BEDEL FINANCIAL CONSULTING, INC.

Financial Planning and Investment Management

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Recipe for Retirement Surprise: Low savings, no pension, reduced Social Security benefits

By: Bill Wendling, CFA, Portfolio Manager

Often when I go to Wal-Mart, a friendly employee makes me feel welcome the moment I walk through the doors. With a genuine smile, the employee greets me and offers me a cart for my shopping experience. I am sure many of you have had a similar experience at Wal-Mart and other stores. Have you noticed that many of those genial greeters are of retirement age? Maybe it's because I'm in the business, but I always wonder if they are working because they feel it is a productive and enjoyable use of their time, or if they do so because their lifestyles require an additional level of income that their savings and retirement plans are not providing.

In This Issue

In the fall of 2002, I wrote an article that mentioned the unfortunately low savings rate of Americans. At that time, the savings rate, based on 2001 information, was only 2.3 percent. Today, the rate has trended lower and was recently at less than one percent! While this certainly isn't "new" news, it continues to affirm that Americans are not saving for their retirement.

So we are probably not saving enough? That's ok. We will be getting a nice pension in our retirement that will supplement our savings shortfall, right? Not likely. Many companies have been switching from a traditional pension plan that promises a benefit during retirement, to a defined contribution plan, such as the 401(k). Defined contribution plans promise that an employer will make a contribution to the plan during an employee's working years, often through a match that requires the employee to also contribute. Employees that can't afford to contribute the hurdle amount are penalized. For example, if the company offers a three-percent match, but the employee contributes less than one percent to the plan, the company's matching contributions will be relatively insignificant, and your savings will not amass as quickly as they could.

If you do still have a traditional pension plan, you may be worried about the safety of the promised benefit. Your concern is well warranted. Today, companies that continue to provide pension benefits are having funding difficulties. As an example, in a recent Value Line analysis, General Motors (GM) reported approximately $67 billion in pension assets, but had pension obligations of $92 billion. This shortfall of $25 billion means that GM will likely have to continue to take measures to shore up the level of assets and decrease the funding shortfall. It also means it may be to GM's advantage, and its shareholders, to reduce the level of benefits for future employees, and if possible, for current employees and retirees.

So your savings and your pension are in sad shape…but you'll still have Social Security…right? Perhaps, but the system in its current state must eventually be changed. This means either the cost of Social Security will increase or the benefits will decrease, or both. One change that the current administration suggests is privatization. You may have already discovered this change is not unlike the evolution of the company pension plan to the 401(k). Both systems effectively eliminate any long-term obligations and place the savings burden on employees.

One way to make up for the likely fall in guaranteed retirement income is by prudent and active participation in the various retirement plans that are available to you. Just as important, is taking advantage of the increased contribution limits. If you can consistently set aside the maximum allowable retirement plan contributions every year, it will go a long way toward meeting your retirement goals.

Unfortunately, without a change in the mindset of Americans, the current trend in both the corporate and government worlds of placing the onus of savings on individuals, combined with Americans' unwillingness to save, suggest a very difficult retirement road ahead for many. Thank you for shopping and please come again!

Contact Bill Wendling if you have questions or would like additional information regarding this topic.

From Elaine
Straight Talk

"Take responsibility for yourself." That is the message being sent to all Americans today. Whether you choose to hear it or not, responsibility for your personal financial security is in your hands—not your employer's or the government's.

Many employers today are reducing or eliminating retiree medical benefits and transitioning guaranteed pensions or defined benefit plans to defined contribution plans. This is a clear indication of the need for each of us to plan for our future financial security.

The government has also reinforced the message of personal responsibility. The vulnerability of the Social Security system is in the news every day. Social Security benefits were never meant to provide sufficient funds to continue retirees' lifestyles, rather, the benefits were to provide a safety net to ensure basic needs were met. With the increasing burden on the system caused by the "graying of America", even those "basic needs" may now be in question.

Every day, we, at Bedel Financial Consulting, assist individuals and families in understanding their current financial situation and their progress for accumulating funds for their future. With every financial plan and update we prepare, we provide an analysis of our clients' financial security. The analysis determines the probability of continuing a lifestyle throughout retirement or, conversely, the inflation adjusted spending that can be sustained by their resources. Contact us if we can assist you in evaluating your progress toward your financial security.

