QUARTER 4 2011

focus on Retirement

A NEWSLETTER TO HELP YOU PREPARE FOR RETIREMENT

The best moves for your 401(k) plan

Don't fear your 401(k) plan— although you can't predict where the market will go, you can take these smart steps to keep your retirement account headed in the right direction.

1) **Capture the company match (if offered)** - The match that your employer deposits into your plan is absolutely free money, so you want to take advantage of every cent. If your employer matches up to a certain deferral percentage—a common match is 25% on the first 6% deferred— make sure you defer the full 6% to take advantage of the entire match. It's like getting a 25 % return on your investments automatically.
2) **Maximize your contribution** - Most plans allow you to defer up to the dollar limit ($17,000 in 2012 plus an additional $5,500 if you are over age 50), but the 401(k) council reports that the average savings is only 7% of compensation. The more you contribute, the less you'll pay in income tax . Consider increasing your deferral contribution percentage each time you get a pay increase—it will be less painful to increase your contribution that way.
3) **Know where your money is -** Experts advise that a large portion of your account balance be in stocks when you are younger and that the mix shifts to include more fixed income investments as you get closer to retirement age. Look at your asset allocation from year to year to make sure it is still the best mix for you. Work with an investment advisor or financial planner to find out the right mix for your account.
4) **Rebalance every year -** The investments in your account are always changing from your initial allocation. Some investments perform better than others and this will skew your original asset allocation choices. Every year or so, request that your account balance be rebalanced to your current allocation percentages. That way, you'll always be invested in the correct mix of equities and bonds.
5) **Understand your fees -** Not all funds in a 401(k) plan charge the same fees. Index funds will charge the least and specialty funds will typically charge higher fees. This year, new fee disclosure rules are scheduled to go into effect . You will be provided with a comparative chart that will allow you to easily compare investments in your plan and to learn about the fees that will be charged to your plan account.

Obviously, no one can predict the ups and downs of the stock market, but taking these simple steps should help you save for retirement and give you the help you need.

Can You Live Too Long?

People are living longer, and that sounds like a wonderful thing, but it does make it much harder to save for retirement.

There are many questions that go along with saving for retirement.

1) How much income do you need to live comfortably in retirement? Most experts say it is 75-85% of final pay (the compensation that you will receive in your final years of working). Another question is how much will you have to save in order to get there? Many experts say a contribution of 10% of compensation every year (whether that is all your deferral or a combination of employer contributions and your deferrals) is a good guideline, but this must start early in your working life to be accurate. Another question to consider here is how much money you will receive from social security.
2) How much needs to be in your account at retirement? A better question might be how much monthly income will your account balance provide? There will still be bills that need to be paid after retirement and you need to know two things—how much income you will need and how much your 401(k) plan will be able to provide.
3) How can you make your money last for your lifetime? Even though retirement is the end of your working years, the average person will live for 20 years after retirement. But 20 years is the average. That means that half of retirees will live past age 85. And there is a 25% chance that they will make it to age 97. How do you plan to make your retirement income stretch for 30 years or more? And if your money runs out when you are in your 90s, then there aren't many options for you to return to work or make money in a different way.
4) How much can you withdraw each year ? Experts say if you want your money to last 30 years, you can't withdraw more than 4% per year. With a $1 million account balance, that would be only $40,000 per year. Is that enough?

These are some scary questions to ask, but hopefully by thinking about them early, you'll have more time to plan and save.

"The question isn't at what age I want to retire, it's at what income." - George Foreman

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