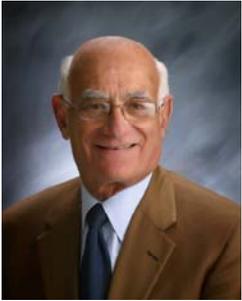


Withholding

What a Great Idea

with jim farber



Planning for future security is never easy and today it is harder than usual. It costs \$50 to \$100 to fill the gas tank, food prices are rising, home values are dropping and earnings are generally not rising fast enough to keep up.

In a downward economic cycle such as we are experiencing, hopefully short-lived, it is more important than ever to prioritize our needs and budget our resources to meet those

needs. A general list in order of importance might look something like this:

1. **Current Living Expenses** – mortgage/rent, utilities, food, and transportation.
2. **Family Security** – Insurance (life, medical, disability), short-term savings, education, and retirement.
3. **Discretionary** – Entertainment, vacations, travel, and material items (cars, boats, hobbies).

We want the best right now for our families, so sometimes #3 Discretionary gets put ahead of #2 Family Security. I got an idea when I looked at the amount of withholding from my last paycheck. We don't take home what we earn, and depending upon our compensation, 15% - 25% is withheld, so we have to work with what's left each month. That's the bad news. The good news is that our taxes are paid as we go along.

Very few of us are natural savers. Uncle Sam knows this so he "helps" us save each month instead of sending one big tax bill at year end. Let's take a cue from that to help provide for future security.

If we add to "withholding" by putting away a percentage of compensation each payday, a modest amount over a long period of time will pay dividends in the future. For instance, "withhold" 5% for you to put into a 401(k) plan at work or an IRA, and watch it grow. The 5% you put away are pre-tax dollars, all the earnings as the fund grows are tax deferred and, if your employer matches part of your contribution, your savings will grow even larger.

How does this relate to the list of priorities above? The government gave us a present last month – a tax rebate of between \$300 and \$1,800 if we qualify. Part of that money could kick start a savings plan and by withholding something for your future, you can work on taking care of #1, and I'll bet, have some left over for that vacation this summer.

Planning for your future security is never easy. Today, although it may be a real challenge, "pay yourself first" by saving. You will be thankful that you did.

Swartzbaugh-Farber & Associates, Inc.