Pay Yourself First!

Odds are that you won't win the lottery or receive a huge inheritance from a deceased relative that will relieve you from financial worries for the rest of your life. And, counting on Social Security to fund all your expenses in retirement may be much too optimistic as well. Social Security retirement payments are intended to cover only the most basic living expenses.

Focus on You

The reality is that you have to take matters into your own hands when it comes to preparing for your retirement. If you haven't thought much about it yet, you really should start focusing on your future retirement needs very soon. The earlier you begin planning, the better your chances of having the retirement you've dreamed about.

A good rule of thumb is that you will need 70% to 80% of your salary as retirement income if you hope to have a reasonably comfortable retirement. To help reach that goal, commit to saving a portion of your salary in a retirement plan each payday and keep on doing so for as long as you are employed. There is generally no substitute for regular contributions invested in a broad range of investments that can potentially grow tax-deferred over time.

Go on Autopilot

Making automatic paycheck contributions to a 401(k) or similar retirement savings plan helps simplify your financial life. You can't spend money you don't have and you don't have to go to the trouble of transferring funds electronically or writing a check. And you don't have to worry about where to invest each time you contribute to the plan. Your plan contributions are automatically invested for you in the investment options you selected from the retirement plan's investment menu.

It's a Good Habit

As you watch your retirement savings accumulate over time, you may be motivated to save even more for your future retirement. It may become second nature to seek out ways to reduce your discretionary spending so that you will have more money to set aside for your retirement. And whenever you receive a pay raise or a bonus, you may automatically think about saving a portion of it.

Growing Your Retirement Account

	You could have this much more saved after:		
If you increase plan contributions by:	10 years	20 years	40 years
$10/week	$7,101	$20,020	$86,291
$15/week	$10,652	$30,033	$129,447

This is a hypothetical example used for illustrative purposes only. It assumes amounts are invested monthly, an average annual total return of 6%, and monthly compounding. It does not represent the result of any particular investment. Your results will be different. Amounts are rounded to the nearest dollar. Source: DST Retirement Solutions, LLC, an SS&C company.

Switching Investments

Your retirement plan gives you the flexibility to change your investment choices if you consider it appropriate to do so. When does it make sense to add or subtract from your holdings in one or more funds in your plan account? Here are some times when you might consider making a switch.

When Your Retirement Is Drawing Closer

Making your investment decisions based on the number of working years you have ahead of you is key to successful retirement investing. So, too, is basing your investing decisions on your tolerance for investment risk. Younger participants with many years left until retirement may be able to take on a higher level of investment risk since their long-term investment horizon gives them time to ride out any downturns in the investment markets. As you near retirement you probably can't afford to take excessive risk with your retirement assets.

If you plan to retire in five years or less, it may be appropriate to shift from a strategy of growth to one that seeks to protect your assets. By emphasizing asset preservation, part of your retirement plan portfolio may be protected if the stock market falls significantly.

When Your Tolerance for Risk Changes

It's important to have a long-term perspective as a retirement plan investor since the market can have periods of volatility. However, your tolerance for the market's fluctuations may change due to unforeseen financial occurrences throughout your life -- the loss of a job, the need to save for a child's college education, or a health crisis. If it does, you may want to review your asset mix to see if you can restructure your portfolio so that you are more comfortable with its risk level.

When Your Portfolio Needs to Be Rebalanced

You choose how to allocate the investments among the different asset classes in your retirement plan account by considering your time frame for investing, your tolerance for investment risk, and other assets you may own. However, any change -- up or down -- in one investment class can throw your allocations off balance. When that occurs, you may want to rebalance your retirement plan portfolio to reestablish the percentages you had initially allocated to stocks, bonds, and cash investments. You may have to sell some investments and buy others to achieve the rebalanced plan account you originally constructed.