Yes, You Can Retire!

Sixty-five: It's the age you'll be when you can finally take advantage of those senior-citizen discounts at the movies. (Woohoo!) And if you plan right, the discount matinee won't be the only great thing about your golden years — you can also get the relaxing retirement you deserve.

BY JAYNA RUST

What will it take for you to retire? About $180,000, according to Fidelity Investments' "Retirement Savings Worksheet." If you're the average nail tech, you probably earn about $32,215 each year (according to NAILS' 2005-2006 Big Book). To maintain that lifestyle into retirement, you will need to have $183,370 in savings by the time you retire at age 65. If you want to — and are able to — work until age 70, you'll still need $157,024*.

No problem, you say. I've got my husband and his retirement plan…or I'll start putting away savings as soon as the kids go away to college…or I'm too young to think about retirement.

But are these wise or fool-proof plans for your future? Read on for what experts and fellow readers have to say about those plans and for other advice about planning for your future — so you can make your retirement a reality.

*(*These estimates assume that Social Security laws will stay the same and that the retirement investments will yield 8% annually before retirement and 7% annually after retirement. They also assume that inflation will average 4% per year and that the person will live to age 90.)*

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Illustrations by Cathi Mingus

Words for the Wise

401(k) Plan: A plan set up by an employer, so employees can put pre-tax money aside for retirement. Both employers and employees can contribute.

Deductions: Expenses allowed by the IRS that reduce your taxable income, and thus the money you pay in taxes each year.

IRA (Individual Retirement Account): A personal savings plan that gives people tax advantages when saving for retirement.

Mutual Fund: A collection of stocks and/or bonds. Each investor owns a share — or portion — of the holdings of the fund.

Portfolio: Generally speaking, this is the group of investments you've accumulated.

Risk: This is the possibility of losing money.

Roll-over: The tax-free reinvestment of a distribution (payment) from one qualified retirement plan into another within 60 days.

Vested: This is the percentage of ownership of a retirement fund. With some plans, the employee's vestment increases with the number of years of employment.

Comparing IRAs and 401(k)s

	Traditional IRA (Individual Retirement Account)	Roth IRA	Simple IRA	SEP IRA	401(k)
Who can establish/start this type of plan?	• anyone up to age 70.5 as long as they have earned income	• anyone as long as they have earned income, but income limits apply	• self-employed people (including booth renters) • business owners with 100 or fewer employees	• self-employed people (including booth renters) • small-business owners with employees	• small businesses, but not typically used unless more than 20 employees • self-employed people may also consider a solo 401(k)
How are employee contributions taxed?	• may be tax-deductible; other retirement plans and income • earnings grow tax-deferred (post-retirement withdrawals are taxable)	• they are not tax-deductible • earnings grow tax-deferred (post-retirement withdrawals are tax-free)	• employee contributions are made before taxes, and employer contributions may be deductible as a business expense • earnings grow tax-deferred	• employer contributions may be deductible as a business expense • earnings grow tax-deferred	• employee contributions are generally made before taxes • earnings grow tax-deferred
What are the individual contribution limits?	• $4,000 (in 2006) unless 50 years old or older, then $5,000	• $4,000 (in 2006) unless 50 or older, then $5,000	• $10,000 by employee (in 2006) unless 50 or older, then $12,500 • employer must provide a 1%-3% matching or 2% nondiscretionary contribution	• employers are the only ones who can contribute to this plan (discretionary), but the percentage contributed must be equal for all employees • can contribute up to $44,000 (in 2006) per employee	• $15,000 (in 2006) employee contribution unless 50 or older, then $20,000 plus discretionary employer contributions
How are participants vested?	• 100% vested	• 100% vested	• 100% vested	• 100% vested	• employee contributions 100% vested; employer contributions subject to a vesting schedule
What are other considerations for employers?	n/a	n/a	• both employee and employer can contribute • there might be a small set-up/administration fee • there are minimal reporting requirements • employee loans are not allowed	• only the employer can contribute • there might be a small set-up/administration fee • there are no reporting requirements • employee loans are not allowed	• employer contributions are not required • cost may be more to set up and administer • more substantial reporting requirements • offers more employer flexibility than Simple or SEP IRAs • employee loans are available

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how will i meet my yearly retirement needs?

