

How to prepare for retirement

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LET'S SAY YOU get lucky and retire at 65. If you're even luckier, you'll live an additional 25 to 30 years in good health. However, you can't rely on luck when it comes to having money in those golden years, financial planners warn.

It is intimidating to think about the thousands — maybe even millions — you'll need in your bank account by the time you retire, but financial experts say their advice is pretty basic.

Here is what financial planners in the Midlands say you need to know:

1. START EARLY

Albert Einstein is credited with saying, "Compound interest is the greatest mathematical discovery of all time." The quote may be folklore, but the point is true.

Craig McDaniel of The McDaniel Corp. in Columbia offered this example:

A 30-year-old woman invests \$4,000 per year for 35 years. The investment earns 8 percent each year. At age 65, the woman has \$689,267 in her account.

Her twin sister waits 10 years to save. She invests \$4,000 a year, beginning at age 40. She also has an 8 percent annual growth rate. When she turns 65, the second sister has \$292,424 in her account.

The first sister has \$396,843 more because she started 10 years earlier.

That, my friend, is compound interest.

2. SAVE AT LEAST 10 PERCENT OF GROSS INCOME

Yeah, it's hard but it's all about discipline.

Kevin Skipper of Carolina Planning Group in Columbia said there are two kinds of people: Those who save, then spend. And those who spend, then save.

"The latter group always says they can't afford to save 12 to 20 percent," Skipper said. "Those who retire with financial independence can't afford it, either. They just do it."

"It is all about the choices we make with our finances."

3. ENROLL IN YOUR COMPANY'S 401(K)

In a 401(k), you deduct money from your paycheck and invest it in a retirement account. The money is not taxed until you withdraw it after your turn 59½. Typically, an employer will match a certain percentage of your savings. At a minimum, you should deduct enough to take full advantage of your employer's match, McDaniel said.

"I don't care if they're matching 100 percent, 50 percent or 25 percent," he said. "This is free money."

4. SET UP A ROTH IRA

In a Roth IRA, you pay taxes on the money before

you invest it into the retirement account. Then, it earns tax-free interest and you do not have to pay taxes on the money when you start withdrawing upon retirement. This is another way to get a tax break on your retirement savings, said Sam Head of ING Financial Partners of Columbia.

5. LOOK FOR OTHER INVESTMENTS

Whether it's a personal savings account, government bonds, real estate or individual stock purchases, look for ways to diversify your savings portfolio, Head said. Almost all retirement plans have three pillars — a company pension or 401(K), social security and personal savings.

"If any one of those pillars are knocked out, then the other pillars have to hold them up," Head said.



TIM DOMINICK/THE STATE

Cheryl Holland, president of Abacus Planning Group in Columbia, talks with her client Frank Baker.

SAVING FOR RETIREMENT

Maximum contributions in tax year 2005 to tax-advantaged retirement savings accounts, by age group:

Retirement savings accounts	Up to age 50	Age 50 and over
IRAs (Traditional and Roth)	\$4,000	\$4,500
401(k), 403(b) and 457 plans	\$14,000	\$18,000
SIMPLE IRAs	\$10,000	\$12,000
SEP-IRAs	\$42,000	\$42,000

SOURCE: U.S. Internal Revenue Service

KNIGHT RIDDER TRIBUNE

6. GET GOOD ADVICE

If you work eight hours a day, feed the kids, walk the dog, pay the bills and do the laundry, when do you have time to become an investment guru?

Many employers offer regular investment seminars so workers understand how to manage their 401(k)

plans, financial planners say. Most banks and investment management companies have online advice.

Financial advisers also can help with retirement planning, but you need to know how to find a good one.

Cheryl R. Holland at Abacus Planning Group of Columbia said most people could do it themselves. However, if you choose a professional adviser, remember it is a partnership, she said.

■ Ask how the adviser gets paid.

■ Ask about his conflicts of interest.

■ Get references.

■ Get all promises and agreements in writing.

"Buyer beware is all I can say," Holland said.

7. DON'T GO INTO DEBT

Do you really a five-bedroom house?

People need to have manageable mortgages. Think about the size of your house and what is really necessary. Holland warns against adjustable rate mortgages, which can surprise homeowners with skyrocketing monthly payments when the rates accelerate.

"It's difficult because we have all of these things talking to us," Holland said. "I ask my clients, 'What do you do to make the Joneses keep up with you?'"

"You have to say to yourself over and over and over, 'I don't need that.'"

8. DEPEND ONLY ON YOURSELF

Social Security is a retirement supplement, not a retirement plan, said Kyle Atkins of Kyle Atkins and Associates in Spartanburg. And today's disappearing pensions show that workers cannot bank on promises from private companies.

"From the workers' perspective, we have got to take responsibility for curtailing our spending habits as much as we possibly can, understanding we can't be promised anything from the company and what it does over the next five years," Atkins said. "If we pay ourselves first, we become less and less dependent on what the company does."

9. GET CHECKUPS

All that tedious mail from investment funds might be boring. But at least skim it to see what a company is saying.

Certainly, check out your regular statements to track transactions and performance, said Phillip Folkers, a financial adviser with Waddell & Reed in Columbia.

10. ABOUT BENJAMIN

Yes, you want to save those Benjamins, i.e. \$100 bills bearing the face of Ben Franklin.

You also want to buy into his advice on money:

"A penny saved is a penny earned."

"If you want to be wealthy, think of saving as well as getting."

"If you know how to spend less than you get, you have the philosopher's stone."