BIG DIVIDENDS FROM SURPRISING PLACES p 29

Kiplinger's

PERSONAL FINANCE

MONEY

THE BEST REWARDS CREDIT CARDS p 67

Not sure how much you need to save?

Getting a late start?

Feeling battered by the market?

INVESTING

A FUND THAT BETS AGAINST CONGRESS p 48

YOUR RETIREMENT REALITY CHECK

SAMPLE

Five steps to get you back on track p 53

LIVING

CUT THE CABLE AND WATCH TOP TV SHOWS FOR LESS p 73

OCTOBER 2011 $3.99
www.kiplinger.com

10>
245855 7
DISPLAY UNTIL OCT. 11 CMG 08205

COVER STORY

LARAINE SCHIGOTZKI is counting on her new business to fund her retirement.

SAMPLE

IN THIS SECTION

Saving for college 60
Buy a home now 64
Best rewards cards 67
PLUS E-trash disposal 66

5 STEPS TO A SECURE RETIREMENT

IT'S TIME TO SIZE UP YOUR PLAN. YOU MAY BE IN BETTER SHAPE THAN YOU THINK. »

BY MARY BETH FRANKLIN

AFTER A LAYOFF, LARAINE SCHIGOTZKI IS RESETTING HER RETIREMENT GOALS.

PHOTOGRAPH BY DENNIS KLEIMAN

SAMPLE

IF YOU'RE LIKE MANY AMERICANS WHOSE RETIREMENT SAVINGS TOOK A MAJOR HIT during the market meltdown a few years ago, you're probably wondering if you'll ever be able to retire. The eye-popping stock market drop in early August and the downgrade of the U.S. credit rating no doubt add to your jitters. Or maybe investment performance isn't your major worry. A spate of unemployment or depressed home values can make yesterday's vision of retirement seem like an impossible dream.

Don't be discouraged: Recent statistics on recovering 401(k) and IRA balances suggest that many savers are already back on track. Plus, "Americans have proved themselves to be both resilient and resourceful," says Jay Wintrob, president of SunAmerica Financial Group, which recently released its "Retirement Re-Set" study. More than 80% of respondents to the survey said they learned important lessons in the past several years. "They are course-correcting—intending to work longer, save more, spend less and adjust their lifestyle expectations," Wintrob says.

Laraine Schigotzki is a classic example. With successful careers in commercial real estate, property management and corporate sales, Schigotzki, 46, was surprised when she became a victim of a faltering economy. "I never thought I'd get laid off, but now I look at it as a blessing," she says. After losing her job in 2008, Schigotzki enrolled in a U.S. Department of Labor retraining program to become a licensed skin-care specialist and went on to become certified as a holistic health professional. In 2010, she opened To Your Health Holistic Spa and Wellness Center (www.toyourhealthnj.com), in Brick, N.J., where she offers organic skin and body treatments, health and nutritional counseling, and yoga classes.

Schigotzki's retirement savings are on hold while she builds her business, and she knows she has a lot of catching up to do. But she's banking on her new business, rather than relying on the stock market alone, to fund her retirement. "I am optimistic, and I'm not stressing about my future finances," she says. "I am putting my heart and soul into this, and I know I'll come out on top."

Nancy and Al Guido hoped to retire to their hometown of Chicago after living in Dayton, Ohio, for 17 years. But the collapse of both their investments and their home's value in 2008—a year before their planned retirement date—blew away their plans to buy a house in the Windy City. They didn't let their initial disappointment stop them, however. They turned market forces into an advantage by shifting their home search to low-cost Alabama, where they scooped up a beautiful lakefront home near Birmingham at a bargain price. "We couldn't have afforded this house a few years earlier," says Al, 62.

The past few years have demonstrated that being flexible like the Guidos is an essential ingredient in retirement planning during these uncertain times. Follow our five-step guide to make the new normal work for you.

STEP 1 | DO A REALITY CHECK

The main question on everyone's mind is, Will I have enough money to retire? More than half of those who participate in an employer-based retirement plan say that they have never taken the time to estimate how much they need to save for retirement. If you don't have a savings target in mind, it's tough to determine whether you are on track, says financial planner Philip Lubinski, head of the Strategic Distribution Institute, in Denver. Lubinski devised the simple worksheet on page 57 to help you figure out your target number and whether you're saving enough to reach it by the time you want to retire. If you prefer a more comprehensive, interactive tool, go to kiplinger.com/links/retirementcalculator.

