Encouraging late starters to save for retirement

The Census Bureau estimates that there are nearly 78 million Baby Boomers, many of whom are facing retirement in the next few years with little or no savings.

These 40, 50, and even 60-year-old late-starters have been too busy educating children, caring for parents and making ends meet to properly save for their own retirement. By taking the time to understand their personal needs and goals, and staying on top of changes in relevant plans and laws, we can give these people one more reason to rely on us and our financial guidance.

The numbers are astounding.

The Employee Benefit Research Institute and the American Savings Education Council recently found that more than one in three employees age 55 and over have savings that total less than $50,000, while only one in four has savings of $100,000 or more.

The challenge is to convince people to make the initial perceived sacrifice to begin saving. To jump-start this decision, it is important for people to visualize what their retirement will look like with inflation, and to then quantify their lifestyle needs and wants in writing. For some, it will be for the first time.

Every person is unique and individual situations are different, but as a rule of thumb, at least 15 to 20 percent of one's gross income should be earmarked for savings after the age of 40. This percentage should be increased to at least 30 percent after the age of 50.

With home values falling and gas prices rising, many people only want or are able to make minimal sacrifices, even if it means less comfortable retirement.

GET CONTRIBUTING

Even though some individuals may have a company-guaranteed pension plan, today's reality is that many people have none. As 401(k) plans replace the guaranteed pensions of the past, their purpose has shifted. They are no longer just for retirement luxuries, but are fast becoming a major source to fund retirement necessities.

Most people understand that their employer will match a percentage of their contribution, but some are unsure of their contribution limits.

This is a good time for to discuss employer plan contributions, because there is still time for employees to make the maximum annual contribution. In 2008, the maximum for a 401(k) or 403(b) plan is $15,500 for those under 50 years old and $20,500 for those over 50. These contributions are made with pre-tax dollars and often help reduce the amount of federal taxes that are withheld from the employee's paycheck.

Employees should make contributions to their IRAs early in the year and benefit from a longer compounding period. In 2008, the maximum contribution limit for employees under 50 years old is $5,000; those over 50 can contribute up to $6,000.

Some late-starters are unclear if they are under the income thresholds where they can contribute to an IRA in addition to their 401(k) or 403(b).

BRING IN ROTH

Many people are waiting later in life to have children. According to a 2006 report from the National Center for Health Statistics, the birth rate for older women between 40 and 44 years old has more than doubled since 1981. These parents find that saving for retirement and college at the same time is overwhelming. A recent survey on savingforcollege.com found that 80 percent of those questioned would have to postpone retirement to ensure that their children attend college.

A Roth IRA offers a flexible option for late-starters with younger children, because it allows them to save for both education and retirement at the same time. While the Roth IRA offers tax-deferred earnings and tax-free qualified distributions when needed, there have been restrictions that have excluded many from participating. Starting in 2010, the existing $100,000 income criteria for converting a traditional IRA to a Roth IRA will no longer apply.

Individuals should consider taking advantage of a special rule for conversions that will occur in 2010 and help them integrate their college savings and retirement goals. In that year only, the federal income tax due as a result of converting from a traditional IRA to a Roth IRA can be spread out over two years. This means that employees converting from a traditional to a Roth IRA in 2010 can wait to pay the federal income tax until 2012 and 2013.

Many adults in their 40s and 50s with children approaching college will wonder what implications this change in the law will have for them. Using a Roth IRA created a hybrid college and retirement savings vehicle perfect for individuals with both saving goals. If children opt out of college, clients can use the money for retirement with no penalty.

Late-starters who are able to make nondeductible contributions to their traditional IRAs in 2008 and 2009 can get a jump-start on the new law and increase their savings more quickly. The entire amount built up prior to 2010 will be available for conversion in that year.

PERIODIC POLICY REVIEWS

Many employees, especially those late to the retirement planning process, are worried about life insurance coverage. They wan to have enough in place to maintain a comparable lifestyle for their family members in the event of an untimely death.

Many individuals have universal life policies purchased in the early to mid-1990s based on illustrated crediting rates of 8, 10 and sometimes even 12 percent. These illustrations were based on the assumption that the policies would continue to perform at these illustrated levels. In recent years, declining interest rates have hurt the performance of many life insurance policies, as current crediting rates are substantially lower than the rates that were illustrated when the policy was purchased.

Life insurance is an important component of person's retirement plans. Stressing the importance of periodic policy reviews by asking their life insurance providers to provide in-force illustrations based on the company's guaranteed interest rates and the highest possible mortality and expense charges allowed under the policy terms.

Individuals should start by locating the original sales illustration and forecast prepared by their insurance agents when their policies were purchased. Compare what the original illustration suggested that the policy's current value should be to the actual policy value reflected on their most current annual statement.

Remind individuals every three years to check how long their policy will last based on current assumptions, as well as the guaranteed assumptions if they keep paying the current premium. Make them aware that they also need to know if they would be required to pay a higher premium to maintain the current death benefit until their target age. Some indivuals may want to also consider requesting in-force illustrations based on a reduced benefit.

ADDRESS LTCI

One of the greatest risks of financial exposure facing Americans after they turn 65 is long-term care and how to pay for it. Late-starters may be overlooking this critical piece of their financial security. Individuals often mistakenly believe that Medicare will pay for everything.

According to Family Caregiver Alliance, the lifetime probability of becoming disabled in at least two daily living activities, such as bathing, dressing and walking, or of being cognitively impaired, is 68 percent for those 65 and older. A 2006 New York Life Insurance study found that the average annual cost of private-room nursing home care in the United States is $74,455.

A good time to start discussing long-term care insurance is in your mid 40s. Younger people are able to secure long-term coverage at highly discounted rates. A 45-year-old buying a $6,000-a-month benefit for five years, with a 100-day waiting period, will pay approximately $180 per month. If that person waits until age 63, the price is $355 monthly. Keep in mind that insurance carriers will guarantee the right of clients to renew, but premiums are never guaranteed.

Individuals must be comfortable with their risk exposure, whether it be 75 percent or full coverage. The benefit period can be another concern. Some people may be better served buying a four-to-five-year plan, rather than a lifetime benefit option, to prevent over-insurance.

Elimination periods must match individual's situations and budgets. If adult children or others expect their parents to only wait 90 days for insurance, and they have to wait a year, there could be legal troubles. Documenting every client conversation and decision is important.

Once someone has decided to opt for LTCI, advisors will be asked about who is the "best" provider. Important question to ask insurance providers on behalf of these people include, but are not limited to:

- How large is the insurance provider's in-force business?
- How much does the insurance provider have in claims reserve and is it enough to pay potential claims?
- How much is the insurance provider currently paying out in long-term claims?

It is critical to recognize that, if their long-term care insurance provider is just paying claims without bringing in new business, they could be stuck paying huge premiums, and these premiums could increase even more. For information on providers, call the insurance company directly and ask them if they are actively selling long-term care insurance.

The federally supported, but state-run, Long Care Partnership Program will enable people purchasing long-term care insurance policies to protect a portion of their assets up to the amount of their plan's purchased and used benefits. By the end of 2009, all states should be participating. For more information, visit www.dehpg.net/ltcpartnership/map.aspx.

GET THEM STARTED!

Understanding the importance of retirement planning is significant at all stages of adulthood, but especially for late-to-saving individuals. Be assured that for late-starters there is still time to be well-prepared for retirement.