FINANCIAL REPORT

# Make it your business to know about business retirement plans

*By Fred Snyder*
*Sentinel-Voice*

The 1990's have seen an increasing number of people decide to start their own business or join smaller companies. While many of you may have made the change for a near-term benefit (i.e. higher salary), you also need to consider what types of long-term compensation your company makes available. Specifically, you should learn about the company's retirement plan.

Whether an employer or an employee, a retirement plan is vital to your long-term financial well-being. There are four solid reasons why your business should have a solid retirement plan:

**1) Incentive for employees.** As a key part of any employee's compensation package, a retirement plan can help business owners attract and/or retain quality workers. As a result, your business can save both time and money in training and productivity.

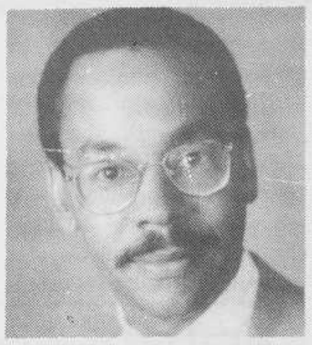
**2) Retirement income-building vehicle.** For most people, there are four basic sources of income after you retire: social security, retirement plan assets, personal saving/investment programs and wages from continue (or part-time) employment. While social security was designed to assist your financial needs after your working years, the Social Security Administration currently estimates that social security benefits replace only 21% of your average annual income, possibly less depending on how much you earned. A retirement plan can greatly help you and your employees generate sufficient income for your retirement years.

**3) Tax-deferred contributions.** A special retirement-plan benefit to employers and employees alike is tax deferral. Year after year your money can grow, compound and avoid taxes until you start making withdrawals.

As a quick illustration, if you contribute $8,000 annually to a retirement plan that fetches a 7% rate of return, it will grow to about $808,584 in 30 years, thanks to tax deferral. A taxable account with the same contributions and rate or return would only grow to about $541,183 in that 30-year period.

This example assumes a 31% tax bracket and does not reflect the performance of any specific investments. Keep in mind that earnings are taxed upon withdrawal, and withdrawals prior to age 59-1/2 may be subject to a 10% IRS penalty.

**4) Tax savings for your business.** As a business owner, contributions to your employees' retirement plan are tax-deductible. And many times, those contributions can either cover or exceed the



FRED T. SNYDER

"cost" of making contributions for your employees.

For example, lets say your annual salary is $80,000 and the salaries of two other employees are $20,000 each. If you contribute 10% of each employee's salary ($8,000 for yourself and $2,000 for each of your employees) to the company retirement plan, you would have a total of $12,000 in retirement plan contributions. While it "costs" you $4,000 to contribute to your employees' retirement plans, at the current corporate tax rate of 35%, your business would actually save $4,200 in taxes ($12,000 x 35%) and come out $200 ahead by making the tax deferred retirement plan contributions for you and your employees.

Your investment professional and tax advisor can help determine the type of retirement plan that makes sense for you and your business both now and in the future.

*Provided by Fred Snyder, Investment Broker for A.G. Edwards & Sons, Inc.*

BUSINESS

MONEY MANAGEMENT

# 20 ways to boost your savings: 1997 and beyond

It's wise to save at least 10 percent of your pretax income so you can adequately provide for your retirement and meet other financial goals. Sound impossible? It may be easier than you think. To get you started, the Nevada Society of CPAs provides these 20 ways to boost your savings — and the return on your savings — in 1997 and in the years to come.

**1) Pare down your debt.** Unless you can find an investment with an after-tax return that's higher than what you're paying on your debt (and that's not likely), reducing your debt is the first step toward smart saving.

**2) Track your spending.** If you don't have a clue where your money goes, try monitoring your spending for a few months. Then look for ways to cut back spending and increase savings.

**3) Pay yourself first.** As long as your debts are under control, put a pre-determined amount away in a savings plan each month before you make big-ticket purchases.

**4) Make it automatic.** Authorize your bank to transfer a set amount each month from your checking account to a savings account, mutual fund or another investment vehicle.

**5) Maximize your 401(k) contribution.** Remember that every dollar you invest in this qualified retirement plan reduces your gross income by the same amount.

**6) Save the small stuff.** Rather than cashing small checks you receive for dividend payments, insurance reimbursement, birthday gifts, and the like, deposit them in your savings account.

**7) Bank "extra" checks.** If you get paid biweekly, two months each year you'll get three instead of the usual two paychecks. Save those checks and you'll boost your savings significantly.

**8) Revise your W-4 form.** If you got a large tax refund last year, reduce your withholding for 1997. You'll get a bigger paycheck and you can save or invest the extra cash so that you — and not Uncle Sam — earns interest on your money.

**9) Save your raise.** Resolve to save the extra money you get in your paycheck after you've gotten a raise. Do the same with any bonuses you receive and you'll really come out ahead.

**10) Make it painless.** If your adjustable rate mortgage adjusts downward, plan to save — not spend — your monthly windfall.

**11) Reach for higher yields.** To compete with money market mutual funds, some banks offer penalty-free Certificates of Deposit (CDs) — but watch out for hidden charges.

**12) Put found money away.** If you're earning more than the social security withholding cap on payroll taxes, your social security deduction will stop before year-end. Take the portion of your salary you previously turned over to the government and put it toward your personal retirement savings.

**13) Switch credit cards.** With a credit card that charges less interest, you can pay off your balance faster and free up money for saving.

**14) Open a "think twice" account.** Every time you decide to buy something, write a check for the amount you would have paid for the item and deposit it into a separate account.

**15) Pay down your mortgage.** Send an extra $50 or more with your monthly mortgage payment and you'll pay off your mortgage earlier and save thousands on interest.

**16) Make the most of emergency funds.** Don't keep all your emergency funds — typically three to six months worth of living expenses — in a low-yielding savings account. Put a portion in higher-yielding, yet liquid investments, like short-term CDs or money market funds.

**17) Use a discount broker or buy direct.** Unless you need professional advice, consider buying and selling stocks and bonds through a discount broker. You can also cut your costs by buying stocks directly from a company.

**18) Consider investing in municipal bonds.** Any interest earned on these bonds is free of federal income tax. That feature can boost the yield on our investment significantly.

**19) Refinance your mortgage.** Consider looking into refinancing if the interest rate on your existing mortgage is two or more points higher than today's rates. Then invest the money you save on your monthly payment.

**20) Commit to planning.** Keep more of your money when you take advantage of opportunities available to those who make tax planning a year-round event.

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