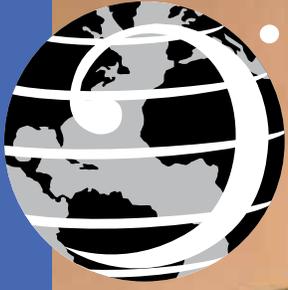


The Magazine of the International Society of Bassists



# BASS WORLD



# Five Life Stages: Paths to Saving for Retirement

by Peter Gallagher

*“Success is never owned; it is only rented – and the rent is due every day.”*

- Rory Vaden

Musicians know as well as any professional that there is always room to improve. Many musicians spend hours in the practice room trying to obtain “success”. However, success is fleeting; once you have been chosen to play in an orchestra section, or called by a contractor to go on tour with a major jazz group, you still need to practice to meet the standards of success. As your responsibilities increase, you may practice your instrument a little less often, however, you know there are some things that you always need to do with your instrument on a regular basis just to keep your skills up and “cover your part.”

The same is true with retirement planning. Since everyone has a different idea of what their retirement years means to them, there are no set standards for “success” in retirement planning. Similar to the music profession, there are some things that that you can do in retirement planning to “cover your part.” One of the main things to remember is that you will most likely need to self-advocate. There are very few employers, including arts organizations, that offer traditional pensions anymore.

## **Five Life Stages: Paths to Saving for Retirement**

When it comes to saving for retirement, your life can be divided into five stages, each with its own challenges. As you move through each stage, you should consider how much time is left until you retire, how much you can afford to invest toward retirement, and how much risk you are willing to take with your investments. Through proper planning and saving, retirement can be something you look forward to rather than something you worry about.

### **Age of Majority (18–30)**

Most adults begin to work and earn a steady income during these years. Although it’s the best time to begin saving for retirement, most of us do not take advantage of it. Thanks to compounding interest, if you begin to save early, you’ll need to save less money over time than you would if you began to save at a later date.

### **Age of Responsibility (30–45)**

During these years, work responsibilities and salaries usually increase. But personal responsibilities increase, too. For instance, you may get married, purchase your first home, or have children. Most people begin to consider saving for retirement during this stage, but it can be difficult at this point in life to make consistent contributions to a retirement fund. Though other financial obligations may seem more pressing, contributing to a retirement plan should remain a priority.

### **Age of Maturity (45–55)**

You are at the peak of your career and earning potential, but your expenses can also be great. College tuition, divorces, and career changes all typically occur during this stage. It’s a good time to review your retirement goals and ensure that you are on track to meet them. If you’re not, it may be time to change your strategy.

### **Age of Reflection (55–65)**

While some expenses may be dwindling, other costs—such as health-related expenses—may be on the rise. You may also have to contribute money to support your own parents. Now is the time to focus on your retirement strategy and goals, and to review your investment risk strategy. Although a high-risk investment vehicle may have been appropriate during your 20s, at this stage, it may be wise to choose something more conservative.

### **Age of Tranquility (65+)**

Today, many people work past age 65 in order to continue saving for retirement. Before deciding to retire, consider whether your retirement savings are sufficient to support you, or if you will have to make lifestyle changes. Thanks to all of the saving and planning you’ve been doing, however, you may be able to enter retirement confidently and begin enjoying your golden years.

One way to help you navigate your way toward your retirement goal is to have a written retirement plan completed. This can be done at any age, and should be updated at least annually.

### Decoding Retirement Savings Products

Just as the music field literally has its own language to learn, Italian, French, German, to name a few, so does the field of retirement planning. Here is a summary of retirement savings products, in case you need some “decoding”.

#### Traditional IRA

An individual retirement account is an investing tool used by individuals to earn and earmark funds for retirement savings. There are several types of IRAs available in 2017: Traditional IRAs, Roth IRAs, SIMPLE IRAs and SEP IRAs. Sometimes referred to as individual retirement arrangements, IRAs can consist of a range of financial products such as stocks, bonds or mutual funds.

#### Roth IRA

Named for Delaware Senator William Roth and established by the Taxpayer Relief Act of 1997, a Roth IRA is an individual retirement plan that bears many similarities to the traditional IRA. The biggest distinction between the two is how they're taxed. Since traditional IRA contributions are generally made with pretax dollars, you pay income tax when you withdraw the money from the account during retirement. Conversely, Roth IRAs are funded with after-tax dollars; the contributions are not tax

deductible (although you may be able to take a tax credit of 10 to 50% of the contribution, depending on your income and life situation). But when you start withdrawing funds, these qualified distributions are tax free.

#### SEP IRA

A simplified employee pension (SEP) is a retirement plan that an employer or self-employed individuals can establish. The employer is allowed a tax deduction for contributions made to the SEP plan and makes contributions to each eligible employee's SEP IRA on a discretionary basis.

#### 401(k)

By definition, a 401(k) plan is an arrangement that allows an employee to choose between taking compensation in cash or deferring a percentage of it to a 401(k) account under the plan. The amount deferred is usually not taxable to the employee until it is withdrawn or distributed from the plan. However, if the plan permits, an employee can make contributions on an after-tax basis (known as Roth 401(k)s), and these amounts are generally tax-free when withdrawn.

#### 403(b)

403(b) plans are a type of defined-contribution plan that allows participants to shelter money on a tax-deferred basis for retirement. These plans are most commonly

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used by educational institutions, although other nonprofit organizations use them as well. Any entity that qualifies under IRC Section 501(c)(3) can use this type of plan.

**Pension Plan**

A pension plan is a retirement plan that requires an employer to make contributions into a pool of funds set aside for a worker's future benefit. The pool of funds is invested on the employee's behalf, and the earnings on the investments generate income to the worker upon retirement.

In addition to an employer's required contributions, some pension plans have a voluntary investment component. A pension plan may allow a worker to contribute part of his current income from wages into an investment plan to help fund retirement. The employer may also match a portion of the worker's annual contributions, up to a specific percentage or dollar amount. (Source: Investopedia.com)

**Conclusion**

No matter what age you are, you have the ability to make changes in your life today that will help you design the kind of lifestyle that you want in the future. To be successful at anything, you need to "cover your part" as the rent is due every day. I hope that this article was of assistance to you. Feel free to contact us if you have any questions. Now pay your rent!

*Peter J. Gallagher, ChFC®, CLU®, CASL®, AIF®, is the founder and Managing Director of Unified Retirement Planning Group, located in Briarcliff Manor, New York. Peter's company specializes in personal Retirement Income Planning, Investment Planning, and Legacy Planning.*

*For several years, Peter was a performer and teacher of the string bass. Over 20 years ago, Peter decided to leave his career as a musician to help others reach their financial goals. Peter has previously worked at several large financial institutions including TIAA and Citigroup.*

*Peter has been a member of the Board of Directors of the International Society of Bassists since 2012. He may be reached by phone at (914) 432-5800, by e-mail: [peter@myurpg.com](mailto:peter@myurpg.com), or via the web: [www.myurpg.com](http://www.myurpg.com).*

Peter J. Gallagher, ChFC®, CLU®, CASL®, AIF® is a financial advisor, DBA Unified Retirement Planning Group, located at 59 Sunset Drive Unit 101A, Briarcliff Manor, NY 10510. He offers securities and advisory services as an Investment Adviser Representative of Commonwealth Financial Network®, Member FINRA/SIPC, a Registered Investment Adviser. He can be reached at (914) 432-5800 or at [peter@myurpg.com](mailto:peter@myurpg.com)



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