BUILDING YOUR OWN PENSION PLAN

MAKE LIKE THE PROS AND DIVERSIFY BEYOND STOCKS.

BY JEFFREY R. KOSNETT

OUR READERS

WHO: JOE AND SUSAN BUCHANAN, 37
WHAT: BOTH IN TECH SALES
WHERE: RALEIGH, N.C.
MARITAL STATUS: MARRIED, NO CHILDREN
SYMPTOM: JOE AND SUSAN WON'T GET PENSIONS. WHAT CAN THEY DO TO ENSURE A SECURE RETIREMENT?

THE BUCHANANS EXEMPLIFY the personal-finance generation gap. They earn way more than their parents, but unlike Joe's father, Miller, who retired with a pension after 26 years at Philip Morris, Joe and Susan stand to receive no retirement benefits from their employers. "My parents live what I call the beach life," says Joe. "We'll even have to pay for health care out of our pockets in retirement."

Joe and Susan started putting money away years before they married in 2007. They have his-and-her IRAs and 401(k) accounts, as well as individual stocks in regular accounts. All told, their kitty is worth $550,000.

They have a $160,000 mortgage on a townhouse in Raleigh and little other debt. Seats to Virginia Tech football games, Joe's passion, are their biggest extravagance. Yet even this affluent couple fret that their retirement won't be as carefree a time as it is for their folks.

Their response has been to invest often and aggressively; in a normal month, they sock away as much as $4,000. Nearly all of their holdings are in stocks, mostly in funds.

Their devotion to stocks is admirable, but one adviser thinks Joe and Susan should run their portfolio more like a big pension fund and diversify into other asset classes. "They're way out on a limb," says Scott Noyes, of Noyes Capital Management, in New Vernon, N.J. He suggests that they keep 65% in common stocks and put the rest in high-grade corporate bonds, preferred stocks and commodity-oriented exchange-traded funds.

That sort of package should generate 8% a year after expenses and let Joe and Susan retire by 2028, and perhaps sooner, as they would like. If they continue to put aside $4,000 a month and earn 8% tax-deferred for 20 years, they'll have about $5 million—the equivalent of $2.6 million today, assuming 3% inflation. But some advisers, such as Phil Dyer, of Dyer Financial Advisory, in Towson, Md., think it would be prudent to assume a higher inflation rate.

MELISSA GOLDEN

If Joe and Susan assume annual inflation of 4%, they should accumulate enough by 2028 to give them the equivalent of $2 million in 2008 dollars. Retiring *before* 2028 will be tough, however, unless they can live on less than the future equivalent of today's $100,000 a year or can supplement what they withdraw from their retirement assets. If they tap their retirement stash too aggressively, they run the risk of running out of money. This is where Social Security—which Joe calls "gravy" and about whose future he is skeptical—could mean the difference between days by the beach or more days wearing a name badge.

Of course, there's uncertainty in any 20-year assumption. Inflation could fizzle or it could spiral as badly it did in the 1970s. But in an era of $3.60-a-gallon gasoline and rising food prices, it's best to be conservative. That's how real pension-fund managers think. ■

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