Step 12: Retire In Style

Description

And now, ladies and gentlemen, the inflation-adjusted million-dollar question: Can you afford the retirement of your dreams?

While you ponder that, it's likely that a few other questions will come to mind:

- How much money will I need when I retire?
- What kind of lifestyle will I be able to afford?
- What will my current savings be worth by then?
- How much can I afford to take out every year?
- Will I need to adjust my plan?
- Does anyone have a brown paper bag? I'm feeling lightheaded.

Relax. We're going to tell you almost everything you need to know about retirement, right now, in less than five minutes. Ready? Here goes.

1. Contribute to the right accounts.

If you've read this 13-step investing primer in order and took the 15 to 30 minutes it took to complete the action items in Step 4, then this part is done.

2. Choose the right investments.

A lot of people get tripped up on this one. But don't let it stop you from putting a plan into motion. In Step 9, we showed you how to construct a well-balanced retirement portfolio with a whole day's supply of vitamin D.

The "right" investments for you will change over time as you near the point where you stop investing new money and start spending what you've saved.

But it's important to remember that retirement is not your investing finish line. You probably still have many years of productive life ahead of you after you retire. While the income and safety of bonds may seem appealing, approximately half of your portfolio must still be invested in stocks to ensure you can maintain purchasing power and avoid the devastating effects of inflation.

3. Save enough.

With life expectancy increasing by leaps and bounds, if you give notice at the traditional age of 65, you may want to think in terms of a 30-year retirement. That's a lot of electricity bills and all-you-can-eat buffet brunches.

So, how much do you need to save? As much as you can.

A more specific answer can be found in the following table, which assumes you have not yet started to save for retirement:

Your Age	Percentage of Income to Save
20s	10%-15%
30s	15%-20%
40s	20%-30%
50s	30%-40%
60s	40%-50%
70s	50%-60%
80s	Vegas, baby!

4. Run your numbers to see if you're on track (and then run them again).

Are you saving enough to retire when you want? Are you withdrawing too much in retirement? There's one way to find out: Run your plan through a good retirement-savings tool.

Check out some of the free financial calculators on the Internet. Since each will give you a different answer, try at least three. First, try our suite of retirement calculators on Fool.com, in particular "Am I saving enough? What can I change?" and "How much will my savings be worth?" You also might find some good tools on your broker's website or as part of your personal-finance software.

If you start pricing it out now, you won't experience sticker shock when your ticker isn't quite as strong. Our post-retirement expense calculator will help you figure out how much that round-the-world trip, fishing cabin, or class in paperclip art will cost.

5. Stop paying for other people's retirements.

Unless the person managing the money in your mutual funds is bound to you by matrimony or blood relation, you probably don't intend to contribute to their bank accounts.

Too many investors overpay for underperforming investments, ponying up management fees (which can exceed 2%) for funds that barely keep up with their benchmarks.

Your generosity is not properly appreciated. By choosing lower-cost but better-performing funds, you can add 1% to 2% a year to your portfolio returns. Compounded over many years, we're talking tens of thousands of dollars.

So keep a sharp eye on fees. Below is a pocket guide to what we Fools think is reasonable to pay:

The Motley Fool Fee Swatter: What to Pay for Financial Products

Financial Service or Product	Reasonable Fee
Index funds	0.3% or less for domestic index funds; less than 0.5% for others (REITs, international, etc.)

Actively managed mutual funds	1% or less for domestic funds; 1.5% or less for global funds
Stock trades	$20 or less
Financial advice from a financial planner	1% or less of assets under management, or (even better) choose a fee-only financial planner

6. Know how to crack your nest egg.

Finally, the big day. You kissed the boss good-bye, and you're ready for a lifetime of … well, whatever the heck you want. It's time to begin tapping your portfolio. But, where do you start?

This is no small matter. One study found that choosing the right order of accounts (registered vs. non-registered) could extend a portfolio's life expectancy by more than two years. The general rule: Start withdrawing from non-retirement accounts (non-registered). After that, move on to tax-deferred (registered) money.

Live it up today, too!

We'd be remiss if we did not give proper due to a very important period in your life: The here and now.

In the words of John Lennon: Life is what happens when you're busy making other plans. At The Motley Fool, we firmly believe that saving for tomorrow is not about sacrificing today — it simply requires striking the right life-money balance. We'll end this lesson with your moment of Foolish Zen: Living rich and getting rich are not mutually exclusive.

Action: Find out if you're saving enough for retirement

Well, are you? That's what calculators are for! Our Foolish retirement calculators can help with the heavy arithmetic. You will also be able to play "what if" games and see the results quickly, should you decide to vary things like inflation, rates of return, date of retirement, and desired income.

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