(From Fidelity Investment's Savings Plan Workshop — "Retirement Savings Worksheet")

1. Enter your current annual gross income. . . . . 1. ____________
2. Anticipated annual retirement expenses in today's dollars. (multiply line 1 by 0.7) . . . . 2. ____________
3. Enter the total amount you expect to receive each year in retirement from your social security, employer pensions, and other income. (see below) . . . . 3. ____________

ESTIMATED ANNUAL SOCIAL SECURITY BENEFITS

	Current Annual Gross Income							
Your age now	**$20,000**	**$30,000**	**$40,000**	**$50,000**	**$60,000**	**$70,000**	**$80,000**	**$90,000**
40 or younger	$9,240	$12,012	$14,784	$16,716	$18,012	$19,308	$20,616	$21,444
Age 45	$9,348	$12,168	$14,976	$16,932	$18,240	$19,560	$20,868	$21,564
Age 55	$9,948	$12,936	$15,924	$18,000	$19,404	$20,784	$21,984	$22,416
Age 65	$10,200	$13,272	$16,344	$18,312	$19,452	$20,472	$21,300	$21,420

4. Annual retirement income shortfall. (subtract line 3 from line 2) . . . . 4 . ____________

What is my total retirement savings goal?

5. What is your target retirement age? Enter the factor from the table below. 5 . ____________

Desired Retirement Age	**55**	**60**	**62**	**65**	**67**	**70**
Factor	21.5	19.6	18.8	17.4	16.4	14.9

6. Amount you may need to have saved by your desired retirement age. (multiply line 4 by line 5) . . . . 6. ____________
7. If your target retirement age is younger than age 65, enter the factor from the table below for your retirement age. Otherwise, enter zero. . . . . 7. ____________

Early Retirement Age	**55**	**60**	**62**
Factor	8.5	4.6	2.8

8. Additional amount you may need to have saved in order to have adequate retirement income until social security and pensions begin or to offset reduction in those benefits due to early retirement. (multiply line 3 by line 7) . . . . 8. ____________
9. Estimated total savings needed by your desired retirement age. (add line 6 and line 8) . . . . 9 . ____________

What will my current savings be worth?

10. Amount you've saved for retirement already. . . . . 10 . ____________
11. How many years do you have until you retire? Enter the factor from the table below. . . . . 11. ____________

Years Until Retirement	**5**	**10**	**15**	**20**	**25**	**30**	**35**	**40**	**45**
Factor	1.2	1.5	1.8	2.2	2.7	3.2	3.9	4.8	5.8

12. Estimated value of your current savings at the time you retire. (multiply line 10 by line 11) . . . . 12. ____________

How do I achieve my retirement savings goal?

13. The amount you still need in addition to your current savings (subtract line 12 from line 9). . . . . 13. ____________
14. Enter the factor from the table below for the number of years until you retire. . . . . 14. ____________

Years Until Retirement	**5**	**10**	**15**	**20**	**25**	**30**	**35**	**40**	**45**
Factor	0.1810	0.0815	0.0488	0.0327	0.0233	0.0173	0.0131	0.0102	0.0079

15. Additional annual savings required. (multiply line 13 by line 14) . . . . 15. ____________
16. Monthly savings required. (divide line 15 by the number 12) . . . . 16. ____________

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8 Common Retirement-Planning Pitfalls — and How to Avoid Them

Mary Harris, president of Harris Financial Advisors in Torrance, Calif., offers some straightforward planning advice and helps debunk common retirement-planning excuses.

1. Saying you'll start saving once you start making more money

"Even though you don't think you can do it, start at 10%, then move up the target to 20% of your income," says Harris. If 10% still makes you squirm, just find yourself a starting place — even if it's only $25 a month.

2. Not budgeting money

"People have really lost control. It's all on credit cards," Harris says of today's spending habits. You have to know your finances at all times, and that will help you see where you can save for retirement.

