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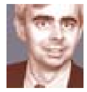
GETTING GOING
By JONATHAN CLEMENTS



Simple Math to See if You Have An Age-Appropriate Nest Egg

January 2, 2008; Page B9

It's halftime. What's the score?

Today, I turn 45. (Don't feel bad; only my mother ever remembers.) By my reckoning, that puts me halfway through my working career and hence halfway to retirement.

How big a nest egg should a 45-year-old have? Here's a look at who faces a midlife financial crisis -- and who might be able to retire early.

Exit Strategy

If you're 20 years from retirement, here's how much to save, depending on your current wealth.

Savings-to-income ratio*	Annual savings rate
1	27%
2	20
3	12
4	5
5	0

*Example: If you have a $60,000 income and $120,000 nest egg, your ratio is 2.

Source: Northstar Investment Advisors

Taking stock. Start with the accompanying table, which shows what percentage of pre-tax income you need to sock away over the next two decades, depending on how much you currently have saved.

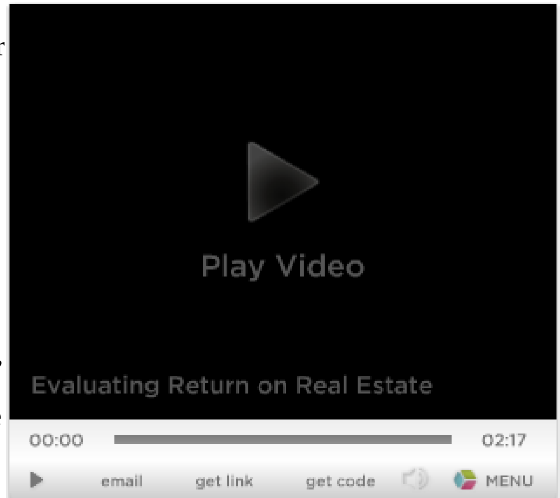
Suppose you have a $240,000 portfolio, equal to three times your $80,000 annual income. To retire in comfort, you ought to save a manageable 12% of income every year for the next 20 years, calculates Charles Farrell, a financial adviser with Denver's Northstar Investment Advisors.

That savings rate -- which would include any employer contribution to your 401(k) -- will give you a retirement stash equal to 12 times income at age 65, or $960,000 in today's dollars. If you then use a 5% initial annual withdrawal rate, your savings will kick off $48,000, or 60% of your old salary. Add in Social Security and you might be hauling in a respectable 80% of pre-retirement income.

All this assumes you can clock an after-inflation investment return of five percentage points a year during the next two decades. To hit that target, keep a healthy sum in stocks and a tight lid on investment costs. (If you don't have precisely 20 years to retirement and want a sense of whether you're on track, try the retirement planner at www.dinkytown.com.)

Quitting early. What if

you have savings of four or even five times income? As you can see from the table, amassing enough for retirement should be a breeze. In fact, if you have savings of five times income today and you never saved another dime, you would hit 12 times income at age 63.



Getting Going columnist Jonathan Clements answers a reader's question about long-term returns on residential real estate compared to other investments. (Jan. 2)

But if you have already amassed a hefty nest egg at 45, you're probably a diligent saver, and you might look to retire early. Let's say you salt away 20% a year.

At that rate, if your portfolio today is equal to four times income, you will hit 12 times income at age 59, Mr. Farrell calculates. Similarly, if you currently have five times income saved, you should be set by age 56.

True, that means retiring before you're eligible for Social Security. But if you are a diligent saver used to living on a small portion of your income, that shouldn't be a big sacrifice.

Catching up. On the other hand, maybe you haven't been so thrifty. As the table indicates, the annual savings rate required to amass 12 times income by age 65 is 20% if you currently have two times income saved -- and a whopping 27% if your nest egg today is merely equal to your annual income.

Can't do it? Instead, you could scale back your retirement goals, delay retirement or both. Suppose you have savings equal to twice your income. If you sock away 12% of income per year, you could retire at age 69 with 12 times income.

Alternatively, you could call it quits with 10 times income at age 66. Again, imagine you earn $80,000 a year. If you retire with 10 times income, or $800,000, and use a 5% withdrawal rate, you will have $40,000 a year from your portfolio, equal to 50% of your old salary.

Meanwhile, if you have a nest egg of just one times income and you can't see cranking up your savings rate to 20% or more, you will likely have to curtail your spending fairly sharply in retirement, unless you work well past 65. For instance, to retire with 10 times income, you would need to salt away 12% of your pretax income every year until age 71.

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ABOUT THE AUTHOR

Jonathan Clements has written The Wall Street Journal's Getting Going personal-finance column since October

One warning: All of the above presumes your income rises at the inflation rate between now and retirement. What if your income rises much faster? Ironically, that could make it tougher to retire.

"Let's say you get a big raise at age 50," Mr. Farrell says. "It's probably not feasible to replicate that lifestyle in retirement. The majority of that money should probably be committed to additional savings." If you do that, your nest egg will grow faster, and you won't have to throttle back your spending quite so much when you retire.

1994. Born in London, Jonathan is a graduate of Emmanuel College, Cambridge University, where he edited the student newspaper. He was a writer and researcher for Euromoney magazine in London before moving to the New York area in 1986. Prior to joining the Journal in January 1990, he covered mutual funds for Forbes magazine. Jonathan is the author of "You've Lost It, Now What? How to Beat the Bear Market and Still Retire on Time," published in 2003. His earlier books include "25 Myths You've Got to Avoid -- If You Want to Manage Your Money Right" and "Funding Your Future: The Only Guide to Mutual Funds You'll Ever Need." He has two children and lives in Metuchen, N.J.

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