



Retirement Guide 2011 / The New Path

YOUR CHECKLIST

FOR A RICHER RETIREMENT

BY WALTER UPDEGRAVE

THE ROAD TO RETIREMENT IS littered with distractions. In the hurly-burly of life, so many things compete for your attention—holding down a job, paying the bills, raising the kids—that it becomes easy to put off or simply neglect what you ought to be doing on the retirement front. And when you do find time to focus on your future, you can get bogged down in the minutiae—What's the best fund to own? Should I invest in potash like that fertilizer expert on CNBC recommended? The result: You can lose sight of what really matters most.

That's where MONEY's checklist comes in. Over the next three pages you'll find to-do lists for each of the main stages of retirement planning. Think of them as basic reminders you can set aside and refer to on occasion—say, every year or so—to make sure you're on the right track. Each list will also give you a sense of where you should be in terms of saving. Don't worry: Hitting the targets isn't as hard as you think. You just have to stick to a plan.

It needn't be a complicated one. Says Charles Farrell, a financial adviser and author of *Your Money Ratios*: "Simpler is better. Focus on a few key goals and you won't miss the forest for the trees."

You've got questions.

How can I pay less
to invest?

1

GETTING STARTED

AGE

Mid-thirties to early forties

YOUR MAIN GOAL

Develop the habit of saving and investing for retirement.

Your Savings Target* at 35

1.5
times your annual salary

▶ IF YOU HIT TARGET ...

10% Then save this much of your salary annually to generate 70% of your pre-retirement pay at 65.

▶ IF YOU FELL SHORT ...

15% And put away only half your salary, then save this much of pay annually to reach the 70% level.

Save Early and Often

Even a five-year head start on saving will make a big difference down the road.

YOU'RE 35 AND EARN \$70,000 A YEAR

If you start saving 10% of pay at 35:

\$936,100

If you start saving 10% of pay at 40:

\$697,700

NEST EGG AT 65

NOTES: Assumes 3% annual pay increases and 7% annual return in a tax-advantaged investment account. SOURCE: MONEY research

YOUR CHECKLIST

I must get the following done this year:

- Take full advantage of my 401(k) match**
Your employer-sponsored retirement plan is the easiest way to put your savings on autopilot. And if you take full advantage of your company match, you could earn 50% to 100% on your money before taking on any market risk.
- Boost my 401(k) contribution**
As your paycheck grows, your savings rate should too. Sign up for "auto escalation" to boost your contributions by a percentage point or so a year. If your 401(k) doesn't offer this feature, sock away half or more of each raise.
- Find other tax-advantaged ways to save**
Already maxing out on your 401(k)? If you make less than \$120,000—or \$177,000 for married couples filing jointly—check out a Roth IRA. Already hitting the \$5,000 annual IRA limit? Move on to investment options such as index funds that don't expose you to stiff tax bills.
- Cover six months of expenses**
Make sure you've got an emergency stash, so if you get laid off you won't be forced to dip into your 401(k) and IRAs. Put this money in a safe place like an FDIC-insured bank account or CD, or a high-quality money-market fund.
- Invest for growth**
You may feel skittish about stocks, given the recent market turmoil. But with retirement still two to three decades away, your best shot at building an adequate portfolio is to put most of your retirement savings—80% or so in your thirties—in stocks and ride out turbulence along the way.

*Savings analysis from Charles Farrell. Figures assume no pension and 30-year retiree

How can I navigate through market volatility?

Can I get my retirement back on track?

MID-CAREER

| | |
|------------------------------|---|
| AGE | YOUR MAIN GOAL |
| Mid-forties to early fifties | Focus on how you invest your money. And make sure you're on track to meet your long-term goals. |

Your Savings Target at 45

3

times your annual salary

▶ **IF YOU HIT TARGET ...**

11% Then save this much of your salary annually to generate 70% of your pre-retirement pay at 65.

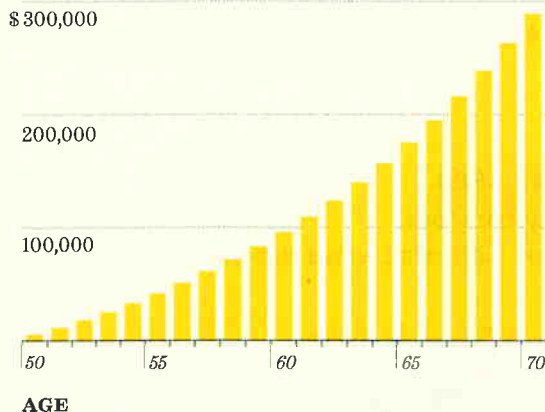
▶ **IF YOU FELL SHORT ...**

22% And put away only 1½ times your salary, then save this much of your pay annually to reach the 70% level.

