



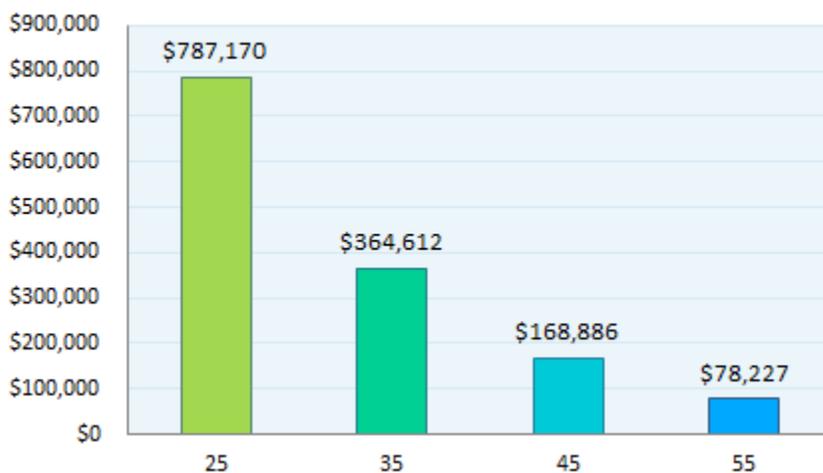
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START EARLY

When should you start saving for retirement? Well if you haven't already begun, start saving today! Why? One word — **compounding**. Compounding allows your contributions to generate earnings, and those earnings will generate their own earnings. It's like a snowball rolling downhill — accumulating, accumulating, accumulating.

This powerful savings phenomenon is demonstrated in the chart below. Lets say you only have 10 years to save. You will retire at 65. Should you do those 10 years of savings when you are 25 or when you are 55? Below are four participants who saved \$5,000 each year for ten years (total of \$50K). As you will see, the participant who saved between the ages of 25-34 has **ten times** more when she retired at 65 than the participant that saved between the ages of 55-64. **Why? Because the young woman's savings had a longer time to compound its earnings.** So, even if you can't save a lot, start **NOW**.

Retirement Fund Savings - 10 Years



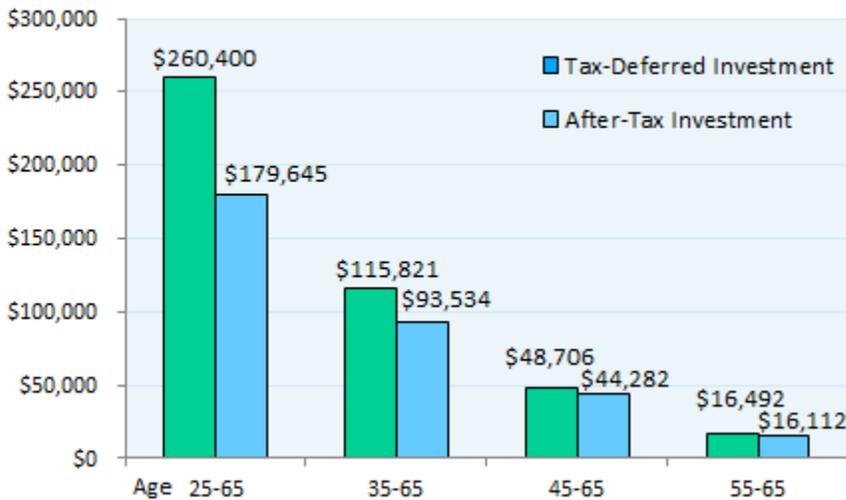
* Assumes investment of \$5000 a year for 10 years only

* Assumes investment earned 8% a year after all taxes, dividends, and distributions were reinvested

TAX ADVANTAGES

Let's make this painful subject of tax interesting. The Traditional 401(k) (and other types of defined contribution plans) offers one of the most significant tax shelters available to American citizens. This shelter known as **tax deferral** is best described as postponing tax on your contributions and investment earnings until retirement. By postponing these taxes, it allows the excess money to **compound** over long periods of time. The chart below compares the same amount invested in a tax-deferred investment vs. an after-tax investment — **the difference in return can be staggering:**

The Power of Tax Deferral



The chart above assumes investing \$100 monthly in a tax-deferred investment account earning an 8% annual return beginning at age 25 would yield \$260,400 by age 65, after taxes, assuming that the earnings portion of the accumulated investment was taxed at 30% at retirement. In contrast, a comparable investment in a fully taxable account would amount to just \$179,645, assuming a 30% tax rate. So use to the maximum a tax deferred retirement account like a 401.k or a traditional IRA.

