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# Refresh Your Retirement Plans Now

By Tom Lauricella

For investors nearing retirement, the continuing stock-market turmoil should sound an alarm: Give your retirement accounts a thorough checkup sooner rather than later.

Most investors have a tendency toward inertia with their savings; they make an initial set of decisions when signing up for a retirement plan such as a 401(k) and then forget about it.

While that can be a good thing—few quality investment decisions are made during periods of extreme fear or greed—the downside is that a 60-year-old can end up with a portfolio more appropriate for someone half that age. If you are within several years of tapping your nest egg, a primary focus should be preserving savings. The reason is simple: If the value of your investments falls sharply, there's less time to make up ground.

Start your checkup in these three areas:

● **Company stock.** A critical lesson from this year's market woes is the danger of having too much company stock in retirement accounts. The prime example was the collapse of investment bank Bear Stearns, where the share price plunged to about $10 from over $80 in just a matter of weeks. About 30% of Bear Stearns stock was owned by employees. (The company was on the brink of bankruptcy when it agreed to be taken over by J.P. Morgan Chase.)

And it wasn't that long ago that many employees at Enron and WorldCom had much of their retirement savings wiped out when those companies imploded.

Unfortunately, many people approaching retirement still have excessive company stock in their nest eggs, according to Financial Engines, a Palo Alto, Calif., company that provides asset-allocation services to 401(k) plans. In a recent study of more than one million 401(k) accounts, Financial Engines found that in cases where company stock was offered as part of the plan, those shares made up more than 20% of the portfolio for 43% of the participants over age 60. More alarming, one in four of those age 60 or older had more than 50% of their money in company stock.

To minimize risk, Financial Engines keeps company stock to less than 10% of a portfolio for most accounts.

● **Asset allocation.** There's also the broader issue of having an appropriate balance between stocks, which have the potential for big gains but also big losses, and bonds, which don't move as much in price but offer little growth potential.

Investment firms have varied views on the right balance, as evidenced by the different allocations they use in their "target date" mutual funds.

T. Rowe Price Group believes that for someone age 60, about 63% of a portfolio should be in stocks; for someone age 65, about 55% in stocks is the right level. The reason: Longer life spans mean a greater need for the growth potential of stocks—which can keep your principal growing despite annual withdrawals for living expenses. Otherwise, it may be tough "to keep pace with the cost of living," says Edmund Notzon, chairman of the firm's asset allocation committee.

By contrast, Wells Fargo Advantage Funds pegs the appropriate range of stocks for someone five years from retirement at 30% to 45%, and 25% to 35% for a 65-year old. The company's argument is that a high percentage of stocks leaves investors vulnerable to tapping their accounts during a down market, and as a result, locking in losses they can't recover. "Timing is very important," says Barbara Gierk, who oversees Wells Fargo's retirement products.

Which is correct? The answer could depend on your ability to cushion losses in the stock market with other guaranteed income, such as a pension. For others it may be a comfort level: Can you sleep at night knowing your portfolio is down double digits? But asset-allocation experts say any would-be retiree who has 70% or more in stocks should take a serious look at putting more bond investments in the mix.

● **Starting date.** It's among the toughest questions in retirement planning: When do I begin tapping my nest egg? As eager as you might be to start retirement, few employees realize just how big a favor they can do themselves by postponing the day they leave the office.

Financial Engines offers the example of a 60-year-old man earning $80,000 a year with $400,000 in a 401(k) plan. If he were to retire at age 62 and use his 401(k) balance to buy an annuity paying him income for life, he could expect to collect $26,100 a year. At age 65, the expected annual income increases to $34,300—and at age 67, the income would be $41,400.

Some of that extra income is simply the result of having more time to contribute money to the account. More important is the combination of not withdrawing money and the potential for compound earnings during those extra years.

Plus, working longer means that your savings won't have to last for as many years—which, in turn, means it's possible to withdraw more money every year and limit the risk of draining your savings.

Working longer also boosts your Social Security checks.

Says Christopher Jones, chief investment officer at Financial Engines: "A lot of people fail to appreciate just how significant delaying retirement by even a couple of years can be in terms of their retirement income."

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