How to Make Up Ground Fast

You can amass more than a quarter of a million dollars simply by making 401(k) "catch-up" contributions starting at 50.

END-OF-YEAR TOTAL



NOTES: Assumes a \$5,500 catch-up contribution that increases in \$500 increments with yearly inflation of 3% and 6% annual returns. SOURCE: MONEY research

YOUR CHECKLIST

I must get the following done this year:

- Rebalance my portfolio**
Periodically reset your holdings in stocks and bonds back to your desired mix to smooth out the market's bumpy ride. Keep it simple by rebalancing annually on your birthday or after you get your year-end statements.
- Go over my investment strategy**
You still need to invest for growth, but now's the time to start gradually dialing back your stock exposure to guard against another downturn. So if you started your late thirties with an 80% or higher stake in stocks, trim that to 70% or so by your early fifties.
- Make my catch-up contributions**
The extra \$5,500 you can throw into your 401(k) starting at 50 will not only grow into a surprisingly big stash down the road (see the chart), but will also reduce your taxable income now. You can also stuff a bonus \$1,000 a year into an IRA starting at 50.
- Give myself a reality check**
Assess whether you're on course for a secure retirement. The Retirement Planner at cnmoneymoney.com will tell you the odds of meeting your goals—based on your current balances, savings rate, and investment strategy. It will also let you know how to catch up if you're off track.
- Consolidate my far-flung retirement accounts**
After career changes and job switches, you may very well have left a trail of 401(k) accounts scattered among former employers. Rolling these funds over into an IRA or your current 401(k) will make it easier to manage your entire nest egg.

Which investments can help me generate income?

Where can I get free investment help?

NEARING AND IN RETIREMENT

| AGE | YOUR MAIN GOAL |
|------------------------|--|
| Mid-fifties and beyond | Decide what type of retirement you want—and how to pay for it. |

Your Savings Target at 55

6

times your annual salary

▶ **IF YOU HIT TARGET ...**

10% Then save this much of your salary annually to generate 70% of your pre-retirement pay at 65.

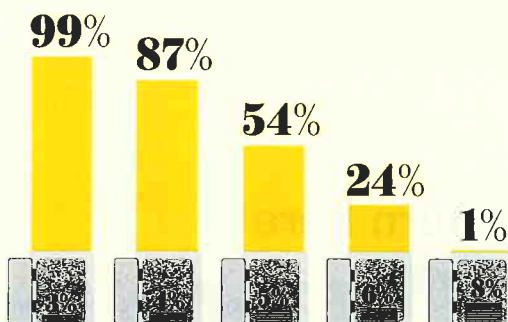
▶ **IF YOU FELL SHORT ...**

45% And put away only three times your salary, then save this much of pay annually to reach the 70% level.

Making It Last

The more you withdraw each year, the lower the odds your portfolio can support you throughout a long retirement.

ODDS OF \$ LASTING 30 YEARS OR MORE



INITIAL WITHDRAWAL RATE

NOTES: Assumes initial withdrawal is increased annually by inflation and that money is invested in a portfolio that starts at 55% stocks/45% bonds and gradually shifts to 20% stocks/80% bonds over 30 years. SOURCE: T. Rowe Price Retirement Income Calculator

YOUR CHECKLIST

I must get the following done this year:

- Prune my stock portfolio**
Going into the 2008 crash, nearly four in 10 401(k) investors in their mid-fifties to mid-sixties had 80% or more of their accounts in stocks. To avoid damage from market meltdowns near the end of your career, scale back your stock stake to 60% or less by your early sixties. And once you're close to retiring, keep two years' worth of expenses in cash.
- Map out a blueprint for my retirement**
When you quit working, how will you fill the hours of each day? How much traveling will you do? And will you stay put or relocate? Fill in the blanks and create a real budget.
- Run (and rerun) my income plan**
A financial planner or the Retirement Income Calculator tool at troweprice.com can help determine if your savings plus Social Security and any pensions will generate enough income—safely—to meet your needs.
- Look into when to take Social Security**
Should you collect Social Security benefits at 62, or wait longer to boost your checks by as much as 77%? The Retirement Estimator tool at ssa.gov will help you map out your options.
- Work on my Plan B**
Things don't always go as planned. So keep your income options open. In case you need part-time employment, maintain ties to colleagues at work even after you retire. And look into ways you can tap home equity, for instance through a reverse mortgage (see the calculator at aarp.org). ■

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