

Total Return

By Melody Hobson

RETIREMENT PLANNING EQUALS SUCCESS

What African Americans must do to build their nest eggs

WE ASK CHILDREN ALL THE TIME, WHAT THEY WANT TO do when they grow up. Kids frequently have a vision of how they imagine themselves as adults—what they want to do, who they want to be. Unfortunately, as we get older, many of us lose this ability to see our future selves. When was the last time you pictured yourself at 80? Yet, it's likely many of us will live well past 90. So the future—specifically your retirement—is definitely something to think about and plan for.

Sadly, the concept of saving for retirement does not resonate in our community the same way it does for our white counterparts. In fact, all else being equal (income, age, etc.), African Americans are 50% less likely to list retirement as their primary investment goal.

Great-West Retirement Services, one of the largest retirement record keepers in the country, recently conducted an extensive survey encompassing more than 20,000 active retirement plan participants and looked at results by ethnicity and gender. **The findings were eye-opening. Black males earned 20% less than white men, \$49,100 versus \$61,300, and deferred less of their salaries to retirement savings, 1.9% compared with 4.5%.**

More worrisome—the account balances for black males were a quarter the size of their white male counterparts' accounts, \$11,800 compared with \$47,300. The black men surveyed had worked 33% longer at their companies, so they had more time to contribute to a retirement plan. Salary discrepancy is a real issue, but the gap in account balances was driven more by low deferral.

Similarly, black women fell short. Those surveyed contributed 3.3% of their salaries to retirement, while white women set aside 4.8%. Despite earning only 8% less than white women, black women's retirement account balances were a third the size (\$13,100 and \$38,200, respectively).

Another unsettling finding was our community's lack of investment diversification, which is critical in helping investors reap rewards during different market cycles and minimizing risk. Of the groups Great-West surveyed, African Americans had the least diversification—1.7 funds compared with 3.6 held by whites, 3.7 funds for Asians, and 3.8 for Hispanics.

It's much too risky to have your financial security riding on one or two investment choices. Yes, mutual funds offer diversifica-



tion, but one fund is not enough to support an entire retirement plan. I recognize it can be a bit overwhelming to select from a laundry list of funds, so I have a general rule of thumb: Mix it up.

It's good to include a variety of asset classes—stock funds, bond funds, cash and/or real estate. Size is important, too. Consider stock mutual funds that target companies of different sizes. Large companies tend to be more stable and can make a good plan anchor. Bigger names typically grow more slowly—think General Electric versus a startup. While smaller companies can carry more risk, they can grow faster, potentially yielding greater rewards for investors. They also tend to have a better chance of being inefficiently priced.

Investing internationally is another way to diversify. It's critical to take into consideration the regions of the funds you might buy. For example, equities from emerging countries tend to be less predictable than a fund holding mostly European stocks. Because of this risk, I keep international investments to a smaller percentage of my overall portfolio.

If you work for a firm that offers company stock as a 401(k) investment option, don't overdo it. According to a study by Hewitt Associates, over a quarter of employees who own company stock had 50% or more of it in their 401(k) plans. The downside can be devastating. Remember Enron?

Diversification is like planting a garden—you want variety and investments that bloom at different times. It requires pruning, too, so rebalance your portfolio at least once a year.

Melody Hobson is president of Ariel Investments L.L.C, a Chicago-based money management firm serving individual and institutional investors. She is also a regular contributor to ABC's *Good Morning America*.