3. Saving first for kids' college

Harris believes that you shouldn't have to give up retirement planning or college planning — as long as you live within your means and plan appropriately. She recommends visiting www.scholarshare.com to investigate setting up tax-deferred college savings for kids.

If you do have to choose, however, remember kids have many options to pay for college. Even if there isn't any scholarship or grant money available to them, they can always take out a loan. But there won't be any financial aid packages (other than the one you create) to help *you* through retirement. And believe me, your kid would much rather have $30,000 in low-interest college loans than have to indefinitely support themselves and a retired or disabled live-in parent — which may keep them from saving for their own retirement or their own children's college funds.

4. Loaning retirement money to kids or friends looking to invest

All too often, these "loans" are never paid back. And as far as financing a friend's investment venture, "If a bank won't loan them money, it's too risky," Harris says. Don't put your future at that risk.

5. Thinking that a spouse's retirement plan is sufficient (or letting him/her do all of the planning)

"So often when you depend on your spouse, he or she isn't doing anything either," says Harris. Or, if the spouse is, he or she may not be making the best choice for the couple's money.

Harris recommends working on the plan together. That way, in case something — such as a death or serious injury — does happen to the main money manager, the other is fully prepared to take over the reigns or to make the best choice for the investments without losing any of the couple's money.

6. Taking money from a previous retirement plan to start up your nail business

"This should really be your last resort," says Harris. Federal and state taxes as well as the penalty for early withdrawal make all your previous hard work worth so much less. "You really have only about 50% of your savings when you get out the door," she says.

Instead, try other sources of funding, such as bank or credit union loans, government assistance, or grants. More information on these sources of funding is available in the "Salon Start-up Guide" in NAILS 2005-2006 Big Book (available at www.nailsmag.com).

7. Telling yourself "I'll work until I can't anymore"

This is like denying the future, says Harris. "They can't picture themselves in a situation where they can't work," she adds.

To have this kind of philosophy, it seems imperative that the person would be buying long-term disability insurance. If not, then proper retirement planning is essential — even if it means cutting back on current spending.

8. Believing that your business is your retirement plan — and by building up your business, you're building up your future

This isn't necessarily a faulty plan, says Harris. As long as you have this plan backed up with numbers — including how much you'll have left (minus debts) after selling the business (or how much you'll be able to make without working) — this might work. "Otherwise, it's kind of a naïve plan," she says.

If this is your plan, and you haven't figured out the numbers on your business, sit down and do it now. If it won't be enough to sustain you through retirement, start a second plan.

where to get the Savings

In an industry like ours, it's easy to avoid budgeting and just spend the money as it comes in each day. However, there are ways you can use the cash-based portion of your business to your advantage or find other ways to save.

1. Place all your tip money into your retirement. Jenny Giles of The School of Hairstyling started her Simple IRA with her tip money just after her 19th birthday. One of her clients, a financial advisor, helped her set it up, even though she was contributing only about $25 or $30 each month. Now working for a school, Giles has rolled her investments over into the school-sponsored 401(k).

2. Put your "found" money into your retirement fund. Carolyn Fielder of Natural Nail in Spokane, Wash., started her retirement plan several years ago when she worked at a day spa. In order to keep contributing, she rolled it over into an IRA, and she now puts any of her "found" money — rebates, refunds, coupon savings, income tax returns— into the plan.

3. Just bite the bullet and do it. Starting with a $100 contribution each month, Ingrid Slatta, of Ingrid's Aesthetics Salon in Kanata, Canada, has been working with an investment advisor. "This money is directly debited, so I never see it," she says. "It works well, and my money has really grown."

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You Young'uns Have It Easy

Putting off planning for retirement only means you'll have to save even more of your own money.

Allison Baker, owner of Allison's Nail Co., started planning for retirement when she was younger. Since she was 25, she's been contributing to a Roth IRA. "My boyfriend at the time knew I didn't have any type of retirement package, and he just drilled it in my head that I was young and now was the time to start it."

