Here's How to Do Retirement Right, Financially

Expecting to live fast, die young and avoid the golden years altogether? It probably won't work out that way. The average American spends 20 years in retirement—women a couple years longer than men. Whether you like it or not, you're getting older, so be prepared.

To assure you can live comfortably, the government recommends planning to have 80% of your preretirement annual income available for each year you're retired. Social Security benefits cover on average only 40% of earnings, and unfortunately, for younger generations the burden of paying for their own retirement is increasing.

If you need a place to start, consider these three ways to do retirement right:

1. **Start early**
   Say at the beginning of every year, starting at age 20, you put away $1,000—roughly $84 a month. You stash this money in a retirement account earning a 7% return, until you reach 30. After those 11 years, you don't add a cent or touch it. Once you reach 65, you'd have a whopping $168,515 in the account.

   Now say you waited to start saving until age 30, but put away the same $1,000 annually for 35 years. Despite putting three times as much cash into the account, it would reach only $147,914 once you hit 65. It's critical to start early to capitalize on the magic of compounding growth.

2. **Contribute to a 401(k)**
   These employer-sponsored, tax-deductible retirement plans take automatic withdrawals from your pay. Many companies also match a portion of your contributions.

   Your contributions and any employer additions won't by taxed as income until it's withdrawn. Penalty-free withdrawals usually can begin at age 59½ or older. If you pull funds before that, you may face a 10% penalty as well as income taxes on the money. You must start to draw from the account by age 70½.

3. **Open an IRA**
   If you're self-employed, aren't covered by a 401(k) or pension at work or simply want additional funds, consult with Minnesota Valley Federal Credit Union, which can help you sort out the best type of individual retirement arrangement, or IRA, to use. For younger people, a Roth account may be a good choice, as the fund's earnings are tax free even though contributions come from your after-tax earnings.

Don't steal money from your future self—start preparing for retirement now.

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