Some tips for having the gold for the golden years

By Gregory Karp

The Morning Call

April 5, 2006

Your retirement nest egg — more likely laid by a hummingbird than an ostrich?

If you want to jump-start your retirement savings, here are a few tips:

Make it automatic. Saving for retirement is often one of those good intentions that goes unfulfilled. Sign up for an employer retirement savings plan so the money comes right out of your paycheck. Or set up a retirement account on your own and fund it with automatic monthly withdrawals from your bank account.

Save the raise. Put part of every annual pay increase toward retirement savings. For example, if you get a 4 percent raise, boost your retirement contributions from 10 percent to 12 percent of your income. You won't miss it.

Take free money. If your employer matches contributions, contribute at least enough to your employer plan to get the match. It's free money.

Pay taxes now. Roth Individual Retirement Accounts (IRAs) and the new Roth 401(k) plans are ideal savings vehicles. You contribute take-home pay to the account. In retirement, you withdraw the money — and the growth on the money — tax free.

If you don't qualify for a Roth because you make too much money and don't have a Roth 401(k) at work, consider saving retirement money in a regular investment account. You put in after-tax money, taxed at today's relatively low income tax rates. Then at retirement, you withdraw money and pay only capital-gains taxes, today 15 percent, on the growth, as opposed to regular income taxes, which could reach 30 percent or more.

"People should try to diversify across tax-deferred and taxable accounts," says Christopher Jones, a fee-only financial planner in Palmer Township who will soon open a Keystone Financial Planning office in Macungie.

Pay taxes later. Typical employer plans, called 401(k) or 403(b) plans, along with traditional IRAs, are tax-deferred accounts. That means you pay no tax on the money now. In retirement, you take out the money and pay regular income tax.

Don't get flustered by which savings account gives you the best tax benefit. It's more important to start or increase your contributions than get the absolute best retirement account. Start with whatever plan is easiest, then adjust your plan as you learn more or get advice from a financial professional.

Aim to be a millionaire. A million bucks in retirement doesn't buy what it used to. How much do you need? A rough estimate is that every $1 million in retirement nest egg will generate $40,000 in yearly income, Jones said, on top of any pension or Social Security.

If you want to refine your savings goal, use retirement calculators found in such financial software as Quicken and Microsoft Money, as well as online at such sites as http://wwwdinkytown.net.

Start by saving, say, 6 percent of your earnings and raise the amount regularly. Warns Jones, "Saving 10 percent isn't even remotely enough."

Don't get discouraged by the big numbers. A 40-year-old earning $50,000 and contributing 15 percent to a retirement plan has a very real chance of amassing $1 million by age 65, even if he starts with no savings at all.