



Saving 15% of your pay is easier than you think

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Young workers don't need to get hung up on a specific target for their retirement egg. Save as much as you can as early as you can and you'll be off to a great start.

Although there is no hard-and-fast rule, Christine Fahlund, senior financial planner at T. Rowe Price, recommends that young workers try to save 15 percent of their salary (including matching contributions from you employer) to replace 50 percent more of their salary in retirement. (The later you start, the more you'll need to save.)

Most retirees will also receive Social Security benefits that could replace another 10 percent or 30 percent of pre-retirement income. For the average wage earner with a pre-retirement income of \$37,000 in 2005 -- Social Security replaces about 42 percent of pre-retirement income; the figure is less for those with higher earnings. That would boost total replacement to close to the 75 percent to 85 percent range of pre-retirement earnings generally recommended.

Not sure you can save 15 percent of your income? It doesn't all have to come from your pocket, so it isn't as painful as you might think.

Let's say you're single and earn \$50,000 a year. Let's also say you contribute \$250 a month to a 401(k) plan, and the company matches your contribution 50 cents on the dollar up to 5 percent of your salary. You'd need to contribute \$3,000 to your 401(k), or \$250 per month. The maximum matching amount, \$1,500.

But 401(k) contributions are made in pre-tax dollars. So in the 25 percent federal tax bracket, saving \$250 a month would reduce your take-home pay by just \$187.50, or \$2,250 per year. With your employer deducting money off the top, you would have \$1,500 in cash. And taking that single step would get you more than halfway to your annual goal.

To close the gap, you could contribute an additional \$3,000 to a Roth IRA. If you do, you'd have to pay tax on funds withdrawn from your 401(k), but Roth withdrawals would be tax-free. In 2006, you can contribute up to \$4,000 of earnings to a Roth, plus a \$1,000 catch-up contribution if you're 50 or older.

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To qualify for a Roth, your income can't exceed \$110,000 if you're single or you're filing a joint return.

In the end, adding 15 percent of your \$50,000 earnings, or \$7,500, to your re
kitty would cost you only \$5,250 out of pocket.

Kiplinger

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