"Some may be assuming they are off-track, when in fact, they aren't—or not as much as they think," says Lubinski. The answer to the burning question of Will I have enough? is determined by several factors, including when you plan to retire, how much income you need from your savings, how many years you'll need that income and the rate of return you can expect to achieve on your investments.

If you discover a shortfall between the amount you need to save and the amount your current account balance and continued savings will be worth by your target retirement date, then you'll have to make some tough choices. You could save more, work longer, chase higher returns or plan to throttle back on your retirement lifestyle—something most people hope to avoid.

"Americans are recalibrating their retirement dreams," says Carrie Schwab-Pomerantz, president of the Charles Schwab Foundation, which promotes financial literacy. "They don't want to buy a winery when they retire. They just want to keep living the life they've been living." J. Graydon Coghlan, a financial planner in San Diego, has observed a similar rethinking of retirement goals among his clients. "Instead of buying a second home, I see a lot of people fixing up their existing home to make it their retirement dream house and then just renting a place for a week or two in the desert or the mountains," says Coghlan.

SAMPLE

NANCY AND AL GUIDO STRETCHED THEIR RETIREMENT SAVINGS BY MOVING TO LOW-COST ALABAMA.

PHOTOGRAPH BY ALEX MARTINEZ

SAMPLE

STEP 2 | PLAY CATCH-UP

It's been a volatile decade for the stock market, but investment returns are not solely to blame for the size of your retirement account. The main driver of account balances over time is your contribution rate. Investment returns, while important, have a less significant impact over the long term. For guidelines on how you should allocate your retirement savings at various ages, see the graphs below.

Ideally, you should aim to contribute 15% of your gross earnings to your retirement savings—including any employer matching contributions. The goal is to replace about half of your current salary, adjusted for inflation, during a retirement that could last 30 years or more. You'll probably replace another 30% or more of your current income with money from other sources, such as Social Security, a pension or part-time work, bringing you closer to 80% of preretirement income—generally the amount recommended to maintain a comfortable retirement.

Make sure you make the most of your company's retirement plan. According to a recent survey by Fidelity Investments, more than half of 401(k) participants say they would not be saving for retirement at all if it weren't for their company retirement plan. But economic conditions still present a challenge, with 54% reporting that they would contribute more to their 401(k) plan if they could. If you can't max out your contributions immediately, contribute at least as much as needed to capture your employer's matching contribution if you have one and work toward saving more in the future. In 2011, you can contribute up to $16,500 to a 401(k) or similar defined-contribution plan, such as 403(b) plans used by schools and hospitals, 457 plans available to state and local workers, and the Thrift Savings Plan available to the military and federal employees. Workers 50 and older can make additional catch-up contributions of up to $5,500, for a total of $22,000 in 2011.

If you don't have access to a retirement plan at work—or even if you do but you want to stash more money away—you can contribute up to $5,000 to an IRA in 2011, or $6,000 if you are 50 or older. You can choose a traditional IRA, which offers an upfront tax deduction for workers who meet the income requirements. Or you can choose a Roth IRA, which has no upfront tax deduction but provides tax-free income in retirement. Self-employed business owners can contribute up to $49,000, depending on income, to a SEP IRA for 2011, or up to $54,500, including catch-up contributions, to a solo 401(k).

