



"FREEZING YOUR FUTURE"

What you need to do if your company freezes your pension plan

By Karen Norman, CFP®

In February General Motors announced they would be freezing the pension plan for salaried employees, and details on the replacement pension plan would be provided sometime in early March. This follows on the heels of announcements by IBM, Verizon and other major companies of pension freezes. And in this highly competitive world its likely more companies will follow this model. Hewitt Resources says 16% of large companies plan to freeze pensions in 2006.

So what does all this mean to you if you are employed by one of these firms?

First, any pension you have already earned is still yours. However, with defined benefit plans, most of the "credits" are earned in the last years of employment. Unless you are already 65, this can make a big difference in your pension payments.

So what should you do? First be sure you get the details of your individual pension. You should receive an estimate of what your monthly pension will be at the 'frozen' amount. Next find out about your new pension. Is it a Cash Balance plan, addition to your 401k etc? How will it be accumulated and paid?

If you are in the middle of your career have 15-20 years with the company and thought you might retire at 55 or 60 chances are you will have to work longer to have a financially successful retirement. Maximize your 401k contributions and use Roth's whenever you qualify.

Having the facts will help you make better decisions about how long you will need to work and how much you will need to save.

If you are just starting your career you have plenty of time to plan – but don't wait just because you're young. It will take your whole working life to plan for a full retirement life. Take advantage of 401k's IRA's Roth's and other tools that allow you to save tax free or tax deferred.

Whatever your situation, don't ignore these changes. Even if your company has not changed your retirement plan --- you can't predict the future. Knowing your options and planning now will keep you from being 'left out in the cold' later.

Karen Norman is an hourly, fee-only CERTIFIED FINANCIAL PLANNER™ practitioner. As founder of Norman Financial Planning, she provides commission-free, unbiased advice to those of all financial levels. Questions can be sent to discover@normanfinancial.com.