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Small salary? Here's how to save for retirement

— **Money-Rates.com** By Dan Rafter | Money Rates Columnist 2/14/2014

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Do you make less than \$50,000 a year? How about less than \$30,000? Marilyn Timbers, a certified financial planner and ING retirement coach in Stamford, Conn., has good news: You can still save enough to live a comfortable life during your retirement years.

The key? Don't let your low salary dissuade you from [saving for retirement](#), even if you can only set aside a small portion of each paycheck.

Timbers points to a past client: This single mom never made much money. She received no financial support from her ex-husband. But she was diligent about her savings. And she was willing to work extra years -- not retiring until she reached 70 -- to generate extra money for her post-work life.

"She is now traveling. She is having a great time in retirement," Timbers says. "She's happy. It can be done, even if your income is small."

The importance of planning

If you think that your annual salary is too small to save enough for retirement, you may be using flawed thinking, says Timbers and other financial planners. In fact, those who earn higher incomes are nearly as likely to feel that they are unprepared for their retirement years.

A 2013 survey by American Consumer Credit Counseling found that 86 percent of individuals who made \$20,000 to \$30,000 each year felt that they were unprepared for retirement. More surprising is that the same survey found that 79 percent of individuals who earned \$100,000 to \$150,000 each year also said that they felt unprepared for their retirement years.

The lesson? Preparing for retirement takes planning, whether you make \$30,000 a year or \$150,000.

The key is to remember the goal of retirement: You want to maintain your current lifestyle after you leave the working world. If you make less money, the odds are that you won't need to maintain as extravagant a lifestyle as if you were making millions each year.

"No two people have the same retirement goals and needs," says Sharon Appelman, director of financial planning and income management with Francis Financial in New York City. "People with low incomes have to save proportionally, as do people who are making millions. They need to save enough to supplement their Social Security and maintain their lifestyles."

Making a little go a long way

Here are some tips for low-earners who want to enjoy a stress-free retirement:

Start early. Katie Ross, education development manager for Newton, Mass.-based American Consumer Credit Counseling, says that the key to saving a sizable nest egg, no matter your income, is to start setting aside dollars at as early an age as possible.

"Even if you're just saving just \$10 a week, before you know it, you'll have a nice little nest egg," Ross says.

Timbers provides proof of this: A 25-year-old who saves \$100 a month for 40 years, assuming a return of 6 percent on that money, will have saved \$192,725 by age 65.

Eliminate your debt. Kevin Gallegos, vice president at Freedom Financial in Phoenix, says that workers should eliminate their debt -- especially high-interest-rate credit card debt -- before worrying about saving for retirement.

"You have to look at where you are at with your debts, assets and liabilities," Gallegos says. "The tough part for anyone, but the part that needs to be taken care of first, is to get rid of that debt. Debt is going to eat away every bit of [savings](#) that you have. Your interest rates on credit cards are going to be greater than any interest you get from your savings. Get rid of your debt, then start saving."

Take advantage of tax credits. Ross recommends that low-earners take advantage of the Savers Credit available from the IRS. This credit, which is worth up to \$1,000 for individuals or \$2,000 for couples, can be claimed by low-income earners who contribute to IRAs, 401(k) plans or other workplace retirement accounts. Couples who are married and filing their taxes jointly can claim this tax credit if they make up to \$60,000 in gross income in 2014. Those workers who are single or married but filing separately can claim the credit if they have a gross income of \$30,000 or less in 2014.

Prioritize your savings. Gallegos says that low-earners have to be especially diligent about saving for retirement. This means forgoing such luxuries as those take-out cups of coffee in the morning or that newest video-game system.

"We all want our kids to have the newest and greatest stuff," Gallegos says. "But spending too much on unnecessary items can hurt your retirement plans. Not everyone can have the newest Wii or Xbox. You have to be realistic."

Make it automatic. Ross says that the easiest way for low-earners to save for retirement is to automate the process. For workers whose companies offer 401(k) or other retirement savings plans, this means automatically contributing a portion of every paycheck to these plans, no matter how small the amount. Those who don't have access to such employer-provided plans should set up a regular direct deposit from their paycheck into another savings vehicle.

"That way, you don't miss it. After awhile, you don't even realize that money is gone," Ross says. "And that you've saved up a nice amount of money for your retirement."

Use extra money to your advantage. Anytime you earn a bit of extra money, make sure to save some of it for retirement, Ross says. If you're expecting a tax refund this year, he recommends saving that extra money for retirement. The same holds true if you take on a second job -- make sure to use at least some of that extra income for retirement, Ross says.
