

## Follow Your Plan

Creating a strategy for retirement saving—or making sure you're still on track with the one you've already established can make you feel more secure in this volatile market. Take the time to focus on your goals as you consider these three steps:

### 1. Set a realistic savings target

Start by figuring out how much you're likely to spend your first year in retirement. Take your current budget and project how it might change after you retire. For example, you might eliminate commuting costs but increase expenses related to travel. You'll also need to adjust your projected expenses for inflation. In a recent government survey, the average American age 65 or older had annual expenses of \$36,530 a year.<sup>1</sup> At a 3% annual inflation rate, those costs would increase by 56% in 15 years, bringing them just shy of \$57,000. In 25 years they would rise 109%, to roughly \$76,500.

### 2. Estimate income

Calculate what you expect from Social Security, part-time work, pensions and other reliable income sources. The amount by which your spending exceeds your income is what you'll need to withdraw from savings. Experts generally recommend aiming for total retirement savings of roughly 25 times your first year's withdrawal. You can use one of several online calculators to help you determine whether you're on track to reach your savings target.

### 3. Assess your investments

Your life stage and comfort with risk can help you determine how your assets should be divided, or allocated. For example, the longer you have until retirement, the more you can appropriately allocate to stocks, which offer much stronger potential long-term returns than bonds or cash investments. While stocks pose significant risk of short-term declines—as the past year has graphically illustrated—the risk of loss decreases over longer holding periods. In fact, stocks, as measured by the S&P 500, have not lost ground during any period of 20 years or longer since 1926.<sup>2</sup> While bonds and cash investments offer less long term growth potential, they do provide greater short-term stability. So as you approach retirement, exchanging some stock investments for bond and cash holdings can protect the money you'll need within the next several years.

<sup>1</sup>Bureau of Labor Statistics, 2007 survey, "Consumer Expenditures in 2005."

<sup>2</sup>Ibbotson Associates, a subsidiary of Morningstar, Inc.