WHEN CAN YOU

Our six-step plan will help you choose your timetable and get you there on schedule.

BY JANE BENNETT CLARK and SANDRA BLOCK

RETIRING AT AGE 65 IS BECOMING AS MUCH OF AN anachronism as getting a gold watch and a traditional defined-benefit pension. Medicare still kicks in at that age, but your full Social Security benefit isn't available until you're 66 or older. And if your nest egg plus sources of fixed income aren't enough to fund a 25- or 30-year retirement, you may need to stay on the job a few years longer. On the other hand, if you've saved diligently throughout your career, you may be able to quit earlier (for examples of both situations, see the profiles on the following pages).

The trouble is, most people don't know exactly where they stand on their timeline. Fewer than one-third of middle-class Americans age 40 to 59 have a written retirement plan, according to a recent study by Wells Fargo. "People are saving blindly. There's no sense of how they're doing or where they are trying to get to," says Joe Ready, director of Wells Fargo Institutional Retirement and Trust. Some are barely saving at all. One-third of all respondents

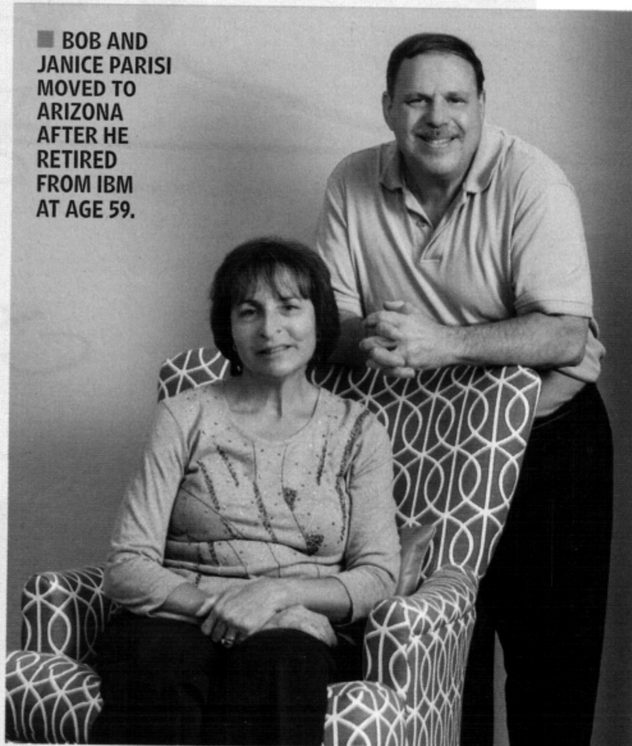
Strategies

TAKE THE PLUNGE EARLY

BOB PARISI WAS DETERMINED TO RETIRE WHILE HE WAS STILL HEALTHY ENOUGH to enjoy it. "My mom died at 63 because she was a diabetic, and diabetes runs in the family," says Parisi. Now 61, he retired from his job as a data-processing executive for IBM in July 2012, when he was 59. He and his wife, Janice, 56, moved from New Jersey to Gilbert, Ariz., a Phoenix suburb where they had family ties. Their oldest child, Brian, had recently graduated from Arizona State University; their two other children are currently attending ASU.

How did the Parisis manage to retire early and send three kids to college? Throughout Parisi's working life, he maxed out on his employers' 401(k) plans, and he worked for large companies, including IBM, that matched contributions up to 6% of his salary. During his 17 years at IBM, he was able to invest 10% of his salary in company stock, which did very well. To diversify, Parisi invested in four New Jersey condominiums. He has sold three of them and plans to sell the fourth this year. And he left IBM with a lump sum of about $220,000 in lieu of a pension. Parisi's seven-figure retirement savings account is worth about ten times his final salary.

Even with a well-funded nest egg, Parisi wanted to make sure his goal of early retirement was realistic. He created a spreadsheet to track all of his family's expenses. He dropped the cost of his 80-mile round-trip commute, but he assumed most of their regular expenses would remain the same. He included tuition for the two children who are still at ASU; both have been approved for in-state tuition.



