Retiring in America
How safe is your Safe Money?

Whatever your picture of retirement, the best way to get there and enjoy it once you've arrived is with a focused, thoughtful plan. Americans are living longer than ever which will make retirement more expensive than ever. When you combine the tumultuous economic and political environments we are witnessing at both the national and international levels, it is not difficult to see how timely and important the notion of safe money has become.

Since safe money is only as safe as the company or entity backing their promise, it's worth examining exactly how the FDIC, insurance companies, and the Federal Government "guarantees" the safety of your money.

1) CDs & FDIC: Bank issued Certificates of Deposit (CDs) are ultimately principal protected under the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per depositor. So, when you deposit money in a bank CD for safety's sake, you're counting on the fact that the FDIC will be there to guarantee your principal should the bank become insolvent. The FDIC is an independent agency of the United States government that protects against the loss of your deposits if an FDIC-insured bank or savings association fails. FDIC insurance is backed by the full faith and credit of the United States government. Since the FDIC's creation in 1933, no depositor has ever lost even one penny of FDIC-insured deposits.

Intended Use of CDs: Short-term savings of 1 year or less, perhaps for a near-term purchase.

2) Fixed Annuities: Fixed Annuities meet two specific needs of retirees and aspiring retirees: the ability to create a "personal pension" and potential growth without risk of the stock market.

The safety of principal guarantees offered by a fixed annuity are based on the financial ability of the insurance company to make good on them. Instead of federal regulation each individual state has an insurance department who's responsible for enforcing strict regulations on insurance companies. One of the strictest, and most important requirements, is the "dollar for dollar reserve" requirement where the Insurance company must keep at least $1 in reserve for every $1 in guarantees they've made to contract owners.

Intended Use of Fixed Annuities: Guaranteed income you cannot outlive and market-based potential growth without market risk.

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3) U.S. Treasuries & Federal Government. The overwhelming advantage of owning U.S. government Treasury bills, notes, or bonds is safety. When you buy a U.S. Treasury security you are in effect buying debt of the U.S. government, in other words you're lending money to the federal government for a specific period of time. Treasury securities are considered "safe" simply because of the promise by the federal government to pay you interest and your principal upon maturity. This promise isn't backed by any asset or contract, but by the "full faith and credit power" of the U.S. Government.

Intended Use of U.S. Treasuries: Extreme safety and dependable interest payments for longer term money.

Undoubtedly, anytime you ask for something in life you have to give up something in return. When you include principal protection in your portfolio be it CDs, Fixed Annuities, or Treasuries you give up liquidity in return for certainty, but certainty is something many retirees and soon-to-be retirees are looking for in this potentially over inflated market.

Defined goals lead to definite plans. We all have dreams of how we want our retirement years to be. With careful planning you'll be in a better position to realize those dreams. If you set financial objectives and plan for them, you are ahead of most Americans. A written financial plan does not imply or guarantee wealth, of course; nor does it ensure that you will reach your goals. Yet, that financial plan does give you an understanding of the distance between your current financial situation (where you are) and where you want to be.