to yours.)

Your employer may also offer to set you up with a "Simplified Employee Pension – Individual Retirement Arrangement" (SEP-IRA), which is a form of an Individual Retirement Account. SEP-IRAs are adopted by business owners to provide retirement benefits for the business owners and their employees. Your HR department is the place to start.

The second question is: How do I participate? Is there a waiting period?

The third question is probably the hardest: How much do I have to contribute to the Plan?

USING OPM

So once you can get into a Plan – now what?

I love the use of OPM - Other People's Money. Usually, but not always, your employer will offer a match to your contributions, in essence leveraging your money at work.

Let us say your employer will match your contribution up to 50%. You put in 6%, the employer puts in 3%; now you have 9% at work. Did I mention that this money is at work tax-free? Well, it is. Did I mention that your contribution comes out of your salary pre-tax? Your contribution to a retirement plan could actually result in putting you in a lower bracket for withholding purposes.

MONEY MAKING MONEY

Speaking of work - how do you get the money working?

Your employer's Plan will usually have a menu of choices for you to make, usually in the form of a mutual fund. They could be equity funds (ownership of common stocks), bond funds (a portfolio of fixed income securities, like bonds). There could be a money market account to park cash.

The equity funds offer the greatest potential for growth, at the expense of higher risk of your capital. Bond funds can offer a steady stream of income, but are also subject to market risk as interest rates move up and down.

You get to decide the mix of investments, how much goes into each category.

CHOOSING THE RIGHT MIX

What should you be looking for? Here are some basic guidelines that have worked over time for me:

- All other things being equal, you will make more money over time being an owner (equities) than a lender (bonds).

- Use the Rule of 72: 72 divided by the rate of return. That gives you the amount of time it will take for your money to double. For example, $1,000 invested at 6% will double in 12 years.

- Higher quality investments usually, but by no means always, equate to lower overall risk.

- Perhaps the cheapest and easiest way to invest would be through the use of an Index Fund. An Index Fund is an equity fund whose portfolio mirrors the investment activity of a common index like the Standard & Poor's 500 Index, the Dow Jones Industrial Average, or the NASDAQ 100 Index.

  Of these, the NASDAQ is the most volatile and the riskier of the indices. That equates into a higher potential for future reward. Nevertheless, only you can determine the risk/reward ratio that is right for you.

- Look out for the longer term. Do not let the day-to-day swings in the market or the wild commentators out there on CNBC or Fox influence your thinking regarding your retirement plan. They have an agenda, and it is probably not the one you want to follow.

  Do you fuss with your phasor every other day? Do you price the value of your home every week? I did not think so.

- The trend is your friend. And, long term, everything tends to work out for the best.

DO SOME RESEARCH

There is wealth of information out there that is written in "laymanese." Your local bookstore has tons of books on the subject.

Believe it or not, *Investing For Dummies* is a pretty good place to start. *The 123s Of Retirement Planning,* by Judith Bedell and Meredith Rosen, is another. Do not let its small size fool you.

And, to keep everything in perspective, take a look at *The Richest Man in Babylon,* written in 1929 and on point to this day.

Time Magazine noted this week that the average middle-class retiree has a total of $20,000 in savings.

Acting now can make all the difference in how well your future turns out.

With careful planning, you can make your money do the same thing you do – get up in the morning and go to work.

Please do not wait.

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