BOB AND JANICE PARISI MOVED TO ARIZONA AFTER HE RETIRED FROM IBM AT AGE 59.

Parisi also had to budget for health care. He can purchase group health, vision and dental coverage from IBM. Premiums for the Parisis and their two college-age children cost $18,500 a year. Parisi is using money from a health care account established while he was working at IBM to cover half of the premiums; he'll pay the remaining $9,250 out of pocket. The health care account has enough to cover half of his premiums until he's eligible for Medicare at age 65.

While Parisi says he planned to retire debt-free, the couple ended up taking out a mortgage on their new home. Their financial planner, Jim Parks, of Ridgewood, N.J., recommended that the Parisis take advantage of low interest rates and the tax deduction for mortgage interest. Even with a mortgage, Parks believes the Parisis can make their savings last into their nineties, based on an annual inflation-adjusted withdrawal rate of 4% a year, plus Social Security.

Parisi's advice? Rather than wait until fate happens, run the numbers—and if they work in your favor, take the plunge.

said they would stay on the job until age 80 for lack of means to retire.

The news isn't all bad: Respondents in their thirties had the most realistic idea of the amount of savings they would need in retirement; 34% of them not only had made a written plan but also had considered details such as budgets and health care costs. They were also saving at a higher rate than other groups. Research shows that the very act of calculating what you need for retirement improves your chances of achieving it.

If you've already crunched the numbers and put together a plan, press on. If not, take stock now, says Rande Spiegelman, vice-president of financial planning at Charles Schwab. "Ignorance is not bliss when it comes to retirement."

Here are the steps that will put you on track to retire when you want.

SET SAVINGS GOALS

You can't know at the beginning of your career what you'll earn or spend at the end. To hedge your bets, try to consistently save 10% to 15% of your salary, including any employer match, in your employer's retirement account. Starting early and saving regularly not only gives you the boost of compounding but also provides a cushion if at some point you have to take your contribution level down a notch—perhaps to pay for college. Start late and you'll have to bump up your contribution rate—perhaps significantly—to catch up, or live on less in retirement.

Most retirement planners recommend that you save enough to replace at least 70% to 85% of your preretirement household income, given that you will no longer be subject to payroll taxes or be saving for retirement. Replacing 100% of household income, minus the amount you're saving for

MARK PETERMAN

retirement, insures against unknown expenses, such as higher taxes or extraordinary health costs, says Spiegelman.

As for the amount of money you'll need to cover those expenses over a 25- or 30-year retirement, formulas vary. Spiegelman, for instance, recommends saving 25 times the amount of your expected first-year withdrawal (or your combined withdrawal for couples). Fidelity sets the goal at eight times your final salary (for individuals). Both calculations assume you'll withdraw 4% from your accounts in the first year you retire and the same amount adjusted for inflation thereafter.

KEEP A BALANCED PORTFOLIO

Whether you're 25 or 70, your retirement stash should include a diversified mix of stocks and a fixed-income component of bonds and cash.

Stocks provide the growth to bolster your savings and combat inflation; the fixed-income investments protect against market losses.

The mix itself? If you're in your twenties, you can afford to allocate 80% or more of your portfolio to stocks; after all, you have plenty of time to recover if the market tanks. As you get closer to retirement, however, you'll want to pare that side of your portfolio to 40% to 60%, depending on your risk tolerance, leaving the rest in bonds and cash. Although bonds may seem risky these days because of low yields, rising interest rates (when rates rise, bond prices fall) and the prospect of longer-term inflation, they remain key to a diversified portfolio, especially for retirees. (See "Cash in Hand," on page 40.)

Still, with the market going gangbusters, your allocation could easily get out of whack, leaving you more heavily invested in stocks than you want to be. "At least once a year, review and rebalance your portfolio so you have a proper proportion of cash, stocks and bonds," says Jon Ten Haagen, a certified financial planner in Huntington, N.Y. No reason to obsess over a percentage point or two, but if the mix has drifted by five percentage points or so, it's time to adjust.

