# It's time to ponder your pension plans

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The recent attempt by Kevyn Orr, Detroit's emergency manager, to reduce city worker pensions by 84 percent is the most dramatic example of a crisis facing public employees across the country.

Nor is the private sector immune, as thousands of miners discovered after Patriot Coal Corp. declared bankruptcy last year. The settlement reached between the United Mine Workers and parent company Peabody Energy 15 months later covers only one-quarter of retirees' health-care benefits.

"For the last 20 years, Big Brother Co. or a municipality was taking care of you," said certified financial planner Clark Kendall, president of Kendall Capital Management. "Now the individual has to be responsible for his financial success."

Many pensions are underfunded by 20 percent to 30 percent, Kendall added, because people are now living longer. "Unless you plan on dying quicker than expected, it's a countrywide problem."

(*Read more*: **Like it or not, a budget's still your best bet**)

The end of the year presents the perfect opportunity to take a close look at your retirement plan. Taking charge now can mean the difference between relying on your own investments or on government programs that may not even be there when you retire.

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You may not like what you find. "Employer-provided retirement plans can be extremely complicated, creating a figurative land mine of issues for the employee," said Jamie Hopkins, associate director of the New York Life Center for Retirement Income at the American College. "Employees participating in pension plans often have misconceptions about the security of their employer-sponsored benefits."

Those who plan on working for several more years are especially vulnerable. "People who have 10 or 12 more years until they collect should look at a company's pension fund and ask themselves: 'Should I stay with that company?'" Kendall said.

"If you have a dramatically underfunded plan, you might take out a lump sum and buy a private annuity or roll it over into an IRA [individual retirement account] if the plan allows," he said.

You might also consider paying less toward a pension and more toward a 401(k) plan, especially if you don't plan on staying at your company for a long time.

(*Read more*: **Advisors say strike the right portfolio balance**)

If you're close to retirement age, you could take advantage of early retirement, as have several members of the Ohio Conference of the American Association of University Professors (AAUP) and its Collective Bargaining Congress (AAUP-CBC) union arm.

Janet Minc, who retired in June from the University of Akron Wayne College in Orrville, Ohio, said she needed to know what her options were. "I saw an advisor at least three times before I decided to retire."

Had Minc continued to work, she eventually would have contributed 40 percent more to the pension fund for Wayne College employees, Ohio's State Teachers Retirement System. But she herself would have received 12 percent less on a pension now based on the last three, instead of five, years of employment and been subject to a five-year freeze on cost-of-living adjustments.

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**Frank Armstrong**

CEO of Investor Solutions

Just beginning her career as a professor at Wayne College, Heather Howley was considering moving much of her retirement savings to a 401(k). Despite sweeping changes to the pension fund mandated by the Ohio state legislature, Howley's advisor recommended that she stay put. "Even

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though I think about retirement, that's a long way off," she said. "I can't put anything more away, and I need to pay down the debt on my student loans."

If you're approaching retirement age, be aware of benefits or penalties coming due on certain investments. For example, if you will be age 70½ before April 1, 2014, as part of the required minimum distribution, you will need to withdraw some money from your IRAs or the government will tax half of it.

"You can reinvest it in a private account or put [it] into growth vehicles," said Frank Armstrong, certified financial planner and CEO of Investor Solutions. If you're passing the six-month mark after your 59th birthday, Armstrong advises converting traditional IRAs into Roth IRAs, which guarantee tax-free income for life—and beyond—for your beneficiaries.

(*Read more:* **Investors ignoring retirement accounts**)

Whether you're just starting out your career or winding it down, Armstrong recommends taking an end-of-year look at your 401(k). "See if it's out of balance," he said. "Generally, it's a good idea to take money out of sectors running up in value and put it in sectors going down. If the stock market is high, you may want to [take] some out and reinvest it in bonds," Armstrong added. "If [you are] in multiple-asset classes, it might be time to invest in emerging markets."

Above all, don't be spooked by alarmists into making disastrous decisions. Armstrong advises against "chasing headlines," but many investors can't help but worry, for example, that protracted partisan sniping in Washington over the federal budget will lead to a market meltdown.

Mark Bodine, a New York–based scriptwriter and producer of industrial shows, has nightmares about a replay of 2008, when his stock portfolio lost a quarter of its value.

"I don't want to go through that again," he said. "I'm not too far from retirement. I don't want to have to wait to get back to where I am today." Bodine is considering diversifying his portfolio, with less in the stock market and more in certificates of deposit (CDs), a rental property in New York or Florida, or even the ultimate safe haven: cash.

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