Financial Insights®

A Creative Personal Finance Report

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Rebuilding the Retirement Dream

The hackneyed joke is that "My 401(k) is now a 201(k)." Well, for some it is not so funny and retirement needs to be addressed with due and deliberate speed. Take a deep breath and let's discuss how you might be able to repair a broken retirement goal. Three simple steps will get you started:

1. **Save and contribute more to your retirement funds** (both corporate and personal). Easier said than done in some instances, but not beyond the pale for most workers, even if they are close to retirement. Even cranking the percentage of saving and contribution to your retirement fund by one percent can make a big difference in 5 years. Work the numbers; you'll be surprised.

2. **Work a bit longer.** Many pre- or close-to-retirement people are reconsidering that date that's been looming in the future (and getting closer every year). Will another year of work be so bad? Are you REALLY ready to give up the work-a-day world that might have its problems, but also carries with it some major advantages: socialization, camaraderie, keeping your fingers on the pulse of what's happening, etc. Sometimes, delayed gratification can be more rewarding than the immediate kind.

3. **Finally, refocus those investments.** Have you been too aggressive, coming off the wonderful "highs" of the long bull market that witnessed, in some instances, at least, a boom that was rather airy and light, bursting before our very eyes? Have you maybe been too meek? Is your diversification enough to compensate for the potentially low- and high-yield investment opportunities that are part of most peoples' well-diversified portfolios?

Let's talk soon.

Improve the Chances of Financial Success

You've probably read as many financial articles, books and blogs as the next person. They all seem to harp on the idea that most people don't intend to fail . . . but that they fail anyway. Most then go on to list all the mistakes people make.

Let's turn our attention to and put the focus on the positive — the causes of financial success! We need to point out mistakes sometimes, but ignoring the right moves is a mistake.

What do we know about success?

First and foremost, almost everyone who is successful at reaching financial goals actually has a set of them. They are purposefully designed, measurable, specific, written down and have strategies attached to each one.

Next, those who are successful do things NOW rather than later. In our fast and complex world, it is easy to put off the hard things, the things that take work and determination . . . but only because there is so much else to do. Put your financial future on the top of your list! Based on the idea that you need money, time and an investment to reach your financial goals, give yourself sufficient time right now.

Next, you need to understand how money works. Learn about money, investments and other financial matters through reading, attending seminars, online and, of course, from your advisors. Such knowledge and interaction with professionals is a crucial ingredient in the recipe for financial success.

Finally you need to develop a winning attitude — one that will carry you through the good and the bad times. Such a winning attitude includes traits like patience, persistence, enthusiasm, concentrated effort and some self-discipline. Harken back to our mantra: always pay yourself first!

Often, the line that separates failure and success can be crossed with a little effort, skill, determination, and, of course, good advice.

We are willing to help.

Questions & Answers

Q. I recently retired and plan to invest my 401(k) money in an IRA. Are there disadvantages to having my former employer make the distribution check payable to me? *Is there a better option?*

A. While you may certainly request that your employer cut a check in your name, there are some potential disadvantages.

First is the tax problem. If the employer cuts the check to you, the employer is responsible to withhold 20 percent of the total for tax purposes, even though you may not be required to pay them since you are planning to roll the money over into your new account. Therefore, if you want to roll over the entire amount into your IRA, you'll have to find that withheld amount from a different source until you can get the withheld taxes back.

The next disadvantage is that we are all sometimes careless and lose track of time. In order to be a tax-free event, the distribution must be rolled over within 60 days. If you don't get the money to the new account within that time, you may face taxes, lose the chance for tax-deferred growth and, depending on your age, face a penalty as well.

A better idea, therefore, is to do what is called a trustee-to-trustee transfer or plan-to-plan rollover, requesting that your former trustee send the funds directly to the new trustee. Less chances for things to go wrong.

Q. If I achieve full retirement age, can the government still reduce or tax my Social Security benefits?

A. Currently, there are no reductions in Social Security benefits after you reach full retirement age. Taxes are another story, however; depending on total income and filing status, up to 85 percent of your benefits could be taxable.

We will accept questions from readers and reprint selected answers in this column. Send your question(s) to us; we'll answer as many as we can.

Financial Notes Worth Noting

Balancing the Two Basic Risks

As an investor, you are faced with two very basic risks. The first is market volatility and this is the case no matter where or how your money is invested, be it in equities, bonds, real estate or anything else. It is the risk that the value of your investments will decline due to fluctuations of the market you're in.

The second risk (if we had a see-saw, we'd place them on either end) is that your investments, no matter where they are placed, will not grow enough to offset the ravages of inflation which, along with the tax-taker, erodes the value of your dollars (or how much they will buy at any given time in the future).

