Jane Walstedt: And now I'd like to ask Jenny Erwin, the Women’s Bureau Regional Administrator who oversees our regional offices in San Francisco and Seattle, to introduce our third speaker.

Jenny--

Jenny Erwin: Thank you, Jane.

I'm very pleased to introduce to the audience today, Lynette Atchley. Lynette is a Certified Public Accountant, Personal Financial Specialist, as well as a CERTIFIED FINANCIAL PLANNER™.

And as a sole practitioner, she is located in Redlands, California. Her specialty is financial and tax consulting for individuals and small businesses, and she has a special affinity toward working with grandparents.

She has been using her financial, accounting, and tax planning expertise for more than 20 years to really help people plan for a lifetime of security and to realize their financial goals and objectives.

She graduated in 1990 from California Polytechnic University in Pomona with a degree in Accounting. She is also the spokesperson for the American Institute of Certified Public Accountants’ 360 Degrees of Financial Literacy program that is online [and] that has a variety of free interactive tools and calculators to help women address savings and finances.

So, Lynette, welcome to the call.
Lynette Atchley: Thank you so much, Jenny.

I am happy to be here today. I am going to focus on retirement planning today.

There are several different types of retirement plans available out there. And if you are working with an employer and have an employer-provided retirement plan, I'm going to start there.

It's always good for you to pay attention to what that plan offers you. Consult with the advisor of the plan for assistance with asset allocation, which is deciding how you will invest the funds that you contribute to [in] your plan. [For more information on asset allocation, refer to the U.S. Securities and Exchange Commission’s Beginners' Guide to Asset Allocation, Diversification, and Rebalancing available online at www.sec.gov/investor/pubs/assetallocation.htm. The Iowa Public Employees Retirement System offers an online asset allocation calculator at http://www.ipers.org/sub/calcs/AssetAllocator.html.]

It’s always good to know what your employer matching contribution is. And I always say, maximize your employer’s matching contribution to your retirement plan because that’s free money to you. Take advantage of it, and it’s tax-deferred [you don’t pay taxes on what you contribute to the retirement plan until you withdraw the money].

The thing about retirement plans, all retirement plans are tax-deferred. And so what that means is you are reducing your current taxable income by deferring [paying taxes on] that money contributed into this retirement plan.
So it comes with a couple of little catches there. The plan is designed for retirement. Therefore, the IRS would like for you to leave that money in the plan until you are age 59 1/2. After that age, you can withdraw the money without a penalty [which would be imposed if you withdrew the money earlier]. You will pay income tax whenever you withdraw money from the retirement plan. But after age 59 1/2, there will not be the penalty.

You’ll have a 10% penalty if you withdraw the money before you’re age 59 1/2; however, there are a few exceptions to that rule. I will go into the exceptions in a little bit.

But now I would like to talk about starting early in that retirement plan. The earlier you start, the better. I have an example of two investors. One began investing at age 21 and invested $4,000 a year for only 10 years. Then, she stopped investing in this account. And her account was maintained in the retirement plan. She just no longer contributed to it.

The second investor began investing the same amount of money at age 31 and continued to make that $4,000 investment each year until she was age 65.

So the first investor contributed a total of $40,000 to her retirement plan. The second investor contributed a total of [almost] $140,000 to her retirement plan. I’ve made an assumption that each investor earned a moderate [interest] rate of 8% compounded annually in their investment account from the age that they started through the age of 65.

At the age of 65, when you compare the balances of the two accounts, there is a dramatic difference. The first investor, who only invested $40,000 over that entire time span, will have approximately $925,000 at age 65.
The investor who started at age 31 and contributed every year until they were age 65 would have $180,000 less than the first investor. They would have a balance of approximately $744,000.

So, my point here today is to start early. Take Mike’s advice. Pay yourself first. Put that money away every year. It’s…just in case you are wondering, if that first investor decided, instead of only investing [for] ten years, they invested from age 21 through age 65 with the same assumption of [earning interest at] the moderate rate of 8% compounded annually, there would be approximately $1,670,000 in the account at age 65.

