

## ARE YOU ON TRACK FOR RETIREMENT?

As a financial planner, I receive questions on a daily basis regarding individual's finances. While every question is different, ultimately a majority regarding retirement planning boil down to one of two fundamental questions: "am I doing the right things to put myself on track to retire comfortably?" and "do I have the right investments to get me there." This document focuses on the first question.

## ARE YOU DOING THE RIGHT THINGS?

You are if you can say yes to these four questions about your investing and money management habits. If not, you have some work to do before you can rest easy.

When people ask me whether they are on track for retirement I believe what they're really looking for is reassurance. But as much as I'd like to be able to tell you for sure whether you have enough to retire comfortably, the truth is that one can't even hazard a guess without knowing tons of details about your personal finances. I can tell you this, though: there are no shortcuts in retirement planning. It's all a question of getting the basics right. If you can answer yes to the four questions outlined here, you are doing well to get - and stay - on track.

### 1) ARE YOU MAXING OUT YOUR 401(K)?

I'm sure you've heard plenty of times that you have to fund your 401(k). But let me be clear about this. Maximizing your contributions to your 401(k) is the single surest thing you can do to put yourself on track to a prosperous retirement. As you can see in the table at the right, you should be saving a solid amount annually, and the earlier you start, the better. A 401(k) gives you the biggest bang for every buck you save, so if you're not making maximum use of yours, you're not really serious about retirement.

To begin with, you get an up-front tax break on the money you contribute to a 401(k). The most you can save away in pretax dollars in 2011 is \$16,500, or \$22,000 if you are age 50 or older. Because your employer may kick in matching funds (typically half of what you contribute), you're effectively starting off with a 50% return on your investment. And you pay no taxes on your earnings until you withdraw the money.

If all that isn't lure enough, think about the convenience: your 401(k) contributions flow directly from your paycheck, eliminating the natural tendency to spend your money before you can save it.

### 2) ARE YOU KEEPING TABS ON YOUR PROGRESS?

Unfortunately, you cannot simply save and forget. At least once a year, especially when you're within 15 years of your hoped for retirement date, find out where you stand. That way you can make necessary course corrections, such as increasing your savings or delaying your planned exit date. The table at right can give you a rough idea of the milestones that must be hit at various ages if you wish to retire with 80% of your pre-retirement salary. For a more personalized look at your progress, consider engaging a financial planner to determine a more detailed projection of how large a portfolio you need and your odds of reaching it.

### 3) ARE YOU GRABBING EVERY TAX BREAK YOU CAN?

As powerful as a 401(k) is, unfortunately it isn't always enough, especially if you started late or have plans of an early retirement. So don't be surprised if your personalized plan indicates that you need to save outside your company sponsored retirement plan as well.

#### YOUR SAVINGS TARGET

Use this table to **estimate** how much you need to save every year so that you'll have enough to replace 80% of your pre-retirement income.

Age	Salary	% of Salary you need to Save....	...Less this % for each \$10k Saved already
25	\$ 40,000	8%	0.8%
25	\$ 80,000	11%	0.4%
30	\$ 60,000	12%	0.5%
30	\$ 80,000	14%	0.4%
35	\$ 80,000	16%	0.4%
35	\$ 100,000	18%	0.3%
40	\$ 80,000	20%	0.4%
40	\$ 100,000	21%	0.4%
45	\$ 80,000	24%	0.5%
45	\$ 100,000	26%	0.4%
45	\$ 120,000	28%	0.3%
50	\$ 80,000	30%	0.5%
50	\$ 100,000	32%	0.4%
50	\$ 120,000	35%	0.3%
55	\$ 80,000	37%	0.5%
55	\$ 120,000	44%	0.4%
60	\$ 80,000	47%	0.6%
60	\$ 120,000	55%	0.4%

**NOTES:** Assumes retirement age of 65, annual inflation of 2.5%, that Social Security and savings will replace 80% of pre-retirement salary (minus annual amount being saved) and that portfolio gradually shifts from 90% stocks to 46% stocks by retirement age. At retirement, funds are invested in an inflation-adjusted lifetime immediate annuity

Those non-401(k) savings may also qualify for tax breaks. Miss out on them and you're passing up a very powerful way to build wealth quickly. So once you fund your 401(k), determine if you qualify for a traditional or Roth IRA. If you do, you can set aside up to \$5,000 in 2011, or \$6,000 if you are age 50 or older.

#### **4) HAVE YOU CREATED A SAFETY NET?**

Last thing you want to do is save diligently for retirement only to have your efforts undermined by unexpected medical bills, an injury that keeps you off the job, or any other surprises life can throw your way.

To protect yourself and your family, you need to have three things in hand: life insurance, disability insurance, and an emergency savings stash equal to a minimum of three months of your living expenses. That way you (or your heirs) won't have to tap retirement accounts for emergency purposes. A term life policy gives you the largest death benefit for the smallest premium - generally you should obtain coverage equal to 5 to 10 times your salary. As for disability insurance, look for a policy that will pay 60% of your salary. Before you shop, though, see if you already have coverage (or the option to obtain it) through your employer.