

A Retirement Plan Maintenance Checklist

By Vicki Hooder

Take time this fall to tune up your retirement plan. With Gallup polls consistently naming retirement savings as Americans' most worrisome financial issue, it's more than simply savvy to take the time to perform annual maintenance tasks designed to keep your plan on track. Chances are it will make you feel better, too. Here are some tips for using this summer to strengthen the underpinnings of your retirement and your confidence in the future.

Review your portfolio

First, check the basics. Examine your quarterly account statement to ensure your money is being invested in accordance with your plans. Also review the performance of your investments with an eye on your overall retirement strategy. As the economy evolves, market changes may derail the balance you established—your mix of stocks, bonds and tactical investments—so that your portfolio no longer fits your financial goals. Take as an example a moderate growth portfolio, set up with 55 percent invested in stocks, 35 percent in bonds and 15 percent in low-risk flexible assets. A bullish market could skew that balance so that stocks wind up comprising some 70 percent of the portfolio, creating the potential for an uncomfortable amount of investment risk or volatility. If you see those types of balance shifts in your portfolio, discuss whether to return to your original mix of investments with your financial advisor or portfolio manager.

Take a fresh look at your asset allocation

Even if market shifts don't call for asset allocation changes, your circumstances might. Marital and job changes almost certainly call for an asset allocation review. You also might well need to tweak your plan if you buy—or pay off—your home, have a baby or send a child to college. You can smooth out those changes by keeping a three- to six-month emergency fund on hand, but it's still a good idea to take a close look at your overall investment plan when any life event significantly changes your financial obligations.

Also consider modifying your asset allocation to reflect the maturation of your goals. Your ability to tolerate risk, or withstand a market loss, changes as you draw closer to the time when you plan to use the money you have invested. Typically, younger investors with time to weather tempo-

rary setbacks aim for larger long-term returns by allocating a greater percentage of their money to stocks and a smaller percentage to more stable but generally less lucrative bonds. Older investors often are less tolerant of market fluctuations, and invest a greater percentage of their portfolios in lower-risk bonds or other stable investments. Make sure your portfolio targets your plans as they stand now. And whether you've decided upon a conservative or aggressive portfolio, diversify both across and within investment categories. Though you may be tempted to avoid all but the safest bond investments, research consistently has shown



that the best way to control risk and maximize returns is through diversification.

Inflation-proof your retirement account

Savings that seem ample now will appear less healthy over time as inflation eats away at the spending power of your money. Inflation in the United States has averaged between 3 percent and 4 percent over the last 100 years—which means that \$100 in your pocket today will be worth just \$64.19 in 15 years, assuming 3 percent inflation. Put another way, you will need \$155.80 in 15 years to equal the purchasing power of today's \$100.

Look into mitigating the effects of inflation this fall with smart investment and saving strategies. Stocks are the key to outpacing inflation when it comes to investing, since they offer the greatest opportunity for a higher rate of return. Retirees in particular often have a natural tendency to invest too conservatively, but studies show that you run a real

risk of outliving your money if the percentage of stocks in your portfolio falls below 50 percent, says Portfolio Manager Mark Matejka of Landmark Bank Wealth Management.

"The old '100-minus-your-age' rule of stock percentage worked when people lived to be 70 or 75 years old," Matejka says. "It doesn't work now, because people live much, much longer; some people are living in retirement almost as long as they worked."

Several saving tactics can help you offset inflation. Take some time this summer to consider upping your 401(k) or 403(b) retirement plan contribution by 1 percent if you currently are contributing less than the \$17,500 annual maximum. You'll increase your retirement savings while lowering your income tax bill. You also might want to take advantage of provisions allowing "catch-up" contributions both to your 401(k) plan and your traditional or Roth individual retirement account (IRA). You can contribute as much as \$5,500 more annually to your 401(k) the year you turn 50—you don't have to wait for your actual birthday—and \$1,000 more per year on top of the standard \$5,500 annual maximum to an IRA. There's also the "Saver's Credit," which allows married couples with adjusted gross incomes (AGI) of up to \$60,000 to earn a tax credit for retirement account contributions. Whether you receive a 10, 20 or 50 percent credit on a retirement plan contribution of as much as \$4,000 depends upon your filing status and income.

Ensure you're making the most of your employer-sponsored retirement plan

By participating in a company-sponsored retirement plan, you're already reducing your income tax bill as well as building a tax-deferred retirement nest egg. But you still may be leaving money on the table if you're not saving enough to receive the full amount available through your employer's matching contributions.

That can be a significant loss: Human resources consultant Aon Hewitt says in a 2013 survey report that the most common employer match is dollar-for-dollar for the first 6 percent of employee salary deferrals.

Add to your financial knowledge

Your financial advisor or portfolio manager is your go-to resource for your retirement planning questions and concerns. But you can deepen your own perspective by spending time this fall to read financial periodicals or online material on sites such as Investopedia.com or MarketWatch.com. Banks, employers and higher education institutions also may sponsor seminars or workshops that can help you explore retirement planning matters in more detail.

Revisit your withdrawal strategies

Your investment planning doesn't end once you actually retire—it just changes. First, you need to determine the rate

at which you'll tap into your retirement savings. Be conservative; you can always tweak that percentage as the amount you actually need to live comfortably in retirement becomes clearer. The financial rule of thumb calls for withdrawing 4 percent of your overall assets per year during retirement—taking out \$28,000 a year, for example, if you have \$700,000 in savings. Research shows the 4 percent withdrawal rule offers you the best chance of making your money last your entire lifetime, but you should consult your financial advisor before making this important decision.

Also start thinking about which of your assets you will draw upon first when you retire. You may very well have a variety of investments, including both taxable and tax-deferred assets. In general, you should pull money from taxable accounts first to keep any tax advantages in your other accounts as long as possible, though tax rules may determine how you use your assets to some extent. Look next to your tax-deferred accounts—such as IRAs—and last to assets on which you have already paid taxes, such as Roth IRAs. You'll want to give the money you have invested in these latter types of accounts as much time as possible to grow, since your withdrawals will be income tax-free.

Keep in mind that you should continue to invest after you retire. Ideally, your investments will provide a rate of return higher than your withdrawal rate. So while you might lean towards fixed-income investments, you'll need a good stock-bond mix that offers opportunity for growth.

"People think that going into all bonds is safest, but it is not," Landmark Bank's Matejka says. "A 100 percent bond portfolio has about the same risk as a 50 percent stock and 50 percent bond portfolio—and the long-term returns are considerably better in the 50-50 portfolio."

Consider long-term care insurance

Lastly, look into long-term care insurance. Under the provisions of the Pension Protection Act of 2006, you can protect your retirement plan from potentially disastrous medical bills with new types of hybrid life insurance policies or long-term care annuities. For example, Lincoln Financial Group offers universal life insurance policies with optional long-term care riders that provide guaranteed payouts. Policyholders either receive tax-free long-term care benefits or leave their heirs a tax-free payment. And policyholders who change their minds can obtain a full refund of their premiums after funding it for five years, minus any payouts.

