

Sharing responsibility for the nest egg

BY AL MATHEWS

As the baby boomer generation moves steadily towards retirement age, public discussion is focusing on the effect of this demographic change on our nation's future financial well-being.

Improvements in health care and medical science will extend lives far beyond current government estimates. In addition, birth rates are declining. The United States is now entering a time when there will be fewer workers to support the greater number of longer living retirees. As it stands now, our nation will be facing enormous shortfalls in Social Security funding. In recognition of this fact, Federal Reserve Chairman Alan Greenspan recently testified to a congressional committee that Social Security payments need to be reshaped in closer accord to reality.

It is obvious that the structure of Social Security will fundamentally change in the near future and the responsibility for retirement saving will increasingly shift to the private sector. More than ever before there needs to be a shared responsibility for retirement saving between employers and employees – for employers to sponsor a retirement savings plan and for employees to take advantage of this savings opportunity.

The best retirement savings vehicle available to the private sector is the company sponsored 401(k) plan. The 401(k) plan offers

funding flexibility for employers and a way for plan participants to save for retirement at contribution levels that increase annually.

A 401(k) plan allows owners and employees to defer a portion of their compensation for retirement while not requiring any contributions from the company. Contribution limits for 2004 are \$13,000 of salary deferral and an additional \$3,000 of salary deferral for employees age 50 and over. These two contribution categories increase by \$1,000 per year until 2006 when they reach \$15,000 and \$5,000 respectively.

Many companies in New Mexico sponsor profit sharing plans which are entirely employer funded on a discretionary basis. While these plans offer a means for funding a



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make sharing
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GUEST COMMENTARY

retirement benefit for employees, they lack the essential employee savings component. Most employer funded profit sharing plans will not provide a sufficient benefit for employees at retirement. It is necessary that employees have the opportunity to augment employer contributions with their own salary deferrals. Profit sharing plans can be easily modified to add the 401(k) savings feature. The implementation process is simple and requires little time on the part of the company.

The best retirement savings strategy for employees is "to get into the game". Many employees, especially older ones, are discouraged

when they see projections showing how much savings is necessary at retirement age. These projections, however, are not particularly meaningful since none of us can accurately predict what our lifestyle, taxes or health benefits will cost, what our investments will earn, or even what we will earn in the years to come. We can't control the future, but the present is in our hands.

401(k) plans are designed to allow employees to save systematically for retirement through automatic payroll deduction. Once employees start to save, they usually discover that their contributions are not burdensome. Systematic salary deferral ensures regular savings and the buying of investment shares when the price is low, a technique called dollar-cost averaging.

The modern 401(k) investment program is designed to give employees flexibility and choice in directing their own investments. Whether individual mutual funds or pre-selected "lifestyle options" are chosen, the proper asset allocation model combined with periodic account rebalancing will provide a well diversified investment portfolio.

Participation in a company sponsored 401(k) plan maintains the shared responsibility for retirement saving between the employer and employees. It enables the saver to take control over the most personal and important of all financial decisions – the building of a retirement nest egg.