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Workers: Take control of financial future

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General Motors' move Tuesday to freeze its classic pension plan and herd new employees into a 401(k) plan is another warning flag that U.S. workers must plan and save for their own financial futures, local experts say.

"(Workers) are going to have to refocus themselves because the traditional defined-benefit plan provided a set payment," said Michael Cantor, a vice president at The State Bank in Fenton.

In the classic defined-benefit plan, Cantor said, workers put in a certain number of years, at certain levels of pay, and their monthly pension checks are determined by a formula.

After retirement, the checks don't vary, and generally can be counted upon far into the future, he said.

But in a defined-contribution plan, such as a 401(k), workers decide how much to put into plans, often matched at least partially by the employer.

The employee decides where and how much to invest, and bears the market's ups and downs.

In the end, monthly payments can vary - sometimes greatly.

Pension freezes typically mean that employees don't enjoy a "snowball" effect in their final working years, as they continue to bank more seniority and larger paychecks.

That snowball effect can have a huge impact on final pension payout amounts, depending on the formulas used by the companies that offer pensions.

Essentially, the more seniority and the more pay, the bigger the pension check, Cantor said.

David Kudla of Mainstay Capital Management in Grand Blanc advises Big Three and Delphi Corp. workers on their 401(k) plans and other financial issues.

He said the pension changes at GM mean more workers must examine how 401(k) plans, Individual Retirement Accounts, Roth IRAs and expected Roth 401(k) plans coming to GM and Delphi later this year fit into the employees' financial futures.

It also makes a hefty 401(k) balance not just a nice thing to have, but a primary financial tool, he said.

"We are seeing this with all companies," Kudla said of GM's pension moves. "Companies are moving away from, or scaling back on, defined-benefit plans."

In the past, retirement funding was a three-legged stool, supported by Social Security, a pension plan, and savings, he said.

Today, with Social Security in jeopardy and companies cutting back on pensions, savings plans like the 401(k) are bearing more of the financial weight of retirement.

There is a silver lining in the issue, Kudla said, and that's control.

"There is no control over Social Security or a pension," he noted. "(Workers) have total control, 100 percent control, over their 401(k)."

Kudla's firm helps workers manage and make fund selections within their 401(k) plans for a fee.

Cantor, who assists State Bank customers with fee-only and other financial planning advice, expects the pension-freezing front to continue to roll over other companies, large and small, private and public.

"It's sort of a cascade effect. Once one makes the move, the rest do it. IBM did it, GM did it, Verizon Communications did it," he said.

Freezes are the latest trends to hit classic pensions, which have been getting killed off or drastically changed for years.

In 1985, 89 percent of Fortune 100 companies offered defined-benefit plans, compared to 51 percent in 2004, according to Watson Wyatt Worldwide, a human resources consulting firm.

The converging trends mean workers have to be more savvy about saving and investing, Cantor said.

"People do have to educate themselves, they do have to take control of it, and sit down and figure out a long-term strategy for themselves," Cantor said.

"All the things that were there for our parents aren't going to be there for us."

Kudla said a well-managed 401(k) can be more profitable than even a plush pension, but it takes attention, understanding and plain old work.

"It is very likely that the defined-contribution plan, if managed very well, (will pay off better)," he said.