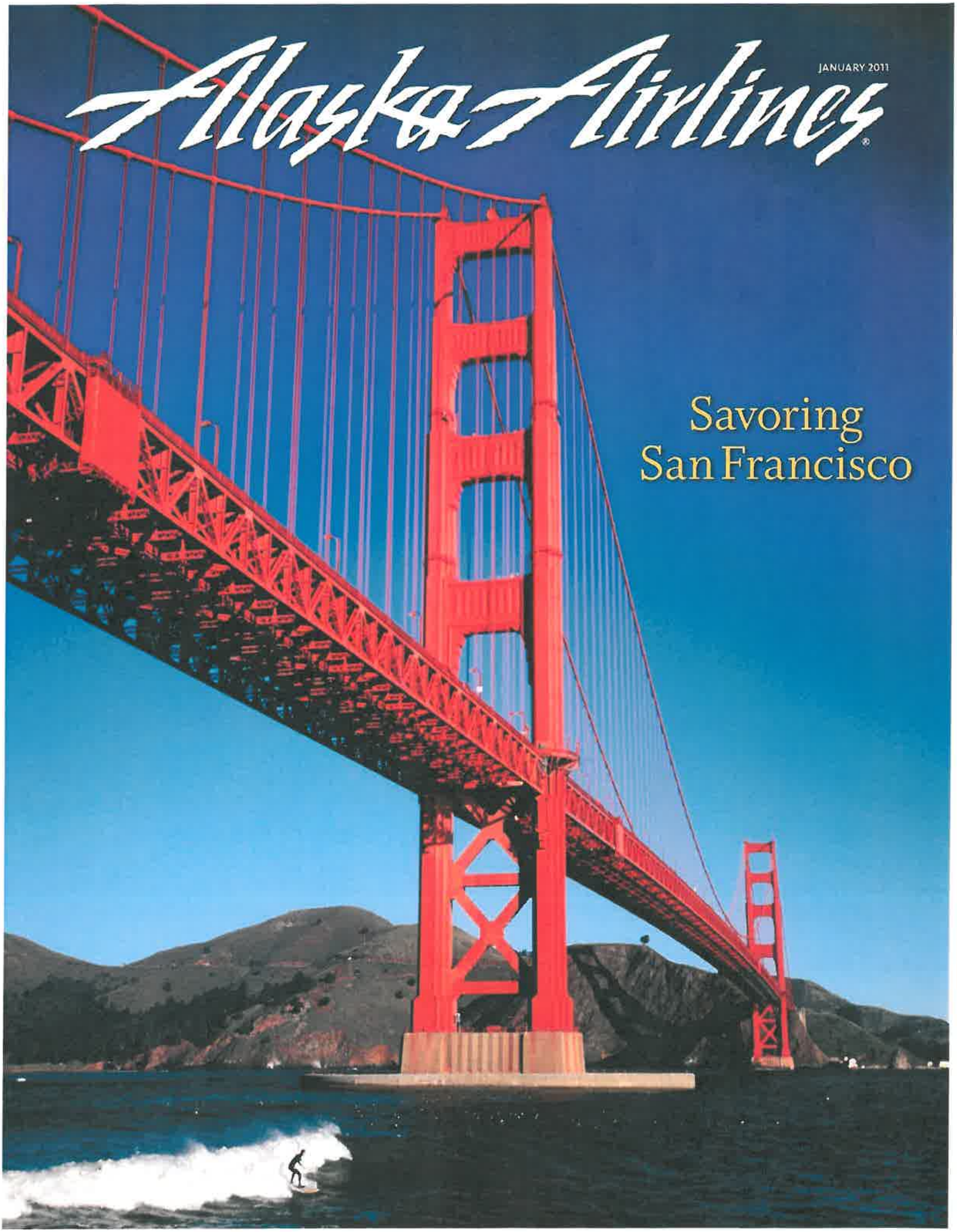
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Creating a RETIREMENT NEST EGG

Smart financial planning can help make your golden years shine. By Jeff Bond

RETIRING WELL is still possible, as couples such as Gary and Gayle White can attest.

