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Your Finances - Same Goal; Whole New Game

We all have a similar goal in mind when it comes to working and retirement – to build adequate capital and resources during your working years so you can afford to retire at your desired retirement age, and then stay retired, right?

But in today's shaky economic environment, there are new rules that need to be considered if you want your money to work for you in retirement. We can no longer rely on conventional thinking and traditional methods of planning and investing to get us through the golden years. We have to think differently or we will not be able to get what we want out of our finances in the future.

Traditional methodologies no longer apply.

Social Security: What used to be a consistent source of income for retirees is now facing insolvency. This year marks the first year that Social Security will run at a deficit. This is widely attributed to the high unemployment rate and the subsequent reduction in what America's workforce is paying in to the system and while it is expected to rebound, the rebound will be temporary. The Social Security Administration expects to run at a deficit by the year 2016, and remain insolvent going forward. You can no longer depend on this program to fund retirement. If anything, consider it an added bonus if you are fortunate to be a recipient.

401(k)s and traditional IRAs: These retirement savings vehicles have longtime been considered a good way to accumulate money for retirement because we could deposit money pre-tax into the account and let the funds grow tax deferred until needed in retirement. Only when funds were withdrawn were they taxed as income. Now, looking ahead, the government will not be able to sustain its self-run programs, record spending and stimulus plans without an increase in tax revenue. It will have to raise capital by increasing income taxes. A retirement saver may fare better by paying taxes on their

savings now through a Roth conversion, rather than at the tax rates of the future when the money is needed for retirement.

Stock Market: For years, people have used the stock market as their primary source for accumulation of monies for retirement. We have been reminded of the significant risk associated with stock market investing in the recent past and the effects felt by the considerable losses of account value will be felt for many for years to come. We've been reminded that as we near retirement having all our eggs in one basket can cost us too much, and that a significant downturn in the market may force us to sacrifice our goals.

It's no longer "business as usual" when it comes to our personal finances. We have to think of retirement as a whole new game and change our methodology to meet the obstacles before us and adapt to the new rules. How do we do this?

First and foremost, we as a country need to become more self-reliant and commit to taking care of our selves as we age, rather than relying on the government to do it for us. That may mean spending less today to have a real tomorrow, but short-term sacrifices can produce long-term gains.

We need our money to be as efficient as possible, and this includes reducing taxes now and at retirement. It no longer makes sense to defer paying all of our taxes on retirement assets to retirement, when in all likelihood taxes will be at a much higher rate. Fortunately, as of this January, the government has reduced income limitations on Roth conversions, allowing everyone to convert some or all of their existing IRA assets to a Roth. While you would have to pay taxes on the amount transferred, you can split the payment up and pay half in 2011 and half in 2012, and the account value will continue to grow tax -free and will provide tax-free withdrawals at retirement.

We need to understand our risk tolerance and be more protective in managing our retirement nest eggs. The goal is to avoid significant losses that are difficult to make up in the time remaining to retirement. You need to take diversification to a new level to protect against market fluctuations. Consider

placing some of your portfolio in instruments outside the market such as fixed annuities with guarantees, oil and gas programs, non-correlated real estate programs or life settlements. While these all have varying degrees of risk, it is different than market risk. This allows you reduce fluctuations in your total portfolio by spreading the risk out over several areas instead of having all your eggs in one basket. By using a broader diversification strategy you will have a greater probability of getting consistently higher returns without as much risk.

By adapting to the new rules and taking an active role in your retirement planning, you can grow, protect and preserve your future quality of life in retirement.

Michael Reppert, Certified Financial Planner™ (CFP®), is Senior Partner of Spectrum Advisors, a Dallas metropolitan area retirement and financial advisory firm. Reppert has more than 25 years of experience in the financial services industry and has received several prestigious industry awards including being named one of the "Top 10 Wealth Managers in Texas" in Forbes magazine by Goldline Research and was designated as "Best of Big D" in D Magazine. In addition to holding the CERTIFIED FINANCIAL PLANNER™ designation, Reppert is also a Registered Investment Advisor, Certified Senior Advisor (CSA), and life and health insurance licensed. He is a member of the National Ethics Bureau and Financial Planning Association, as well as, involved with the Dallas Estate Planning Council and National Association of Insurance and Financial Advisors. He specializes in advanced financial planning strategies for individuals transitioning into retirement or already retired. For more information about Spectrum Advisors visit www.spectrumadvisors.net or call (972) 931-3700.