What will your financial situation look like when you decide to retire? Do you have a strategy in place for making systematic withdrawals from your retirement accounts? Are you prepared to do whatever it takes in order to be able to retire with the lifestyle you choose?

According to the Social Security Administration, only about 15 percent of Americans will be able to retire financially independent. The American Association of Retired Persons (AARP) confirms these findings and reports that 40 percent of Americans over the age of 60 will experience poverty at some point in their lives.

So, what are your options? Let's examine some issues regarding retirement plans and some possible solutions to keeping your retirement nest egg intact.

The Changing Face of Retirement Plans
According to Craig Karpel, author of The Retirement Myth: What You Must Know to Prosper in the Coming Meltdown of Job Security, Pension Plans, Social Security, the Stock Market, Housing Prices, and Mortgage, Americans simply aren't saving enough for retirement. Karpel suggests that this is primarily due to the transition from traditional pension plans to defined contribution plans, such as the 401(k). Traditional pension plan benefits are calculated based on how much it would take to pay a person a pension for life based on living expenses, life expectancy, and inflation. The employer then sets aside enough to cover these assumptions, assuming all investment risks. On the other hand, defined contribution plans let the plan participant decide how much to save and where to invest. Unfortunately, most participants aren't saving enough, and company matches and profit sharing aren't making up the difference. 401(k) participants are also at the mercy of fluctuating markets, which may put their retirement plans in jeopardy.

Your Retirement—Your Responsibility
So, what can you do to make your retirement hopes a reality? First, investigate the recent tax law changes that allow more flexibility for business owners and increased retirement plan contributions for highly compensated employees. Some notable changes include safe harbor status, which eliminates most of the discrimination testing, and optional salary deferrals above the currently allowed limits for those participants age 50 and older. For more information on the recent tax law changes and new retirement plan contribution limits, talk to your tax advisor or your retirement plan professional.

Next, get help. Unless you have the time, expertise, and desire to manage your own investments, you'll need a qualified professional to help you understand your investment options. To find the right professional, consult the Certified Financial Planner Board's Web site (www.cfp-board.org) or the National Association of Personal Financial Advisors Web site (www.napfa.org). You might also want to ask friends or co-workers for a referral.

Once you start working with a financial advisor, be honest and clear about your risk tolerance and retirement goals. Also, verify your investment timeline. Are you looking to retire in three years, five years, or 10 years?

As you begin the transition into retirement, be aware that there is no magic asset allocation formula for retirement plan assets. You'll need to base your retirement portfolio on your resources, income needs, time frame, and risk tolerance. Many financial planners commonly suggest a retirement portfolio of 40 to 50 percent in stocks and 50 to 60 percent in bonds and cash. It is also commonly recommended that you keep one to two years' living ex-
penses liquid and easily accessible. Finally, keep in mind that as you get closer to retirement age, you’ll want to take fewer investment risks, leaving a healthy nest egg for the coming years.

**Withdrawal Strategies**

Some financial planners are comfortable assuming a 4 percent withdrawal rate for their clients. For example, if you want your portfolio to generate $50,000 per year, you’ll need a $1.25 million nest egg at the beginning of your retirement. This also assumes a portfolio consisting of about 50 percent in stocks. Adding more in stocks may allow you to “squeeze” another percent out of your nest egg, but you may end up leaving less to your heirs.

Here are some other helpful strategies to remember when making withdrawals.

- Assess income potential on your investments regardless of market conditions.
- Invest portfolio earnings in your cash reserve account.
- Use a tax-efficient strategy when cashing out your investments.
- Carefully assess market conditions when making sell decisions.
- Use bonds as an income stream to cushion market volatility.
- Never sell out. Selling out could guarantee losses during a down market, and leave you to decide if and when to reinvest.
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