Have you peeked at your 401K statement lately? Hmmmm?

Our friend Stu Gots * walked into our office all excited the other day. His enthusiasm stemmed from him finally opening up his annual 401k statement. He was pleasantly surprised to see that his investment returns for 2010 were positive. Stu's question is, "should I make any changes or leave it alone?"

Stu dreams of sipping pina coladas with Robin Leach while living the lifestyle of the rich and famous. He loves those drinks with the little umbrellas.

Before he blindly makes any changes, we want to compliment Stu for seeking the advice of a financial professional. A financial professional can help evaluate, educate and provide you with options for your retirement questions.

Since the market fell in 2007, many people like Stu have been afraid to open their 401k or IRA statements to check on their account balances. Reviewing your portfolio at least annually is a critical step to achieving your retirement goals.

Stu first needs to answer some basic questions before he can make any decisions on his retirement account. What age do I plan to retire? How many years until retirement? How much money will I need for my retirement? Based on what I am doing now, what is the projected account balance when I retire? What is my risk tolerance?

Stu happens to be 40 years old and he plans to retire at 65 which gives him 25 years until retiring to a lounge chair sipping coladas. He doesn't know how much he needs in retirement assets but he currently has an account balance of $20,000 in his 401k plan and contributes $100 per month. He makes $40,000 per year in what he calls a "dead end job" and is a conservative investor.

Based on the above info, if Stu continues to contribute the same amount per month and averages a 6% return, Stu would have an account balance of approximately$158,000. When we showed him this calculation he jumped out of his chair and said "Ouch, looks like we will be living with the in-laws." What are Stu's options?

Since the in-laws are not an option as he can't take the pot roast 3 times a week, the first step is to set a retirement goal? Stu picked a goal of having $300,000 in his 401k retirement plan by age 65.

To reach a goal of $300,000, Stu Gots either has to increase the amount of money he is saving or he must adjust his risk tolerance. If Stu increases his contributions to $300 per month and earns a 6% return, he would reach his goal. If Stu averaged a 9% investment return and kept his payments the same, he would achieve the same goal.

Increasing his contributions may affect his cash flow to pay for living expenses. Increasing his risk tolerance may not allow Stu to sleep at night. Stu also knows that past performance is no guarantee of future results.

Obviously Stu Gots needs to make changes to his 401k plan. Before making his final decision, it is recommended that he complete a new cash flow statement and a risk profile questionnaire. This way he will know exactly what he can contribute and won't invest over-aggressively.

In the end, a combination of increasing contributions and investing with a higher risk factor maybe the solution. Each person should apply these same questions and this process to their unique situation at least annually. If you haven't started contributing to a retirement plan yet, why don't you start now?

Stu is still very excited as he knows he has a goal and a plan of action. Plus he has the picture of living with the in-laws to keep him motivated. So if Stu can do it, why can't you!

* Stu Gots is a fictional character not based on any of our clients and any reference to any other is not intentional.