Minding Your Nest Egg

Six essential questions that could save your retirement.

BY **GREGORY KARP** PHOTOS **BLAINE MOATS**

You visit the dentist for an exam every six months because your teeth are important. You get a checkup from the doctor every year or so because your health is vital. You even perform regular maintenance checkups on your car because you know that reliable transportation is a necessity.

Isn't your financial well-being just as important—especially during retirement? But many people spend more time planning a summer vacation than planning how they'll live once they retire.

Annual checkups can help you stay on track. It's also smart to review your retirement choices after major life changes—marriage, divorce, significant job change—or receiving a financial windfall, such as an inheritance. When you do this self-check, ask yourself these six questions:

WHAT DO I ALREADY HAVE? Take inventory of all the possible sources of income you have for retirement. These might include traditional pensions, 401(k) plans, Individual Retirement Accounts—both traditional and Roth—and regular investment accounts earmarked for retirement. Your annual Social Security statement of benefits is mailed to you every year about three months before your birthday. Or get it any time at ssa.gov. Also consider the income you would get if you decided to work part-time in retirement.

WHAT DO I NEED? Have you heard the adage, "If you shoot at nothing, you'll hit it every time"? While many people might be automatically contributing 10 to 15 percent of income into a retirement plan—a good idea, by the way—they don't have an ultimate goal of how much money they need to retire.

In figuring how big your nest egg should be, the most important thing is to track your spending now to get a handle on how much you'll spend in retirement. Expenses in retirement often decrease. For example, you won't be funneling money into a retirement plan, child expenses are past, and perhaps you paid off the home mortgage. On the other hand, you might need more money for traveling, recreation, and medical care. And remember that some occasional large purchases, such as buying cars, don't go away in retirement.

Online calculators are a good way to help determine what you need, because the math is complicated to do by hand. The more detailed the online questionnaire, the better your estimate will be. Examples of online calculators are at fidelity.com, troweprice.com,

JUST DO IT
Only 4 in 10 Americans have tried to estimate how much money they will need in retirement, according to the Employee Benefit Research Institute. Online tools or financial planners can help.

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dinkytown.net, and choosetosave.org. Financial software, such as Quicken, also has retirement tools to help you figure future expenses. "You're looking for educated guesses and ballpark numbers, not exact figures," says Christopher Jones, a fee-only financial planner in Macungie, Pennsylvania. Don't be surprised if calculations show you need to have $1 million or even several million dollars to retire. Try not to focus too much on the big number. Concentrate on your monthly contributions.

HOW DO I CATCH UP? If you have fallen behind your retirement goal, the government will give you extra tax breaks to try to catch up if you'll be 50 or older this year. For example, in a 401(k) plan, contributions are limited this year to $15,500. If you're 50 or older, you can contribute an extra $5,000, or up to $20,500. And instead of the usual $4,000 contribution limit for an IRA, the 50-and-older crowd can contribute $5,000.

HOW DO I ALLOCATE? The broadest allocation decision is between stocks and bonds. An aggressive portfolio might have 85 percent stocks, for example, while a less aggressive one has 60 percent.

If you haven't tended to your retirement portfolio in a while, your allocations to stocks and bonds are probably out of whack. That's because investments grow at different rates. Your original plan might have been to invest 80 percent in stocks and 20 percent in bonds. But the stock portion might have grown faster than bonds and now represents 87 percent of your overall portfolio. That means it's time to "rebalance" your portfolio, something five out of every six retirement investors fail to do, according to one study. When you rebalance, you restore the ratio of stocks to bonds you originally intended. Rebalance at least once a year—on your birthday, for example, or when your allocations get out of line by, say, 2 percent.

HOW CAN I MAKE IT EASIER? If you're unsure about allocating and rebalancing your retirement investments, check out target-date mutual funds. Offered by most company-sponsored 401(k) plans, they are set-it-and-forget-it single investment funds for retirement that become more conservative the older you get—exactly what you want.

You just pick a fund aimed at the year nearest your retirement date. For example, if you will retire in 2031, you might choose a target-date fund for 2030. Look for the date in the name of the fund, such as the Vanguard Target Retirement 2030 Fund.

DO I NEED A PRO? Take advantage of professional advice offered by your employer's plan. Or find a fee-only financial planner who charges an hourly fee rather than commissions (to avoid conflicts of interest). Find them at napfa.org and GarrettPlanningNetwork.com.

Besides the knowledge a planner can provide, he or she can offer perspective and steer you away from emotional decisions. And regularly including a planner in your retirement checkups makes you accountable to someone for saving enough. And that's worth its weight in gold mutual funds.

RETIREMENT PLANNING MISTAKES

- **Putting college savings ahead of retirement savings.** Nobody will loan you money for retirement. They will for kids' college expenses.
- **Thinking it's too late to start saving for retirement.** You may be surprised at how aggressively you can save.
- **Not updating retirement plans with current beneficiary information.**
- **Not using tax-advantaged savings plans.** Uncle Sam offers you breaks. Use them.
- **Not contributing enough to a 401(k) plan to get the full company match.**
- **Withdrawing money from a retirement plan, whether borrowing or prematurely cashing out.**
- **Basing retirement income needs on your current income rather than your anticipated expenses.**
- **Not investing in foreign companies.** Some of the best opportunities are overseas.
- **Investing more than 5 percent in your own company's stock.** That's too many nest eggs in one basket.