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## **10 New Year's Resolutions for Retirement: Here is how to get your retirement plan back on track in 2009**

[The following article by Emily Brandon for U.S. News & World Report was posted December 23, 2008 at [www.usnews.com](http://www.usnews.com).]

Buck up: Your New Year's resolutions are going to require more sacrifice than usual this year. Layoffs, benefit cuts, and disappearing 401(k) balances have lashed workers in 2008. Yet everyone still has to provide for retirement. Here are 10 ways you can resolve to get your retirement plan back on track in 2009.

**Delay retirement.** The best way to recoup market losses is to work longer. That gives your retirement accounts time to recover before you begin to draw them down. "Even before the financial crisis, people should have been considering working longer because they are going to live longer," says Alicia Munnell, director of the Center for Retirement Research at Boston College and coauthor of *Working Longer: The Solution to the Retirement Income Challenge*. "After the financial crisis, you need to work three to five years longer."

A recent AARP survey found that 65 percent of workers ages 45 and over are considering delaying retirement and working longer unless the economy improves significantly. Continuing to work allows you to tuck more cash into your accounts, lets your account accrue returns and work its way up to where it was a year ago, and shortens the length of the retirement you will have to finance. How long will you have to work to recoup market losses? For employees who have worked for 20 to 29 years and leave their 401(k) invested in a mix of stocks and bonds, it will take, on average, one year, nine months of work to resuscitate their 401(k)'s, the Employee Benefit Research Institute calculates. If you pull your nest egg out of stocks, that bumps up the recovery time to two years, one month in the working world, EBRI says.

**Put off claiming Social Security.** You can sign up for Social Security beginning at 62. But waiting until 70 to claim your due will produce bigger payouts if you're in good health and expect to live a long time. Your Social Security benefit increases by 7 percent until your full retirement age and by 8 percent afterwards, says Laurence Kotlikoff, a Boston University economics professor and author of *Spend 'Til the End: The Revolutionary Guide to Raising Your Living Standard—Today and When You Retire*. That's a far better return than most people are getting in the stock market right now. "You can potentially spend more now because you will have this higher income coming in when you are older," Kotlikoff says.

**Get your 401(k) match.** The most common 401(k) match is 50 cents per dollar up to the first 6 percent of pay. If you make \$50,000 a year and manage to tuck away \$3,000, you can get an extra \$1,500 added to your nest egg tax free (until retirement). But some financially struggling companies like General Motors, Kodak and Frontier Airlines have suspended their 401(k) matches this year. Plus, 4 percent of companies plan to eliminate the match next year, according to a Watson Wyatt survey of 248 companies in October. So, it's particularly important to get the match while you can.

**Avoid early withdrawals.** As unemployment rises and healthcare costs skyrocket, it's more tempting than ever to borrow from your retirement savings to make ends meet. About 18 percent of Americans have prematurely made withdrawals from their retirement accounts because of the recession, according to a Bank of America survey. The top reasons were to pay off credit card debt (26 percent), pay down a mortgage (22 percent), and cope with job loss (22 percent). "Do all that you can to cut expenses and find other sources of cash before breaking the lock on your retirement piggy bank," advises Beth Almeida, executive director of the National Institute on Retirement Security.

Catching up with those early withdrawals will be difficult. "When the money is out of your retirement account, you rob yourself of compounded investment returns. And if you don't pay the loan back, you'll have to pay Uncle Sam taxes on the loan and a whopping 10 percent penalty," Almeida says. Plus, if the worst-case scenario should strike and you're forced to file for bankruptcy, your retirement savings in a pension, 401(k), or IRA are protected from creditors, while most other assets are not.

**Scrutinize 401(k) fees.** All sorts of fees—including administrative, transaction, and investment management charges—can whittle away your nest egg over time. If a worker invests \$5,000 annually in a 401(k) over a 35-year period and pays 1.5 percent of the account balance in fees (using constant 2008 dollars and assuming an after-inflation return of 4.9 percent annually), he will have \$345,000 at retirement. If the same worker can cut expenses to 0.5 percent of the account balance, his nest egg will be \$423,000 at retirement—\$78,000 more. But keeping costs low can be difficult because not all 401(k) fees are fully disclosed. Many financial advisers think a reasonable rate to aim for is an expense ratio of 1 percent or less. Low-cost index funds are typically a good way to invest in stocks at rock-bottom prices.

**Determine your risk tolerance.** After losing \$2 trillion in their retirement accounts this year, consumers have a right to feel a little spooked about keeping their nest eggs in the stock market. The key to weathering this financial crisis is to find a level of risk in your portfolio that you can live with that also helps you build wealth for retirement. "People in this environment tend to invest to extremes—too much risk or too little risk—and you pay a price both ways," says Jonathan Pond, a financial planner and author of *You Can Do It! The Boomer's Guide to a Great Retirement*. "If you have gotten out of stocks, get back into stocks gradually. If you are 90 percent invested in stocks, don't sit there with a decimated portfolio and hope for the best. I would get back to a more reasonably

diversified portfolio—about 50 percent in stocks. That way, at least you will mitigate future losses."

**Rebalance your portfolio.** If you were invested 50 percent in stocks and 50 percent in bonds at the beginning of the year, your portfolio almost certainly doesn't have those proportions anymore, because you have probably taken big losses in stocks. "The temptation this year is going to be to stay where you are or get rid of stocks. Most people today should probably buy stocks," says Andrew Biggs, a resident scholar at the American Enterprise Institute and a former deputy commissioner for policy at the Social Security Administration. "Whatever ratio people have, people should think about where they want to be and be proactive about getting their portfolio back where it should be."

**Evaluate your target-date fund.** Target-date funds are designed to automatically shift investments to become more conservative as you age. But these fix-it-and-forget-it funds are hardly one size fits all. A Watson Wyatt analysis of various target-date funds showed that allocations to equities for employees 10 years from retirement varied widely—from 40 percent to 80 percent. And on the day of retirement, equity allocations ranged from 20 to 65 percent. Ask your plan administrator how much of your fund is invested in the stock market at various ages. If that's not a level of risk you can live with, pick a different fund.

**Pay off your mortgage.** The benchmark interest rate on a 30-year fixed-rate mortgage has dipped as low as 5.17 percent, according to Freddie Mac. If you're getting a significantly higher return in the stock market (very doubtful right now), it might make sense to keep your mortgage going into retirement. But if you're not an investment wizard or don't want to take the risk, start prepaying your mortgage principal as you approach retirement. "You get an absolutely safe return by paying off your mortgage," Kotlikoff says. "If you have a 7 percent mortgage and 3 percent deflation right now, that means that you are paying 10 percent on your mortgage. Every dollar you pay [down on your mortgage principal] now is giving you a 10 percent real return."

**Bump up your contributions.** Face it. Without a traditional pension, the only paths to a secure retirement are to save more, cut expenses, or both. That's not easy to do when immediate expenses are demanding a portion of your paycheck before it even clears the bank. If you do manage to get a raise next year, consider diverting it to your retirement account. Says Pond: "The only sure way to create wealth is to save regularly and to regularly increase the amount of money you're saving, or live beneath your means."

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