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*Tips from Your Financial Coach*

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Sandra K. Worner, CPA,  
CFP®

Vice President,  
Director of Financial Planning  
[sandy@tristartrust.com](mailto:sandy@tristartrust.com)

Tri-Star Trust Bank  
1004 N. Michigan Ave.  
Saginaw, MI 48602  
989-921-0010

160 S. Main St., Ste 2  
Frankenmuth, MI 48734  
989-652-6600

3511 Coolidge Road, Ste 300  
East Lansing, MI 48823  
517-827-0045

## Financial Planning in a Changing World

It is time to open our eyes. The world is changing. All we need to do is look at the news coming out of Wisconsin and we quickly understand that we are no longer living in our fathers' world: where inflation was low, pensions were secure, Social Security was sustainable and health care was relatively inexpensive.

### America's Retirement Security Problem

As Ben Franklin said, "Nothing is certain but death and taxes." These words are true, even today, as we address America's retirement security problem. Baby Boomers, Gen Xers, and subsequent generations will most likely face retirement risks from four different fronts: Social Security & Medicare reform, pension reform, inflation and higher taxes.

#### *Social Security & Medicare Reform:*

Both Social Security and Medicare are facing demographic challenges. America's population is aging. This means there will be less young workers available to support Social Security and Medicare obligations. In addition, Medicare is facing high inflation within the health industry. Experts believe that the Social Security and the Medicare systems will collapse unless Congress acts to increase payroll taxes, reduce benefits, or push back the eligibility date for benefits.

#### *Inflation:*

Ten years ago, the national debt was \$3.5 trillion. By 2020, the Congressional Budget Office expects it to be well over \$20 trillion. Again, Congress may need to look at higher taxes, as well as cutting spending to reduce debt. Many experts believe that inflation may become a painful reality unless this nation can bring its debt under control.

#### *Pension Reform*

We are currently watching state pensions being reformed as states struggle to balance budgets. In the private sector, many have already seen their private pensions fail or be replaced with 401(k) plans. One thing is clear...The retirement burden is being shifted to the employee.

**So, what does this mean to you and me?** It means that more than ever, we are responsible for our own retirement. It means that we can no longer rely upon the government or our employers to fund our retirement. And it means that the sooner we come to this realization, the more successful we will be in creating sound retirement plans.



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## **Financial Planning in a Changing World**

The good news is that you are now the master of your own destiny and you remain in control. Here are some ideas to help you plan for your retirement in this changing world.

### *Save More*

If you are still working, **SAVE MORE!** Retirement experts say that the average worker approaching retirement has only saved approximately \$98,000 in their 401(k) plan. Assuming 6% growth and 4% inflation for 25 years, the average “nest-egg” would only support \$412/month in today’s dollars. If you want to spend more, you must save more.

### *Plan to Work Longer or Work Part-time in Retirement*

Many people retire in their late 50’s or early 60’s and live for another 30-40 years. If you are approaching retirement age, but have not saved enough, consider working longer or working part-time in retirement.

### *Planning for Social Security & Medicare Benefits*

If you are already retired, plan that your benefits will not keep pace with inflation. If you are near retirement, plan for lower benefits with small increases. If you are young, consider the option that Social Security and Medicare may not be available to you, or consider that you may not qualify for benefits until you are into your 70’s.

### *Investments*

How you invest your nest-egg is very important. With a rising inflation environment, you do not want to hold an excessive amount of cash. You may want to consider increasing your exposure in equities to hedge against inflation. If you are retired, you might want to consider maintaining 20-30% of your portfolio in short-term bonds to use in times when the stock market is weak. When the stock market is strong, you might want to sell some of your growth in equities and rebalance into bonds. And remember that you should always be diversified.

### *Prepare*

Prepare for retirement by:

- Creating a flexible budget. Identify essentials vs. wants and develop an emergency plan.
- Develop a plan for increasing health costs
- Review the impact of inflation and higher taxes upon your nest-egg
- Paying down debt while you are still working
- Do not rely upon an inheritance to save the day. Things could change.

In summary, expert advice is required in this ever-changing world. “Hoping for the best” is no longer a viable retirement strategy. But you don’t have to do it alone. **Tri-Star is here to help you by creating solutions through understanding your needs.**