

Retirement Planning Strategies: *Ten Things Not to Assume*

1. You'll retire at age 65. Forced early retirement is a trend that won't go away soon. Aim to retire at age 65, but calculate that you might have to retire at 58.

2. You won't live much past 75. Instead calculate that you'll need enough income in retirement to last you until at least age 90. Doubt that? Then consider studies that show Americans will have a life expectancy of 100 in the year 2008. That's not unreasonable given the advances in nutrition and medical care.

Also, be mindful of the fact the Americans' worst fear is that they will outlive their resources. It's far better to have too much than too little.

3. You can save for retirement during the final five to seven years of your career only. You should start a savings program for retirement now, however little, and consider increasing the amount saved over time—and to take full advantage of the power of compounding.

4. You have to preserve principal. Sure, it's a time-honored adage to never touch your principal. But consider the reality of life today: It's too difficult to save enough money to both generate a stream of income in retirement and leave an inheritance legacy for your children. It's OK that people may want to leave a legacy, but they shouldn't do it at the expense of their lifestyle in retirement.

5. Your company's defined-benefit pension plan will match inflation. It won't. Also, don't assume that your pension and Social Security will be adequate to meet your goals.

6. Medical insurance and expenses won't be an issue in retirement. Instead, plan on spending between \$3,000 to \$12,000 per year for these costs. You'll need even more if you have to enter a nursing home. In addition, consider that you may have to purchase medical insurance on your own if you retire before becoming eligible for Medicare.

7. A windfall will aid your retirement. Don't expect an inheritance, lottery winnings, the inflation-fed equity in your house, or any other miracle to fund your retirement.

8. You can have a laissez-faire attitude about investment returns. Don't just accept whatever yield you're getting on your CD or short-term bond fund. Instead, establish a target. Shoot to beat the rate of inflation by one to three percentage points each year. This way, your investment won't face the risk of losing its purchasing power.

9. You can time the market. Plenty of money managers claim to move in and out of the market and generate spectacular gains. Ignore them. Instead develop an asset-allocation plan designed for your own investment objectives, time horizon, and risk tolerance. Once it's in place, stick to it.

A corollary: Don't try to find a "window of opportunity" in which to invest your money. Rather, use a technique called dollar-cost averaging; Invest a set amount on a regular basis.

And remember: Don't chase yields. You especially shouldn't buy long term bonds (which typically offer the highest yield and the high risk of volatility) until you've first evaluated the yield curve. That's the curve that tells investors what fixed-income securities of various maturities are yielding.

10. Your current portfolio will appreciate so much that you can keep your annual savings rate low. Your returns may not grow as you expect. To safeguard your retirement, save now as much as you reasonably can.