Wi$e Up Teleconference Call  
Strategies for a Secure Retirement  
July 31, 2006  
Speaker 3 – Kevin Huff

Jane Walstedt: Now, let me turn the program over to Cindy Henning, who works for the Women’s Bureau regional office located in Atlanta to introduce our third speaker. Cindy--

Cindy Henning: Thank you, Jane, and good afternoon everyone.

I am very happy to introduce Kevin Huff to you. He is a Certified Public Accountant and a Personal Financial Specialist.

Kevin is employed as an Investment Advisory Representative of Advice and Planning Services, which is a division of TIAA-CREF Individual and Institutional Services, LLC, a Registered Investment Advisor.

TIAA-CREF is a Fortune 100 company that provides retirement plan services to close to 2 million plan participants at more than 15,000 universities, medical organizations, and other non-profit institutions throughout the United States.

As a member of the Central Advice Group in Charlotte, North Carolina, Kevin brings more than 20 years’ financial planning, health care and employee benefits administration experience to the organization.

He currently provides internal support and research services for 150 wealth management advisors across the country who meet regularly with retirement plan participants and retirees to discuss investment and financial planning issues.
Please join me in welcoming Kevin. Are you there, Kevin?

Kevin Huff: Thank you, Cindy. Yes, thank you. I had you on mute so you wouldn’t hear the background noise here.

Cindy Henning: Okay.

Kevin Huff: Thanks for inviting me to provide a short overview of three or four planning points that I feel are critical to understand as one maps out a retirement funding strategy.

First, let’s quickly look at why it’s so important to begin saving for retirement now, not next year, and not five years from now. I’ll do this by providing a short example.

Let’s take David. David, age 20, recently landed a job at an engineering firm, and before the ink was even dry on his employment contract, he went out and purchased a new Honda Accord and fully furnished his apartment with recently acquired credit. Being a little tight now on cash flow, he decided not to invest in his employer’s 401(k) plan for that year.

Now, Vicky, also age 20, came on board at the same time, but having worked her way through college on a tight budget, she decided not to acquire any unnecessary debt and instead decided to contribute a thousand dollars per year to the company’s 401(k) plan, and she did so for 10 years.
Now, we won’t get into the details as to why she stopped, but let’s just take these numbers--$1,000 per year for 10 years. Vicky then stopped after the first 10.

David finally got wise after having paid debt for the last… paying debt off for the last 10 years, and so he began contributing to his plan. He contributed, like Vicky, $1,000 a year, and he did so for the next 35 years. So Vicky contributed for 10. David contributed for the next 35.

At age 65, they compared their retirement account balances. Now, let’s assume that the account just earned eight percent throughout the years, on average. David was pleased to see that his account had grown to $186,000 on his $35,000 investment. That’s $1,000 a year for 35 years.

He wasn’t so pleased, however, when he learned that Vicky had accumulated $231,000 dollars in savings on a $10,000 investment. Now listen, she invested $25,000 less and had $45,000 more in her account. There’s a $70,000 difference in the account balances when you actually take into account the contributions that each person made. So the key planning point here is **start early**. Don’t wait 10 years. Start today.

Imagine what you can accumulate. I just used the thousand dollars as an example. Imagine now, if you set aside 10%, as Judi had mentioned, of your compensation over that 35-year period of time or from the age of 20 or even 30.

The next item I’d like to discuss is **the need to have a target in mind for retirement income needs**. You may have several goals--say a retirement income goal; you may have an education goal; or a goal to
purchase a major asset down the road, say a home in a different location of the country.

Each goal carries with it its own time horizon. One way to approach savings for retirement is to set aside a certain amount of your income. One way to look at specific goals would be to look at the time horizon involved to reach that goal.

You want to map out the amount of contributions and the amount of earnings needed on those contributions in order to reach the goal within the stated time horizon. So time horizon is important.

With a roadmap like this in place, you can make course corrections along the way. Without a roadmap, you’re more or less shooting in the dark or taking on potentially too much risk by investing maybe more aggressively than is necessary if you undertook a methodical approach here.

There are calculators available on the Internet through various financial firms--for example, the AICPA [American Institute for Certified Public Accountants] Web site www.aicpa.org, that can help you determine what your contribution would need to be at different growth rates. So you can kind of have an intuitive feel for how your money may perform for you.

Now, let’s look at this situation. Suppose you find that [the amount of] your contribution or the risk level that would be required is unrealistic. You have a number of options here.

First, you can simply adjust your time horizon. If it’s retirement you’re looking at, you may simply work a year or two longer. You
may decide to increase your contributions. Alternatively, you may
decide to, in fact, cut back on the goal, perhaps adjust your lifestyle.
Maybe it doesn’t need to be a private college. Maybe it could be a
public institution for that education funding goal.

You can also look at adjusting your risk and return mix in your
portfolio, and I’ll get to the risk and return concept in just a minute.

Adjusting the risk and return, within your risk tolerance, is also an
option, or perhaps--I just named four options--perhaps a combination
of all of those.

