Put Your Retirement Plan on Track

2004

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✔ ***Gather information about any traditional pension plan you have.*** If you're covered by a traditional pension plan (the kind that promises you a specified monthly benefit at retirement), ask your pension plan administrator for an individual benefit statement that describes your total accrued and vested benefits.

Also request the summary plan description for information about how the plan operates, how benefits are calculated, when your benefits become vested, and when and how you'll receive your payments.

✔ ***Keep up-to-date about your Social Security benefit.*** If you were born in 1938 or later, the Social Security Amendments of 1983 increased the age you can collect full retirement benefits:

Year of Birth	Full Retirement Age
1937 or earlier	65
1938	65 & 2 months
1939	65 & 4 months
1940	65 & 6 months
1941	65 & 8 months
1942	65 & 10 months
1943-1954	66
1955	66 & 2 months
1956	66 & 4 months
1957	66 & 6 months
1958	66 & 8 months
1959	66 & 10 months
1960	67

You can still begin to collect Social Security benefits as early as age 62. However, your monthly benefit will be permanently reduced based on the number of months you'll receive benefits before you reach your full retirement age, and the amount of this reduction has increased.

For an estimate of your future benefit, watch your mail for the annual statement the Social Security Administration now automatically sends to all workers age 25 and older.

✔ ***Estimate your retirement expenses.*** The standard advice is that for each year in retirement you'll need about 70% to 80% of your pre-retirement expenses. But with longer life expectancies and more active retirement lifestyles, these traditional formulas may leave you short.

Keep in mind that even if your kids will be out of the house and your mortgage will be paid off, other costs will increase to offset these savings, such as medical and dental expenses, long-term-care costs, and property-tax bills.

You may also have big-ticket expenses, such as travel, gifts to family or charities, care for aging parents, or home repair costs. If anything,

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overestimate for unexpected spending, and factor in annual increases in the cost of living between now and the time you retire, as well as throughout retirement.

✔ ***Calculate how much you need to save.*** A financial advisor, retirement planning software, or Internet calculator can help you calculate how much you need to save to make up the shortfall in your desired retirement income. Either way, you need to gather your financial records and make some key projections and assumptions.

Among the projections you need to make is how long you'll live. According to the National Center for Health Statistics, on average today's 65-year old women are projected to live to be about age 84, and men are projected to live to be about age 81.

This is only an average for the entire population, however, so consider personalizing your estimate based on your current age, health status, and family history, and then add five or ten more years to that.

When making your calculations, keep in mind that even the best financial advisors and computer programs can only provide an estimate of your needs. Your results will change based on your actual investment returns, actual inflation rates, tax law changes, changes in Social Security, and how long you live, among other things.

✔ ***Make the most of your employer plan.*** If you have access to an employer-sponsored retirement plan, such as a 401(k), 403(b), or 457 governmental plan, make every effort to contribute the maximum allowed.

You don't have to pay income taxes on the amount you contribute until you make withdrawals, and your earnings grow tax-deferred. Plus, your employer may kick in some money in matching contributions.

You can contribute up to $13,000 in 2004 to a 401(k), 403(b), or 457 governmental plan, assuming your plan allows the maximum contribution and that you're eligible to contribute up to the annual limit. If you're age 50 or older, you can also make up to $3,000 in annual catch-up contributions, assuming your plan amends its rules to offer such contributions.

✔ ***Contribute to an IRA.*** With a Roth IRA, you can withdraw your earnings free from federal taxes, if you're eligible to contribute and if you meet the specified conditions. With a traditional IRA, you don't have to pay taxes on your savings until withdrawal, and if you're eligible, you can make tax-deductible contributions.

You can contribute up to a *combined* total of $3,000 this year to a traditional IRA or Roth IRA. If you're age 50 or older and you meet the eligibility requirements, you can also make up to $500 in catch-up contributions.

✔ ***Invest regularly and wisely.*** Investing regularly helps you steer clear of the pitfalls of market timing. Trying to guess when to sell before a market downturn and when to get back in before an upswing, or when to shift money among different investments, is a game even the pros seldom win.

Once you've got your investments on autopilot, focus on how your investments are allocated. To help reduce risk, divide your money among the different types of investments, as well as the different categories within those types.

Since you're investing for the long term, financial experts generally recommend that you invest your retirement money in a well-diversified portfolio that includes both stock and bond investments. Over the long haul historically, stocks have significantly outperformed other types of investments, as well as inflation.

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