Wi$eUp Teleconference Call
Tips for Starting and Staying on the Road to Retirement
September 30, 2009
Speaker 3: Ted Sarenski

Jane Walstedt: And now I’d like to turn to Gillian Gutierrez, who is a program analyst in the Women’s Bureau’s regional office in New York, to introduce our third speaker. Jill...


As the founding member of DB&B Financial Services, Ted oversees all aspects of the division’s operations, including the management of portfolio assets. In addition to working directly with clients, Ted is a lecturer, radio personality and author. He is an appointed member of the American Institute of Certified Public Accountants’ Virtual Grassroots Panel, Social Security Task Force, and Planner Magazine Editorial Advisory Board.

Ted is the past president of the New York State Society of Certified Public Accountants, Syracuse Chapter, and currently serves on the New York State Society of Certified Public Accountants’ Tax Division Oversight and Professional Ethics Committees. Ted..

Ted Sarenski: Thank you, Gillian. I wanted to start just by making a couple of comments on both Cindy and Pat’s presentations, which I thought were very good. The points I wanted to make were just to emphasize some things that were said. For instance, Cindy just said that she often advises 100% of your current income to be your retirement income.
And we here at our firm do the same thing. We advise that the rule of thumb that a lot of folks will say is 70% or 80%. But with longevity, because of health care advances, we’ve got later longevity, and what you might not be spending, let’s say, in costs in going to and from work, you might be spending on medications. So we feel that as someone ages, their medical costs increase sufficiently or in a greater number compared to today. And that’s what takes up maybe some other things that are dropping off their budget. So I would agree with that.

And it was also said that Social Security is the basis. Jane spoke at the beginning of Social Security being 90% of the source for a number of single women in their elderly years. And that statistic is bothersome from the fact that that is true and really emphasizes why it is so important to save in your 401(k) plan if you can, if you have one at work.

And in addition, if you can possibly save outside of the 401(k) plan, as much as you can save towards your later years, the better off you’re going to be.

I was…I am going to talk about Social Security, but I wanted to get a couple of these points in. One suggestion we make for folks is increasing a 401(k) contribution, and this is…it’s very hard for everyone, especially in these tougher times where maybe people have taken a cut in pay or they’ve lost their job for a while or are just getting back to employment.

But when you get a raise--let’s say you get a 2% raise at work--take half of that, take 1% and increase your 401(k) contribution. Take the other 1% and take it home. That way you can increase your 401(k) contribution without feeling like it’s coming out of your pocket. You also will have a few extra dollars of take home pay by doing it that way.
So it may be a little slower to raise your 401(k) contribution, but it’s a way that affects you less as you move forward. Another comment that was made in divorce - marriage and divorce - and we’ve seen this with a number of clients - is that the women normally are the caretakers of the children. And they want the home that the couple has been in for the children, and they give up the retirement assets in replacement.

For instance, if the home has a certain value in terms of equity, they give that up, or they take that and in return the ex-husband is going to get maybe a greater share of the retirement assets. I would suggest that in situations where you’ve got to make those hard decisions like that, that it’s more important to maybe give up that home, have it sold. And you…and both husband and wife end up in maybe some smaller places, but get your share of those retirement assets, because those are going to be very important in your later years.

You can’t make up time. That’s the one thing we always talk about to folks. You can’t make up time. You can make up how much you put in, you can make up maybe a rate of return, but you don’t get back any years.

Moving on to Social Security, Cindy had said that the Social Security is the basis of retirement, which it is. And yet that does depend on how much you make. The less you earn, the greater percentage your Social Security benefit is going to be of your current earnings. For example, if you’re earning $30,000 to $35,000 a year, your Social Security benefit is going to equal about one half of what you’re currently earning. So you need to make up the other half by the 401(k) savings or additional after tax savings.

Someone who’s earning a lot more than that--which let’s say this year’s maximum for Social Security contributions is $106,800--well, someone who’s earning $106,800 and contributes the maximum amount to Social Security and
collects the maximum Social Security benefit, the maximum Social Security benefit is only going to replace 26% of their current income.

So the more you earn, the greater you must save on your own to make up what Social Security is not going to cover for you. And if you are at those lower wages, while Social Security does make up a larger percentage, remember that Social Security does go up by cost of living but that cost of living is computed differently than inflation. So inflation tends to increase greater than the cost of living increase that Social Security recipients are receiving.

If you become widowed or disabled, Social Security does have provisions that allow you, the widow, or you, the disabled person, to receive Social Security benefits if you have children age 16 or less.

Also your children can receive Social Security benefits if you are widowed or disabled, up through age 18. Now there’s a family maximum, so depending on the number of children along with the widow or the disabled person, there could be some reduction in each person’s benefit. But there is a family maximum that exceeds what one person might get.

So Social Security is there to help out, should you become widowed or disabled. In divorce situations, if you have been married at least ten years, you can obtain spousal benefits at age 62, [the] normal beginning of a Social Security time period that you can collect benefits, based on your ex-husband’s earnings record if you were married at least that ten year period. The spousal benefit is one half of what that worker would have received at their age 62.

And if you have been a woman who sacrificed her job to stay home with children or something of that nature, maybe that one half is going to be an important thing. If you remarry before age 60, even though you had that ten-year marriage, you new spouse is who you get your spousal benefits from.
One exception would be if you wait until age 60 and get married after age 60, you can now choose between [your] prior husband [to] whom [you] were married for ten years, or your current husband. So now you have a choice if you wait until age 60 to remarry.

