

Preparing for Retirement

Saving for retirement is an important step when planning for the future. Figuring out how you'll be able to do this can be a difficult concept. You want to be able to live comfortably before you retire but also save enough to afford a similar lifestyle during retirement.

Did you know that retirement began during the Great Depression as a way to free up jobs for the younger workers? Unemployment was rampant and retirement afforded older workers with guaranteed income so they could leave their jobs and let the younger generation take over. Nowadays, nearly 80% of employees participate in their work-based retirement plans and more than \$13 trillion has been put away in public and private retirement plans. This amount is more than double the amount invested ten years ago.

Start saving early

How much will you need for retirement? That's the tough question. If you're young, advisors recommend saving an aggressive 15 percent of your gross salary, including employer matching contributions. This would replace about 50 percent of your salary in retirement. Also, social security benefits could replace 20 to 30 percent of pre-retirement income. Remember, the later you start, the more you'll need to save.

The more you contribute to your retirement account during the beginning stages, the larger the impact on your overall account balance. According to a study by Putnam Investments, bumping up your retirement contributions by just 2 percent in the early savings stages would have doubled your retirement wealth after 15 years compared with relying solely on investment performance. One way some employers are reinforcing the importance of saving for retirement is automatically enrolling workers in a plan as soon as they're eligible to participate. Employees can increase contributions automatically and can always opt out if desired. Another option made available by some employers is allowing workers to choose someone else to manage their portfolios for them. Forty-five percent of employees say they prefer this option, according to a 2005 Principal Financial Group survey.

What to do if you started saving late

Not everyone is able to be aggressive in saving for retirement. Perhaps you're a single parent paying back college loans and have a mortgage to think about as well? What if you're approaching 50 and you still haven't saved much? Don't fret; you can start to make catch-up contributions. Workers 50 and over are privileged to special IRS rules that increase the annual 401(k) limit contribution amount. Instead of only being limited to \$15,000, those 50 and over can contribute \$20,000 to their 401(k)s in 2006. And you're

also allowed to contribute an extra \$1,000 to your IRA, which gives you a total contribution limit of \$5,000 for 2006.

If you save \$25,000 each year, you'll have more than \$700,000 in your 401(k) and IRA by the time you're 65, if your investments return 8% per year. While this may not be enough to cover your entire retirement, paired with the money you've already saved through the years it'll be a step in the right direction. Want another great idea to give you even more money? Don't retire at age 62. Working part-time allows you to increase your annual income and avoid touching your retirement accounts. You also avoid a reduction in social security benefits.

Want to learn more about saving for retirement? Contact a GreenPath counselor at 800-550-1961.

Source: "Last-Minute Retirement Saving" and "How Much Is Enough?" *Kiplinger's Personal Finance*