

Time Flies

Why it's never too early to think about retirement.

By Kevin Bayani

No matter what age, it's not too early to start thinking about retirement. In fact, most people probably wait until it's too late. They'll spend most of their time thinking about what they want to do but don't really consider how to make it happen. Have you considered how much money you'll need to live comfortably in retirement?

According to the Employee Benefit Research Institute, 57% of US workers surveyed reported having less than \$25,000 household savings and investments excluding their homes. This is up from 49% in 2008, which was one of the worst years in financial history. The survey also found that 28% of Americans have no confidence that they will have enough to retire comfortably.

For those counting on social security or pensions to fund their golden years I hope this article serves as a call to action. The reality is that extended life spans make it difficult for workers trying to stretch their savings and puts additional strains on pension plans and social security alike. In the public sector, states like California have approved initiatives to reform their employee pensions, and similar efforts have begun in Massachusetts, Rhode Island, and New York. In the same manner the majority of private companies have transitioned from the defined benefit plans, like pensions, to defined contributions plans like 401(k)'s. The US Department of Labor data shows the amount of US workers covered by defined benefit plans fell to 3% in 2011 from 28% in 1979.

Social Security is no guarantee either. The most recent social security trustees' annual report projects that the old age and disability trust funds will only be able to pay full benefits until 2033. If no changes are made by then, there will only be enough to pay 75% of benefits. If you factor in lower wage growth and higher costs of living, the amount social security can provide becomes less reliable.

So what's happening to these benefits? Simply put, people are living longer and companies, as well as states, can't afford to pay the same benefits to a growing population for an extended period of time. As a result retirement saving is becoming more prevalent for even the youngest investors.



What can you do?

There are several vehicles for retirement saving, and circumstances differ from person to person. Regardless, it's important to set a retirement goal and continuously evaluate your position to make sure you're working towards it. This article highlights the use of a Roth IRA.

A Roth IRA is an individual retirement account where you make contributions with after-tax dollars. In other words, the money you put in comes from the money you earned after federal and state taxes have been taken from your paycheck. Any earnings in the account are federal income tax-free if the withdrawals are made after 59 ½, but like other retirement accounts a penalty may be charged for early withdrawals. It is a potentially tax-free savings plan available to all working individuals.

Alternatively, the Traditional IRA and even the 401(k) are tax-deferred, which means you pay taxes later. For example the money you put in comes from your paycheck before federal and state taxes are applied. This will save you money now, but you pay tax on the amount you withdraw in the future. If the tax rates go up, or you retire in a higher tax bracket, you end up paying more. In a Roth IRA you don't have to worry because the money has already been taxed.

The Roth IRA can benefit all types of investors and is ideal for those with longer time horizons. Investors in their 20's or 30's have the potential for over 25 years of tax free growth and should be taking advantage of the Roth IRA benefits. With time on your side a little can go a long way. Many investor use a strategy called **Dollar Cost Averaging** by investing smaller amounts into their accounts on a monthly basis.

In a time where pensions are dwindling and social security is set to play a smaller role you need to be prepared. It is your responsibility to plan for longer living and rising costs. Sit with us today to discuss your goals and make sure you're on the right track.

For a free consultation call us at 201-489-1118 or e-mail at kbayani@ae.cadaretgrant.com.

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