Bill Wendling's Feature article provides additional information about the downsizing of retirement benefits—a topic that impacts all of us. Julie Gilliam responds to your questions on retirement planning and, in a related vein, Kathryn J. Wagoner provides advice on controlling debt in Client Dream – Client Reality. Dawn E. Morley provides a context for our current oil price woes in Industry News.

To continue providing the quality service you have come to expect from us, we are happy to announce that we have expanded our staff. Brenda Mendez, our new Operations Coordinator, is the latest addition to our team. Brenda's primary responsibility and area of expertise is supporting our investment managers. She may be contacting you in the future to assist with your needs. Be sure to say "hello" to Brenda next time you are in the office.

The entire team at Bedel Financial Consulting enjoys the work that we do for you. We hope it shows through our efficient and thorough response to your needs. As always, we appreciate your confidence in our services and the referrals to your family, friends, and business associates that you have provided in the past.

In conclusion, here is the message we can't stress enough: You should not and cannot assume your employer or the government will meet your needs. Take care of your own financial security. We are here to help.

Sincerely,

Elaine E. Bedel, CFP®

Industry News
Black Gold…Texas Tea

By: Dawn E. Morley, MBA

Due to the recent rise in oil prices, energy is back at center stage in the investment arena. Americans have found themselves paying over $2.00 per gallon at the pump. Many company CEOs are warning that corporate earnings will be negatively impacted if price increases do not subside.

The price of energy is controlled by many factors, including geopolitical forces and supply and demand. The energy-investment environment can be chaotic and challenging. This arena is particularly susceptible to outside events.

Oil prices are closely followed and highly publicized due to their wide impact on domestic and international economies. Oil prices can be characterized in nominal dollars or inflation-adjusted dollars. From 1945 to the 1970s, the nominal price of oil remained basically flat but the inflation-adjusted price of oil actually declined slightly. The nominal and inflation-adjusted price of oil began to rise in the early 1970s, as a result of the Arab Oil Embargo and the Organization of the Petroleum Exporting Countries (OPEC) taking control of oil prices. Prior to that time, the U.S. government had required U.S. producers to produce oil at controlled prices. As a result, U.S. production declined and more oil was purchased overseas. This set of events is what eventually gave OPEC enough power over our oil supply to give the embargo teeth. As the oil price adjusted to true market pricing, it spiked up and has been floating freely ever since.

Recently, forces have converged to create a similar situation. This time it is mainly in the transportation arena. Remember the Exxon Valdez, the ship that crashed off the coast of Alaska and spilled millions of barrels of oil in the Alaskan waters? Well, believe it or not, that was the beginning of our current problem. After that accident, and several similar ones, governments around the world began outlawing single-hulled tankers. This, in turn, created a shortage of double-hulled tankers. Double-hulled tankers are very expensive and time-intensive to build. With oil at $20/ barrel, they weren't very profitable to run either, so there was no rush to build them. In addition to insufficient tankers, there weren't enough pipelines. Who wants a pipeline in their backyard? Lastly, further complicating the issue, the U.S. has not built a new refinery since the 1970s.

This leaves us caught in a crunch between inadequate transportation and an increase in oil demand. The U.S. and China are each coming out of a

Client Dream — Client Reality
Keeping Debt Under Control

By: Kathryn J. Wagoner, CFP®

The motto of today's generation seems to be "the bigger the better," "the more the merrier," and "buy now, pay later." The low cost of borrowing, together with an aggressive spending mentality and a daily dose of enticing new products, makes it hard to keep spending in check.

To avoid getting entrenched in debt you must be realistic about your cash flow situation. Spending more cash than you currently have in anticipation of future cash inflow—bonus, pay raise, sale of property, inheritance—is only asking for trouble. Borrowing more money than you can comfortably afford to repay is not a good strategy either.

Obviously, there are advantages to borrowing for larger purchases that have potential for appreciation or substantial cash flow, such as real estate, a new business endeavor, an addition to your home or educational expenses. Also keep in mind that the interest you pay on real estate mortgages, home equity lines of credit and student loans may qualify for tax deductions. So, the way in which you borrow is also essential in planning.

