Why You'll Have a Worry-Free Retirement

The Motley Fool

By Tim Hanson

What a load off, huh?

According to a recent study by Towers Perrin reported in *The Wall Street Journal*, "The pension plans of Fortune 100 companies ended 2006 with 102.4% of the assets needed to pay pensions indefinitely." That's right ... *indefinitely*.

Good news? Great news!

That's a far cry from just a few years back, when these very same pensions were nearly 20% underfunded. Moreover, maybe it doesn't mean that the end of retirement is nigh. According to the Milliman 2006 Pension Study, **Citigroup , UPS** (NYSE: UPS), **Bank of America** (NYSE: BAC), **Qwest Communications** (NYSE: Q), and **Alcatel-Lucent** (NYSE: ALU) have all bumped their pension benefit obligation ratios up over the 100% mark.

So, *mea culpa*. I take back everything I wrote about the need to take your retirement planning into your own hands. My bad. Sorry to worry you. There. It's retracted.

Or maybe not.

Havoc on the horizon

The *Wall Street Journal* article rightly notes that like so many other things financial, pension plan health is cyclical. Why are pension plans so much better-funded today? It's not because of greater company contributions, but rather because of the recent bull market rally. I'm guessing that many pension plans, when calculating solvency, project that it will continue.

It won't. The market moves in fits and starts. And a protracted swoon, in the words of the *Journal*, "could wreak havoc with pension funding once again."

Those aren't my words, but I agree with them 100%. That's why Citigroup, which has seemingly more than funded its current pension obligations, plans to freeze its pension plan in 2008. If this nearly 200-year-old, $254 billion financial mainstay doesn't think it can continue to operate a pension going forward, what does this tell us about the outlook for pensions in general?

Continued on back

I retract my retraction

It tells us that we'd be downright stupid to rely on pensions to fully fund our retirements. Indeed, relying on someone else to take care of you as you age is one of the four surest ways to ruin your golden years.

In other words, even if you're near retirement and your employer has assured you that your pension will be there, it's safest to assume that it won't be - at least, not fully. Instead, now's the time to make sure you have your own retirement savings and asset-allocation game plan.

And if you don't have a pension - which is likely, considering that most companies, from **Wal-Mart** (NYSE: WMT), America's largest employer, to **GM** (NYSE: GM), a former poster child for pensions, only offer 401(k) plans - make sure you're taking full advantage of that benefit. That means maximizing your company match and allocating your 401(k) in a way that matches your timeline, increases returns, and mitigates risk.

The Foolish bottom line

While this recent pension news is positive, don't let it lull you into thinking we're out of the retirement woods. Our retirements are in our hands, and we need to make sound financial decisions from here on out to ensure that our retirements are secure.

So pension or no, if you'd like some help getting a handle on your retirement plans, consider taking a look at the resources offered by our *Motley Fool Rule Your Retirement* service. There are calculators, timelines, and model portfolios all yours free for 30 days with no obligation to subscribe. Click here for more information.

This article was originally published Jan. 25, 2007. It has been updated.

Tim Hanson does not own shares of any company mentioned. UPS and Bank of America are Income Investor *recommendations. Wal-Mart is an* Inside Value *pick. No Fool is too cool for disclosure.*