

How The Garcias Save for Retirement

Hypothetical workers Alex and Sally Garcia are both 40 years old. He earns \$50,000 a year, she earns \$37,000. Each has a retirement savings plan at work, but no other investments.

His plan offers excellent growth investments and a contribution limit equal to 10% of salary (in his case, \$5,000). But there's no company match.

Her plan offers a 50% employer match, but mainly income investments and a contribution limit of 6% of salary (in her case, \$2,220, plus \$1,110 from the company match).

The Garcias contribute the maximum amount each plan allows, for a total of \$8,330 (including Sally's company match). Their asset allocation is 60% stocks and 40% bonds and cash.

Since the stock funds in Alex's plan have performed better over the long-term than the one in Sally's plan, he puts his \$5,000 into stocks: \$2,500 to a growth-stock fund; \$1,500 to a small-company stock fund; and \$1,000 to an international fund. (That's their entire 60% stock allocation.)

Sally divides her \$3,330 between income investments by putting \$2,000 into her plan's cash option and \$1,330 into its corporate-bond fund. (That's their entire 40% bond and cash allocation.) By investing like this, they seek to get the best out of both plans.

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