As appeared in...

the Business Ledger

The Business Newspaper for Suburban Chicago

Dec. 11, 2006 www.thebusinessledger.com 630-428-8788

Save early in career, retirement planners advise

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Jim Patrician, *senior vice president for the Rippinger Financial Group of Companies*

As Baby Boomers approach retirement age, many will be surprised to find that the world they envisioned has changed drastically and that their initial retirement funding may not be sufficient to sustain them.

"Fifteen years ago when you retired you could still count on the government to take care of you," said Arthur S. Littlefield, managing director of Financial Strategies and Solutions Group in Naperville. "Today you are kidding yourself if you think that Social Security will keep the lifestyle that you are used to."

As the population continues to live longer, costs keep rising and the health care system becomes increasingly difficult to navigate, the current generation may be entering a different world of retirement than their parents entered 25 years ago. While that generation could rely more heavily on Social Security, the Boomers may not be as fortunate, with the resources it draws from dwindling rapidly.

That is why many financial experts are stressing that soon-to-be retirees begin putting away more money and perhaps in places that they had not planned on originally.

In addition to participating in an employer's 401(k) plan one of the first things that investors should look into is converting their traditional IRA into a Roth IRA in 2010, when the government allows the changeover, said Littlefield.

"With a traditional IRA you pay taxes on whatever you pull out, while with a Roth IRA the money you pull out is tax-free," he said. "That is with the expectations that taxes will rise in the future. It is better to pay that now and not in the long run."

Littlefield predicts that the 10 percent return on investment that has been standard for decades will soon begin to decline, making it more difficult to live at a desired standard in retirement. Every extra dollar will help.

"The days of the 10 percent return are over," he said. "For the next 10 or 15 years we will see something more like 8 percent. That makes the return on a $2 million nest egg around $160,000 a year. That sounds like a lot, but take out taxes and the rising cost of health care and that will really hit you."

Small business owners who do not have the ability to participate in a large company's 401(k) plan do have the ability to open a Solo(k), really an Individual 401(k), that can help them into retirement, said Littlefield.

"The Solo(k) is a great tool for any small business owner," said Littlefield. "It allows someone to put more money away. If that money were left in a SEP IRA it would have a 10 percent income tax deduction."

Littlefield suggests that the Individual 401(k) works best for successful sole practitioners who contract out a large portion of their business rather than take on more employees.

There are ways for investors to save for health care costs that protect them from dipping into their nest egg and depleting living expenses or money they intended to gift.

Opening a Health Savings Account (HSA) is one way to make sure that health care costs don't cripple retirement funds, said Jim Patrician, senior vice president for the Rippinger Financial Group of Companies in Schaumburg.

"HSAs are another way to defer money," said Patrician. "A 401(k) has limits, so you could put more into an HSA. It works like a medical IRA and after 59 1/2 (years) you can pull it out without any penalties. You can also pull it out tax-free for medical expenses."

Another investment move that can help save money in retirement is a long-term care policy, said Patrician.

The U.S. Department of Health and Human Services reports that people age 65 face a 40 percent chance of entering a nursing home in their lifetime. And MetLife reports that the average stay for nursing home residents is 2.4 years. With health care costs continuing to escalate, this can sometimes be a daunting cost.

"The best way would be to get a policy at a young age and lock into a great premium," said Patrician. "This is a low cost and you can still invest into your retirement. This will protect you from spending your retirement dollars on long-term care."

Of course not everyone will need to have nursing care in their lifetime, which means that one can establish a rider in their initial plan that may allow them to get some of their investment back, or gift it to others, said Patrician.

The bottom line, regardless of the status of one's job or stage of one's career, is to start saving as early as possible.

"Take control of your destiny and start saving today," said Littlefield. "Since we are living longer we have to start putting more money away."