That is truly amazing when you consider that $4,000. So, it’s really…it’s not that much if you can pay yourself first and plan for it.

There are plans for self-employed people out there. There are many different types of plans. There’s the plan which is the SIMPLE IRA. It’s probably the easiest to maintain and to administer. There is a contribution limit of $10,500 a year.

You could open up a SEP-IRA, which could allow you to contribute more. But then other considerations are involved there. There’s also the 401(k) plan that you can contribute $15,500 a year to, but [it] definitely [has] a lot more administrative costs. [Frequently Asked Questions on SIMPLE IRA Plans can be found on the Internal Revenue Service Web site at http://www.irs.gov/retirement/article/0,,id=111420,00.html and on SEP-IRAs on the Internal Revenue Service Web site at www.irs.gov/retirement/article/0,,id=111419,00.html. More detailed information on Simple IRA Plans and SEP-IRA Plans can be found in IRS Publications 560 and 590 and IRS Notice 98–4.]
So if you are self-employed, I ask you, you know, several different questions. What’s most important to you? Is it reducing costs as an employer or is it contributing the most amount of money? And your [financial] advisor [if you have one] can help you with deciding what plan is right for you.

Lifestyle preservation should be considered along with retirement planning. And by lifestyle presentation--preservation, I'm sorry--I do mean disability insurance, as well as long-term care insurance.

And because both of these, if you are disabled prior to retirement age, could end up eating into your retirement income to survive, because a lot of times this disability may take longer than that six months of emergency savings.

[Financing] long-term care [needs] likewise can be a problem for that period of time after retirement and could very well eat into your retirement savings.

So, talk with your [financial] advisor [if you have one] about lifestyle preservation as a part of your retirement planning.

Now, you may be wondering about Social Security and if Social Security is going to be something that you can depend on for your retirement. And I say absolutely not. First of all, Social Security was designed as a supplement to your retirement plan, not to be your sole source of retirement [income]. So keep that in mind.

And especially for younger women out there, I really wouldn’t plan on it at all, because any additional money that you have in retirement is going to be that much better if you didn’t plan on it.

Another thing regarding retirement planning is that pensions are really going by the wayside. The trend these days is that employers are not providing
pension plans any longer. And let me just discriminate the difference between pension plans and 401(k) plans.

A pension plan is something that the employer contributes fully to. You don’t contribute at all to [it], and the benefit is planned for you. [You may contribute part of your pay to some pension plans, such as Federal employee pension plans]

The [defined] contribution plan [such] as the 401(k) plan--and that’s for you… designed for you to contribute to fully, along with some employer matching that…which I spoke about earlier.

Pension plans [defined benefit pension plans]. Companies are making the decision not to continue with their [defined benefit] pension plans, and so it’s always good for you to plan for your own retirement. Take responsibility for planning your own retirement and maximizing the amount that you can contribute to the employer plan that’s provided you or to your own self-employment retirement plan if you are self-employed.


Thank you very much for listening, and I’m available for any additional questions.

Jane Walstedt: Thank you very much, Lynette.
I think two important points that you mentioned are that the so-called defined benefit plan, the traditional defined [benefit] plan that a lot of people used to have is going by the wayside and being replaced by what they call defined contribution plan. So under the defined contribution plan, what you have at the end is going to be very influenced by what you put into it.

There may or may not be an employer match in a plan like a 401(k) plan. And of course, an alternative, if your employer doesn’t offer that plan, is [to] open an individual retirement plan, an individual retirement account.

And I think the other point you made that’s so important is starting to save early. Because in the example you gave, by starting to save early, your interest keeps compounding and you come out…the earlier you start to save, you come out better at the end even though somebody [else] starts later but contributes [for] more years. So I think those are very important points.