On a warm November evening, the Seattle natives and former Boeing Company employees are entertaining relatives in the backyard of their home, tucked away in the northwest corner of Arizona. The couple, who left Boeing eight years ago when Gary was 55 and Gayle was 53, describe how they are enjoying the fruits of their retirement. In Arizona, they are able to tee off year-round at any of a number of nearby courses. And this winter, they are planning a romantic cruise to Tahiti.

Gayle and Gary White.

The Whites aren't professional investors or real estate tycoons. They were able to retire well, and at a relatively young age, because they started saving early, established long-term retirement plans and sought solid professional guidance. Today, the funds they accrued over the years augment the pensions they receive from Boeing.

"We were poor when we first started out," Gary says. "But for 30 years, we just kept investing in the company plans, even when we didn't have much money."

Gary says their financial success is due in part to valuable advice they received from their personal retirement adviser, Michael Brown, a partner and consultant at ClearPoint Financial/NRP in Seattle. In spring 2008, Brown recommended that Gary and Gayle pull most of their investments out of the stock market, thus helping them avoid the economic downturn that affected many of their friends.

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"I have relatives back in Michigan who worked their entire lives for [one company] and had all their retirement money in the company's stock," Gary says. "They lost everything."

Currently, Gary and Gayle's portfolio includes various bond funds, both domestic and foreign, which collectively earned about 9 percent in 2010.

"Our nest egg is allowing us to do things in our lives we never thought we would do," Gary says.

THE GREAT RETIREMENT WAVE

While most of us hope to one day enjoy the financial security of the Whites, the couple is the exception, rather than the rule, among America's baby boomers (those born between 1946 and 1964). Some statistics show that about 80 million Americans will retire during the next two decades and that many haven't saved enough to fund their retirements.

According to the Employee Benefit Research Institute (EBRI), an organization specializing in employee-benefits and retirement information, more than 47 percent of the earliest baby boomers are considered to be at risk of not having sufficient retirement savings to pay for their basic expenditures and uninsured health care costs to the end of their lives.

The EBRI estimated in its 2010 Retirement Confidence Survey—for which 1,153 participants were questioned—that about 77 percent of Americans have less than $100,000 in retirement savings, not including their primary residences or defined-benefit plans. This figure may not come as much of a surprise. But think about these statistics: 54 percent of those surveyed have less than $25,000 in retirement savings, while 43 percent have less than $10,000. Even more alarming, more than 25 percent of survey participants reported that they had saved less than $1,000. Yet just more than half of participants told EBRI that they are doing a "very good job" or a "somewhat good job" of preparing for retirement.

ARIEL SKELLEY / GETTY IMAGES

A financial adviser can help you formulate a practical, sustainable financial strategy.

Experts say there is a dangerous disconnect between how much money workers are saving for retirement and how much they will actually need in this era of rising health care costs and uncertain financial markets. Additionally, with life spans increasing, many retirees will have to make their investments last for 30 years or even longer.

Everyone in the workforce, no matter how young, needs to formulate and carry out a realistic budget—one that allows for regular contributions to a retirement plan.

"Most people just see a lump sum in their 401(k) retirement accounts, and they don't do a good job of translating what that amount means for their long-term goals," says Jon Upham, principal of SageView Advisory Group, a retirement-consulting firm based in Irvine, California. "They don't realize how much money they need to have saved in order to live comfortably in retirement."

Upham remarks that the biggest mistake he sees clients make is a lack of planning. Everyone in the workforce, he says, no matter how young, needs to formulate and carry out a realistic budget—one that allows for regular contributions to a retirement plan.

"People don't take the time to put a budget in place," Upham says. "Once they enter the workforce, they just start moving forward and having a family." He adds: "The other problem is, we overspend. We, as Americans, are very good at overspending."

One way to monitor how much money you spend (and on what) is to choose a time once a year to review your bank-account and credit-card records for the last 12 months, says Kristi Mathisen, managing director of tax and financial planning for Seattle-based Laird Norton Tyee. "This is a wonderful way to get a snapshot of how you spend your money," says Mathisen. "Most people have no idea how much money they actually spend, and you can learn a lot from figuring that out." Using personal-finance software, such as Quicken, can help you organize the information.

