THE PLAIN DEALER

MONDAY, JANUARY 7, 2008

ASK THE EXPERT

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Credentials: Certified Financial Planner, Certified Public Accountant, Certified Investment Management Analyst

Experience: 14 years

Assets under management: $235 million

Question: *My employer has ended our 401(k) program. I have about $50,000 in retirement accounts. I am 47. I want to retire in 20 years with a portfolio worth $1.5 million and a second home in Florida. My current home (with a loan balance of $47,000) will be paid off in six years. I am in aggressive investments that are averaging returns of 13 percent to 17 percent. Since I no longer have the 401(k), what other options should I look at to meet my goals?*

Advice: It is great to see that you have defined specific financial goals and are contemplating the most effective method of reaching them. Based on the information presented in your response ($50,000 in retirement assets and a 20 year investment horizon), it appears that you have a projected retirement portfolio shortfall of approximately $1.16 million at age sixty-seven. It should be noted that our calculation assumed an annual investment return of 10% (which is more inline with historical equity returns and future expectations). In order to meet this deficit at age sixty-seven, you need to begin saving approximately $20,300 annually for the next twenty years.

Considering your employer has discontinued their 401(k) program, your next best savings vehicle is contributing to an Individual Retirement Account (IRA). The good news is your contributions to a traditional IRA are tax deductible (in most cases) and will grow tax-deferred until you make withdrawals. Unfortunately, contribution amounts are limited to $4,000 in 2007 ($5,000 for those age 50 and above). Current tax legislation increases the limits going forward [in 2008, the limit increases to $5,000 ($6,000 for those age 50 and above)].

The remainder of the annual savings amount needed ($20,300 - $4,000 = $16,300) can be socked away in an after-tax investment account. Focus on highly-rated, low-cost and low-turnover mutual funds in order to ensure your invested dollars will be put to use in the most cost and tax-effective manner. We recommend that you put your savings plan on "auto-pilot" by establishing a monthly automatic investment program.

In addition, be sure to spend adequate time on your asset allocation decision. Research has proven that close to 90% of your portfolio's performance is dictated by the asset classes it's comprised of. Diversifying across various asset classes (i.e. U.S. Equities, International Equities and Fixed Income) will also help smooth out the inevitable "ups" and "downs" of the market ride and help you stay the course.

If the calculated savings figures do not appear feasible – do not despair. There are still a few other ways to accomplish your retirement goal and reduce your monthly requirements. First off, re-examine your current budget. Prioritize your expenses and determine if there are any items that can be eliminated. This exercise will help identify hidden pockets of cash that can be redirected to your monthly investment program. Are you making extra mortgage payments? Assuming you have a reasonable loan rate (under 7%), consider funneling this discretionary amount into your retirement savings program.

Next, revisit your stated portfolio goal of $1,500,000. Think about how you determined this number. Will your living expenses decrease once you transition into your retirement years? In addition, don't forget to factor in any retirement subsidies that you may be entitled to such as company pensions or social security payments (assuming it's still viable). A thorough review may allow you to safely reduce the amount of your goal.

Lastly, consider extending your investment horizon. Lengthening your work career by just three years would reduce your required annual savings by an amazing $7,000 per year.

Make sure you feel comfortable with funding your retirement goal, prior to turning your attention to your next goal (second home in Florida). Hopefully, this information will help you start the New Year on the right track.