The financial strategy that balances those two risks within any portfolio is — you guessed it — asset allocation. Divide your investments among those that are somewhat inflation-proof (of course, the more inflation-proof they are, the less apt they are to grow) and those that are somewhat market-fluctuation proof (is there such a thing?). Next, you base your asset allocation decisions on time horizons. If you have more time, you may generally rest more easily.

Investors with a longer time horizon have the luxury of being able to focus a little heavier on growth than on short-term volatility. Those with shorter time horizons need to be more wary of market risk because there is a greater potential that volatility will not correct in the shorter period of time, when the cash is needed for living expenses.

Asset allocation neither guarantees profit nor prevents loss. While asset allocation cannot eliminate fluctuating prices, uncertain returns and inflation risks, basing those allocations on time horizons can help balance your portfolio.

Sandwich Generation Tenet: Care for Yourself

Many media outlets are writing a lot these days about the "sandwich generation." That's the group that is "sandwiched" between caring for elderly parents and saving for their own retirement/funding for their children's college educations. While enough has been written about the difficulties these funding priorities place on the people involved, there is one tenet that almost everyone agrees upon: even though your tendency may be to put your parents' and your children's needs ahead of your own, since the biggest expense of all will be your own retirement, take care of yourself FIRST! It's OK. It is not selfish. In fact, it is the only prudent way to feel comfortable about caring for everyone else.

"Quotable Quotes"

"The basic prescription for preventing deflation is straightforward, at least in principle: Use monetary and fiscal policy as needed to support aggregate spending, in a manner as nearly consistent as possible with full utilization of economic resources and low and stable inflation. In other words, the best way to get out of trouble is not to get into it in the first place."
- Ben Bernanke

"Surround yourself with people who are optimistic and caring, it's one time when being 'surrounded' is a good thing."
- Al Lucia

Americans: Older Workers, Younger Non-Workers

The American work force is graying. Older adults are staying in the labor force longer and younger adults are staying out of it longer. Both trends started two decades ago, have intensified during the current recession and both are expected to continue.

Demographic and economic factors explain some of these changes, but attitudes about work also play an important role — in particular, the growing desire of an aging but healthy population to stay active well into the later years of life.

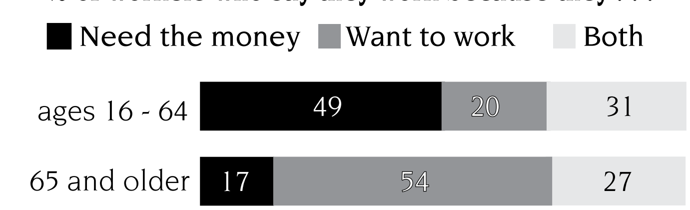
A new nationwide survey by the Pew Research Center finds that a majority (54%) of workers ages 65 and older say the main reason they work is that they want to. Just 17% say the main reason is that they need the paycheck. An additional 27% say they're motivated by a mix of desire and need.

When asked to identify specific reasons for working, older workers emphasize psychological and social factors: "to feel useful"; "to give myself something to do"; "to be with other people." Younger and middle-aged workers are much more inclined to cite classic pocketbook considerations.

To be sure, the current state of the economy has influenced nearly everyone's calculations about work to some extent. But the recession appears to be having a very different impact, depending on age — keeping older adults in the labor force and younger ones out of it.

Nearly four-in-ten adults who are working past the median retirement age of 62 say they have delayed their retirement because of the recession. Among workers ages 50 to 61, fully 63% say they might have to push back their expected retirement date because of current economic conditions.

All of these survey findings are consistent with a Pew Research Center analysis of U.S. Census Bureau data that show that the labor force participation rate of older adults, which declined from 1950 until the middle of the 1980s, has been rising ever since. This trend has accelerated during this decade, especially in the current recession.



Work Because You Need To? It Depends On Your Age
% of workers who say they work because they . . .

Note: Asked of 1,140 respondents employed full- or part-time. "Don't know" or "refused" responses not shown.

At the other end of the age spectrum, census data show that in the current decade, a rising share of Americans ages 16 to 24 are in school and a declining share are in the labor force — 57% today versus 66% in 2000.

The Pew Research survey identifies two factors that help explain these changing patterns: perceived need for a college education and/or being discouraged by the lack of jobs, dropping out of the labor market.

Four-in-ten nonworking people ages 16 to 24 say they've looked for work but can't find anything.

Source: Pew Charitable Trusts. You may download and/or read the full report at: http://pewsocialtrends.org/s/pdf/americas-changing-workforce.pdf. The full report is called ***Recession Turns a Graying Office Grayer.***

Other Findings in the Report

Security trumps salary. By a ratio of nearly two-to-one, survey respondents say they would prefer a job that offers better security (59%) over one that offers higher pay (33%) but less stability.

Despite tough times, job satisfaction remains high. Even in the face of widespread layoffs, pay freezes and involuntary furloughs, nine-in-ten employed adults say they are either completely (30%) or mostly (60%) satisfied with their job.

