

Step Into Investing Success

You wouldn't try to navigate in a foreign city without a plan to guide you. Similarly, don't try to get from here (where you are today) to there (a secure retirement) without a plan for your retirement needs.

Define Your Goals

Think about when you want to retire. Once you've picked a retirement date, you'll know how much time you have to build up savings. Next, think about how much income you'll need in retirement. Financial planners often suggest that you'll need around 80% of your pre-retirement income to maintain your living standard during retirement. They also suggest saving 10% to 15% of pre-tax income.

Assume you'll need that income to last for many years. A man age 65 today might live another 16 years; a woman that age, another 19 years. Consider how much you're contributing to your retirement savings plan. Are you saving enough? Because your actual retirement still may be many years away, today's estimates of future income needs will be approximate. But the longer until your retirement, the more time you have to update and fine-tune those estimates.

Understand Your Investment Options

There's a range of choices open to you for investing your retirement savings—from traditionally stable options such as money market accounts to other options in which you invest in stocks and bonds. Part of the retirement planning process is to review these options and pick the ones that make the most sense for you—based on your financial situation, time horizon and tolerance for risk.

Create a Retirement Portfolio

When investors think about the risks associated with investing, they mostly think about "market" risk—the risk of loss because of short-term market ups and downs. Yet the more serious risk to retirement savings is inflation. Unless you invest with an eye toward outpacing inflation, the buying power of your savings can diminish over time. You can't control the markets or inflation, but you can control how you allocate your retirement assets. The goal of asset allocation is to combine your assets so they complement each other to maximize potential return and reduce risk.

The more years until you retire, and the more you can tolerate risk, the more you may want your assets to be in stocks—which historically have offered the greatest potential to withstand inflation. The closer you are to retirement, the more you may consider moving a portion of your account into bond and money market investments.

Monitor Your Plan

Your retirement plan is most valuable when you keep it up to date. Review your plan once a year—or when you have a significant life change, such as marriage, divorce or a major shift in your financial circumstances.

© 2008 SmartMoney. Prepared by SmartMoney Custom Solutions. SmartMoney is a joint publishing venture of Dow Jones & Company, Inc. and Hearst Communications, Inc. All Rights Reserved.

CustomSolutions
FROM SMARTMONEY