Today, about 10 years later, Baker could stop saving (although she won't!), and she'd still have just as much — if not more — at retirement than a tech her age who starts contributing the same yearly amounts now (and keeps doing so for 27 years). See the example below where a tech contributes $40,000 from age 26 to 34 and still has more than a fellow tech who contributes $108,000 from age 34 to 60:

If You Start Saving Early in Life

Age	Year #	Cal Year	Beginning Balance	Contribution	Annual Growth	Portfolio Balance
			Growth Rate 7.0%			
26	1	2007	0	4,000	0	4,000
27	2	2008	4,000	4,000	280	8,280
28	3	2009	8,280	4,000	580	12,860
29	4	2010	12,860	4,000	900	17,760
30	5	2011	17,760	4,000	1,243	23,003
31	6	2012	23,003	4,000	1,610	28,613
32	7	2013	28,613	4,000	2,003	34,616
33	8	2014	34,616	4,000	2,423	41,039
34	9	2015	41,039	4,000	2,873	47,912
35	10	2016	47,912	4,000	3,354	55,266
36	11	2017	55,266	0	3,869	59,134
37	12	2018	59,134	0	4,139	63,274
38	13	2019	63,274	0	4,429	67,703
39	14	2020	67,703	0	4,739	72,442
40	15	2021	72,442	0	5,071	77,513
41	16	2022	77,513	0	5,426	82,939
42	17	2023	82,939	0	5,806	88,745
43	18	2024	88,745	0	6,212	94,957
44	19	2025	94,957	0	6,647	101,604
45	20	2026	101,604	0	7,112	108,716
46	21	2027	108,716	0	7,610	116,326
47	22	2028	116,326	0	8,143	124,469
48	23	2029	124,469	0	8,713	133,182
49	24	2030	133,182	0	9,323	142,505
50	25	2031	142,505	0	9,975	152,480
51	26	2032	152,480	0	10,674	163,154
52	27	2033	163,154	0	11,421	174,574
53	28	2034	174,574	0	12,220	186,795
54	29	2035	186,795	0	13,076	199,870
55	30	2036	199,870	0	13,991	213,861
56	31	2037	213,861	0	14,970	228,831
57	32	2038	228,831	0	16,018	244,850
58	33	2039	244,850	0	17,139	261,989
59	34	2040	261,989	0	18,339	280,328
60	35	2041	280,328	0	19,623	299,951

Assumptions: Beginning Balance = $0
Investment Growth = 7% per year
Annual Contributions = $4,000 to IRA from age 26 to 35

If You Start Saving Later in Life

Age	Year #	Cal Year	Beginning Balance	Contribution	Annual Growth	Portfolio Balance
			Growth Rate 7.0%			
26	1	2007	0	0	0	0
27	2	2008	0	0	0	0
28	3	2009	0	0	0	0
29	4	2010	0	0	0	0
30	5	2011	0	0	0	0
31	6	2012	0	0	0	0
32	7	2013	0	0	0	0
33	8	2014	0	0	0	0
34	9	2015	0	4,000	0	4,000
35	10	2016	4,000	4,000	280	8,280
36	11	2017	8,280	4,000	580	12,860
37	12	2018	12,860	4,000	900	17,760
38	13	2019	17,760	4,000	1,243	23,003
39	14	2020	23,003	4,000	1,610	28,613
40	15	2021	28,613	4,000	2,003	34,616
41	16	2022	34,616	4,000	2,423	41,039
42	17	2023	41,039	4,000	2,873	47,912
43	18	2024	47,912	4,000	3,354	55,266
44	19	2025	55,266	4,000	3,869	63,134
45	20	2026	63,134	4,000	4,419	71,554
46	21	2027	71,554	4,000	5,009	80,563
47	22	2028	80,563	4,000	5,639	90,202
48	23	2029	90,202	4,000	6,314	100,516
49	24	2030	100,516	4,000	7,036	111,552
50	25	2031	111,552	4,000	7,809	123,361
51	26	2032	123,361	4,000	8,635	135,996
52	27	2033	135,996	4,000	9,520	149,516
53	28	2034	149,516	4,000	10,466	163,982
54	29	2035	163,982	4,000	11,479	179,461
55	30	2036	179,461	4,000	12,562	196,023
56	31	2037	196,023	4,000	13,722	213,745
57	32	2038	213,745	4,000	14,962	232,707
58	33	2039	232,707	4,000	16,289	252,996
59	34	2040	252,996	4,000	17,710	274,706
60	35	2041	274,706	4,000	19,229	297,935

