

Securing an abundant retirement

Smart saving now will lead to big dividends later

By Wayne Farlow

In 2008, the first "baby boomers" become eligible for Social Security. Many of my contemporaries are not adequately prepared for their rapidly approaching retirement years. If you are part of this generation, it is time to begin preparing for your retirement.

The first consideration is determining your sources of retirement income. Retirement funds can come from Social Security, pensions, qualified retirement savings plans, after tax investments and the sale of a business. Each of these financial sources can help provide for an abundant retirement.

Many "boomers" plan to take their Social Security retirement benefits as early as possible. However, this approach may significantly reduce your Social Security benefits. Taking Social Security before your "Full Retirement Age" (FRA) -- age 66 to 67 for baby boomers -- can permanently reduce your monthly Social Security benefits by up to 30 percent.

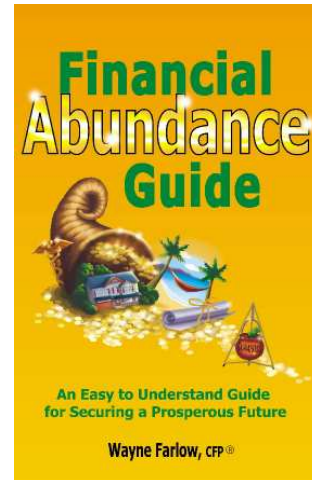
It may even be beneficial to delay collecting Social Security benefits beyond your FRA. Delaying benefits until age 70 can provide 132 percent of the "full" benefit amount. Since Social Security benefits increase yearly with inflation, choosing the optimal time to begin collecting your benefits can provide thousands of dollars of additional retirement income.

Pensions are typically fixed, with no adjustments for inflation. If your pension is fixed, inflation will likely decrease your benefits by one-third or more during retirement.

If possible, consume only two-thirds of your pension in the first year of retirement, saving the remainder. Increase the yearly pension amount that you spend by the annual rate of inflation. With this approach, your pension will better maintain its inflation adjusted value throughout retirement.

IRAs, 401(k) plans and Roth IRAs are qualified retirement plans. It is often wise to fund these plans to the maximum extent possible. If you have a company "matching" plan, at a minimum, fund the plan to the maximum amount that your company will match. Remember, their match is your "free money."

If you are allowed to fund a "Roth" plan, do so. Not only do Roth funds grow tax free, there are no required withdrawals during retirement. Tax free funds will be a



welcome compliment to the taxable retirement funds that you must begin withdrawing at age 70½.

Taxable savings and brokerage accounts, rental property and collectibles can provide funds to supplement retirement. If possible, use these funds before withdrawing tax-deferred retirement funds, since they can be managed to minimize taxes on your retirement income.

If you own a business, selling it may provide another source of retirement income. Whether you sell your business to family members, employees or an outside buyer, structure the sale to minimize your tax liability. Consult with an adviser long before you plan to sell, to assure that your business is structured to maximize your after tax return.

After defining your retirement income sources, determine your retirement expenses. Based on your current expenses, add expenses that will increase and subtract expenses that will decrease during retirement. Subtract your current Social Security statement projection and two-thirds of your anticipated fixed pension payments from this expense amount.

The remaining expenses must be covered by qualified retirement plans, taxable retirement investments or proceeds from selling your business. Calculate the future dollar amount of this remainder, using anticipated inflation rates. During retirement, if your investments yield 4 percent above inflation, approximately \$17,500 is required to provide \$1,000 of annual retirement income. If -- after Social Security and pensions -- you require an additional \$30,000 in annual retirement income, you will need \$525,000 in retirement savings.

Assuming retirement at age 65 and an 8 percent annual investment return, you will have \$525,000 by saving \$4,635 per year, starting at age 35. If you start saving at age 45, you will need to save \$11,472 per year. However, if you wait until age 55 to begin, you will need to save \$36,240 annually.

Chapter 9 of "Financial Abundance Guide," provides a detailed approach to developing your retirement plan. However, if developing a retirement plan seems too complex, get assistance from a fee only retirement expert.

The earlier you begin retirement planning, the easier it will be to reach your goal of an abundant retirement. No matter your age, there is no time like the present to start this important task.

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