FOCUS ON RETIREMENT PLANNING

Strategies for workers of all ages to save for retirement

By MARILEE FALCO
Special for Lehigh Valley Business

A recent Government Accountability Office study found that nearly 29 percent of households with members 55 or older has neither retirement savings nor a traditional pension plan. Even people who do have savings generally have frighteningly little.

Falco

Analyzing data from the Federal Reserve's 2013 Survey of Consumer Finances, the GAO found that those with retirement savings who are 55-64 have a median savings of $104,000 per household and those 65-74 have a median savings of $148,000. These retirement totals could amount to monthly retirement income of only $310-$649.

The Census Bureau anticipates that from 2015 to 2030, the population of those 65 and older will increase by 50 percent. And since fewer employers offer pensions than in years past, more future retirees are responsible for their own retirement savings.

Some savers mistakenly believe that Social Security benefits will cover more of their retirement expenses than they actually do. It is important to remember that, on average, Social Security benefits end up being equivalent to about 40 percent of what was earned before retirement.

EARLIER THE BETTER

Younger workers would be wise to start saving and planning for retirement as early as possible. With proper financial planning, comfort in retirement can be a reality.

A 25-year-old who begins saving 6 percent of her $36,000 salary (with 1.5 percent annual increases) will build a nest egg of about $500,000 by 65 (assuming a 5 percent annual return and a 3 percent employer matching contribution).

But in order for a 35-year-old to reach the same goal of the $500,000 savings, she will need to contribute 12 percent annually. And the retirement saver with an even later start, at age 40, will have to save 16.5 percent.

CONTRIBUTION LIMITS THE SAME

In general, people should aim to maximize contributions to retirement plans. Most retirement plan contribution limits for 2016 remain the same as they were in 2015.

For employees participating in 401k, 403b and the federal government's Thrift Savings Plan, contribution limits are $18,000 for those under 50 and $24,000 for 50 and older.

The 2016 contribution limit for a simple individual retirement account plan remains the same as well: $12,500 for those under 50 and $15,500 for 50 and older.

And those participating in more than one employer-sponsored retirement plan are limited to contributing the lesser of one's compensation or $18,000 (or $24,000 if 50 or older).

■ **For more information** about retirement savings, consult the U.S. Department of Labor's Savings Fitness Guide, available at www.dol.gov/ebsa/publications/savingsfitness.html

All in all, it can be a bit complicated. But a retirement saver's plan administrator, human resources department or financial adviser can easily provide information regarding one's maximum contribution.

WIN-WIN

The tax savings from investing in retirement plans can be significant.

For example, if someone is taxed at a federal marginal tax rate of 28 percent, he or she will save about $5,000 in current-year taxes by contributing $18,000 to his or her retirement account.

It's a win-win: Save taxes today and save for eventual retirement.

Another tip to remember when calculating for future retirement income is that it is best to over-estimate inflation rates. While the inflation rate today is only 0.5 percent, in 1980 it was 13.5 percent.

CATCHING UP

If someone has neglected to (or been unable to) start saving early for retirement, strict budgeting, aided by maximizing employer benefits and contributing the maximum allowable amount to a 401k, can help.

The older retirement saver should try to reduce expenses, put away as much income as possible, ensure that investments are diversified, sell assets that are not good producers and possibly consider retiring later in life.

Hiring an investment professional for guidance about the best investment options also is recommended.

Marilee Falco is a financial strategist at JoycePayne Partners of Bethlehem and Richmond, Va., responsible for client financial strategy and counsel, comprehensive financial planning and investment management. A certified financial planner and chartered financial consultant, she can be reached at mfalco@joycepaynepartners.com.

Save first for retirement, then for kids' college education

By MELINDA RIZZO
Special for Lehigh Valley Business

Clear goals, early and persistent financial planning along with the ability to say no – and mean it – are keys to success for both retirement and college savings plans.

Yet the thorny issue for many parents in the baby boom generation remains how to pay for both retirement and their children's college education. The choice between funding a child's college education instead of socking away money toward financing their own retirement remains a Catch-22 for many.

Setting clear, realistic expectations and continuing the conversation with children are important elements in navigating what can become an emotionally charged time for everyone. But the experts say to first save for your retirement.

"Many baby boom parents feel obligated to pay for higher education," said Brian Lueker, vice president of wealth management services for Indicon Inc., Wescosville.

> 'I am a big proponent of students funding at least a portion of their own education and loans.'
>
> — **Bob Podraza, Edward Jones Investments in Quakertown**

Lueker suggested teenagers who aim for prestigious and costly top-tier schools may in fact place additional expense or emotional burdens on their parents.

Those nearing or at retirement can become caught between the onset of their twilight years and their young adult-children's college education expenses.

A young adult has both time and earning power on the side to repay loans with future employment and to earn money toward financing his or her own retirement.

"You are robbing from your future self if you pull out money to pay for college," Lueker said. "… It could be for 15, 20 or 30 years, and retirement income you have built" cannot be replaced.

As in air travel, flight attendants caution passengers to fix their own oxygen masks first, then attend to their companions. Financial planning works the same way. See to retirement expenses first, then help with college costs.

COST OF HEALTH CARE

Lueker said retirement savings should be the clear winner if picking retirement over college savings becomes an emotionally charged issue.

While estimates vary, a CNBC report published last March said a healthy 65-year-old couple would need roughly $260,000 to pay for health care alone during retirement years. That amount factored in Medicare and other insurance plan benefits, but excluded things such as vision or hearing care.

In four years, the same $260,000 would be spent if a child attended a private university or specialized college costing $65,000 per year, including room and board.

With Social Security in flux and health care costs continuing to skyrocket, retirees face enough cash-flow challenges without the additional burden of a child's student loans, Lueker said.

LIFETIME TO PAY

As a 22-year-old embarks on a post-college career, he or she has more time to repay student loans than a 57-year-old parent who is nearing retirement and must find a way to fund living expenses after the regular paycheck stops.

"Students have a lifetime of earnings to pay for college," Lueker said.

Bob Podraza, financial adviser with Edward Jones Investments in Quakertown, agreed.

"I am a big proponent of students funding at least a portion of their own education and loans," said Podraza, a father of three.

He said regularly discussing the family's financial abilities and commitments with students is important, too.

IT TAKES A FAMILY

Along with costs for diapers and infant formula, setting up accounts for college education-

please see **SAVE**, page **16**

MYTHS AND FACTS

The best way to plan for both retirement and college expenses includes planning, setting expectations and creating goals that are realistic.

■ **MYTH:** A fat savings account will hurt my child's chances for scholarship, grants or financial aid.

■ **FACT:** Bob Podraza, a financial adviser with Edward Jones Investments in Quakertown, emphasized household and available income is a larger factor in scholarship awards than is accumulated savings.

"When you go through the FAFSA, it's all about income. No amount of savings should stand between a student and scholarship [eligibility]," Podraza said.

The Free Application for Federal Student Aid, most commonly known as FAFSA, is required for all students requesting college or higher education financial aid. The FAFSA must be filed each year.

■ **MYTH:** Saving for retirement is hard.

■ **FACT:** Traditional, Roth and individual retirement accounts, employer-sponsored 401k plans and the recent rollout of myRA in November are geared toward helping workers save for retirement.

The myRA program was championed by President Obama and targets low- and middle-income earners.

"The new Roth myRA offers another way to save for retirement," said Brian Lueker, vice president of wealth management services for Indicon Inc. in Wescosville. "MyRA is a solution to small businesses who do not offer a retirement plan."