Of Social Security oftentimes a question is asked, is it going to be around? I’m young, I’m 20. I’m 30 years old. Is Social Security going to be there? Each year, the trustees of the Social Security Trust Fund do an analysis of the fund and they project out 75 years in the future.

And their projections have warned Congress for a number of years now that, unless some changes are made in the Social Security system, that by - this year the projection was 2038 - Social Security will only be able to pay 75% of the benefits that it currently pays.

So my answer to “Will Social Security be around?” is “Yes, it will, even if Congress doesn’t make any changes to the current law about Social Security, it will be there.” But it may only be there to the extent of 75% of what someone was projected to receive at that point in time.

And it was mentioned before about receiving your Social Security statement once a year and looking at that, making sure your earnings are correct. Stated right in that statement a couple of times is that fact that if they don’t make any changes to the Social Security laws, that it will only pay 75% of then current benefits.

So yes it will be there, but it’s possible that without changes it could be less than what’s projected, which gives even more importance to the idea that you save today as much as you can in your 401(k) plan or outside your 401(k) plan. If you are a wage earner who is a lower wage earner, a suggestion we
often make too to some folks is you have the ability to possibly put into a Roth IRA. What a Roth IRA is is that you do not pay tax when you take that money out down the road. It’s always going to be tax free. You don’t get a current [tax] deduction.

So our suggestion to some folks is to put into your 401(k) plan enough to get the full company match. Then if you still are able to save a little more after that, save it into a Roth IRA, which that increase will never be taxed. So again, Social Security will be around. It may not pay what we expect it to pay, but these other pieces, as long as you have those and you start early, should be able to supplement and get you back to that 100% of what you’re currently earning.

One thing I did want to close with is there is information about a lot of these things we’ve talked about--a lot of 401(k) plans and various life events. The American Institute of Certified Public Accountants put together a free Web site. It’s www.360financialliteracy.org. And on that site are a number of various life events and suggestions, worksheets, calculators that assist you in planning for your retirement or your children’s education or whatever that life event might be.

So thank you.

Jane Walstedt: Thank you, Ted. And before I turn the floor over to our operator to remind us how to ask questions, I just wanted to piggyback on a couple of things that a couple of people said. And Ted, you mentioned the cost-of-living allowance, and I went to an AARP function…forum recently, where it was pointed out that in 2010, there won’t be a cost-of-living adjustment because of the formula they use to calculate it.

Ted Sarenski: That’s correct. Yes.
So that’s going to be tough for some people. And the other thing, I think it was Cindy that made me think about the fact of how important it is to be familiar with financial documents, such as survivor benefits from a pension plan. I know that when my dad died in 1998, my mother was under the impression that she was going to, as a survivor, receive something like two-thirds of his full retirement benefits. And it ended up being one-half.

So obviously she had not read or was not familiar with the provisions of his pension plan. So the point I’m making is just how important it is to not wait to the last minute, not wait until you’re eligible for retirement, but to be familiar with documents like that.

And I’m going to turn it over to our operator in a minute, but somebody who registered for the call - and there’s a place on the registration to make comments - had made a comment that I would like to read to the speakers in the form of a question and throw it out to all three of you.

And I mentioned this, I think, to Ted and Pat before. She wrote, “Given what transpired in the economy, I do hope you will discuss how to start over saving for retirement again for the 60+ aged women and how to do so on limited funds. Suggest best/safe bets for 60+, i.e, Roth IRAs, etcetera.” Do any of you have a comment or a suggestion on that?

Cindy Hounsell: This is Cindy. I think it’s sort of hard to answer that because we’re not sure if the person is still working and, you know...

Jane Walstedt: Right.

Cindy Hounsell: …continuing to accumulate funds. And if you are, I think, you know, the Roth IRA is a great place to, you know, as Ted mentioned. And I think there
are a lot of academic studies that would back that up—that that’s a really good
place to put your money. And you know, the only way to, you know, to start
over is to really start and have a good grasp and maybe make some hard
decisions while you’re in your 60s rather than making them later.

And I think, you know, Pat mentioned that too about where you’re living.
You know, you may need to make harder choices and maybe take in a
roommate or, you know, do other things to help you get more money, things
you may not want to do but that are good decisions given what you have.

Jane Walstedt: Right. Ted or Pat, do you have anything else or should we proceed to the
questions?

Ted Sarenski: Well, Jane, I did have one comment and that would be if this person is able to
save, either in the Roth IRA or the 401(k) at where she may be employed, is
that it is going to be important for her to be concerned about where she
allocates those contributions. In other words, what type of investment is she
going to be putting that into?

Jane Walstedt: Right.

Ted Sarenski: And I would suggest at that age that she’s going to have to be more
conservative than, let’s say, somebody who is 30 years old is, which means
she’s probably going to earn a little less on that money as well. So it’s got to
be more towards fixed income and less in the more volatile equity portions.
Because as we’ve seen in the last ten years, equity investments have gone
nowhere. So it’s very possible the next ten could be the same thing. So based
on her age, she needs to be conservative with her investment choices.

Jane Walstedt: Right. It may be that she also would need to consult a financial advisor,
because there are a lot of things we don’t know about her, such as if she’s
married. When she’s talking about starting over, it’s not clear what is causing her to have to start over.

Ted Sarenski: Yes, that would be wise for her to consult with someone. Yes.

Jane Walstedt: Right. Okay.