Some 401(k) plans and IRAs offer the option of automatic rebalancing, but that resets to the mix you already have. "You're not ratcheting it down as you get closer to retirement," says Andrew Miller, director of financial services for the Principal Finance Group. Instead, consider a target-date fund, which grows more conservative as you get closer to the target year while regularly rebalancing to keep the proper mix. Each target-date fund operates a little differently. For instance, Fund A might keep you more heavily invested in stocks as you head into retirement than Fund B, or it might downshift to bonds over a longer period. Be sure you're comfortable with the style of the fund before entrusting your savings to it. Our favorites among target-date families are Vanguard and T. Rowe Price. (See "Pick the Best Target-Date Fund for You," at kiplinger.com/links/targetdate.)

VET FEES AND PERFORMANCE

The fees and expenses for your 401(k) can sap your account over time and make the difference between a substantial nest egg and a skimpy one.

Once, you might have been oblivious to such fees and their impact. Now, employers are required to give you an annual statement that includes the plan's investment options; each fund's management costs, expressed as a percentage of assets; and administrative fees, which cover services such as record keeping. The statement also shows how each investment option in the plan has performed against benchmarks over one, five and ten years. Your quarterly report must now spell out the fees that specifically come out of your account, such as the cost of processing a loan.

KipTip

Don't Sabotage Your Savings

FEES MAY TAKE THEIR TOLL OVER TIME, BUT HERE'S A MISTAKE THAT DOES DAMAGE immediately: cashing out a former employer's 401(k) plan in order to pay off student loans, credit card debts or other expenses. Although it's liberating to jettison high-interest debt, the price of this freedom is high. You'll owe federal and state taxes on the entire amount, plus a 10% early-withdrawal penalty if you're under age 55. If you face a combined federal and state tax rate of 30%, withdrawing $50,000 would cost you $20,000 in taxes and penalties if you're younger than 55.

A better strategy, even for small 401(k) balances, is to roll the money into an IRA or a new employer's 401(k), or leave the money with your former employer if you're happy with the investment choices. On a bright note, a recent analysis by the Employee Benefit Research Institute found that more workers appear to be saving early retirement-plan distributions rather than spending the money.

Borrowing from your 401(k) isn't as destructive as cashing it out, but it could compromise your ability to amass the amount you need to retire on schedule. Participants in 401(k) and other employer-provided retirement plans can typically borrow half of their balance, up to $50,000. Interest rates are generally low, and you repay yourself. The rub: If you lose your job before you've paid off the loan, you'll usually have just 60 to 90 days to pay off the balance. Otherwise, the loan balance will be taxed, and if you're younger than 55, you'll owe a 10% early-withdrawal penalty, too.

Even if you repay the loan, borrowing from your 401(k) could put a dent in your retirement savings. The money you borrow won't be invested in stocks or other investments that could grow at a faster rate than the interest you're paying on the loan. The damage will be magnified if you suspend or reduce contributions while you're repaying the loan.

available through an IRA. Or roll your money into your new employer's 401(k), which reduces the risk that you'll lose track of orphaned retirement plans. Most large employers offer plan-to-plan rollovers.

Sooner or later, though, it's worth consolidating all of your old accounts into one or two IRAs, says Jim Parks, a certified financial planner in Ridgewood, N.J. Consolidating your accounts will make it easier to ensure that your portfolio is appropriately diversified, says Parks. Once you retire, you'll also have more flexibility when it comes time to take withdrawals.

There are instances in which consolidation is a bad idea. Don't roll over your 401(k) to an IRA if you're between 55 and 59½ when you leave your job. You can withdraw money directly from your 401(k) without paying the 10% early-withdrawal penalty. If you roll the money into an IRA, you'll usually have to wait until you're 59½ to avoid the penalty.

