HOW TO PLAN FOR RETIREMENT

By Mike Dunn

When it comes to making wise decisions about money, the key is always careful planning. Planning is the catalyst for sufficient future provision, whether it is for retirement or for the college education of your children or grandchildren or the once-in-a-lifetime vacation to Hawaii that's been a dream for so many years.

When it comes to planning for retirement the big key is investment. Opportunities for investment abound and it is foolish not to take advantage of them, even for people in their 20's who see retirement as a lifetime away.

No matter a person's age, it is prudent to take advantage of a retirement investment account such as a 401(k) account through one's employer or an Individual Retirement Account (IRA). These accounts will help you to be prepared for the "golden years."

Publishers–Edge

It is unfortunate that some people don't start to think about retirement until they begin to approach retirement age. The longer a person waits, however, the less flexibility he or she has and less ability they have to make small, regular investments work in their long term favor. One of the smartest financial decisions a person makes is to begin to prepare for the future at a young age. These relatively small investments made when young pay great dividends down the road.

If a person sets aside $100 per month in a tax-deferred account, the amount of growth over time is remarkable. At 5 percent interest, the retirement account will have nearly $7,000 after just five years and $15,500 after 10 years. At 6 percent, the same $100 per month yields $29,000 after 15 years, $70,000 after 25 years and more than $100,000 after 30 years.

As we noted, the key to success in preparing for retirement is careful planning. Start by taking an honest inventory of all aspects of your current and anticipated future financial circumstances. Take into account your projected income over a number of years and weigh that against your projected housing costs, taxes, insurance, auto purchases and repairs, leisure expenses and miscellaneous.

This will give you an idea of how much you should be devoting to retirement on a monthly basis. The amount you set aside each month will depend on factors such as how many years you have

before retirement and your current income level. Obviously, the longer you have before retirement the easier it will be to put money into tax-deferred accounts and watch it grow.

Once you have a monthly amount in mind, it's time to choose a retirement account. Many people use Individual Retirement Accounts (IRAs). These were established by the federal government to encouraged people to invest in their own future and be prepared for retirement. The amount that may be deducted annually for an IRA depends on a person's adjusted gross income.

With traditional IRAs, income taxes are usually taken out when money is withdrawn from the account. There are also penalties for money taken out before a person reaches the age of 59 1/2.

Along with traditional IRAs, there are also Roth IRAs. The advantage of a Roth IRA is the opportunity to receive tax-free earnings under certain conditions: If a withdrawal is made after five years and the owner of the account is age 59 1/2 or older, if the owner has died or has become disabled, or if the owner is using the money to buy a house for the first time (up to $10,000).

The 401(k) represents another excellent investment opportunity. Those who are eligible can choose how much they want to invest out of each paycheck (with some limitations) and how the money is invested. Typically a person chooses a combination of low-risk, medium-risk and high-risk investments.

Publishers-Edge

The owner of the account also has the ability to make changes in investments at certain times of the year. Another nice incentive for putting money into a 401(k) account is that the employer has the option of matching funds up to a certain percentage.

With a 401(k), the money cannot be withdrawn prior to retirement unless the owner dies, becomes disabled or is no longer employed with that company. There are penalties for withdrawals and income tax is due when the money is taken out of the account. Some plans enable the owner of the account to borrow money against the principal and/or to take money out in "hardship" situations such as medical emergencies.

It's always wise to plan ahead. When it comes to retirement, the younger a person begins to invest in a retirement savings program, the wiser the decision to prepare for the future. No matter what a person's age is, though, taking steps to invest for retirement is a decision that a person makes and never regrets.

Copyright © 2006 Publishers-Edge