

# Five Tips for Increasing Your Retirement Dollars

## 1 Don't cash out retirement plans when switching jobs

When you leave a job, the vested benefits in your retirement plans 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. But generally you will have to pay federal income taxes, state income taxes, and a 10% penalty if you are under age 59 ½. This can cut into your investments significantly and it can negatively impact your retirement savings goals. In California, for example, with an estimated 8% state income tax, someone in the 28% federal tax bracket would lose 46% of the amount withdrawn. When changing jobs, generally you have three options for leaving your retirement money invested. You can keep the money in your old employer's plan, roll it over into an IRA, or transfer the money to your new employer's plan.

## 2 Put time on your side

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 Martha who saved \$2000 per year for a little over eight years. Continuing to grow at 8% for the next 31 years, the value of the account grew to \$279,781. Contrast that example with George, who put off saving for retirement for eight years, began to save a little in the ninth and religiously saved \$2000 per year for the next 31 years. He also earned 8% on his savings throughout. Account value at the end of 40 years? George ended up with the same \$279,781 that Martha had accumulated. George invested \$63,138 to get there. Martha invested only \$16,862!

## 3 Take advantage of your IRA options

Every person who has earned income is eligible for either a Traditional or a Roth IRA. Spouses who are not working are also eligible for a Traditional or a Roth IRA if the other spouse has earned income. Also, annual contribution limits have increased this year and will continue to increase over the next few years. In order to determine which IRA option is right for you and how much you can put into an IRA, talk with an advisor before making any IRA choices.

## 4 Don't count on Social Security

While politicians may talk about Social Security being protected, for anyone 50 or under, it is very likely that the program will be very different from its current form by the time you retire. According to the Social Security Administration, Social Security benefits represent 38% of income for Americans over the age of 65. The remaining income comes predominantly from pensions and investments. They also state that by 2030, there will be twice as many elderly Americans as today, growing from 35 million to 70 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.

## 5 Diversify your portfolio

Diversifying your portfolio makes you less dependent on the performance of any single asset class. Effective diversification requires combining assets that behave differently during changing economic or market conditions. Investing in assets that have different return behavior will insulate your portfolio from major downswings. For example, stock returns may be up at times when bond returns are down, and vice versa. These offsetting movements assist in reducing portfolio volatility (risk).