You should also leave your 401(k) alone if you plan to continue to work past age 70½. Ordinarily, you're required to take minimum distributions from your 401(k) once you reach that age. As long as you're working, though, you can delay taking distributions from your employer's 401(k) until you retire, unless you own 5% or more of the company. That exception doesn't apply to traditional IRAs: You're required to take distributions from them at 70½, whether you're working or not. (Roth IRAs don't have required distributions.)

DIVERSIFY FOR TAXES

When calculating living expenses in retirement, many preretirees forget to include taxes, says Andrea Blackwelder, a certified financial planner in Denver. That's a big mistake because when it comes time to tap your tax-deferred accounts, such as your traditional IRAs and your 401(k), your withdrawals will be taxed as ordinary income, which means the money is taxed at your top tax bracket. For example, if you withdraw $60,000 from tax-deferred accounts, you could end up paying $15,000 or more to the IRS if you're in the 25% bracket, and you may owe state taxes, too.

You can take steps while you're working that will minimize the tax bite in retirement. Contributing some of your savings to a Roth IRA is one strategy. Withdrawals of earnings from a Roth are tax-free as long as you're 59½ and have owned the Roth for at least five years (you can always withdraw contributions tax-free). But not all workers are eligible to contribute to a Roth. In 2014, single workers with modified adjusted gross income of $129,000 or more are ineligible; for married couples who file jointly, the cutoff is $191,000.

You can get around these limits by converting your traditional IRAs to a Roth because there are no income limits on conversions. You'll have to pay taxes on all pretax contributions and earnings, but converted amounts are always tax- and penalty-free as long as you're 59½ and have owned the Roth for at least five years. Another idea is to contribute to a Roth 401(k), if your employer offers one. You can contribute to a Roth inside your 401(k) no matter how much you earn, up to the maximum annual amount of $17,500 (plus a catch-up contribution of up to $5,500 if you're 50 or over). Roth 401(k)s are subject to required distribution rules once you turn 70½.

Roth IRAs aren't subject to mandatory withdrawals, so you can let the money continue to grow tax-free until you need it. Even workers who are on the cusp of retirement or are already retired could benefit from converting to a Roth because all future earnings will be tax-free. It's prudent, though, to first discuss this step with a financial planner or tax professional because a large rollover could boost you into a higher tax bracket.

As you construct a tax-efficient portfolio for your retirement years, don't overlook the benefits of having a taxable account, too. Once you retire, you could lower your tax bill by tapping this account first. You'll be able to take advantage of low capital-gains rates while your tax-deferred IRAs and tax-free Roths continue to grow. For most retirees, the maximum long-term capital-gains rate is 15%; if you're in the 10% to 15% tax brackets, you'll pay 0% on the gains. ■

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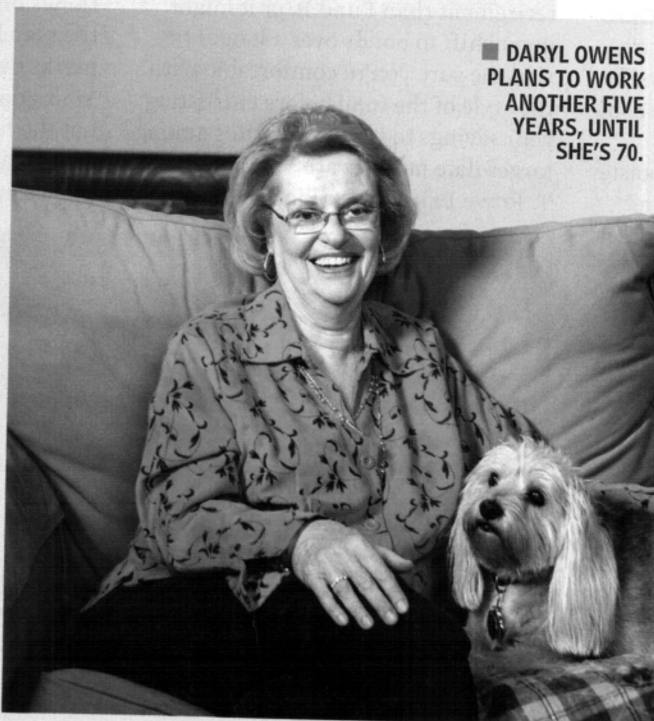
Strategies