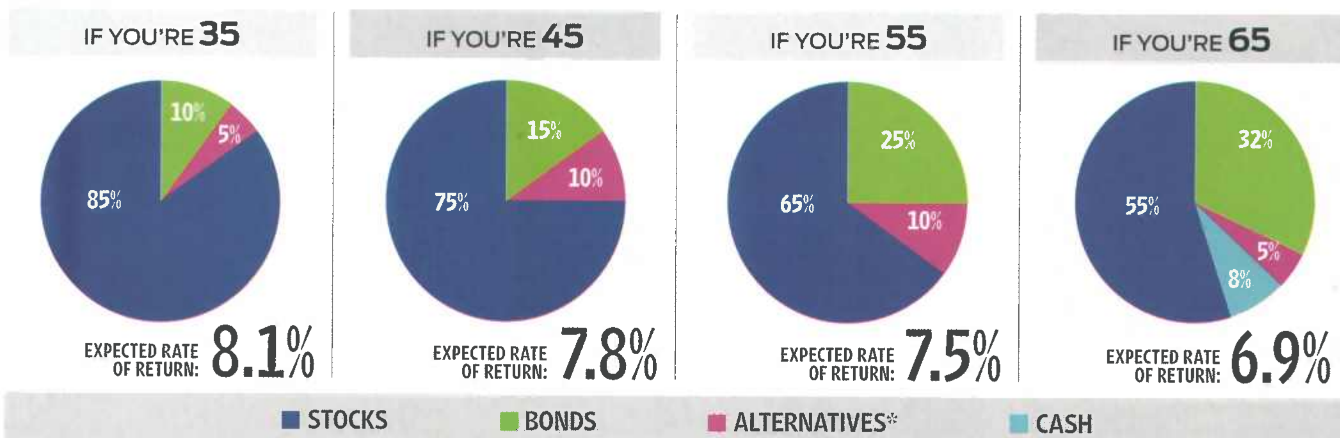
STEP 3 | WORK LONGER

The number of Americans age 55 and older in the workforce is now at an all-time high. Judith Randall, 72, of Chicago, is one of them. She describes her seasonal job as a guide on the city's river cruises and bus tours as "the best part-time job in the world." The retired legal secretary puts all her research skills to work, uncovering fascinating facts to share with her audiences. But the bottom line is that she needs the money. She relies on her earnings to supplement Social Security in order to pay her bills, and she squirrels away her tips for the winter, when there's no work. "I didn't save enough when I was working as a legal secretary," she says. "I have to work as long as I can."

Unfortunately, working longer may not be an option for some. More than 40% of current retirees stopped working earlier than they had planned, largely for reasons beyond

How to Divvy Up Your Investments at Any Age

The younger you are, the more risk you can afford to take by choosing a greater percentage of stocks, which have a higher expected rate of return. As you grow older, shift more into bonds to cut your risk. Your rate of return may decline, but so will your chances of big losses. Here's a snapshot of appropriate investment mixes and probable returns.

