



JACQUES F. LIWANPO

CHARTERED ACCOUNTANT
CERTIFIED FINANCIAL PLANNER

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Saving for retirement: Need to plan, start early often overlooked

By STACEY ASHCRAFT, DMG Writer



Social Security and pension receipts are just not enough anymore.

Debbie Stouffer, certified financial planner at Ameriprise Financial Services in L'Anse said these days, people are saving money every month in order to live comfortably in retirement.

“Generally speaking, Social Security and a pension will not be sufficient for most people upon their retirements,” she said.

Stouffer said the future of Social Security is unpredictable and may affect younger people. There is a general need for comprehensive retirement planning to ensure long-term financial well-being, a responsibility which is falling on the shoulders of the employees themselves to take the steps necessary to save for retirement, she said.

“A lot of employers are not offering pensions any longer,” she said. “Pensions as we used to know them are disappearing.”

According to records obtained through

the Social Security branch in Houghton on Razorback Drive, Social Security and pension as well as savings and investments are all used in correlation toward saving for a financial future.

The records indicate that individuals should not rely solely on Social Security and pension.

However, according to www.retirementweek.org, more than half of American workers have less than \$25,000 saved toward retirement and about two out of five people age 55 or older have less than \$100,000 saved.

Jim Gale, professor of economics and finance at Michigan Technological University, said it's crucial to begin saving for retirement as early as possible.

“Time is your ally when you are young,” he said. “If you start while you're young then it makes it easier for living comfortably in your later years.”

Social Security is a government program where people who are currently working are being taxed and those people who are not working are receiving the revenue that comes from the taxes paid by those still working, he said.

Gale said the system is effective as long

The Shops on Steeles & 404, 2900 Steeles Avenue E., Suite 207, Thornhill, Ontario. L3T 4X1

Phone: 905.881-6257 . Fax: 416.352.1501 . Email: jacques@liwanpo.com



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as the working population and the retired population stay about the same.

However, if there is a changing composition because of the population age group — the post-World War II Baby Boomers — the retired population is going to increase relative to the working population, he said.

“It could happen that Social Security benefits go down or taxes go up or some combination of those two,” he said.

Gale said there is a “good rule of thumb” to follow for young people who intend to set money aside for a retirement fund.

“You should save 10 percent of your gross income,” he said. “If that gross income is put into stocks and bonds or into stock market mutual funds ... people don’t even have to do the investing themselves.”

With the assets, the compound interest will allow funds to accumulate which will allow the individual to live comfortably at the time of retirement, he said.

“I think we’ll always have some form of social security, but you will not be able to live on just social security,” he said. Gale said he personally began considering his own retirement financing when he was in his 30s, which was about the time he began working at MTU.

People who are going to work for businesses should know there are two types of retirement programs for individuals, he said — a defined benefits program and a defined contribution program.

“If you go to work for an employer, you’re going to want to know which one of those two systems are in operation,” he said.

In the defined benefits program, the employer may set aside money or create an agreement such as offering to pay the employee, after a specific time of employment, a percentage of salary upon the employee’s retirement, he said.

“The defined benefits is where you aren’t sure what’s going in but you have an idea what you’re going to get coming out when you get ready to retire if you stay with that company the whole time,” Gale said.

He added this program may prove to be a bit of a problem. The auto industry in Detroit had the defined benefits program set up when times were good and affordable, he said.

The defined contribution is a system where an individual works for a company and that company sets up an arrangement with a pension fund and as the person works, money is set aside into the fund under the person’s name, he



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said. Those funds accumulate over time.

“I think it’s very important to do the defined contribution by the employer,” he said. “Usually it’s matching kinds of things and it varies, so they might put in 5 percent of your income and that means you would only have to save 5 percent.”