



Money & Investing

## Savings: Yesterday, Today and Tomorrow

Scott Reeves, 05.03.06, 6:00 AM ET

NEW YORK - To paraphrase Ecclesiastes, to everything there is a season, a time to work and a time to save.

Most people understand the importance of planning for retirement, but many flub the timing and start saving and investing for retirement late in life. This means they end up with little savings in their mid-60s and must work longer than they would prefer or are forced to develop a taste for cat food and ketchup after calling it a career.

"My most successful clients are those who started saving and investing when they were young," says Richard Schroeder, a principal at Schroeder, Braxton & Vogt, a wealth management firm in Amherst, N.Y., with \$180 million in assets. "Those who made saving a low priority and are now in their 50s are struggling."

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Do the math. If you start with \$10,000 in savings at age 25; add \$4,000 a year, or 8% of a \$50,000 salary; and earn 8% a year, you'll have \$1,470,369 at age 67. However, if you start with \$10,000 at age 55 and add \$20,000 a year, or 20% of a \$100,000 salary, and garner the same return, you'll have \$404,724 at age 67, Schroeder says.

The difference, of course, is investing for 42 years versus 12. Moral: The sooner you start setting aside money for retirement, the bigger your nest egg will be.

Many dutiful parents delay saving for retirement until they get their kids through college. This is noble, but wrongheaded, because it sharply reduces the time you have to save and invest for your retirement.

If you're fretting about college for your preteens and teenagers, don't lose sight of a basic point: There are scholarships and student loans, but you can't borrow for your retirement. (See "[Saving For Retirement vs. The Kid's College.](#)")

Retirement used to be seen as a three-legged stool: Social Security income and an employer's pension plan, supplemented by personal savings.

No more. What worked for your parents and grandparents won't work for you. Many companies have shed their retirement liabilities in bankruptcy, and the current difficulties at General Motors and Delphi suggest there's more trouble ahead. The coming demographic wave from retiring baby boomers probably means reduced Social Security benefits or a later retirement age--and probably both. (See "[Seven Deadly Sins Of Retirement Planning.](#)")

So, if you're not saving, or not saving enough, don't plan on doing much in retirement except practicing your toe wiggling. Schroeder recommends saving 20% of your gross income by your late 40s. (See "[What Not To Do In Retirement Planning.](#)")

"Many younger people are skeptical of Social Security," Schroeder says. "Some aren't planning to receive anything, which I think is unrealistic. Older people believe they'll get their benefits, but they worry about their kids. Those in their 40s and 50s are worried that they won't get full benefits. But even if you do receive the full benefit, who wants to live on that, especially as Medicare Part B costs rise?"

In general, younger people can be more aggressive in their investments because they have time to make up

losses if the market turns sour. People should gradually reduce risk as they age, moving the bulk of their holdings away from riskier equities and into fixed income.

"You have to be diversified," Schroeder says. "You don't want to be heavily invested in one sector--U.S. growth stocks, for example--and get caught in a bear market. This can result in a permanent loss of capital."

However, dumping all stocks and loading up on bonds isn't the answer, either. Some people will live into their mid-80s or even 90s, giving them almost as much time as retirees as careerists. (See "[ETFs For Retirement](#).")

"Think back to 1976 prices and calculate the income you'd need now to be comfortable in retirement if you called it a career 30 years ago," Schroeder says.

Remember that you'll be pulling money out of your retirement account each year but, you don't want to withdraw too much in a market downturn. This is where fixed income comes in and underscores the need for diversification. At age 60, Schroeder suggests a maximum of 60% of assets in equities. Don't take a bigger stake in equities unless you have money to cover the losses or unless you're congenitally foolish.

Many diligent savers overlook the other side of the equation: a dispersal program. Schroeder suggests consolidating accounts to make it easier to manage your holdings and withdraw money as needed.

A rule of thumb: If you don't need the money now, let it ride, because you may need it later.

If you're just starting out in your career, cover the basics first. Set up a 401(k) retirement plan. The law allows employees to invest up to 15% of their annual salary. The contributions are deducted from your taxable income and therefore reduce the annual tax bite. Taxes on interest or investment income are deferred until retirement, when most people slip into a lower tax bracket.

Most employers kick in a portion of the employee's contribution, typically about 50% of the contribution up to a maximum of 6% of the annual salary. Think of it as free money, or a 50% return on investment for a significant chunk of your retirement savings. Either way, it's a deal, so grab it.

There are many financial Web sites that can introduce young workers to the basics of personal finance, including those run by Charles Schwab; **Lending Tree**, a division of IAC/InterActiveCorp; and major banks such as JPMorgan Chase, Citigroup and Wells Fargo.

Remember: It's your retirement.

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