

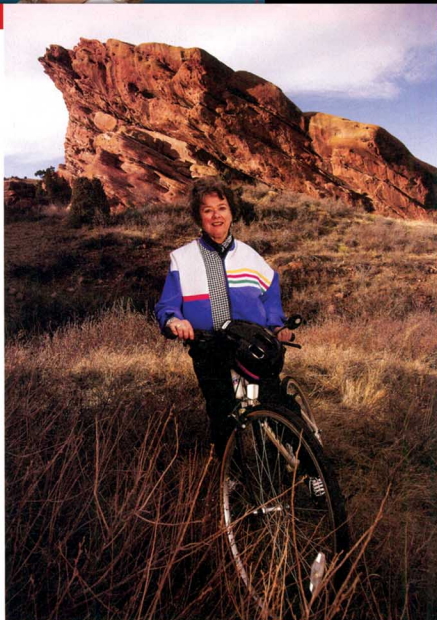


Will She Shine at Night...

Kat

... And Who Will Watch?

By Marc Poysor and Johnnie L. Roberts



subsequent year, increase your withdrawal by no more than the inflation rate. If you start with a 5 percent draw, you risk running out of money.

This comes as a shock to preretirees who'd planned to tap their savings for more. But that's what planning is all about. If you can't get by on the wise 4 percent withdrawal rate, you should have a serious talk with yourself and your spouse about your priorities, trade-offs and aspirations, says Paul Winter of Five Seasons Financial Planning in Holladay, Utah. Are you willing to work longer, slash expenses, work part time or move to a cheaper part of the country? The sooner you decide, the better your chance of right-sizing your retirement.

For Alice Sidwell, 64, early retirement didn't seem to be realistic. She worked for United Airlines as a flight attendant, but despite years of saving, her pension and 401(k) would not have been enough. "I could have

DIVERSIFICATION
Riding High
 Alice Sidwell, 64, doesn't consider money her forte. So before she retired from her job as a United Airlines flight attendant, she saw a financial planner who told her she could afford to quit. Her stockbroker had been buying and selling penny stocks. The planner put her into safer diversified mutual funds.

68 Percentage of retirees who take Social Security early

lived," she says, "but couldn't have made extra purchases."

An inheritance saved her. In 1999 she sat down with planner Mark Brown, of Brown &

Tedstrom in Denver, who looked at her spending and assets and told her that she could afford to retire. He also reorganized her money. Previously, it was run by a stockbroker who constantly bought and sold stocks (including risky penny stocks). Brown switched her investments into a diversified mix of stock and bond mutual funds. Her withdrawal rate is just 3 percent, so she's living well below her means.

Redo Your Investment Plan

2 WHEN YOU'RE GETTING CLOSE TO retirement, reconsider your investments. Bury any impulse to try to pick winning stocks—most of us aren't any good at it. Switch to mutual funds instead. (OK, keep a "mad money" fund—but if you lose it, take that as a sign.)

If you've piled up company stock in your 401(k), divest it now—not only the stock you bought yourself, but anything you received as a company match. Diversify into mutual funds no matter how good you think your company is.

Selling her company stock was one of the choices that helped Maria Bellon, 59, retire. A career BellSouth employee, she signed up 30 years ago to invest her 401(k) in stock and never looked back. She had a great run—but by 2000, BellSouth made up more than 80 percent of her retirement fund. Her planner, Mario Yngerto of Genesis Wealth Management in Plano, Texas, encouraged her to diversify. She scooted at \$40 a share—not long before the stock bubble burst and the price plunged to less than \$20. Bellon says she felt disloyal when she moved the money out, but is relieved she did. At retirement, she rolled her 401(k) and most of her lump-sum pension into an IRA invested in index mutual funds, which Yngerto tends.

When investing retirement assets, planners almost unanimously endorse what's called a total-return approach. That means taking all your financial assets—your 401(k) plus any taxable savings—and spreading them over a well-diversified group of mutual funds. The usual building blocks include large and small U.S. stocks, international and emerging-market stocks, and a mix of short- and long-term bonds. You calculate the safe 4 percent withdrawal rate and spend that much (or less) from your account each year. You're not specifically investing for income. You're investing for gain and taking the cash you need from the total pot.

For some retirees, that



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