The sooner you start planning retirement, the easier it will be

The sooner you start thinking about this subject, the better. Successful and early planning will possibly allow you the valuable option of retiring early.

Retirement Planning needs to address two questions: (1) How much will be needed for retirement?, (2) What will be the sources of retirement income?

1) How much will be needed for retirement?

Usually you'll need 60% to 100% of current income to live comfortably in retirement, provided you're now at a reasonable comfort level. The percentage varies widely depending on your current situation. In other words, there are several expenses you may have now that will not be a factor when retirement arrives. First of all, there are the expenses attributed to children: food, clothes, education, etc.. Secondly, there's your current retirement savings "expense". Thirdly, there are the debt expenses you may currently have (such as credit cards, student loans, etc.) that should be paid off by the time you retire. Optionally, if you plan to live in your home during retirement and it's paid for, you'll save on housing costs.

Once you determine your comfortable monthly income for retirement in current dollars (present value), the future value of said amount can be found. Find the closest five year interval between now and your planned retirement date below, multiply your present value by the decimal number associated with the five year interval (multiplier): the result is about what you'll need per month when retired (future value).

For those familiar with future value calculations, I've used 3.25% as the average annual inflation figure.

Future Value Multipliers

Years to Retirement	Multiplier
05 years	1.173
10 years	1.377
15 years	1.616
20 years	1.896
25 years	2.225
30 years	2.610
35 years	3.063

Example: in current dollars, a couple figures they would need $1,500 per month to live comfortably if retired. They plan to retire in 30 years. Their calculation is: $1,500 x 2.610 = $3,915 needed per month in 30 years.

2) What will be the sources of retirement income?

For most individuals, there are four basic retirement income sources: Social Security, Pensions, employer tax-deferred savings plans (such as 401k's), and personal savings (including IRA's).

• Social Security - you can obtain a statement from them listing reported earnings for each year worked and providing an estimate of benefits based on when you plan to retire. To receive the statement you must submit a Social Security Request Form SSA-7004, "Request for Social Security Earnings and Benefit Estimate Statement". Call them at 1-800-772-1213 to request the Form. Some suggest obtaining one of these Statements every 5 years to stay current with your benefit. There's considerable debate over the long-term fi-

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Mutual funds

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essentially eliminates this type of risk. Certain funds such as sector funds, because of their specialization, have some amount of this risk; thus, they are more risky than diversified funds.

2. Category Risk - risk associated with the type (or category) of security within a given fund. To view a listing of Investment Category Risks, jump to my general investments page.

3. Market Risk - the risk of general market fluctuations, usually measured as beta for common stock funds and average maturity for bond funds.

+ Beta - a measure of the relative volatility (risk) inherent in a specific mutual fund when compared to a general market measure, such as the S & P 500 index for stock funds. A beta of 1.0 should roughly match the return and risk of the "market", while a beta of 1.25 would have a return and risk about 25% more than the "market"; 25% above it on the upside, and 25% below it on the downside.

+ Average Maturity - for bond funds this is the primary measure of risk because bonds are affected most by the trend in interest rates and bond funds of longer average maturity are affected more severely than those of shorter average maturity. Like beta, a higher average maturity fund stands to gain more on the upside and lose more on the downside.

Selecting Mutual Funds

Don't forget your overall Asset Allocation while choosing Mutual Funds.

The selection process often begins with the fund's investment return record; though, make sure you're comparing apples to apples in this part of the process. In other words, comparing investment returns between two funds without paying attention to their other key factors: expenses, risks, and management; is a mistake. In addition to the above mentioned items, omit funds that do (or don't do) any of the following:

• funds whose investment objective given in the prospectus is not specific, understandable, and consistent with your needs.

• funds that aren't quoted in the financial press (e.g., The Wall Street Journal, Barron's, Investor's Business Daily).

Common Mutual Fund Investor Services

• Phone Exchange: moving money between different funds within the same fund family. Remember, exchanging out of a bond or stock mutual fund is a sale; thus a taxable event for non tax deferred accounts.

• Check Writing: available with many money market and some short term bond funds. Often, a minimum check amount of $250 is required.

• Auto Exchange: similar to phone exchange, except it's set up to occur on a regular (usually monthly) basis automatically. This is one way to dollar-cost-average.

• Auto Invest: regular (usually monthly) electronic drafts from an investor's bank checking account to purchase fund shares. Requires preauthorization between bank and mutual fund company. Another way to dollar-cost-average.

• Auto Withdrawal: the opposite of auto invest, money is regularly deposited into investor's bank checking account from the mutual fund company (possible taxable event).

Special Note

In addition to investing through individual Mutual Fund companies, you can now transact in No-Load Mutual Funds by opening an account (regular or IRA) with most Discount Brokers. Be sure to choose the "no transaction fee" Funds, as some Funds available through these brokers are not exempt from transaction fees (that's both No-Load and no transaction fee).

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