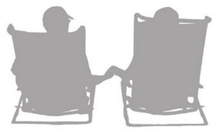

CHAPTER ONE

The Three-Legged Stool

Whatever You Do, Do Not Sit on It

CHAPTER ONE

The Three-Legged Stool

Whatever You Do, Do Not Sit on It

Have you ever seen a three-legged stool? It is a surprisingly sturdy piece of furniture that can bear a lot of weight safely—as long as all three legs are sound. Let one leg come off, however, and the whole thing collapses.

Historically, our government has encouraged people thinking about retirement to use a structure very much like a three-legged stool. In previous years, the first leg of the stool was Social Security. Our government sponsored this form of mandatory savings, or pension system of sorts, and told people they could safely rely on it. The second leg was the defined pension plan, an employee benefit provided by many large, private companies. Each company would pay in to a pool of funds, invest in the pool, and then guarantee employees a defined benefit upon retirement, regardless of how the market performed. With a defined pension, people knew the exact amount they would receive from their company upon retirement, and they could use this to supplement their social security benefits. The third leg was personal savings that people set aside along the way for additional security and peace of mind. In the 1950s, after a devastating depression and World War II, most people were disciplined stewards of their money, conscious that deprivation and rationing could be just around the corner.

Today, those legs are collapsing. How plausible is it that you can rely on Social Security to be there for your retirement? According to the Social Security Trustees' *2012 Annual Report*, because Peter has been robbed to pay Paul, "the fund that helps finance benefits for 44 million senior citizens and survivors of deceased workers will be exhausted by 2035."[3] With a cost of living increase totaling 3.6 percent over the past three years,[4] the likelihood of incurring substantial cost-of-living adjustments (COLA) in the future is, in my opinion, questionable. Social Security, which the government always meant to be only a supplemental income during people's retirement, an addition to other streams of revenue that employers bestowed and/or that people diligently put in place, has now become too many people's only source of retirement income. This source is headed for increasingly diminished returns. It is a shaky leg, at best.

Once upon a time, the second leg, the defined pension plan, was a flagship benefit that employers unfurled to guarantee employees' loyalty. In addition to that gold watch upon retirement, each employee could count on a fixed payout the day he or she traded the carpool for a golf cart or garden bench. Today, defined benefit plans are headed toward extinction, priced out of existence by exorbitant costs. Defined-contribution plans, such as 401(k) accounts, are much less expensive. Increasingly, such plans are the only retirement benefits offered by private companies. A defined-contribution

3 Social Security Trustees, *2012 Annual Report.*

4 Social Security Administration (www.ssa.gov).

plan is basically a 401(k), a plan in which the only certain thing is how much you contribute. Quite frankly, the outcome of this vehicle depends entirely upon the whims of the stock market, and take into consideration the fact that employees are now expected to be their own pension managers, responsible for picking and choosing from a small selection of investment options (usually costly mutual funds with significant fees and no guarantees). A defined-contribution plan is not exactly the Queen Mary II of pension plans.

The third leg probably wobbles the most. Today, people just are not stockpiling personal savings as they did thirty or forty years ago. The baby boomers either do not have the discipline to sacrifice their immediate wants, or they are struggling just to make ends meet, hold off foreclosures, or pay rising tuition for their college-enrolled kids (that is, if they are not subsidizing the kids' move back home because the job market is so tough). If these potential retirees have been diligent in saving, they encounter dismal interest rates, which generate much lower returns. This situation makes a mattress seem a viable place to store cash. The stock market's rollercoaster ride may provide more chills than thrills to anyone seeking growth opportunities.

The upshot of the loss of these guarantees is that people are approaching and entering retirement without anything solid to replace the income a steady paycheck always provided. That is a precarious, unsettling place to be.

With the traditional three-legged stool nearing obsolescence, if not entirely breaking beyond repair, people need to keep their eyes wide open and try to prevent distressing eleventh-hour newsflashes. Now is the time to align your financial preparations with current economic indicators, all while anticipating the worst, and build a steady stool of your own making.

To haphazardly save or not to save money is not the question to be asking in these times. Even Hamlet would agree that to avoid the slings and arrows of outrageous retirement misfortunes, savings and plans for every contingency are formidable arms to bear against a pending sea of troubles.[5]

Far too often, I see people who do not understand how to invest their money in order to replace the paychecks that will stop upon their retirement. I cover this topic every week on my radio show to ensure that my listeners are exposed to ideas and opportunities that will keep them from being caught unaware without enough time to make positive changes to address their financial problems.

If you would like to listen to my past radio shows,* Living Your Life with Phillis Sax Pilvinis, *broadcast on* AM960 The Patriot *every Sunday at 11 am, please visit my website at* www.pspassoc.com *for a list of archived recordings.

Rather than design and stick to a solid plan that ensures a successful retirement, too many people **hope** that their retirement accounts are going to be enough to carry them through to a natural death. Too many people **hope** that the market is going to rise and build their assets for them. Just as many people **hope** that the market will not have fallen when they bid their colleagues goodbye and head to the bank to deposit that last company paycheck. The retirees and preretirees out there have

5 With apologies to Mr. Shakespeare.

a great deal of hope, but not nearly enough certainty. Today, that three-legged piece of retirement furniture, once a reliable footstool upon which you could rest your weary legs after a long career, is best viewed as a piece of vintage Americana: it has lots of good memories but is too fragile for use. Today is the best day to take control of your destiny and, with your eyes wide open, build a solid retirement plan. The old cliché rings true: while people do not plan to fail, far too many fail to plan.

Knowing the state of American footstools, I urge you to take up a hammer, grab some nails, and craft your own stool. Put aside your hopes that the market is going to be as good as it was in the ’90s. Stop drinking the Wall Street Kool-Aid that seduces you to believe that the market always comes back. Instead, work with more secure and stable options available to you and build a realistic plan.

Let me show you the simple steps you need to take in order to accomplish these goals.