Saving for Your Livelihood

Let's face it, getting older happens every day. We all have thoughts of retiring one day and taking that big vacation or sipping lemonade on the front porch swing. **But so few of us prepare for retirement the right way.** It's your responsibility!

The days of working for an organization for 40 years and it taking care of you at retirement are gone. **It's up to you!** If you keep fooling yourself into thinking the government will take care of you and that you'll be able to handle the bills that come with old age, consider a recent article that SmartMoney.com ran about health care costs. It quotes a report that says a 65-year-old couple that retires today can **expect to spend about $200,000 during their retirement on health care** (everything from premiums to prescriptions). That's huge! And you need to be ready for this huge deal.

If you had to come up with $200,000 in disposable income over the next 20 or 25 years (the duration between retirement and death), could you do it? Probably not; that's while you're working and generating income. You need to prepare! The more you invest today, the more you can smile when medical bills are coming 20, 30 or 40 years from now. Why? **Because you will have prepared.** Here are some steps to help you prepare now.

1. **Pay off all debt except the house and have a full emergency fund (3-6 months of expenses) in place.**

   The reason it's so important to knock out the debt first is because once you've paid off the student loans and other debt, you'll have freed up a considerable amount of income to invest. And the more you invest, the better off you'll be in the long run. You shouldn't work hard and earn money to throw it away at 18% interest to American Excess. That's bad math. **Make the numbers work for you** instead of against you.

2. **Put 15% of your earnings into retirement savings, which will ensure that you retire with dignity.**

   If your workplace offers a **401(k) with company match**, start there, but don't count the match as part of your 15%. If something happens (you change jobs, the company quits matching, etc.), you know you're still putting in what you should. If 4% is matched, put in 4%. Any time your employer gives you free money, take it.

   If your company doesn't offer a match or a retirement plan at all, start investing in a **Roth IRA**. If you are married and both spouses are working, you both should take advantage of this powerful wealth-building tool. The best part of the Roth IRA is the interest and distributions on it are tax-free. If you put in $3,000 a year for 30 years in a growth stock mutual funded Roth IRA averaging 12% (the 70-year stock market average), at the end of the 30 years you will have invested $90,000 but it will have grown to **$873,000 with no taxes to pay!**

Currently the contribution limit is $5,000. If you are 50 years of age, you can put in an extra $1,000 on top of the limit to "catch up." Take advantage of this if it's applicable to your situation.

One more thing. If you start this process early enough (and you should start as soon as possible, regardless of age), hopefully you'll know how to swim because you'll be **swimming in money.**