CHOOSE TO WORK LONGER

DARYL OWENS HAS EXPERIENCED MORE CURVEBALLS IN THE PAST DECADE THAN many people face in a lifetime. A New Orleans native, she lost her home and all her possessions in 2005 to Hurricane Katrina. With most of the hospitals in New Orleans shut down, she was forced to pursue her career as a nurse anesthetist elsewhere. She and her husband, Daryl Nichols (the couple connected over their shared, unusual first name), moved seven times before returning to the New Orleans area in 2007. They were just beginning to discuss retirement when Nichols died of a heart attack, at age 64.

Owens, who had found part-time jobs with an ocular plastic surgeon and at the Fairway Medical Surgical Hospital, in Covington, La., immediately took retirement off the menu. "I was 64 at the time," says Owens, who's now 65. "You don't need to isolate yourself after your spouse passes away. It was so wonderful to be around people and to be doing what I was trained to do that I knew that I wanted to continue to work past 65."

Finances also played a role in the decision. Owens had already tapped retirement accounts at one point to meet expenses. And she experienced a precipitous drop in her investments during the worst of the recession. (The investments have since rebounded.) After that tumultuous period, she didn't want to take any chances with her nest egg. "I felt that if I could continue to work and support myself and not have to go into my very carefully planned retirement fund, it would be a win-win," she says.



DARYL OWENS PLANS TO WORK ANOTHER FIVE YEARS, UNTIL SHE'S 70.

In some significant respects, Owens is in good shape: She started saving for retirement at the beginning of her career and has always contributed the maximum to her 401(k)—that's $17,500 in 2014, plus $5,500 in catch-up contributions for people 50 and over. She has amassed a seven-figure sum. Plus, she receives survivor benefits from her husband's employer pension and Social Security.

Owens plans to keep working until she is 70, when she will trade her Social Security survivor benefit for the higher benefit based on her own work record. That amount rises 8% a year for each year she delays claiming it between age 66 and 70. And by working longer, she will have to take less out of her retirement accounts later. "All of that means that her plan is in much better shape than it would have been had she retired and taken Social Security earlier," says her financial planner, Lauren Lindsay, of Personal Financial Advisors, in Covington, La.

Owens is satisfied that she made the right decision. "Working is a social and a healing process for me, and I also have the benefit of getting paid for it. I had a wonderful husband who passed away too soon, but I feel very fortunate that my finances have worked out."

You can find out how your plan fees measure up against like-size plans by going to www.brightscope.com. Knowing how to interpret the information on the annual statement or use it to compare your plan with another employer's plan (perhaps to lobby your employer for lower fees) can be tricky. For instance, some plans build the administrative fee into the management cost; others charge the fee separately, making it impossible to compare the two. And plans with hundreds of employees and millions of dollars in assets have access to institutional pricing and economies of scale that smaller plans don't enjoy, says Brooks Herman, of Brightscope.

Still, your annual statement does let you compare costs and performance among similar funds in your own plan, and it provides a starting point for talking to your employer about what you're getting for your money. (You might find, for instance, that the administrative fee covers a service worth paying for, such as investment advice.) If nothing else, disclosure has encouraged employees to review their progress and ask questions, says Miller. "They're looking at their account balance and saying, Am I on track?" And prompted by disclosure, plans have lowered their fees and expenses and improved their investment choices over the past few years (see "Ahead," on page 13).

CONSOLIDATE ACCOUNTS

Like many preretirees, you may have several 401(k)s with former employers, as well as a lump-sum payout from a pension, such as a cash-balance plan. It can be a good idea to leave your money in your former employer's 401(k) plan instead of rolling it into an IRA. Many 401(k) plans have access to low-cost institutional funds that aren't