



John Stancavage: It's a different world for retirement investing

By JOHN STANCAVAGE World Business Columnist | Posted: Sunday, September 27, 2015 12:00 am

The stock market can be a scary place, going on giddy runs one week and crashing the next.

Surely, such an unstable environment is the last place you'd want to put your hard-earned retirement income, right?

Wrong, say most investment advisers.

"You need to have at least 40 percent to 50 percent of your retirement funds in stocks," said Greg McBride, chief financial analyst for Bankrate.com.

Just because you retire doesn't mean you should cash out, he said. If you've assembled a good portfolio and tweaked it as needed, this is not the time for a U-turn, he said in a telephone interview.

"If you have a well-diversified portfolio, retirement is a lot like driving a car onto the interstate," he said. "You just keep going with your eye on the road, maintaining your speed and making only small course corrections."

Brave new world

Saving for your golden years has changed a lot in the past few decades. In the old days, many businesses offered a traditional pension that paid retirees a fixed amount annually based on length of service, ending salary and other factors.

It was the company's responsibility to invest enough money in the right options to make sure the pension fund had sufficient funds for those retirement payments.

Fast-forward 25 years, and you'll find that many companies took advantage of a special one-time federal rule/loophole and canceled their defined-benefit pensions. In doing so, they were allowed to keep any amount above what was owed workers. That pot of gold often was substantial.

Many companies did just that and then installed a 401(k) plan, named after a subsection in the Internal Revenue Code. Such retirement funds encouraged workers to sock away a portion of their earnings — often 2 percent to 10 percent, which sometimes was matched up to a certain amount by company funds.

These 401(k) plans were cheaper for employers to implement and were portable. Employees could transfer them somewhere else if they left before age 65.

The downside was that 401(k) plans required each employee to make his or her own decisions on how the money was to be invested. This was something many people found they were not good at doing on their own.

And since 401(k)s were optional to participate in, some workers decided to “live for now” and not participate at all.

As a result, today 58 percent of Americans say they are very or somewhat confident they will have a financially secure retirement, according to a new [Bankrate.com](https://www.bankrate.com) poll. The same study found 24 percent of workers were uncomfortable about their level of savings.

What really was amazing was that 10 percent of those polled said the question didn't apply to them because they hadn't put away anything yet for retirement.

McBride said just as big a mistake as not saving at all is treating a healthy 401(k) nest egg like an emergency fund. Lost your job? Don't drain your retirement savings, he said.

That sounds obvious, but that ready cash can be tempting. About 19 percent of workers have tapped retirement savings plans early for various immediate needs, the Bankrate.com survey showed.

People, however, should seriously consider the consequences of losing that investment before making the withdrawal, Bankrate's research shows.

The long-term cost of such a move can be considerable. For example, a \$10,000 withdrawal that would have earned 7 percent a year translates to losing out on \$19,671 over 10 years, \$38,697 over 20 years and \$149,745 over 40 years.

Time to tweak

Creating a profitable, diversified retirement account does require some management — whether by the individual on his own, or better yet, with the help of a professional adviser.

For people who possibly selected several mutual funds 10 years ago and haven't looked at them since, it may be time to rebalance, some analysts say. The world has changed.

A decade ago, a lot of fund managers felt international stocks were the place to be for strong growth. Other fixed-income components, such as bonds and money-market investments, were selected according to the interest rates of the time, which were much higher than today.

In the past year or two, shares of American companies have shown the most growth, points out Fred Russell, principal of Fredric E. Russell Investment Management in Tulsa, while many overseas economies have slumped.

Interest rates, on the other hand, are close to zero. The Federal Reserve just passed up a chance to raise rates earlier this month and may not do so until next year.

People choosing mutual funds for a 401(k) need to take a look at the big picture, Russell said.

“Don't just focus on what's in the fund,” he said. “Look at the fund's expenses and all the fees charged.”

Next, check to see how the fund has performed against a broader benchmark, such as the entire Standard and Poor's 500, Russell said.

Russell said he personally likes stocks to be a component of 401(k) plans. With certificates of deposit paying very weak rates, the only chance right now to beat inflation is through equities, he said.

Still, retirees should maintain some stock investments only if they can tolerate risk and have other funds to draw on in case the market goes through a down phase, Russell said.

“You have to be able to sleep at night,” he said.

