

January 2, 2008

New year good time to start or revise your plan

Look ahead to possible effects of changes in government, the economy, your life

Janet Kidd Stewart
December 30, 2007

The ball is about to drop on 2008. Is your retirement plan where it should be?

Whether you're 20 and starting to save or already managing a sizable nest egg, next year could be an important one for your long-term money.

There'll be an election for a new president, who could try to change taxes or Social Security policy. Blink, and you might find your employer shuffling you into a new savings plan.

Retirement experts offered some advice for navigating the coming year:

GET GOING. You have until April 15 to make your 2007 individual retirement account contribution (up to \$4,000, or \$5,000 if you're 50 and up). But make your 2008 contribution (up to \$5,000, or \$6,000 for 50-plus savers) early in the year. Experts advise saving at least 10 percent of gross pay each year, but a fraction of that is better than nothing.

And start planning your exit 10 years before retirement, said David Wray, president of the Profit Sharing/401k Council of America in Chicago. Track spending religiously so you begin to get a true picture of your living costs, he said.

DON'T BE TEMPTED. The mortgage crisis and a slowing economy may tempt you to borrow from your 401(k), but try to resist, said Clare Berquist, director of 401(k) strategies for San Francisco-based Charles Schwab Corp.

"It's tempting to think of your 401(k) as ready cash," she said. "But [borrowing] is a huge risk to your wealth."

TO ROTH OR NOT. With more employers offering Roth 401(k) plans (workplace savings plans in which after-tax dollars grow and are withdrawn tax-free), workers should explore the options, Berquist said. Already saved enough for retirement? You could use a Roth 401(k) to build a tax-free inheritance for your heirs.

WATCH THE ANNUITY MARKET. With fund companies trying to capture Baby Boomers' retirement funds, they're rolling out new products with annuity-like features. Keep an eye out for improving deals from the traditional annuity providers too.

"I think you'll see a lot of effort made in getting the message out about income," said Michael Gallo, head of retirement income for New York Life Insurance Co.

Fund companies, annuity providers and banks will all be launching new income-oriented products in the coming year, so hold out for the best features, said Peng Chen, Ibbotson Associates' chief investment officer.

GET READY FOR FEE SHOCK. New disclosure rules expected from the Labor Department will surprise a lot of participants with how much they're paying in 401(k) fees, showing many smaller employers that they can obtain better deals on their plans. Don't be surprised if your plan administrator changes, Wray said.

Overall, fees will continue to receive scrutiny because of the disclosure regulations and a debate in Congress over new legislation, said Nancy LeaMond, group executive officer for AARP.

"More of our members are concerned about economic security today, and I expect that will be an important issue in the '08 elections," she said.

THE BOSS MAY PUT YOU IN THE 401(K). Several experts said they expect more employers to automatically enroll new workers in savings plans.

They might even enroll existing employees into a target-date retirement fund, though workers could opt out, Wray said. This could be good if you never rebalance or have all your assets in a stable value fund, but resist if you've thought carefully about your plan.

Auto enrollment brings more people into the savings pool, but has been shown to pull down the savings rates of previously aggressive savers, because the default rate is lower than what they were saving before, said Pam Hess, research director for Hewitt Associates in Lincolnshire.

MAKE ROOM FOR MOM AND DAD. Author Mitch Anthony says the next chapter in Boomers' lives could be titled "Boomer, Interrupted."

"This is the part they didn't plan on: three rides a week to the pharmacy," he said. With their parents living longer, Boomers will spend more time and money helping their elderly parents.

His solution? Talk early and often to your parents about both of your expectations for how you can help them.

THE NEW RETIREMENT: DON'T. As you plan your retirement finances, don't leave out your career, said Anthony, author of "The New Retirementality: Planning Your Life and Living Your Dreams ... At Any Age You Want."

"A lot of people look forward to leaving work but then find out it was just the commuting or the inane meetings they hated, and they miss the productive part," he said.

One idea: Try negotiating to telecommute to your current job one or two days a week and see if the new schedule would keep you happily on the job for a couple of extra years.