FINDING YOUR MAGIC NUMBER

For those who have fallen behind on their retirement savings or haven't started saving yet, experts say not to panic.

Upham's advice is to begin getting on track by creating a clear and honest plan for retirement. The first step is to figure out how much money you will need when you retire. Then, you can pencil out a budget that allows you to save and invest enough of your income to meet that goal.

So, how much does one need to retire? Figuring out your individual sum can be complicated, but here are some general rules that can help.

For decades, the magic number many financial advisers cited as a retirement-savings goal was $1 million. For some people, this may still be a good number to aim for. But depending on your age, income and lifestyle, that nice, round sum may be out of reach.

"Put another way, how much money does it take to live without a job for 30 years?" asks Michael Brown, Gary and Gayle White's adviser. "The simple answer that applies to most is 'a lot.' Yet not everyone needs the oft-mentioned million-dollar nest egg. Lower- and middle-income families can retire and maintain their standard of living on far less than you might think. Once the mortgage is paid, the kids are out of the house and expenses are reduced, modest savings, combined with Social Security, can do the trick."

Financial advisers say a good way to calculate how much money you will need in retirement is to start by estimating the percentage of your annual income you will require in order to maintain your current lifestyle after you quit working. This figure varies, but it will probably be somewhere between 60 percent and 80 percent of your salary. For example, someone who earns $60,000 a year at the time he stops working, and expects to need 70 percent of this amount annually, would require $42,000 a year.

Because there are many possible sources of revenue for retirees—including pension payments, military payments, stock dividends, liquidation of mutual-fund holdings, interest payments from bond funds and money-market accounts, income from rental homes and the selling of a private business—everyone's financial picture is unique.

Yet another category of income is inheritance. Experts estimate that the largest shift of wealth in American history is currently taking place as the "greatest generation" passes away and its assets are inherited by the baby boomers.

Whatever income sources you plan to use to fund your retirement, it is crucial to seek guidance from a professional adviser who can help you formulate a practical, sustainable financial strategy.

THE 4 PERCENT RULE

Finding profitable investments is, for the most part, a more challenging prospect today than it was in the past. Many advis-

> In addition to providing some security, the 4 percent rule can help you calculate how large a nest egg you will need.

ers predict conservative annual returns on U.S. stocks for the short term, as the economy continues its rocky road to recovery from the recent recession. But some experts say that younger investors with a long time horizon could see U.S. stock returns of 8 percent to 10 percent in their lifetimes.

Given the unknown future of the financial markets, a good rule of thumb for retirees is to plan to withdraw no more than 4 percent of their investment holdings each year. Generally, 4 percent is considered the amount of money people can safely withdraw annually from their IRAs, 401(k)s and other retirement accounts while minimizing the odds that they will outlive their savings. By maintaining this level of withdrawal, you will ensure that your holdings, if growing at 6 percent to 7 percent annually, will not only replenish the assets withdrawn but also offer a small financial cushion to account for inflation and the occasional economic downturn.

In addition to providing some security, the 4 percent rule can help you calculate how large a nest egg you will need upon entering retirement. Remember the example of the retiree who needs $42,000 annually? Let's say he's 67 and collects $18,000 a year in Social Security (a number that varies based on age and earning history). In this scenario, the remaining income he would require from other sources would be $24,000 a year. With a nest egg of $600,000 that was earning 4 percent interest annually, he would be able to withdraw just the interest—$24,000—accrued in a year, without reducing the principal over time.

That amount of money may sound like a daunting figure, but don't get discouraged. This is a hypothetical example. Brown cautions that everyone must do their own calculating to figure out how much money they will need in retirement and whether they are on track to reach that goal.

"[Retirement planning] is an exercise where you can't cheat off someone else's homework," Brown says. "You have to do this assignment yourself."

ALEXANDER RATHS / SHUTTERSTOCK

PLANNING FOR THE LONG RUN

Barring inheriting a castle from Uncle Joe or a fortune from Aunt Libby, chances are you will have to count on wise investments of your own money over a long period of time to build that prized nest egg.