Save early, often

McBride said people need to be realistic about how much money they will need in retirement.

“Individuals are living longer,” he said. “Many will have 25 or 30 more years after retirement.”

Yet, according to [BankRate.com](https://www.bankrate.com)'s new poll, 37 percent of older Americans said they were spending more money in retirement than they thought they would.

So most professionals think retirees will need to maintain a stock portfolio deep into those post-work years to stay ahead of inflation and create adequate income.

“Dividend-paying stocks are a good idea for retirees,” McBride said. “They will throw off cash people can live on, and the rate can go up over time.”

Jim Huntzinger, chief financial officer for BOK Financial Corp., said balance is a key word for retirees.

“You probably are taking on too much risk if you have all of your retirement savings in equities,” he said. “But you shouldn't shift all your funds completely out of stocks when you retire, either.

“There's no doubt about it. Historically, equity returns beat all other investments over long periods of time.”

Huntzinger said stock investors, though, need to be mentally prepared for some ups and downs, especially during the next few years.

“The Fed, at some point, is going to start raising interest rates. That is going to cause some volatility in the market,” he said.

Those dips, though, can create buying opportunities for disciplined investors who have done their homework, Russell said.

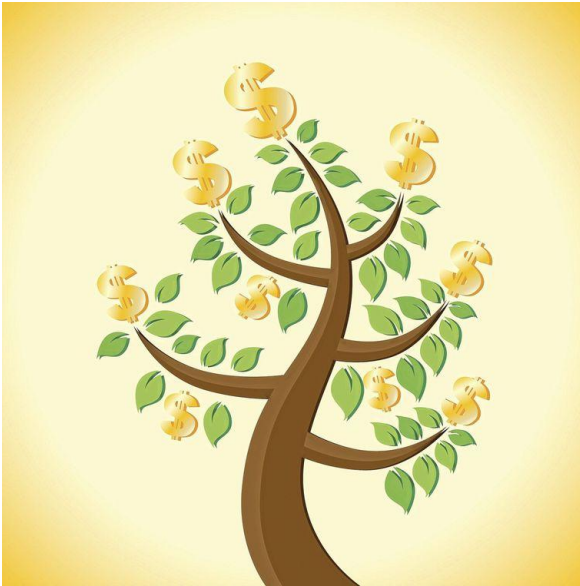
Overall, the best strategy for future retirees is to start saving early, put away as much as you can afford, use stocks to beat inflation and plan to stay in the market to some extent even after retirement, the experts said.

“A lot of millennials are doing this,” McBride said. “They are beginning to invest with their very first paycheck. When they retire, they’ll likely be ahead of their predecessors, who are not doing as good a job saving.”

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Investment Guide offers stock ideas

The Tulsa Word's annual Investment Guide is included in this Sunday's newspaper.

The 20-page guide, written by the Business staff, focuses on stocks of local interest. Local financial professionals were asked to pick which issues they thought would perform best over the next year.

The guide also includes data on each company chosen, as well as a graphic showing its recent market activity.

The Investment Guide is a good place to start to find stocks for your retirement portfolio, or for general investment.

Retirement savings trends

21 million: How many Americans aren't saving for retirement.

30 million: U.S. workers who tapped their retirement savings for an emergency within the past year.

37 percent: Retirees who said they were spending more money in retirement than they thought they would.

26 percent: Portion of 50- to 64-year-olds who say their financial situation has deteriorated over the past year.

40 percent: Portion of millennials who rated their financial situation as "improved" in the last year.

\$14,500: Median retirement account balance for all households near retirement.

Source: Bankrate Inc.

Four steps to a better retirement

Put stocks to work: Include well-chosen equities in your portfolio and don't sell them just because you retire. Instead, look for public companies that pay attractive dividends to produce cash.

Save more. Even a small amount saved regularly adds up. If you save 5 percent of your \$40,000 salary for 40 years, even with no raises and no employer matches, you'll still accumulate \$241,600, assuming a 5 percent annualized return.

Avoid debt. In Bankrate.com's study of retirement confidence, 10 percent of those who were not saving for retirement said they couldn't because they had too much student loan debt. If you have an interest rate that is higher than most rates are today, consider refinancing.

Keep working. If you stay on the job past full retirement age -- which is 66 for most people over 55 now; 67 for younger people -- your Social Security benefit will climb significantly, up 8 percent a year between full retirement age and age