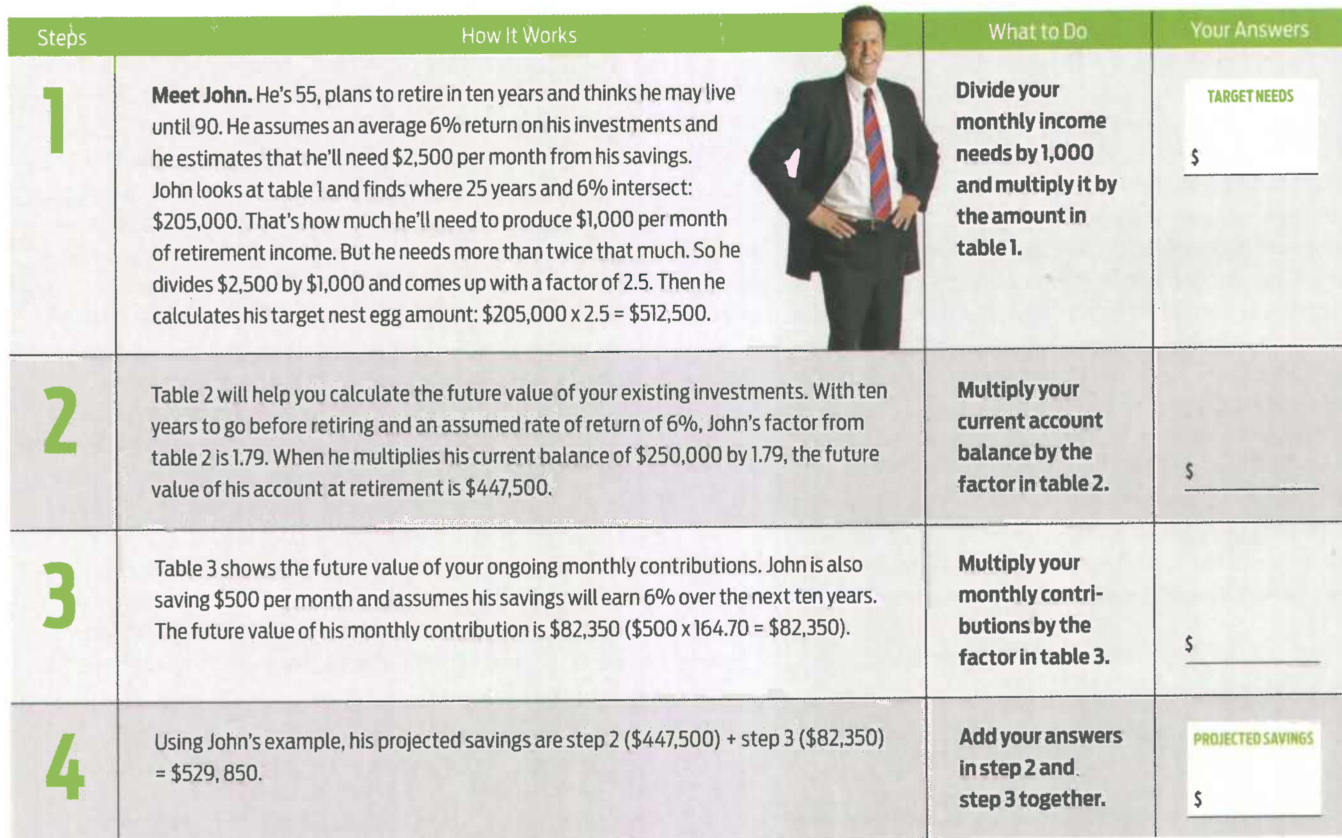


*Commodities and hedge-fund-like products (see page 33). SOURC Morningstar

SAMPLE

Retirement Reality Check: Are You Saving Enough?

To maintain a comfortable lifestyle in retirement, you should aim to replace about 80% of your current gross income. Social Security will supply about 30% of that amount for most middle-income workers. (You can get your personalized estimate of how much to expect from Social Security at www.ssa.gov/estimator.) The rest of your retirement income may come from pension benefits, a job or personal savings. To establish a nest egg target, you need a rough idea of how much money you'll want to draw from your savings each month.



Steps	How It Works	What to Do	Your Answers
1	**Meet John.** He's 55, plans to retire in ten years and thinks he may live until 90. He assumes an average 6% return on his investments and he estimates that he'll need $2,500 per month from his savings. John looks at table 1 and finds where 25 years and 6% intersect: $205,000. That's how much he'll need to produce $1,000 per month of retirement income. But he needs more than twice that much. So he divides $2,500 by $1,000 and comes up with a factor of 2.5. Then he calculates his target nest egg amount: $205,000 x 2.5 = $512,500.	**Divide your monthly income needs by 1,000 and multiply it by the amount in table 1.**	TARGET NEEDS $ ______
2	Table 2 will help you calculate the future value of your existing investments. With ten years to go before retiring and an assumed rate of return of 6%, John's factor from table 2 is 1.79. When he multiplies his current balance of $250,000 by 1.79, the future value of his account at retirement is $447,500.	**Multiply your current account balance by the factor in table 2.**	$ ______
3	Table 3 shows the future value of your ongoing monthly contributions. John is also saving $500 per month and assumes his savings will earn 6% over the next ten years. The future value of his monthly contribution is $82,350 ($500 x 164.70 = $82,350).	**Multiply your monthly contributions by the factor in table 3.**	$ ______
4	Using John's example, his projected savings are step 2 ($447,500) + step 3 ($82,350) = $529, 850.	**Add your answers in step 2 and step 3 together.**	PROJECTED SAVINGS $ ______

TABLE 1 (dollar values needed to produce $1,000 per month; assumes 3% annual inflation)

Rate of return	Years in retirement						
	5	10	15	20	25	30	35
2%	$60,000	$123,000	$189,000	$259,000	$331,000	$408,000	$488,000
4	57,000	111,000	162,000	211,000	258,000	302,000	344,000
6	54,000	100,000	140,000	175,000	**205,000**	231,000	254,000
8	51,000	91,000	122,000	147,000	167,000	182,000	194,000
10	48,000	83,000	108,000	125,000	138,000	148,000	154,000

TABLE 2 (current balance factor)

Time to retire.	Rate of return			
	4%	6%	8%	10%
5 years	1.22	1.34	1.47	1.61
10 years	1.48	**1.79**	2.16	2.60
15 years	1.80	2.34	3.17	4.18
20 years	2.19	3.21	4.66	6.73

TABLE 3 (monthly contribution factor)

Time to retire.	Rate of return			
	4%	6%	8%	10%
5 years	66.52	70.11	73.97	78.08
10 years	147.74	**164.70**	184.17	206.55
15 years	246.91	292.27	348.35	417.92
20 years	368.00	464.35	592.95	765.70

*John's results in bold. SOURCE: Strategic Distribution Institute

WHAT DOES IT MEAN?

If step 4 is larger than step 1, congratulations, you're on track.

If step 4 is smaller than step 1, you need to make some changes to reach your nest egg goal. Consider working a few years longer, saving more each month or adjusting your investment mix to achieve a higher return. Or reconsider how much retirement income you will need.

In John's example, he is slightly ahead of his goal ($529,850 - $512,500 = $17,350). But because this is just a rough estimate, he should continue his current savings plan. Very few people have reached retirement regretting that they saved too much. But John is relieved that his savings are on track after all.