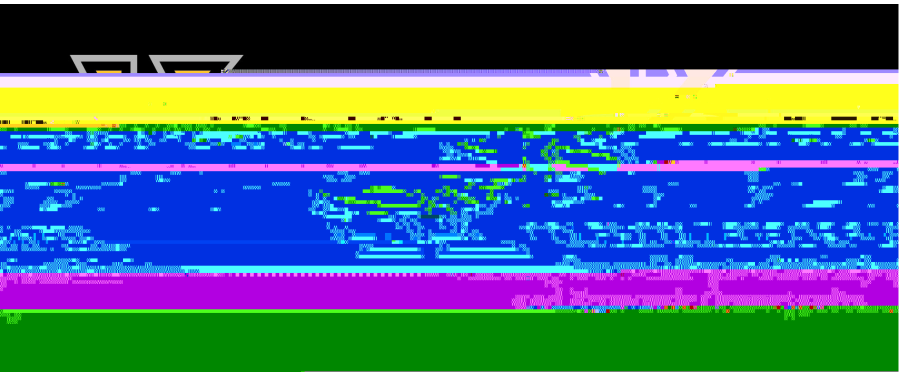

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Saving and investing for retirement is a daunting prospect. How much do I need to retire comfortably? What should I invest in? When can I retire? What if I live longer than I planned? These are just a few of the questions that keep many awake at night as they contemplate the future that is rushing to meet them. In this three-part series we will help you think through these issues, and others, as you plan for retirement.[1] We will not be able to cover the subject exhaustively, but will be able to get you thinking seriously about the issues. Once you see what is involved in getting financially ready for retirement, we recommend that you consult with a financial professional versed in this subject.

In Part 1 of this three-part series, we make the case for saving and investing over a long time period to accumulate significant assets. In Part 2 we will examine what kinds of investments will generate the necessary returns to accomplish the goal of retiring well. In particular, we will examine stocks and bonds as the best alternative for most people. In Part 3 we will examine ways to determine how much income you need in retirement and, therefore, how much you need to accumulate by your retirement date. We will discuss strategies for choosing best retirement date and the different amounts of assets necessary to make your chosen date a reality.

Why you need to Save and Invest

Many people, young and old, are concerned that when they retire they won't have enough income and wealth to live comfortably until they and their spouse reach the end of life. Many have heard that Social Security is going bankrupt and that there will not be anything in the system left to finance their retirement.[2] The good news is that Social Security will not go bankrupt in the traditional sense, due to the fact that its income stream comes from ongoing payroll taxes. As long as there are people working, Social Security collects money that it can then pay out to retirees. The bad news is that with a rapidly aging population that is living much longer, the number of workers per retired person is falling. So, Social Security is collecting less than it pays out, and this cannot go on indefinitely without major modifications to the system. We don't know what compromises (e.g., decreased benefits for retirees, an older retirement age, etc.) will be made to restore long-term solvency to Social Security, but it would be wise to plan for some kind of cut or delay in expected future payme

two important points about saving for retirement start saving early and invest with interest. Even years.[7] As you can see when comparing the four lines in Figure 3 with the yellow line in Figure 2, the shorter time for compound interest to work leads to a less dramatic increase in value. While only $5,000 invested annually for 40 years at 7% was sufficient to surpass the million dollar mark, even $20,000 invested (a four-fold increase in the amount invested per year) at the same 7% rate for 20 years (half the time) will not!

However, we still get substantial savings accumulated if we increase our savings rate from the $5,000 level. If you start out when you are young you can get by with a low investment amount and still reach a significantly large nest egg, but if you wait until middle age or later, you really need to ramp up the savings and investing to reach a comfortable retirement nest egg. For most of

Appendix

5

Years	0%	2%	5%	7%
5				