Assumptions: Beginning Balance = $0
Investment Growth = 7% per year
Annual Contributions = $4,000 to IRA from age 34 to 60

Charts courtesy of Mary Harris of Harris Financial Advisors

where to Get Started

"I think you can learn a lot about your finances by sitting down and doing it yourself," says Harris. With the number of online do-it-yourself sites available, you're bound to be able to set up a plan yourself. "The programs are so easy. I think it's a great way to go," she adds.

Often-used online services include:

- www.vanguard.com
- www.fidelity.com
- www.edwardjones.com
- www.ameritrade.com
- www.schwab.com

But if you still are leery of starting up the plan on your own — or just have a few more questions you need answered — there's one-on-one help too:

- your tax preparer
- financial planners (search for one at www.fpanet.org)
- H&R Block
- and don't forget about your clients! "We have so many professional women as customers," says Audrey Lulow, a tech (and investor) in Woodbury, Tenn. "Pick their brains. They love telling you how it is."

Do you have your own retirement planning tips? Share! Log onto www.nailsmag.com and let other readers know on the "Discuss the Current Issue" forum.

For Owners Only

What if you're on the owner side of things? You have an even greater responsibility for retirement planning. You can set up a SEP IRA, Simple IRA, or 401(k) plan for your employees. And it's actually not as difficult as it sounds. The first step is taking an inventory of your business.

Craig Scherling, the marketing manager for Vanguard, recommends asking yourself four basic questions:

1. How much time do I have to administer this plan?
2. Do I want a plan that allows both employee and employer contributions?
3. How much flexibility do I need in a plan? (Will I need to be able to change the details from year to year?)
4. How much money do I have to administer this plan?

After answering those questions, Scherling says you should call a retirement planning company, such as Vanguard, and a representative can walk you through the process and help with the various forms you'll need to fill out. After that, the company can establish online access for you to manage the plan via the Internet.

why have a plan

"The bottom line is that it is the right thing to do for your employees," says Marwan Zaouk, co-owner of Belleza Salon and Spa in Knoxville, Tenn. "I want them to be able to retire and live happily," Zaouk says of the salon's 68 employees. For nine years now, employees have been able to participate in the salon's Simple IRA, where the salon matches — dollar for dollar — up to 3% of the employee's gross pay.

Not only is it good for the employees, but the plan can also be financially advantageous to you. "One of the biggest advantages is that they're contributing money to a plan that can grow tax-deferred," says Scherling. And the cost to the owner is also often quite small. Depending on the plan and the planning company, with Simple IRAs and SEP IRAs, owners may only have to pay for the amount they match; sometimes there will be a small set-up or administration fee, but that generally won't be above $25 per employee fund.

One last reason to start a retirement plan can't be overlooked. Readers named "finding competent nail techs" as one of the top five challenges they've faced in the last 12 months, and with a generous benefits package, you can reel in the best of the best.

what else you can do

If you're not ready to start the retirement plan just yet — or if you own a booth-rental salon — you can still help your techs out. "I am having a former supply-house representative-turned-investor come to our salon and speak with us about the subject," says Amie E. Luna, president of JACZ Salon, Inc. Often, these planners or investors will come out and talk to you and your employees or booth renters without pay — because if your employees or renters invest with them, then the discussion was worth their time.

And it's worth your techs' time, too. Dawn Bassett has had a retirement plan for the past 13 years. She started it after a representative came to her work, Genesis Salon, to talk about IRAs. At the time she had been in the industry a few years and was renting a booth. "It was great because I never even thought about it until that person came in," she says. Soon after the optional meeting, she opened up her IRA through one of her client's husbands. Now at Aslan Salon, also in Reno, Nev., she continues to contribute and is on her way to making her retirement a reality. ■