Retirement Planning: It’s never too early -- or too late

by Richard Westlund

It's up to you. What are the steps you can take today to ensure a comfortable retirement tomorrow?

Chris McDevitt makes a very good living as an associate with RE/MAX Properties, in Sarasota. In 1996, she earned $750,000 in income on $24 million in gross sales. But until a few years ago, McDevitt, 49, didn't have a plan for retirement.

"It's so easy to get caught up in spending what you make, and before you know it, retirement time has arrived," says McDevitt. "I enjoy what I do and want to keep on selling, but I don't ever want to have to work to survive. It's wonderful for your peace of mind to know you can retire and still live your accustomed lifestyle."

In the past, McDermott, like many Florida real estate associates, didn't have a consistent savings and investment strategy. She would purchase a certificate of deposit (CD) from time to time, but that was about it. "I was thinking of safety, not returns," she says. "It was a nightmare. I didn't even know where everything was located. When I started earning big bucks, I said 'I don't have a clue about investing.’ We needed to sit down with a financial planner."

Chris McDevitt and her husband, Bob, called Rick Helbing, a certified financial planner and partner with Suncoast Advisory Group in Sarasota. Helbing, who has worked with a number of high-income real estate associates and other self-employed professionals, helped the McDevitts:

• Analyze their current spending habits.

• Determine their lifestyle and financial goals.

• Discuss their tolerance for risk.

• Develop a sound plan for retirement.

Now McDevitt has one-year, five-year and seven-year savings goals. Each year, she sets up an automatic monthly withdrawal from her checking account for one-twelfth of that year's target. Then, those savings are moved into a diversified investment portfolio designed to grow for the future.

"The little bit it costs for a financial planner to get you on track and keep you on track is well worth it for us," McDevitt says. "Now we meet with him two or three times a year to review how we're doing. He helps us stay on schedule and maintain our commitments."

While successful real estate professionals usually have no problems managing business matters, their personal financial affairs are often a mess, says Helbing, who serves as president of the Sarasota/Manatee Society for Certified Financial Planners. "Most associates I've talked with do not have a retirement plan in place."

A financial planner can help a real estate associate look at the overall retirement picture and develop a comprehensive plan that covers issues like the right legal structure for a real estate business, ensuring adequate insurance coverage and individual wills, trusts and other estate-planning tools. "You want to be careful in choosing a financial planner," Helbing says. "You want someone with honesty and integrity, so go through an interview process."

After choosing a financial planner or other adviser, the next step is to draw up a current budget that includes savings and investments. By tracking your current spending, you can determine:

• How much you really need on which to live.

• How much you need to invest in your business.

• How much you can save for short-term goals and for your retirement.

Let's say you're earning $30,000 a year, but your basic living expenses come to $25,000, That would give you $5,000 to invest each year toward retirement or other goals. On the other hand, you might be earning $30,000, but spending $35,000, using credit cards for business or personal loans. In that case, the first step would be to reduce spending (or boost your income) to put your finances on solid ground.

Prepare the Groundwork

Before you can start saving for retirement, you need to pay off your high-interest debt, says Jerry Joyce, president of Alternative Tax Services Inc. in Tampa. "You can't go into retirement carrying a heavy debt load," says Joyce, an accountant and attorney who has taught numerous real estate seminars in Florida. "Look at your credit card debts and consider paying them off with a lower-rate second mortgage or home equity loan that may be tax deductible. Look at your car, which is the biggest business expense for many associates, and see how you could reduce your payments."

Another preliminary step is setting up a reserve savings account to cover any unexpected business or personal expenses, and provide a cushion against a sudden loss of income, such as a big sale that falls through. "If you don't have any cash to put away, you need to look at either increasing your commissions or lowering your expenses," Joyce says. "Those are the only two ways to increase your earnings--and start building your savings."

As part of your financial review, consider your insurance and medical benefits. For example, a person who is single with no children needs far less life insurance than someone with a non-working spouse and three small children. If you are in good health, you may sign up for the least expensive medical plan, but if you have health problems, the quality of coverage may be the most important consideration.

"Self-employed people make their own priorities in spending their earnings," says Joyce. "Usually they take their money and spend it on extras. Retirement is one of the last things they think about, but it should be a high priority."

If you're approaching age 50, it's a good idea to check with the Social Security Administration about your expected benefits, Joyce says. "You can get a printout showing the earnings over your lifetime, and calculate what your benefits would be. Social Security has been known to make mistakes, especially with self-employed people. If their earnings report does not match your tax returns, you should pull copies of your returns and correct their records."

Financial planners say it usually takes about 80 percent of your annual earnings to live comfortably in refirement. If you're earning $50,000 now, your target should be $40,000 a year in income. If your Social Security benefits will amount to $10,000 a year and you have no corporate pension plan, that means you'll have to cover the $30,000 annual difference. Assuming a 7 percent annual return, your investment savings would need to be at least $428,500 to achieve that goal.

"It takes a lot of money to make it through 30 years of unearned income," says Beverly Paulk, CFP, partner with Aegis Financial Advisors Inc. in Longwood. "A nice investment portfolio is especially important for associates with health problems who might not be able to work part time and make up some of the difference with an occasional commission check."

Set up a Retirement Account

Like brushing your teeth, saving for retirement should be a life-long habit learned at an early age, say financial planners. That's because it takes a large amount of capital to generate enough income for a relaxing retirement.

"It is never a convenient time to start saving for retirement," says Paulk. "There are always other pulls on the money, from vacations to new cars to computers at work to paying for a child's college education. Retirement planning means sacrificing some nice things today so you can enjoy life in your 60s and 70s."