OUT OF POCKET and TAKE HOME PAY

Another benefit to contributing with pretax dollars is the **"feel" factor**. The chart below compares what your take home pay would be if you contributed either \$0 or \$100 to your Traditional 401(k) or traditional IRA.

Monthly Pay	Monthly Contribution	Taxable Pay	Taxes	Take-Home Pay
\$2,500	\$0	\$2,500	\$700	\$1,800
\$2,500	\$100	\$2,400	\$672	\$1,728

1. Contribution = \$100
2. Out-of-Pocket Difference = \$72
3. Tax Reduction = \$28

As you can see, that \$100 actually **lowered** your taxable income, which resulted in your take home pay being \$72 less, not \$100. This is the "feel" factor kicking in. Your \$100 contribution only feels like \$72 — *and that \$28 is instant tax savings straight into your retirement account.*

MUCH SHOULD I INVEST?

The obvious but honest answer is "as much as you can." The current employee savings limit for a 401(k) is \$17,500, and if you are over 50 years of age you can add another \$5,500 in catch-up contributions to that amount. Most financial planners would probably advise you to get as close as possible to hitting those limits. If you are not able to invest that much at this time, many financial planners would recommend that you begin saving 10-15% of your income, beginning in your 20's. See the chart below as a general guidance on the amount you should be saving if you have yet to start.

Age when saving starts	% of salary to save each year
20-29	10%-15%
30-39	15%-25%
40-45	25%-35%

HOW MUCH WILL I NEED TO RETIRE?

That question depends on many factors the crystal ball probably has yet to divulge. Will you have a mortgage? Will you want to travel in retirement? What do you think is your life expectancy? These are the types of questions that can only be answered by you — and many of those questions will change from year to year.

A financial planner will probably tell you, as a general rule, you will need around 80% of your pre-retirement income to live comfortably. That percentage can go up and down depending on debt, health, hobbies, and other factors. The best approach is to make realistic estimates of the day to day expenses and the costs associated with your ideal lifestyle in retirement. When going through this exercise, don't forget to add in expected Social Security income. The chart below gives a general estimate of expected Social Security income based on salary.

PRO BONO Financial Planning advice

Every quarter, or so, Innovative Changes organizes a financial empowerment day when financial planners with the Financial Planners Association of Oregon and SW Washington provide free one on one advice. Sign up to get an email notice of when the next one will occur.

RETIREMENT Calculators

Beware of calculators run on investment sites. Their job is to sell you investment accounts. AARP has a good calculator

http://www.aarp.org/work/retirement-planning/retirement_calculator.html

And, keep track of your social security benefits by setting up an account and reviewing your statement every year. <http://www.ssa.gov/myaccount/>

Social Security Benefit Estimator

Current Gross Income	Approximate Percent Replaced by Social Security During Retirement	Estimated Annual Benefit Amount
\$20,000	52%	\$10,344
\$25,000	47%	\$11,856
\$30,000	45%	\$13,380
\$35,000	43%	\$14,904
\$40,000	41%	\$16,428
\$45,000	40%	\$17,954
\$50,000	38%	\$18,912
\$55,000	36%	\$19,620
\$60,000	34%	\$20,340
\$65,000	32%	\$21,048
\$70,000	31%	\$21,768
\$75,000	30%	\$22,476
\$80,000	29%	\$23,196
\$85,000	28%	\$23,904

This is only an estimate. Set up your online account and monitor it every year!

<http://www.ssa.gov/myaccount/>