According to retirement expert Bart Bonga, vice president of Chicago-based Rothschild Investment Corporation, three important variables the average investor saving for retirement should pay attention to are the level of contributions they make, the rate of return on their investments and the amount of time until they retire.

A common problem retirees face is that they didn't contribute enough to their retirement accounts during their working years. The reasons why vary, but one that advisers frequently hear from clients is that they didn't have the extra income to invest.

Bonga says clients should think of saving for retirement as paying themselves, and put this money away first—before going out to dinner or buying new clothes. He often tells clients that they should view putting money into their retirement accounts as if it were a tax, just like their Social Security contributions. When people think of it this way, says Bonga, they have no choice: The money simply has to be paid.

One bonus of investing in an employer's plan is that you never see the money, since it's taken out of your gross earnings. "The money goes into the plan where it can continue to grow, even when you're not thinking about it," says Mathisen.

Saving up for retirement is easier for investors who have a long time horizon.

PETER DAZELEY / GETTY IMAGES

Opposite: In retirement, people who have saved enough money to fund their golden years should shift to safer investments. Left: A balanced portfolio can help provide financial security.

Bonga advises young people to begin saving as soon as possible. It doesn't matter how much money they initially set aside, he says, as long as they get into the habit of putting money into their employers' retirement plans.

Rate of return is another important consideration. Many advisers recommend that clients focus on mutual funds, because individual stocks can be a riskier investment. But investors still must stay vigilant and pay attention to the rate of return from these funds by checking their statements regularly. In the long run, a percentage or two more in returns can mean thousands more in retirement income.

The amount of time until retirement also should drive investment decisions. When it comes to choosing investments, Bonga likes the "target" plans that offer different combinations of funds that correspond to the time horizon of the participant. Generally, the longer the participant has until retirement, the more aggressive the fund's strategy.

According to Michael Brown, roadblocks that can stand in the way of saving for retirement include accumulation of debt and overconsumption—especially during the 30s, 40s and 50s, when many people are busy raising a family. "Usually, managing debt is the biggest issue for midcareer people," Brown says. "At this junction, it is important for people to evaluate their priorities and stick to a budget and long-term retirement plan."

The spiral of debt is a problem Doron Paz was able to avoid. The 52-year-old vice president of New York City–based software company Actimize Inc. is planning to

Paz says they make a point to live on less than what they earn and avoid spending money on unnecessary luxuries.

retire within the next five years. He says his second son will graduate from college this spring, and before long Paz and his wife will move back to their home country of Israel. There, he expects they will live on about half his current salary.

Paz describes the wonderful retirement he and his wife have planned—a life of travel, teaching English as a Second Language in foreign countries to make extra money, and going on extensive bike expeditions—perhaps even circling the globe on two wheels.

While they have always had a good life, Paz says they make a point to live on less than what they earn and avoid spending money on unnecessary luxuries and expensive cars.

"My wife and I were raised by parents who taught us to live within our means," Paz says. "We were taught to live modestly, enjoy yourself and don't let money control your life."

Experts' advice to investors in their 60s is to take a step back and reevaluate. "If you are in your 60s and not where you want to be concerning retirement, you either have to change your expectations [about how long you plan to work] or increase your investment risk," says Sean King, a director of the SageView Advisory Group's southeastern United States' offices.

King says that even after one retires, it's essential to remain financially diligent to avoid making unwise investments. He advises retirees who have already saved enough money to fund their golden years to scale back their market exposure and shift to safer investments. Instead of focusing on accumulation of assets, these investors should focus on preservation of assets.

Many parents have experience planning for their own retirements, and they often have financial wisdom to impart.

SOUND ADVICE

When asked what advice he would give to investors looking ahead to retirement, Gary White says that implementing a budget is a major factor for future success. He also says that people should listen to their elders, and, when possible, ask their parents for guidance. After all, many parents have experience planning for their own retirements, and they often have financial wisdom to impart.

"The main advice I would offer came from Gayle's parents, who also worked at Boeing," Gary says. "They told us, 'Save until it hurts.' "

This story is not meant to constitute financial advice. Consult your personal retirement adviser for information and recommendations related to your specific situation.

Jeff Bond writes about business and technology from the Seattle area.