MAXIMIZING RETIREMENT PLAN CONTRIBUTIONS

Many individuals are facing a retirement crisis as they begin to focus on what they must accumulate to meet their retirement needs. As the oldest Baby Boomers turn 50 next year, 4 out of 10 are saving less than $1,000 a year. The Social Security System is in serious danger of cracking under the pressure of a much smaller worker to recipient ratio. Traditional employer paid pensions are a relic of the past for most companies. The retirement burden has shifted to employees in 401(k) and similar plans.

How much is enough for retirement? This is an important question, and one that you should think about. Someone who needs $50,000 a year (in today's dollars) to meet their living expenses will probably need to accumulate over $1,000,000 by the time they retire. Another important question that none of us have the answer to is "how long will we live after we retire?". Many projections are based on your actuarial life expectancy, but you should remember that 50% of us live longer than the charts!

While all of these facts point to a growing problem for many people, <u>it does not stop you from taking some very positive steps toward your own future retirement security now!</u> One of the best ways to do this is to <u>maximize the use of qualified retirement plan contributions.</u>

Qualified retirement plans include profit sharing, pension, 401(k), 403(b), IRA-SEP's and Keoghs. The tax benefits of plan contributions are one reason to try and maximize your contributions. For 1995, you can put $9,240 into a 401(k) plan, or $9,500 in a 403(b) plan. If you are self-employed or a business owner, you may be able to put as much as $30,000 away this year. With Federal income tax rates approaching 40% and State taxes pushing the total close to 50%, the government is paying for almost half of your contribution.

You also should not overlook the power of compounding and the importance of starting early! This growth is hard to see in the early years, but over time becomes very evident. If you can earn 8% on your assets, your money will double in 9 years. After 14 years, it will grow to 3 times the original amount and after 18 years it will be worth 4 times the original amount.

One of the key elements of long term investment success is determining an appropriate asset allocation between cash, bonds and stocks. Many people do not regularly review their retirement assets to make sure they are allocated appropriately. You should also have a target return in mind as you review the performance of your investments. This is how you assure that you will reach your goals. We all hear about the 10% average annual return on stocks, but this may be hard for most people to achieve since you will probably not have 100% of your assets in stocks and there will inevitably be transaction costs.

Nobody ever said planning for a secure retirement would be easy. It involves <u>tradeoffs</u> and <u>tough choices</u>. Saving a dollar today means not spending it. <u>Maximizing your contributions to qualified plans is an excellent way to begin facing the reality of funding your retirement while taking advantage of tax benefits and the power of compounding.</u>