Older workers are the happiest workers. Some 54% of workers ages 65 and older say they are "completely satisfied" with their job, compared with just 29% of workers ages 16 to 64.

Retirement is not always voluntary. Only about half (51%) of all current retirees say they retired because they wanted to. About a third (32%) say they had to retire for health or other reasons, and about one-in-ten (9%) say their employer forced them to retire.

Retirement gets high marks. More than half of all retirees (57%) say their retirement has turned out to be very satisfying; an additional 23% say it has been fairly satisfying. Only about one-in-six describe retirement as not too (10%) or not at all (6%) satisfying.

The public is skeptical about full-time working moms. Just 14% of men and 10% of women say that a full-time job is the "ideal" situation for a woman who has a young child. In concert with those findings, most working moms would rather have a part-time job. Among mothers of young children who have a full-time job outside the home, six-in-ten (61%) say they would prefer to work part time. By contrast, just 19% of fathers who have a full-time job and a young child say they would prefer to work part time.

A Clip-and-Save Chart

Federal Student Aid At-A-Glance

Program	Type of Aid	Program Details	Annual Amount
Federal Pell Grant	Grant: does not have to be repaid	Available almost exclusively to undergraduates	$400–$4,731
Federal Supplemental Educational Opportunity Grant (FSEOG)	Grant: does not have to be repaid	For undergraduates with exceptional financial need; Federal Pell Grant recipients take priority; funds depend on availability at school	$100–$4,000
Academic Competitiveness Grant (ACG)	Grant: does not have to be repaid	For Pell-eligible students enrolled at least half-time in their first or second year of study or in a certificate program of at least one year at a degree-granting school First year: must have completed a rigorous secondary school program of study; graduated from high school after Jan. 1, 2006; not have been enrolled in an ACG-eligible program while at or below age of compulsory school attendance Second year: must have completed a rigorous secondary school program of study; graduated from high school after Jan. 1, 2005; have at least 3.0 cumulative GPA at the end of first year of post-secondary study	1st year: Up to $750 2nd year: Up to $1,300
National Science and Mathematics Access to Retain Talent Grant (National SMART Grant)	Grant: does not have to be repaid	For Pell-eligible students enrolled at least half-time in third or fourth year (or fifth year of a five-year program) majoring in certain subject areas with at least a 3.0 cumulative GPA	Up to $4,000 a year
Teacher Education Assistance for College and Higher Education (TEACH) Grant	Grant: does not have to be repaid unless you fail to carry out the service obligation, in which case you must repay TEACH Grant as a Direct Unsubsidized Loan with interest accrued from the date the grant was disbursed	For undergraduate, postbaccalaureate, and graduate students who are taking or will be taking course work necessary to become an elementary or secondary teacher; recipients must sign an Agreement to Serve saying that they will teach full-time in a designated teacher shortage area for four complete years (within eight years of completing academic program) at an elementary or secondary school serving children from low-income families in a high-need field	Up to $4,000 a year Graduate students: Total amount may not exceed $8,000
Federal Work-Study	Money earned while attending school; does not have to be repaid	For undergraduate and graduate students; jobs can be on campus or off campus; students are paid at least federal minimum wage	No annual minimum or maximum amounts
Federal Perkins Loan	Loan: must be repaid	For undergraduate and graduate students; must be repaid to school that made the loan; interest 5 percent	Undergraduate students: up to $5,500; graduate and professional students: up to $8,000
Subsidized Direct* or FFEL Stafford Loan**	Loan: must be repaid	Subsidized: The U.S. Department of Education pays interest while the borrower is in school and during grace and deferment periods; student must be attending at least half-time and have financial need; fixed rate is set annually for new borrowers	$3,500–$8,500, depending on grade level
Unsubsidized Direct* or FFEL Stafford Loan**	Loan: must be repaid	Unsubsidized: The borrower is responsible for all interest; must be at least half-time; financial need not required; fixed rate is set annually for new borrowers.	$5,500–$20,500 (less any subsidized amounts received for same period), depending on grade level and dependency status
Direct* or FFEL PLUS Loan**	Loan: must be repaid	For parents of dependent undergraduate students and for graduate and professional students; students must be enrolled at least half-time; financial need not required. Borrower must not have adverse credit history. PLUS Loans are unsubsidized, the borrower is responsible for all interest	Maximum amount is cost of attendance minus any other financial aid student receives; no minimum amount

* *This type of loan is from the William D. Ford Federal Direct Loan Program. The loan is known as a Federal Direct Stafford (or PLUS) Loan.*

** *This type of loan is from the Federal Family Education Loan (FFEL) Program. The loan is known as a FFEL (or Federal) Stafford (or PLUS) Loan.*

Source: The information in this guide was compiled in the summer of 2009. For changes to the federal student aid programs since then, visit www.FederalStudentAid.ed.gov and click on "Students, Parents and Counselors." Federal Student Aid Summary Chart