SAVING FOR YOURSELF

THE HABIT OF SAVING FOR PERSONAL GOALS WILL PAY BIG DIVIDENDS LATER

As your business gets established and you can predict decent earnings on a regular basis, establish longterm personal savings plans and work a weekly or monthly savings contribution, however modest, into your budget. Retirement saving is critical for you as an owner-operator because you're self-employed. Saving for children's education, vacations or other personal goals also is important.

PLANNING FOR RETIREMENT

If you maintain your current spending and savings habits, will you have enough money to retire comfortably? A U.S. Department of Labor study found that Social Security will replace only about 40% of pre-retirement income for the average American. Yet experts say that after you retire, you'll need about 70% of the income you earned before retirement to maintain your lifestyle.

At 70%, a trucker who earns $60,000 annually will need about $42,000 a year after he retires. When that figure is multiplied by 20 years — the average post-retirement longevity — that trucker will need about $840,000 to live comfortably. That entire amount doesn't have to be saved in advance. Some of it would be income from investments during retirement.

Although it's never too late to start saving for retirement, the sooner you begin, the better, even if it's only $25 a week. The biggest reason is that invested money compounds. The earlier you invest, the more time your money has to grow.

If a 25-year-old puts $400 into a retirement fund every month until he reaches age 65, and his money grows 10% a year, he will retire with almost $2.5 million. If a 35-year-old invests the same amount each month and earns 10%, he will have a little more than $900,000 at age 65.

It's hard to save on a regular basis. Yet average owner-operator clients of ATBS earn about $60,000 a year. At that level, the main difficulty is more about controlling spending.

A leased operator is running a business, but will have no assets to sell upon retirement other than equipment. Even retiring operators with their own authority and trucks often have little to no value to offer a buyer unless the business has strong, dedicated shippers, loyal drivers and attractive financials.

Even if you build a successful career, financial advisers frown on the eggs-in-one-basket approach of depending solely on a small business to fund your retirement. If your trucking business suffers financial difficulties, your retirement savings could be hard hit – or even wiped out.

QUALIFIED RETIREMENT PLANS

When you make investments that are not part of a retirement program, you'll pay taxes on earnings, such as interest from a savings account or profit from a stock sale. With qualified retirement accounts, you don't pay a penny in taxes on the earnings until you retire and begin withdrawing money. Not only are taxes delayed for many years, but by then you should be in a lower tax bracket, so you'll pay less in taxes.

In addition, most retirement plans allow you to deduct contributions from your reported income. That means if you make $40,000 and contribute $2,000 to a qualified plan, you report only $38,000 on your income tax return.

The most popular qualified plans for owner-operators are Individual Retirement Accounts. Contributions can be put into certificates of deposit, money-market accounts, savings accounts, mutual funds, stocks and bonds. A banker, stockbroker or mutual fund company can help you set it up.

TRADITIONAL IRA. You are allowed to contribute $5,500 a year, tax-deferred, to an IRA, through tax year 2018 with a catch-up contribution limit of $1,000 for individuals age 50 and older. As long as you're not covered by an employer-sponsored retirement plan,

RETIREMENT AND OTHER SAVINGS

The basic principles of retirement savings also apply to any other savings you do. The major differences involve taxes.

Your accountant or financial adviser can explain the options for savings for children's education. Some of them, like qualified retirement plans, are taxexempt. There are no tax advantages for shorter-term personal savings, such as for a vacation, a holiday fund or your next vehicle.

Nevertheless, it's wise to anticipate such spending and save for it. You'll spend less for those things by paying cash (and gaining a small accumulation of short-term interest or dividends) than you will by putting them on a credit card or by taking a consumer loan and paying double-digit interest.

LEARN TO TAKE STOCK OF THE MARKET. Think of your stock investments as a loaded trailer: The more evenly distributed the weight, the more stable the ride. When you spread your money among multiple investments, at least one of those investments is almost sure to grow. When it does, experts say, resist the temptation to move all your money into that growth investment. Instead, redistribute the gains so that your portfolio never becomes too top-heavy in any one particular area.

Certain mutual funds constantly do this sort of reallocation. But most individual investors don't, which is why many investors earn less than the stock market's historical average of 10% (or 7%, adjusted for inflation).

Too many investors are motivated to buy and sell by market trends. When stock prices double, that expensive stock is the one that novices want to buy. And when the market has a sudden drop, novices are more likely to dump those same stocks at rock-bottom prices, only to see them rebound in a couple of months.

