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Golden Rules for Your Golden Years

Seven Guidelines to Help Meet Your Retirement Goals

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Saving for retirement may feel like an impossible task. After all, as defined-benefit pension plans fall by the wayside, those with 401(k) plans must act as their own pension managers, a complex task that involves amassing a nest egg and making it last a lifetime. As a nation, we're clearly falling short.

The Center for Retirement Research at Boston College calculates that 52% of working-age households are at risk of being unable to maintain their pre-retirement standard of living after they stop working.

So what can you do to get yourself on track? In this, our final column, we present seven "golden rules" of retirement savings.

While there are no guarantees, these recommendations will help you avoid some of the biggest mistakes people make with their investments and minimize the risk that your nest egg will expire before you do.

1. Save early and often.

When saving for retirement, mutual-fund company T. Rowe Price Group recommends putting away at least 15% of annual pretax pay, including matching contributions from an employer.

The goal: To stockpile 12 times your ending salary, a sum that—combined with Social Security—should allow you to maintain your current standard of living over a 30-year retirement.

If you haven't saved enough, there may be time to catch up.

A 55-year-old who has saved only three times salary can reach the 12-times goal by socking away 32% of pay for the next decade, says T. Rowe Price. The recommendation for a 50-year-old in the same situation: 24%.

2. Plan for a long life.

According to the National Center for Health Statistics, the average 65-year-old will live an additional 19.3 years—up 1.5 years from 2000. One in four will reach 92.

One way to boost lifelong income is to delay Social Security. While you can start those benefits anytime between ages 62 and 70, the longer you wait, the higher your monthly payment.

3. Slash fees.

According to Vanguard Group, over a 40-year career, someone who invests 9% a year of a salary that starts at $30,000 into a balanced fund that charges 0.25% annually will save 20% more than if he or she pays 1.25% in fees.

One way to reduce fees is with index funds. The average U.S. stock mutual fund charges 1.21% a year. By contrast, the fee for Vanguard's Total Stock Market Index fund is 0.17%.

Before rolling your money over into an individual retirement account—something many do upon leaving a job—compare the fees on the investments in your 401(k) plan to the lowest-cost alternatives on the market. Many large 401(k) plans negotiate ultralow fees, says Joseph Valletta, co-publisher of the "401(k) Averages Book."

4. Plan your lifestyle.

If you don't know what you want to do in retirement, it's hard to know whether you've saved enough.

Sites including LifePlanningForYou.com and LifeReimagined.aarp.org offer free introspective exercises and tutorials, plus links to workshops, coaches and financial advisers trained to help people clarify their goals and priorities.

Nonprofits including Coming of Age, Encore.org, Project Renewment, and The Transition Network sponsor workshops, webinars and peer support groups.

5. Consider a Roth.

The classic candidates for a tax-free Roth IRAs or Roth 401(k)s are convinced their marginal tax rates will be higher in retirement. By paying income tax on contributions now, these workers avoid paying Uncle Sam at a higher rate on their withdrawals. (In contrast, with a regular IRA or 401(k), investors receive upfront tax deductions and pay income tax on their withdrawals.)

But workers in their 40s, 50s and 60s who want to contribute the maximum to an IRA or 401(k) can accrue more wealth with a Roth than with a traditional 401(k), even if their marginal tax rates decline by as many as 10 percentage points in retirement, according to Stuart Ritter, a senior financial planner at T. Rowe Price. The reason: With a Roth, you can shelter your entire contribution from taxes. But with a traditional IRA or 401(k), you must invest a portion of that contribution—the upfront tax deduction—in a taxable account.

“The power of tax-free compounding in a Roth can offset even a drop in tax rates,” says Mr. Ritter.

6. Budget realistically.

When estimating expenses, be sure to take into account the cost of health care. According to the Employee Benefit Research Institute, a 65-year-old man and woman will need $64,000 and $83,000 in savings, respectively, to have a 50% chance of covering the costs Medicare doesn’t pick up, including premiums and deductibles.

7. Withdraw 3.5% a year.

How much can you withdraw without a substantial risk of depleting your nest egg? For years, advisers have suggested spending 4% of your initial balance and adjusting each year for inflation. But because ultralow interest rates have reduced the rate of return on investments, they have thrown the 4% rule into doubt.

Now, those who want an 80% chance of making their money last should withdraw no more than 3.5% a year, according to Wade Pfau, a professor at the American College of Financial Services.