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THE NUMBER ONE OBSTACLE TO RETIREMENT

At first, it would seem that the biggest obstacle to retirement is not having enough money. Most people simply don't have enough retirement savings to retire comfortably. While that is certainly a big part of the equation, it's really just the tip of the iceberg.

Why don't people have enough money to retire? They didn't save enough of course. But, why didn't they save enough? And that brings us to what is, for many, the biggest obstacle to retirement--**too much debt!**

Non-mortgage debt creates a triple-whammy when it comes to retirement. First, during your working years you have less to save toward retirement because you must make payments on your debt and interest. Second, unlike a mortgage payment that goes toward a home that, historically, over the long term goes up in value, consumer (discretionary) debt usually goes to pay for things that have no lasting monetary value. And third, in retirement you must keep making payments on the non-mortgage debt you've' racked up over the years. As a result, many save less during their working years and actually need more during retirement.

Therefore, the premise that a retiree needs 70-80 percent of their pre-retirement income to maintain their same standard of living during retirement is somewhat "flawed". This scenario certainly applies to government/public sector workers who are fortunate enough to be participating in an employer sponsored defined benefit (pension) and/or defined contribution (457b and 403b) plan.

In reality, after working 30-35 years, a government/public sector "pension" may only provide 40-60 percent of the total income needed upon retirement. Social Security benefits more than likely will not fill this "income gap".

Therefore, it is of critical importance, that government/public sector workers implement an additional savings plan to supplement their "pension".

In a recent study commissioned by *Scottrade*, for 63 percent of Americans, debt was an impediment to retirement savings in 2009 and 61 percent expect debt to limit their retirement savings in 2010. While there are no easy answers to the problem of debt and retirement, there are some basic strategies that help you save more and climb out of debt as you work toward your golden years:

1. Stop Borrowing. No matter how much consumer debt you have, the absolute most important step is to stop going into more debt. You cannot climb out of debt until stop digging.

2. Save First. While some advocate ridding yourself of all non-mortgage debt before saving for retirement, this strategy can backfire. Not unlike dieting, you may find the discipline to stay out of debt elusive. So, like eating your vegetables first, make saving for retirement a priority today. Even if you save just a few dollars a month, the money will grow and you'll begin developing investment habits. Savings first is particularly important if your employer offers a company match for 401k (private sector) contributions or 457b and 403b (public sector) pre-tax deferrals.

3. Scale Down Your Budget. Considering the diet analogy, trying to lose too much weight may be an extreme. So rather than trying to count every penny you spend and denying yourself every indulgence, pick one or two spending categories that really cause you to overspend, such as eating out or buying clothes. For just these categories, set a reasonable budget and stick to it. You may find this approach easier and more likely to maintain over the long term.

4. Plan for the Unexpected. We often go into debt to handle emergency situations. While we can't guarantee we'll have enough money to handle every situation, saving an emergency fund may reduce the likelihood that an unexpected expense will cause you to sink deeper into debt.

5. Plan for the Expected. We also should be planning for large, anticipated expenses (children's education, new vehicle, yearly vacation, and wedding). These big expenses can quickly sink you deeper into debt if you are not careful. So, start planning for these big expenses before they creep up on you and start saving long before you'll need the money.

6. Implement a Comprehensive Retirement Plan. Retirement Planning encompasses all of the previous strategies mentioned. Proper debt management (living within your means), saving for

a lifetime (paying yourself first) and proper asset management (investing), are the foundation upon which a sound comprehensive retirement plan is structured.

WHAT'S NEXT?

Investing, asset management, and retirement planning can be somewhat complicated and challenging. These issues, particularly with respect to investing your valuable assets wisely, require one to make informed and prudent financial decisions during your lifetime.

Therefore, it is of paramount importance that everyone takes the time to develop a comprehensive financial and retirement income plan, to "successfully achieve your financial goal(s) and peace of mind during your retirement years" (*April 2010- CPS Public Sector Newsletter*).

You should take the time to contact your trusted financial advisor and discuss these important issues. Retirement/financial planning should be an ongoing process throughout your lifetime.

Quote of the Month:

"It's not how much you make during your lifetime but rather how much save that really counts"

Chas P. Smith, CPA/PFS

If you have any questions regarding these matters presented in this newsletter or Retirement Income Planning issues in general, please do not hesitate to contact me at CPS Investment Advisors, mlawton@cpalliance.com or 863-688-1725.

Sources: U.S. News, June 2010; CPS Public Sector Newsletter, April 2010;
www.CPSInvestmentAdvisors.com