ESTIMATE INCOME. Projecting your retirement income can be complicated. You should expect some interest and dividends from investments. Social Security and perhaps other sources, such as a part-time job or a pension from a prior employer, need to be considered.

HELP IS OUT THERE. Basic financial advice also can be found online for free. Owner-operators who already have accountants or business services providers should enlist them in their retirement planning. Those serious about saving also may want to hire a financial adviser to handle their retirement portfolios. Some advisers work on a flat yearly fee. Others charge a commission based on investment transactions. Ask prospective advisers if they have passed the Series 7 exam administered by the National Association of Securities Dealers. Also ask to see their official bio, a detailed resume that includes information mandated by the U.S. Securities and Exchange Commission, including education and any skirmishes with the SEC.

HOW MUCH SAVING IS ENOUGH? To get an idea of your "magic number" for a retirement saving goal, begin by calculating your current annual nonbusiness spending, such as housing, food, personal vehicles and entertainment. Keep in mind that in retirement, you ideally will spend less on some things (such as mortgages) and more on others (such as travel). Then assume an inflation rate of 3% or 4% every year.

Now do the really scary thing and calculate your life expectancy. Various online calculators will ask for your age, sex, height, weight, blood pressure and cholesterol level, as well as your family history and other variables. Don't be surprised if you're looking at 20-plus years of retirement.

IRA contributions reduce your taxable income and are tax-deferred. If you or your spouse contributes to an employer-sponsored plan such as a 401(k), only a portion of your IRA contribution is deductible. Your IRA funds cannot be withdrawn before age 59.5 — except under special circumstances — without incurring a hefty penalty.

ROTH IRA. The differences between a traditional IRA and a Roth IRA are the terms of contributions and payout. With a Roth IRA, contributions are not deducted from income, so they are taxable for the year they're earned. But they do accumulate tax-deferred and are tax-free when withdrawn.

SIMPLE IRA. The SIMPLE (Savings Incentive Match Plan for Employees) IRA was designed for companies with fewer than 100 employees. If you employ others, you and your employees qualify. Under a SIMPLE IRA arrangement, an employee of your business can contribute to and be matched by you up to $12,500 in 2018, with a $3,000 catchup contribution limit for those 50 and older.

SEP IRA. A Simplified Employee Pension plan allows an employer to contribute up to 25% of net income (up to $55,000 total) to an IRA set up for himself or his or her employees. After money is put into the plan, it must stay there until the owner

turns 59.5. Early withdrawals are subject to federal income taxes and a possible 10% penalty.

INDIVIDUAL 401(k). For years, 401(k) retirement plans, another form of tax-deferred savings, were limited to employees, often with an employer match as a savings incentive. Since 2001, however, individuals have been free to set up solo 401(k)s, which have an annual contribution limit of up to 25% of income or $18,500, whichever is lower, in 2018, as long as you are classified as an employee of your own business (such as in an S Corp structure) and are paying yourself a salary. If you're self-employed, the rules are more complicated. See IRS publication 560's rate table and worksheets for determining your contribution limits.

ROTH 401(k). A newer retirement plan option is a combination of the Roth IRA and the solo 401(k) called the Roth 401(k): Money you put into it is taxed in the year you earned it, but never again. Many financial advisers believe a Roth 401(k) is the best deal for an owner-operator.

Assuming that taxes will go up in the long term is the safest of bets, so paying now locks in the lower rate. The more taxes you can pay while you're younger, the better.

TAKE SOCIAL SECURITY EARLY OR LATE?

You have a choice whether to begin receiving Social Security benefits early (age 62), at full retirement age (at 66 if you were born between 1943 and 1959, at 67 if 1960 and later), or later.

Say you're 62, with a working income of about $51,000 averaged over enough years to qualify; you would be eligible for $1,050 a month now or $1,393 a month at age 66. If you start now, you'll have collected $50,400 by age 66. If you start at 66, you'll need to live through age 78 and a half to make up for those missed benefits; beyond that, the higher payments would be to your advantage.

You also have the option to take Social Security after age 67 to receive a higher monthly percentage until age 70. At 67, you'll get 108% of your monthly benefit; at 68, 116%; at 69, 124%; and at 70, 132%. The increases stop after age 70, so there's no reason to delay taking benefits.