One key factor, however, is your decision on the amount of risk that
you need to take and that you can really tolerate. We call it the “sleep
well at night factor.”

Financial planners who provide portfolio allocation [how you divide
your money up among investments] services can help you identify
your risk tolerance and can help you identify the appropriate level of
risk in light of the goal that you’re trying to achieve. I keep
mentioning the word “risk.” So let’s talk about risk for just a moment.

All investments involve some type of risk. This is not to say, however,
that all risks are bad. Two types of risk, in fact, that normally appear
in retirement portfolios can, in many cases, be minimized or even
eliminated. They’re called “uncompensated risks,” and the academic
research suggests that investors are simply not rewarded for taking
these kinds of risks. Fortunately, you can diversify these away.

These are the risks that you take when you invest a large portion of
your portfolio in say, a single security [A security is an investment
instrument, other than an insurance policy or fixed annuity, issued by a corporation, government, or other organization, which offers evidence of debt or equity.] or maybe a single sector of the market. [Standard & Poor’s breaks the market into 11 sectors: utilities, consumer staples, transportation, technology, health care, financial, energy, consumer cyclicals, basic materials, capital goods, and communications services.] We’re all familiar with the tech market and what happened in the technologies stocks back in the late 90’s. So how do you reduce uncompensated risks? You can do so by investing in a broad number of securities and avoiding over-concentration in a particular sector.

The third type of risk--which is actually good for your portfolio--can be managed. It’s called “market risk,” and this type of risk is present in different levels and amounts in all asset classes, and by asset classes, I’m referring to – and you see it in your retirement newsletters and education materials--I’m referring to large company funds, small company stocks, international stocks, bonds, real estate. [Additional information about “asset classes” and “asset allocation” can be found in material on “Smart 401(k) Investing” on the Web site of the National Association of Securities Dealers (NASD) at http://apps.nasd.com/investor_Information/Smart/401k/index.html.]

These are asset classes. Each asset class carries with it a certain amount of expected return--not guaranteed, but expected--based upon historical results, and also it carries with it a certain component of exposure or risk that one will need to assume.

Yes, to invest in certain asset classes over a short period of time is risky, but over the long term, asset classes tend to produce very reliable results based upon the amount of risk that was assumed. The key is to remain disciplined and avoid switching asset classes when
one asset class appears to under-perform [for example, it loses money] for a period of time.

Now, this brings me to probably the most important part of my discussion, and this is avoiding behaviors and certain activities that drain returns like holes in a bucket of water – **common mistakes**.

Number one, **doing nothing**. If you wait until the perfect portfolio comes along, you’ll probably never have one. You need to go ahead and move forward with trying to create that – the appropriate portfolio for your particular time horizon and risk profile [the amount of risk you’re willing to take].

Number two, **failure to monitor**. As Jane has mentioned, monitor and control unnecessary fees [such as] high fund expenses. Maybe excessive trading is taking place [in a given fund] relative to other funds that are in the marketplace. You need to ask questions about the funds in your portfolio, those that especially perform below certain market benchmarks, and if the market…let’s just say, for example, a familiar benchmark is the S&P [Standard and Poors] 500.

If the [overall] S&P 500 performs at [earns] 15%, yet a particular fund that you have performs at less than 15%, perhaps you should ask, you know, start asking questions about why. Is it the fees? The expense ratio? Is there unnecessary trading taking place?

Also, another common mistake is believing or relying on forecasts that are provided by the financial media. There’s a never ending sense of urgency promoted through television, magazines, investment newsletters, all of which are urging you to act now. You should invest your time and money instead in educational textbooks dedicated to
helping you establish these roadmaps for success and helping you become committed to a disciplined savings and asset allocation strategy for the long haul.

With that, I’ll stop and perhaps turn it back over to Jane.

Jane Walstedt: Thank you very much, Kevin, and I just want our listeners to be aware--for those who aren’t that familiar with the different types of plans that Martha mentioned--what Kevin is talking about I think applies largely to what Martha referred to as defined contribution plans, such as 401(k) plans, where what you have in retirement is going to be dependent on what you are able to contribute and save and what your employer may match.

Or through an Individual Retirement [Arrangement] account, where you contribute money yourself to that, and it doesn’t apply so much to the defined benefit type of pension plan, where you’re guaranteed a certain amount of money [every month] after you retire.

In these other two, the decisions you make about where your money goes-- and you’re going to have to do that whether it’s a 401(k) or an IRA--in a 401(k), your employer’s going to give you a number of choices, as they do in the [Federal] government. [Federal employees may contribute to the Thrift Savings Plan (TSP), a defined contribution retirement savings plan comparable to a private-sector tax-deferred 401(k) plan. It offers a choice of 6 investment funds.] You will have investments and you will have to make decisions about where to put your money, even if there aren’t that many choices.
So Kevin, I think what you were talking about when you started talking about investments is really related to, particularly to, the 401(k) and the IRA.

Kevin Huff: Yes.