If you have equity in your home (the difference between the appraised value of your residence and the outstanding mortgage amount) you may be able to establish a home equity line of credit. A line of credit acts like a credit card in that the amount available on the line can be used as needed. There is no debt until you "borrow against the line."

Home equity lines of credit may be established to fund emergency needs, home improvements, major purchases, debt consolidation or to transfer debt from a credit card that has a higher interest rate. Interest owed on the line is payable monthly with the balance due at the end of the term (one year), although it can be paid prior to that time. The line can be renewed annually and the balance can be carried over to the following year. It is advisable, however, to regularly make payments against the principal.

Of course, you should not carry a balance on credit cards. Interest rates can climb as high as 23 percent. Carrying a balance at this level would allow the interest to accumulate at a fast pace, making it more difficult to pay off.

It is also wise to limit yourself to only one or two credit cards. And, if you have trouble with charging more than you can afford to pay off, maintain a low credit limit on your card(s). This will eliminate your ability to spend more than you can afford. Again, the best way to avoid credit card debt is to simply pay off the total balance each month.

The majority of us do not have the ability to own everything we want or need and be debt-free. But it is important that you keep debt to a minimum and only borrow funds for needs or purchases that are necessary and/or add to your overall well-being and cash flow.

Contact Kathryn J. Wagoner if you have questions or would like additional information regarding this topic.

recession and both countries are demanding vast increases in oil. Fortunately, this winter has proven relatively mild on the East Coast, reducing the demand for oil and relieving the crunch. On a nominal basis, at the time of this writing, crude oil prices were at $58.28 per barrel. This is the highest nominal crude oil price in history. On an inflation-adjusted basis, however, oil prices have been higher. 1979 saw the highest inflation-adjusted crude oil prices in history when the peak in oil prices was $94.49 per barrel. Going forward, the forces that push and pull on the price of oil will continue to affect our lives. In the meantime, Americans will have to budget more each month to fuel their cars and CEOs will have to look for cost-cutting measures elsewhere or face declining margins.

Contact Dawn E. Morley if you have questions or would like additional information regarding this topic.

Your Questions
A Look at Retirement

By: Julie Gilliam, Financial Planning Specialist

Q: *My husband and I are doing some retirement planning. How long can we expect to live?*

A: This chart contains the latest information on longevity, as presented in the TIAA-CREF Advisor Forum. For example, 41 percent of today's 65-year-old males are expected to reach age 90.

	Surviving to 80		Surviving to 85		Surviving to 90		Surviving to 95	
Current Age	Male	Female	Male	Female	Male	Female	Male	Female
60	73%	83%	58%	70%	39%	52%	22%	30%
65	75%	84%	60%	71%	41%	53%	22%	31%
70	79%	87%	63%	74%	43%	54%	23%	32%

Q: *I am starting to hear more and more people at work talking about retirement, but I am not sure that I am ready to retire now—either financially or emotionally. I am only in my fifties. Is this something I should be considering at my age?*

A: According to the 2004 "Retirement Reality Check" survey by Allstate, the average age of expected retirement for Baby Boomers is almost 62, and 76 percent of Baby Boomers expect to work for pay at some point during retirement. Survey respondents could cite multiple reasons for continuing to work. Forty-one percent expect to work to gain access to health insurance benefits; 42 percent, to obtain additional funds to simply make ends meet; 59 percent, because it is a part of their identity; 64 percent, to pass the time or keep busy and 80 percent expect to work to feel useful. The number one reason to continue working—identified by 94 percent—was to stay mentally active. So congratulations—you are absolutely normal!

Contact Julie Gilliam if you have questions or would like additional information regarding these topics.

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Congratulations are in order!

When is a vacation more than a vacation? When it is a honeymoon!

Congratulations are in order for Julie Gilliam and Frank Scheers, IV who were married in Texas on April 16th. The happy couple spent their honeymoon in Colorado.

Corporate Calendar

Bedel Financial Consulting will be closed for business on the following days.

May 31 — Memorial Day

July 4 — Independence Day

September 5 — Labor Day

November 24 — Thanksgiving

November 25 — Day after Thanksgiving

December 25 — Christmas Day (Sunday)

December 26 — Day after Christmas

Year 2006

January 1 — New Year's Day (Sunday)

January 2 — Day after New Year's Day

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