

NEWS

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Five Perils to Your Retirement Well-Being

Local Financial Advisor Offers Tips to Supercharge Retirement Planning

Wichita (October 10, 2006) – Most Americans can kiss their dream of retiring and receiving a hefty pension goodbye. Companies ranging from United Airlines to Eastman Kodak are nixing their traditional defined benefit pension plans and putting their employees in the retirement planning driver's seat. In addition, companies that are holding on to their pension programs are finding that their plans are grossly under-funded.

According to a study called The Death of Pensions by the HS Dent Foundation, as of spring 2006 General Motors' pension program was under-funded by \$70 billion, while the value of GM based on its stock price was only \$13 billion value. This means they owe five times more in pension obligations than they are worth! Other signs of trouble: only 15 percent of the S&P 500 companies that have pension plans are fully funded.

The death of pensions could mean trouble for workers nearing retirement age. According to the Employee Benefits Research Institute, more than half of American workers between the ages of 45 and 54 have saved less than \$50,000 for retirement – a little more than a year's worth of the \$42,000 average household income.

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In addition, the recently passed Pension Protection Act has changed the retirement planning landscape – a system that has not been changed since 1960. Needless to say, these drastic legislative changes mean that Americans also need to make drastic planning changes to prepare for retirement.

“The upside of the new Pension Protection Act provides protections for employees and ensures that employers adequately and consistently fund pension plans,” said John Barton, a CERTIFIED FINANCIAL PLANNER™ professional and investment advisor representative of Securities America in Wichita. “The downside is that the ball is now in the individual’s court and judging from many studies on retirement savings and saving in general, that’s not something most people are doing well enough.”

Barton, who says he is on a mission to wake the groggy before it’s too late, offers these five tips to help Americans kick their retirement planning into overdrive:

1) Save, Save and then Save Some More!

You’ll never save enough for retirement if you don’t start saving now. Put every penny you can into your company’s defined contribution plan, (commonly referred to as a 401(k), 403(b), 457 plan, etc.) especially if your contributions are being matched by your employer. You want to shelter all the money you can from taxes and take full advantage of your employer’s matching retirement plan contributions. Also, don’t be afraid to look at after-tax planning vehicles like the Roth IRA or the new Roth 401(k), which is now a permanent part of the tax code as a result of the Pension Protection Act. We are not likely to see tax rates as low as they are now, so it may make sense to grow assets that you won’t have to pay taxes on later.

“While it may be hard to give up the current year’s tax deduction, you should ask yourself which makes more sense: paying tax on the seed (your original contributions) or the crop (your earnings). In most cases it makes more sense to pay taxes on the seed. That’s why we like the new Roth 401(k)s,” says Barton.

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2) A Retirement Account is *NOT* an ATM

Don't even think about touching the money you put toward your retirement.

“Think of your retirements as a black hole,” says Barton. “Once you’ve contributed the money, tell yourself that it’s untouchable.”

Barton says that having a good reason to withdraw money doesn't matter. While you may think it wise to pay off debt or buy a bigger house, remember that you will likely have to “pay yourself back with interest” for any loans you take against your company-sponsored retirement plan. If you have a self-directed IRA, you will incur taxes and penalties if you withdraw the money too soon. Worse than that, says Barton, the money will not be growing – either tax-free or tax-deferred, depending on the type of IRA you've got. Early withdrawals for the wrong reasons put you further away from your goal of achieving a secure retirement.

3) Social “not much” Security

If you were counting on Social Security benefits to help supplement your retirement savings, think again. Most experts agree that the social security benefit program that our parents and grandparents knew will not be the one we experience. According to many studies, within the next decade, Social Security will begin to pay out more in benefits than it will collect in taxes. Barton warns that the Social Security check that arrives in the mail each month will not likely be a meaningful contributor to retirement income, and says the need for people to develop their own effective retirement planning strategies has never been more important.

4) Diversity Matters

A diverse portfolio can be your ticket to stability. By creating a diversified portfolio – and not just among stock sectors – your investments may perform more stably. An investment portfolio should include stocks, bonds and money market securities. According to Barton, having technology stocks, airline stocks and automobile stocks does not constitute diversification.

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“Investors should look to strike a balance, to create a diversified portfolio that will help them reach their retirement goals effectively *and* safely. And, while the core part of your portfolio should include a strategic mix of stocks, bonds and cash, a portion should be devoted to more progressive strategies aimed at producing greater potential growth. Some of the newer strategies even have built in income protection in retirement, while still having the growth potential of the stock market,” he says.

Diversification seeks to improve the performance by spreading your investment dollars into various asset classes to add balance to your portfolio. However, using this methodology does not guarantee a profit or protection from loss in a declining market.

5) Retirement Planning is a Rolling Stone

If you switch employers, consider rolling your retirement plan into a self-directed IRA account — not your next employer’s 401(k) account. A self-directed IRA opens additional investment options not available in a 401(k) account and provides the opportunity to create a Stretch IRA, a great distribution and legacy planning strategy. Although it is tempting to take the cash and treat yourself to something nice, the responsible thing is to preserve your retirement funds.

“Leave that money alone. You want it to grow so that you can enjoy a secure retirement later,” says Barton. “The average American gets a new job every four years. If a retirement plan is cashed out every time a person gets a new job, that person will never be able to retire and live a similar lifestyle from his or her savings. That doesn’t even take into account the tax penalties associated with cashing out a retirement account.”

About John Barton, MSW, CFP®

John Barton is an independent, fee-based financial planner and investment advisor representative who specializes in investment management, retirement planning and estate conservation. He has been serving clients in Wichita, Kansas for over 20 years. He is a member of the Financial Planning Association and received his CFP® mark of distinction from the CFP Board of Standards in 1990. He

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completed the required financial practitioner coursework through the College for Financial Planning in Denver, CO. Barton graduated from Wichita State University with a BA in psychology and received his Masters in Social Work from the University of Kansas. He has also completed several hours towards a masters degree in business administration.

Barton is a former member of the board of directors for Prairie Homestead Retirement Community and the Mental Health Association of South Central Kansas. He recently co-authored an article for Research magazine, a leading trade journal, on a variety of ways advisors can help their clients create predictable retirement income streams.

Visit www.johnbarton.sarep.com for more information about Mr. Barton and his company.

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