



## ROAD TO RETIREMENT ABOUT TO GET ROCKIER

You may or may not agree with President Bush's new plan to fix the looming Social Security shortfall. Make no mistake, though, your retirement years – whether imminent or distant – will be affected no matter what happens.

“This is a wake up call,” said Melissa Favrealt, senior research associate at the Urban Institute, a nonpartisan research organization in Washington, D.C. Thursday night, the president proposed cutting future Social Security benefits levels for most people while protecting benefits for the poorest Americans. The plan, delivered in a rare prime-time news conference, rattled the and signaled that life in retirement will be tougher than in the past, Favrealt and other scholars and financial experts said Friday.

If they haven't done so, people should take stock of their long term finances and begin planning for how they will manage – by saving more, paying off houses, and getting used to the idea of working well beyond current retirement age, the experts said.

## EXPECT TO WORK LONGER

**“People need to have a different view of retirement,”** said Scott Hanson McClain, a Sacramento financial advisory firm. “To think you'll just quit at 60 or 65 and never work again is not realistic”. The president modeled his approach for dealing with the social security deficit on a proposal by Robert Pozan, a key Bush adviser on social security. Currently individual retiree benefits are based on lifetime earnings and adjusted to reflect annual changes in average national wages. Under Pozan's “progressive Indexing” plan, benefit levels for people earning less than \$25,000 a year- the bottom third of workers – would remain intact. But for those with higher earnings, retirement benefits would be calculated on a sliding scale, adjusted for changes in average national wages and prices. Because prices typically grow more slowly than wages, the formula would drag down benefit levels.

The sliding scale approach already has stirred deep controversy nationwide and faces a hard fight in congress. The nations Social Security pot is expected to begin running short within 10 years. Bush, who also has advocated the creation of private accounts in the retirement system, said the new model is needed to assure the survival of the system. Jim Mesnier, a 71- year- old lawyer from Sun City Roseville, supports Bushes plan for Social Security. “ I have nieces and nephews who are raising families and unless we get in there and do something, there 's going to be nothing left for them. According to Marilyn moon, director of health programs for the American institutes for research, the plan will be a “tough sell” because it will mean substantial cuts in future benefits.

“ This is not just a small adjustment. It's a cumulative adjustment,” Moon said. “it gets larger and larger the further you go into the future.” Changing the wage to price indexing for middle and upper income earners would mean their future benefits would be tied to the 2005 standard of living, Moon said. “The 20 year olds will be affected more than the 30 year olds. Them more than the 40-year-olds,” she said. Marion Faustman of Granite Bay, part of the California senior legislature, said Bushes approach marks a shift from social security's promised of shared obligations between generations. “it was offered to everyone ,” Faustman said. “Anything they suggest so far means less for everyone.”

Peter D'Anna, a Sacramento Representative of the national committee to preserve Social Security and Medicare, agree, may also face income limits. The Medicare system is facing an even deeper hole than social security, and will be tougher to fix, said Richard w Johnson, an Urban institute researcher. Medicare's projected 75- year deficit is \$8.8 trillion, while social security's \$4.3 trillion, he said. Retirees are facing ever rising health care premiums, co-payments and drug costs. At the same time, people are saving less and running up more debt while seeing their investments returns stagnate. Throw in the possibility of reduced social security benefit, adds up to a much tighter picture for retirement in the future.

“The sky is not falling, but everyone should be concerned,” Johnson said. People should expect to retire later, said Ronald Lee, an expert on aging at the University of California, Berkeley. “ I don't think people should count on retiring at 65, 66, or 67,” he said. Hanson said people of all ages –even those just entering the work force- can create a more comfortable retirement if they:

- Maximize contributions to employment retirement plans.
- Save as much possible. A good goal is 10 percent of gross income.
- Avoid running up home equity loans. Aim to retire with your home paid off.
- Consider taking Social Security benefits later to increase their size.
- Continue working after retiring from your primary career, possibly for less pay (and maybe less stress) to bolster income
- Engage in a healthy lifestyle to minimize the chance of future medical problems, and the costly bills that come with them.