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3 New Rules for a Richer Retirement

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It used to be simple: Work hard throughout your career, and you'd be assured a comfortable retirement. But now, with pensions disappearing and under attack, Social Security in danger, and the stock market no longer cooperating to deliver strong returns, you need to rethink your strategy for retiring securely and without fear.

Fraying safety nets
Retirement savers are facing threats on three different fronts. For the first time in nearly 30 years, Social Security is taking in less in payroll taxes than it's paying out in benefits, and young investors face a depleted program that will pay them only 75% of what they expect to get based on current law.

Meanwhile, defined-benefit pensions, which make regular monthly payments to retirees, have become nearly a thing of the past for younger workers, and even those who already have pensions can't rest easy. Public pensions are under fire as state and local governments grapple with lower tax revenue and ever-increasing costs in trying to boost pension funding levels. And private companies with huge numbers of employees have pension plans that are significantly underfunded. Here are just a few:

Company	Full-Time Employees	2009 Funding Level as % of GAAP Pension Obligation
United Parcel Service (NYSE: UPS)	408,000	86%
Ford Motor (NYSE: F)	198,000	86%
Dow Chemical (NYSE: DOW)	49,000	73%

Sources: Goldman Sachs and Yahoo! Finance.

With many companies freezing or cutting back on pensions, workers can't be certain that they'll get what they thought they would from their employers.

Finally, savers themselves are underfunding their retirement. According to the Retirement Confidence Survey, over a quarter of workers haven't managed to save even $1,000 toward their retirement, while fully half have $25,000 or less set aside. With such weak support underneath the traditional three-legged stool of retirement, many workers are going to find themselves sprawled out on the floor when they retire.

The new rules
To keep your own retirement on track, you have to stay on top of your own investing and stop relying so much on what outside sources may or may not be able to afford to pay you. In particular, here are some tips that will boost your personal retirement confidence:

1. Max out tax-favored retirement savings.
With taxes scheduled to go up in 2011, the value of IRAs and 401(k) plans has never been higher. These retirement accounts let you shelter contributions from tax while letting you defer further taxes until you withdraw your money. Roth IRAs go even further, giving you tax-free treatment.

Anyone with enough earned income can put $5,000 in an IRA and up to $16,500 in a 401(k) in 2010. Those 50 or older have even higher limits: $6,000 for IRAs and $22,000 for 401(k)s and similar plans. Even if you can't set aside that much, making better use of IRAs and 401(k)s can take you a long way toward solving your own retirement savings shortfall.

2. Stop sitting on the sidelines.
Many investors are scared silly about the stock market right now. But especially if you still have seven years or more before you plan to retire, focusing too much on where stocks are going to go in the next few months is going to cause you to make mistakes.

The best retirement portfolio has a combination of stocks. High-growth stocks help maximize returns and build wealth fastest, so you shouuld consider having some in your portfolio. Two stocks that may fit the bill are **Ebix** (Nasdaq: EBIX) and **First Solar** (Nasdaq: FSLR), both of which sport exceptionally high sales and income growth while trading at valuations that still look attractive.

Conversely, dividend-paying stocks aren't as flashy and probably won't give you supersized growth, but their constant payouts can help dampen some of the swings in your portfolio. **Exelon** (NYSE: EXC) and **Annaly Capital Management** (NYSE: NLY) are two companies in recession-proof industries that not only have high dividend yields but have also shown steady dividend growth in recent years and are less volatile than the overall market.

3. Look at alternatives like annuities for retirement income.
Stocks are useful, but once you retire, you can't afford to have *all* your money in such a volatile investment. Hit a bear market at the wrong time, and a 100% stock portfolio will take you in exactly the wrong direction.

Immediate annuities can be the answer. Annuities let you build your own pension, trading a lump sum for a stream of monthly income that can last you the rest of your life. Although you have to be careful about avoiding high-cost annuities, the right one can make a big difference.

You can do it
Retirement may be a lot more complicated than it used to be, but you can still put together the pieces on your own and succeed. All it takes is a willingness to take control of your own destiny and the discipline to stick with a smart investing strategy.

Should you get out of the stock market before it's too late? Jordan DiPietro explains why that might be the worst move ever.

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