

Increasing Retirement Savings

John, a hypothetical 46-year-old sales representative for a printing company, is a diligent retirement saver. He began contributing to his retirement savings plan 14 years ago and will contribute 8 percent of his \$56,000 salary to the plan this year. John has accumulated an account balance of about \$70,000, but he worries that his savings aren't growing fast enough to meet his anticipated retirement needs. He's afraid he'll run out of money during his retirement. How can John increase his retirement savings to address his concern?

A three-part strategy

John hopes to solve his problem by making these important changes to his current strategy:

1) John plans to boost his contribution to his company-sponsored retirement savings plan. He analyzed his budget and found that he's been spending more than he realized on clothing and daily spending money for morning coffee lattes and lunches out. His new budget will help him cut back on spending in both areas. These savings allow him to increase the percentage of his salary that he deposits automatically into his retirement savings plan account with every paycheck. This automatic investing allows John to buy more fund shares when they are inexpensive and fewer when they're pricey — a well-regarded investment strategy called dollar-cost averaging. Periodic investment plans [dollar-cost-averaging or dividend reinvestment plans] do not assure a profit and do not protect against loss in declining markets. Since the plan involves continuous investment in securities regardless of fluctuating price levels of such securities, you should consider your financial ability to continue your purchases through periods of low price levels before deciding to invest this way.

2) John will take a more aggressive investing approach. He currently holds about 45 percent of his portfolio in stock funds, and divides the rest between bond funds and cash investments. John figures he can increase his investments in stock funds to around 60 percent. He reasons that his retirement is still 20 years away, and stocks generally offer the best opportunity for long-term returns.

3) John concludes he may have to postpone retirement by several years. That way he'll be able to add more to his retirement savings and give his account balance more time to potentially grow.

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