Walk from New York to Washington, D.C., in a day? Not possible, no matter how much you want to do it. You can’t be successful if your goals aren’t realistic. That’s especially important to remember as you plan for your retirement. Here are some unrealistic assumptions you won’t want to make.

Underestimating Your Expenses
Sure, some of your living costs will go down after you retire. But don’t think you can get by on a whole lot less than you were making before you retired. Most workers who retire at age 65 still need between 75% and 90% of their preretirement income, according to a recent study.*

Underestimating Your Lifespan
Planning for a short retirement would also be a mistake. Today, the average life expectancy for a 65 year old is more than 18 years. And that number has been increasing as medical care improves. So, your retirement could last for many, many years.

Overestimating Your Resources
After you retire, you’ll be counting on your savings for income. So, you’ll need to figure out how much you can comfortably afford to withdraw each year. Withdraw too much and you’ll risk depleting your savings too soon.

To plan successfully for retirement, you have to get real — about the income you’ll need, how long it may have to last, and how much you’ll be able to withdraw from your savings. And the more you contribute to your retirement plan on paydays, the better off you’ll be.

*2004 Aon Consulting/Georgia State University Replacement Ratio Study™
There’s fire. But, if it’s only your neighbor starting the barbecue grill, you certainly don’t need to panic.

Do you panic when the value of a fund or portfolio you’re invested in drops sharply? Declining prices aren’t necessarily a signal to sell an investment. Like smoke from your neighbor’s barbecue, price declines are to be expected, especially when you invest in stocks. Share prices that are down today may be up tomorrow — and vice versa.

So, making decisions to sell investments based only on short-term performance may not be wise. The following may be more reliable signals that it’s time to sell.

**Consistent Underperformance**
To judge how well your investments are performing, compare your results with similar investments during the same period. Even better, compare results over multiple periods. For example, let’s say that a large company stock fund loses 10% during the quarter. If the overall market for large company stocks dropped only 5%, you’d certainly want to watch the situation closely.

What if the fund continues to be a relatively poor performer for several quarters? That could be a signal that it’s time to move your money into other funds.

**New Goals**
Another signal to sell investments is a change in the goals you have for your investments. For example, you might be getting close to retirement and decide you want to reduce the amount of risk in your plan account. You could do that by switching some of your retirement savings out of stocks and into less risky funds.

**Drifting Fund Focus**
Your decision to invest in a certain fund may have been based on the type of

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**Where There’s Smoke…**

**Compare the Short- and Long-term Returns**

*These returns are for illustrative purposes only and don’t reflect the returns of any specific investment or the returns that an investment in stocks may earn in the future. Stocks — measured by the [S&P 500 Stock Index](#), an index of the stocks of 500 major corporations — represent shares of ownership in a corporation. The value of stocks will fluctuate with market conditions. This index is unmanaged and carries no expenses. You cannot invest directly in an index. Past performance does not guarantee future returns. Your investment returns will be different.

*Source: Russell Data Services*
Don’t Push the Pause Button

With a retirement savings plan, you’re in control of your financial future. You can fast-forward by making extra contributions to your plan account. Or you can reduce — or even stop — your contributions if you want to.

**Pause**

The power to pause your contributions is meant to be a safety valve. It’s there in case you ever have a serious need. You might be tempted to cut back on your contributions for other reasons, however. Maybe you’d like to be taking home more money. Perhaps you’re upset by disappointing investment results. But before you make any changes, think about this: Pausing your contributions can be very expensive in the long term, as the chart shows.

**The Cost of Interrupting Your Savings**

Juan and Jane contributed the same total amount. But Juan retired with $62,971 more because he never pushed the pause button on saving.

<table>
<thead>
<tr>
<th>Years</th>
<th>Annual Contributions</th>
<th>Plan Account Balance at Year 40</th>
</tr>
</thead>
<tbody>
<tr>
<td>Juan</td>
<td>1-40</td>
<td>$2,000</td>
</tr>
<tr>
<td>Jane</td>
<td>1-5</td>
<td>$2,000</td>
</tr>
<tr>
<td></td>
<td>6-10</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td>11-40</td>
<td>$2,333.33</td>
</tr>
</tbody>
</table>

Both Juan and Jane Contributed a Total of $80,000.

This is a hypothetical example that assumes contributions are made monthly and investments earn a 7% average annual total return compounded monthly. Your contributions, investment returns, and balances will be different.

Source: NPI

Don’t let market volatility obscure your investment decisions. But, if a fund’s performance is consistently poor, your goals shift, or a fund loses its focus, it may be time to make a change.

securities it holds (stocks, bonds, or cash equivalents) and its objective. For example, you might have selected a certain stock fund because it focuses on small company stocks.

Sometimes, though, changes in the market or in the fund manager’s focus can cause a substantial shift in a fund’s mix of securities. That could shift your own investment mix away from your original plan. It may even be enough to make you decide to change funds.
Winning a game of football or soccer requires a dual strategy: scoring points and preventing the other team from scoring. So, a good coach makes plans for both offensive and defensive moves. As a retirement investor, you need to do that, too.

Your offensive strategy may be to focus on funds or portfolios with the potential for long-term growth. But the higher an investment’s potential for gains, the greater the risk of losses. So, focusing on growth investments increases your risk of losses in a market downturn. A good defensive strategy for your plan account can help you manage that risk.

A Key Strategy

One defensive strategy — diversification — stands out. The idea is to choose a range of funds that include different investment types. Diversification can help protect your balance during a possible market downturn. How? While some of your investments may be performing poorly, others may be making gains or holding steady. By diversifying, you may reduce your overall losses.

Diversifying your retirement investments won’t guarantee investment gains or eliminate the possibility of losses. But using diversification is a good defensive game plan because it can help you manage risk.

Using Diversification as a Defense

Amount Invested = $10,000

<table>
<thead>
<tr>
<th></th>
<th>Account Balance If Stock Fund Prices Drop 20%*</th>
<th>Account Balance If Bond Fund Prices Drop 20%**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Undiversified</td>
<td>$9,000</td>
<td>$9,000</td>
</tr>
<tr>
<td>Diversified</td>
<td>$8,000</td>
<td>$8,000</td>
</tr>
<tr>
<td>More Diversified</td>
<td>$0</td>
<td>$0</td>
</tr>
</tbody>
</table>

*Assumes that bond fund and cash equivalent fund prices don’t change. For example, if 50% ($5,000) of the $10,000 portfolio is invested in a bond fund and 50% ($5,000) in stock funds that lose 20% ($1,000) of their value, the portfolio will be worth $9,000 ($5,000 in a bond fund plus $4,000 in stock funds).

**Assumes stock fund and cash equivalent fund prices don’t change.

This is a hypothetical example used for illustrative purposes only. The example does not represent any specific investments. Your investment performance will be different. Source: NPI