

money matters

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Suffering from financial paralysis

A new phenomenon called financial paralysis is affecting a growing number of American investors and may leave many unprepared for their retirement. According to a Nov. 2003 report from American Express Financial Advisors called "The Personal Economy Index," more than 50 percent of those polled feel stalled when it comes to managing their finances. Another one-third stated they had no financial plan at all.

Another report from Guardian Life Insurance in Nov. 2004 illustrates a bleak future for baby boomers as well. According to their report, 60 million baby boomers feel "paralyzed" about their retirement plans, don't understand some basic financial planning principles and are choosing to not do anything.

How much do you need to save

Financial experts estimate that most of us will need about 60 to 80 percent of our annual pre-retirement income to live on each year after we retire. For those nearing retirement, roughly 57 percent of this will come from Social Security, according to American

Express Financial Advisors. The rest will need to come from other investments and savings. Furthermore, according to American Express' Personal Economy Survey, only 50 percent of consumers feel they will be able to

retire when they want to, 60 percent don't even have a 401(k) and only 27 percent have an Individual Retirement Account (IRA).

Release yourself from financial paralysis by following some of these tips:

Have a plan

According to American Express' Personal Economy Index, only 10 percent of Americans have a formal written financial plan. Whether you have a written plan that you may not have looked at in a long time or if you are starting from scratch, begin taking action by calculating how much you will need in retirement and figuring out how much you will need to save on a regular basis to reach that goal.

Start investing early

Start saving as early as possible. The sooner you begin saving for retirement the better. If you start by saving \$100 per month at age 30 you would build a nest egg of \$216,000 at age 65, assuming an eight percent annual return. If you delay and begin saving at age 40 instead, that nest egg would accumulate \$125,000 less, or a total of only \$91,000. No matter how late you are getting started do not let age paralyze you. If you are in your 50s or 60s and have not saved enough or anything at all, there is still time to make a difference.

Invest in 401(k)s & other savings plans

Almost 18 percent of American workers eligible to participate in a 401(k) plan choose not to do so and many do not contribute the maximum eligible amount according to the Profit Sharing/401k Council of America's "Annual Survey of Profit Sharing and 401(k) Plans (2003)." Taking full advantage of the tax benefits and possible employer matches in a 401(k) plan is key to a successful retirement plan. If your employer does not offer you a 401(k) plan or similar savings option, take matters into your own hands and consider opening your own Individual Retirement Account (IRA). This will allow you to save for your retirement and still reap the tax benefits.

Monitor your progress

Whether you are 34 or 64 and a half, your retirement plan is not something that you put on autopilot and forget about until you are ready to retire. You need to review your plan at least once a year, so you can reassess your investing strategies, rebalance your investments if needed and make necessary adjustments.

Seek help

The most important step in avoiding financial paralysis is to not be deterred if you feel you are behind in reaching your goals. Instead, take action by seeking the help of a qualified financial planner who can help you stay on track with a comprehensive financial plan.

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