

Congratulations You Are A Millionaire

Jeff Dvorachek, CPA

Many people think of a millionaire as someone who owned a successful business, received an inheritance or won the lottery. But as illustrated in Thomas J. Stanley's book "The Millionaire Next Door," ordinary, non-assuming people can also achieve wealth by living within their means.



With all the discussion on Social Security and the fact that soon more dollars will come out of the program than are going into the program, changes will need to be made. My belief is that benefits will need to be cut or at least be based on wealth. It used to be that an employee could work his entire life and live comfortably with a company pension and Social Security. Those times have changed. Many companies are eliminating pensions in favor of individual directed retirement plans. These plans put the emphasis on the employees saving their own money, as compared to the company funded pensions. Therefore, it is time for us to take charge of our futures.

Using the "pay yourself first" concept, we need to make long-term savings part of our daily routine. The Internal Revenue Service provides many tax saving options to save for retirement. Some of them include 401(k) plans, 403(b) plans, Roth IRAs, Traditional IRAs, SIMPLE IRAs and Simplified Employee Pensions for small businesses. But you can also use savings accounts and after-tax investment accounts.

The goal is to save enough to live a comfortable retirement and to have the flexibility to do what you want during your golden years. Let's use \$1,000,000 as our goal. This amount would produce \$50,000 in annual income assuming a 5% return, without touching the principal. The following chart shows how much you need to save per month to have one million dollars at age 65. This clearly shows how the power of compounding earnings helps to fund your retirement nest egg.

	5% Return	7% Return	10% Return	15% Return
Begin at age 20	491.43	262.14	94.61	15.09
Begin at age 25	652.58	378.77	156.82	31.85
Begin at age 30	876.56	552.01	261.22	67.30
Begin at age 35	1,196.56	814.94	438.73	142.66
Begin at age 40	1,672.27	1,227.30	747.45	304.50
Begin at age 45	2,422.80	1,908.52	1,306.00	659.65

For a person beginning at age 25 and assuming a 7% rate of return, they will have contributed only \$181,809.60 ($\$378.77 \times 12 \text{ months} \times 40 \text{ years}$), but will have accumulated \$1,000,000 at age 65. I have shown the 15% column as a reference only to show the importance of compounding. That type of return is probably not realistic. This chart also assumes that you have saved nothing so far.

If you are starting late, just remember that any savings done today will make your future brighter. But this is a great illustration for our younger clients and the children of our

clients to show that with disciplined savings over your lifetime you CAN become a millionaire without winning the lottery!

If you have any questions regarding retirement plan options, compounding or your situation, please call us or visit our website at www.habco.com.

The Bottom Line
September 2009



Hawkins, Ash, Baptie
& COMPANY, LLP
Certified Public Accountants | Business Advisors
Real Solutions. Real Service.