Retirement Advice for Today's Graduates
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June 2012

Three events occurred during the past month: my daughter graduated college with an education degree, someone sent me a column arguing that "linking investing and retirement has turned out to be a recipe for disaster," and Benefits Pro magazine asked me about safe investments for retirees. Oddly enough, these three events have a common thread.

Let's take them one at a time. My daughter and her classmates are rightfully anxious about finding jobs, but there's no doubt that they eventually will. The unemployment rate was even higher when I graduated, but the economy recovered and jobs became available. Education majors will likely find employment as public school teachers which means they will be covered by the Connecticut teacher's pension plan for their retirement years. Sounds like a safe option.

New York Times columnist Joe Nocera wrote "My Faith-Based Retirement" (April 27, 2012) reflecting on his realization that he can't retire because his 401(k) plan "is in tatters." He confesses to a series of self-inflicted wounds: He lost half his portfolio betting on tech stocks in 2000, had to split the remainder during a divorce, and then withdrew funds to fix up a house that he bought. Now there's not enough for retirement. Sounds like a risky option.

Finally, when the Benefits Pro magazine reporter asked me what "safe" investments exist for today's retirees, I answered, "that's easy, there are no safe investments." The truth is whenever we avoid one risk, such as stocks in our retirement portfolio, we must accept a different kind of risk. There simply is no "risk-free."

Returning to the New York Times columnist, had he simply set aside $3,000 per year in the Vanguard 500 Index Fund starting in August 1976 (about the time indicated in the column) and increased the contribution by only 5 percent annually, he would have earned an annualized 9.8 percent return and accumulated more than $1.5 million by the end of April of this year (Source: InvestmentView 4-30-12). He didn't indicate the year of his divorce, so that couldn't be figured into the calculation. But how on Earth could anyone come to the conclusion that investing and retirement don't mix?

The newly-minted teachers think they won't have to be worried about volatility, tech bubbles and other vagaries of the markets since they are covered by the teacher's pension plan. But is that true? The truth is that the pension fund invests in stocks. The difference here is the fund is managed by professional investors and supervised by an advisory council. This structure prevents people from doing dumb things to themselves.

Can we assume that the pension plan doesn't have any risk? Repeat after me: When we avoid one risk, we must accept a different kind of risk. The risk with the pension plan is that the state has not adequately set aside funds for the pensions it has promised. In fact, only about 60 percent of the funds needed have been set aside. Connecticut is not alone. Many states have failed to adequately fund the promises they have made to their employees.

My guess is that many states and cities will revise their pensions so that benefits for today's graduates will ultimately be much less attractive than those for workers now entering retirement. We have already seen state and local governments make this turn in Rhode Island, Wisconsin, Indiana, San Jose, San Diego and elsewhere. Chicago mayor Rahm Emanuel is calling for major changes in the city's pension plan because "the day of reckoning has arrived."

My advice to graduates: You are working for two people – the person you are today, and the person you will be in the future. And you want that person to be happy with the decisions you make now. Once you get a job and can start planning ahead, take responsibility for your own future. Don't rely on promises that are unlikely to be fulfilled. Educate yourself on how markets work and take advantage of them during your career. Get help if you need it. It will be up to you alone to ensure your ultimate financial independence. The terrific news is: You can.

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