

Let's Talk Retirement

Starting now nets big results in the future

O.K. You've filed your tax returns (or at least your extensions). I'm deeming now as the perfect time to talk about retirement planning. It is still early in the year and last year's financial information is fresh in your mind. The business decisions you made and the ones you wish you hadn't are all still fresh. It's almost better than New Year's Day, when everyone makes their resolutions.

Many people who own their own businesses completely neglect retirement savings because they feel that they can't afford it. When they look at the bottom line each week, they see a steady stream of money going out the door. They figure that they pay themselves just enough to get by so it stands to reason that a luxury such as retirement is something they just can't afford. I'm not going to argue whether or not you can afford to put money into a retirement fund, but let me just say, "dollar-cost averaging."

Sounds a little scary and mathematical, doesn't it? But it is your second best friend when it comes to saving for retirement. The idea is that you put a little money, let's say \$50 per week, into an IRA or some other retirement vehicle of your choice but net big returns. I don't know about you, but \$50 is about a dinner out, or a couple of lunches throughout the week, or maybe even a week's worth of lattes from Starbucks. It might be a sacrifice, but I'm sure you can find it.

Nevertheless, you put an amount of your choosing every week into a mutual fund you've chosen from your IRA broker. Throughout the day, every day, the price of that mutual fund changes. It rises and falls. Sometimes, when you purchase shares, it will be high and sometimes it'll be low, but over time your investment will increase in value. The dollar-cost averaging has an advantage because you don't just plunk all of your money down at one time and take

the price you just happened to get on that particular day, hoping that for every day after that, it will continue to increase in value.

The other reason dollar-cost averaging works so well is because of his best friend (and yours), otherwise known as compounding or compound interest. This means that if the \$50 that you put in earned \$5 in interest at a rate of 10 percent, then your \$50 has just become \$55, earning 10 percent, and if you add another \$50 to it the following week, then you have \$105 earning 10 percent and so on and so on from there. This is an over-simplified example, but I found another great example on the Investopedia.com Web site.

"Tom decides to start saving \$100 from each month's salary. Dick, however, wants to wait until he is older before starting to save. If we assume an annual rate of return of 6 percent,



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Tom accumulates approximately \$16,700 after 10 years. Dick starts saving at age 31, and like Tom, decides to save \$100 per month. By the age 65, Tom's retirement account would be about \$253,000, while Dick's account balance, started 10 years later, would be about \$132,000." (example provided from <http://www.investopedia.com/articles/retirement/04/122104.asp>).

I have found that the best thing to do is earmark an amount to be put away each week. It doesn't matter if it is only \$5, just have it automatically deducted from your account and deposited into your IRA account. You will not miss it and before you know it, you'll have a tidy little sum saved up. The bonus is you'll be able to decrease your tax bill while doing it. Before you run to the bank to open an IRA, you need to know that many of the IRAs sold by banks and brokers contain fees that decrease your investment before it ever has a chance to grow. There are places like T. Rowe Price or Fidelity that offer "no-load" funds and you can invest online.

We'll cover more about what to look for and some caveats that go with retirement investing next month, but for now, start putting some money aside for your future.

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