Retire Young Enough to Enjoy It

The Motley Fool

By Chuck Saletta

What is your top priority in life? Is it your money? The stuff that money can buy? Or is the time you have available to spend with your family, friends, and loved ones at the top of your list?

If your family is your top priority, then I'm sure you've thought about how much more time you'd have to spend with them if you no longer had to work. Yet with pension plans crumbling, you may be wondering whether you'll ever be able to retire, much less retire young enough to spend quality time with those you love.

Opportunity knocks

Fortunately for you, the demise of the traditional pension plan has been met with new tools. If you use them to their full advantage, they can be much better than the pension whose payments you may never see. Chief among them are programs that go by the names 401(k) and IRA. Unlike a pension, these plans aren't automatic, and they do require that you actively contribute your own money. If you choose to aggressively participate in those plans available to you, though, you'll have a legitimate shot of retiring early.

For many of us younger than 50, the 2007 annual contribution limits for our 401(k)s and IRAs are $15,500 and $4,000, respectively. If you're married and both you and your spouse work, that's $39,000 you can sock away this year across those two plans. If you both happen to work for companies that match your 401(k) contribution at $0.50 for every dollar, that's another $15,500 that could be socked away on your family's behalf.

If you're fortunate enough to work for one of these companies, you've got a decent match to help you along your way:

Company

Match

Ariba (Nasdaq: ARBA)

$0.50 for $1 up to 6%

Cognex (Nasdaq: CGNX)

$0.50 for $1 up to 6%

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FactSet Research Systems (NYSE: FDS)

$1 for $1 up to 4%

Manhattan Associates (Nasdaq: MANH)

$0.50 for $1 up to 6%

Morningstar (Nasdaq: MORN)

$1 for $1 up to 7%

Regions Financial (NYSE: RF)

$1 for $1 up to 6% (pre tax) or $0.50 for $1 up to 6% (after tax)

Sea Change International (Nasdaq: SEAC)

$0.25 for $1 up to 6%

All told, including a generous employer match of $0.50 on every dollar you contribute, that's a potential of $54,500 to be put aside for your family in the next year alone. If you invest that much every year for the next 11 years and earn about 10% annually - near the market's historical return rate - you'll wind up a millionaire. Keep it up for a shade more than 16 years, and you'll have topped the $2 million mark. After 20 years, you'll pass the $3 million level.

Granted, this is an aggressive plan for most people, but it goes to show how following a disciplined savings plan and taking advantage of your company's benefit plan can help you accumulate a sizable nest egg for your retirement years.

You *can* take it with you

Best of all, thanks to two key provisions of the laws surrounding 401(k)s and IRAs, you *can* retire early *without* sacrificing your benefits. The first is that you're immediately *vested* in your contributions, and under most circumstances, you're vested in your employer's contributions after no longer than five years of service. Being vested means that the money is *yours* to take with you if you leave the company. The second is that, thanks to a technique known as "substantially equal periodic payments," you can withdraw your money from those accounts before the normal retirement age, without penalty.

Thanks to those rules, you have a far better shot at early retirement with 401(k)s and IRAs than you ever would with a pension. After all, most pension rules heavily weight your potential benefits on your years of service and severely penalize early separations. Of course, the drawback to modern retirement tools is that they're far more dependent on your active contributions than a pension - but isn't your early retirement worth it?

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Get real

I know that going from $0 to $39,000 in annual savings is no small task. Realize, though, that the $39,000 may not all have to come out of your pocket. If your 401(k) is a *traditional* 401(k), that money comes out of your paycheck pre-tax. If you're in the 25% tax bracket, maxing out your and your spouse's 401(k)s will set you back $23,250 in spendable cash. That's less than $1,000 a month each. It's not exactly pocket change, but it does work out to slightly less than $32 for each of you, every day. Add in the daily $11 each it takes to max out your IRAs, and you're looking at a total per-person price tag of around $43 every day to retire within the next 11 to 20 years.

It's still a lot of money, but if you look hard enough, you just might find a good deal of it hiding in your lifestyle. Can you:

While you may not get there all at once, the sooner you get started and the bigger the commitment you make to your retirement, the faster you'll reach your goal. If that goal is spending extra time with your family, then getting started now can add years to your tally.

Your first step

With pension plans falling by the wayside and getting replaced with 401(k)s and IRAs, your retirement is more in your hands than ever before. The good news is that if you make the right moves, it can come sooner and be better than you ever thought possible. *Motley Fool Rule Your Retirement* leader Robert Brokamp and his team can help you determine what it will take to meet your early retirement goal. Take the next 30 days to check it out for free and start building your plan now. You've got nothing to lose, and it just might help you gain valuable years with your family.

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At the time of publication, Fool contributor Chuck Saletta did not own shares of any company mentioned in this article. The Fool has a disclosure policy.