



Four Tips for Increasing Your Retirement Dollars



1. Don't Cash Out Retirement Plans When Changing Employment

When you leave a job, the vested benefits in your retirement plan are an enticing source of money. It may be difficult to resist the urge to take that money as cash, particularly if retirement is many years away. If you do decide to cash out, understand that you will very likely be required to pay federal income taxes, state income taxes, and a 10 percent penalty if under age 59½. This can cut into your investments significantly and negatively impact your retirement savings goals! In California, for example, with an estimated 8 percent state income tax, someone in the 28 percent federal tax bracket would lose 46 percent of the amount withdrawn. When changing jobs, you generally have three options to keep your retirement money invested – you can leave the money in your previous employer's plan, roll it over into an IRA, or transfer the money to your new employer's plan.

2. Take Your Time: Give Your Money More Time to Accumulate

When you give your money more time to accumulate, the earnings on your investments, and the annual compounding of those earnings can make a big difference in your final return. Consider a hypothetical investor named Chris who saved \$2,000 per year for a little over eight years. Continuing to grow at 8 percent for the next 31 years, the value of the account grew to \$279,781. Contrast that example with Pat, who put off saving for retirement for eight years, began to save a little in the ninth and religiously saved \$2,000 per year for the next 31 years. He also earned 8 percent on his savings throughout. What is Pat's account value at the end of 40 years? Pat ended up with the same \$279,781 that Chris had accumulated, but Pat invested \$63,138 to get there and Chris invested only \$16,862!



3. Don't Rely on Other Income Sources, and Don't Count on Social Security

While politicians may talk about Social Security being protected, for anyone 50 or under it's likely that the program will be different from its current form by the time you retire. According to the Social Security Administration, Social Security benefits represent about 34 percent of income for Americans over the age of 65. The remaining income comes predominately from pensions and investments. They also state that by 2035, the number of Americans 65 and older will increase from approximately 48 million today to over 79 million. While the dollars-and-cents result of this growth is hard to determine, it is clear that investing for retirement is a prudent course of action.

4. Consider Hiring a Financial Advisor!

Historically, investors with a financial advisor have tended to "stay the course", employing a long-term investment strategy and avoiding overreaction to short-term market fluctuations. A financial advisor also can help you determine your risk tolerance and assist you in selecting the investments that suit your financial needs at every stage of your life.

For more information on retirement tips, contact your plan advisor, Matt Spay, Spay & Associates, at 563-326-0960 or mspay@spayandassociates.com.