Paulk advises her clients, who include many real estate professionals, to deposit half of every commission check in a separate money market account dedicated exclusively to income taxes and retirement. "If you get a check for $3,000, put $1,500 in this account," she says. "That way you don't get behind on your taxes, and you start building a retirement fund." For an associate in the 28 percent income tax bracket, $840 of the $1,500 deposit would be set aside for taxes, and $660 would go into the retirement fund.

This disciplined approach is particularly important in preparing for the annual April 15 tax deadline. Since many associates generate the bulk of their income during the busy summer months, they may find themselves "playing catch-up" on their quarterly tax payments, and be unable to fully fund their retirement plans, Paulk says.

Many associates don't realize the power of compound interest applied to regular savings--especially over a long period of time. "The best time to start saving is when you're three years old," quips Paulk. "The earlier you start, the less money you have to put away. The differences are amazing."

As a self-employed professional, you should consider many immediate and long-term benefits of setting up an individual retirement account (IRA), simplified employee plan (SEP or SEPIRA) or a Keogh plan.

While you should consult with your financial adviser about the best approach in an individual's case, these "qualified" plans typically allow you to invest pre-tax dollars, cutting your income taxes. If you're in a 28 percent bracket, for instance, every $1 you put into an IRA, SEP or Keogh plan would cut your tax bill by 28 cents. That benefit surpasses virtually all other investments in normal circumstances. Even better, the interest and dividends earned in a qualified plan accumulate tax-free until you start to withdraw your savings.

If you are serious about retirement, you should fund your qualified retirement plan with the maximum allowable contribution each year, say financial planners. But, you may still need other investment vehicles--especially if you are in your 40s or 50s and trying to make up for lost time.

Types of Investments

Inflation is the biggest enemy of retirement planning. At just 5 percent inflation, every $100 you now have will be worth only $60 in 10 years. That can put quite a crimp into your standard of living.

While putting your retirement investments into a bank account or money market fund may seem to be the safest choice, it actually is a dangerous approach, financial advisors say. If you're earning 4.5 percent on a CD and the inflation rate is 3.5 percent, for example, your investment is only growing at I percent each year--not fast enough to build a solid retirement fund.

"For financial goals beyond five years, the growth investments are critical," Paulk says. "Doing CDs and bonds will never keep up with inflation and taxes. Never. Those accounts are meant for short-term goals."

In planning for retirement, you have to look at a higher return, and over the decades, the stock market has outperformed every other type of common investment--despite its volatile short-term swings. "If you're more than 10 years away from retirement, you should be in the stock market or growth funds," Helbing says. "The best strategy is just to buy and hold. Don't try to outguess the market or jump around in your portfolio."

Many real estate associates are comfortable investing in real estate, purchasing single-family homes, apartment buildings or commercial properties that generate significant returns. "A lot of real estate professionals become enamored with their own product," says Paulk. "Unfortunately, real estate is not a liquid investment. In hard times you have to practically give it away, and it's not a quick process."

Diversification is one of the most important principles of investing, because it reduces risk. This applies both to types of assets - real estate, stocks, bonds, etc. - and to an individual's holdings within each particular category. An associate who owns four duplexes in the same neighborhood, for instance, is not diversifying her investments. "It can be hard to say no to a really good deal, but lack of diversification is death to an investment portfolio," Paulk says.

On the other hand, it's an excellent idea to own your own home. This provides protection against inflation and stabilizes your living costs. If necessary, you could tap the equity in your house for living expenses through a home equity loan or reverse mortgage. In seeking to build a diversified portfolio of investments, don't forget to put the net value of your home into the real estate category.

Instead of focusing on real estate or individual stocks and bonds, Paulk recommends mutual funds as the primary investment vehicle. "These are especially good for busy people on the run--a description that applies to most real estate professionals," she says. Mutual funds offer easy liquidity and high diversification.

With more than 5,000 mutual funds available - each focusing on certain types of investment vehicles--investors can select those that meet their specific needs and match their tolerance for risk. Paulk particularly likes the broad index funds that carry relatively low fees and try to match the overall performance of the stock market.

"It's also important today to think on a global basis," she says. "Many U.S. growth funds are permitted to invest a percentage of their money overseas, so you're probably investing internationally anyway. But there are other opportunities as well."

Time to Plan for the Future

Whatever your age, now is the best time to plan for retirement, say financial planners. The financial decisions you make today--even those made by default--will come back to haunt you, sooner than you think.

"When I refire, I want to enjoy the same lifestyle I do today," says McDevitt. "I want to have a nice home, a car and be able to eat out once in a while. I don't want to have to cut back. But achieving those goals doesn't happen by accident."

For McDevitt, as for many real estate associates, the key to getting started was creating a financial plan that focused on her long-term needs, not short-term wants. "If you're reaching age 50 and haven't been saving, you need to start putting away some serious money right away," she says. "But if you're younger it's easier. All it takes is some self discipline and a plan."

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Ten tips for retirement planning

1. Review your current budget.

2. Reduce living expenses or increase your income.

3. Pay off your debts as quickly as possible, especially high-interest credit cards or lines of credit.

4. Own your own home.

5. Set up a reserve account for emergencies and short-term needs.

6. Determine your long-term financial goals.

7. Create an account just for long-term savings.

8. Take advantage of every tax-deductible or tax-deferred corporate or individual retirement plan.

9. Once you have a suitable cushion, diversify into a wide variety of investments over a period of time.

10. Be patient and let compound earnings work for you.