While therapists spend their workdays caring for the physical well-being of their customers, they often neglect their own financial health. With this article, we offer scores of tips that will help you plan for your future.

By Clare La Plante

Several years ago, Sylvia Harden, 63, a neuromuscular massage therapist from Kirkland, Washington, had a retirement epiphany—she realized that she didn’t want to work full-time the rest of her life.

Her dream is to cut back to three to four clients a week—she now works nine-hour days Monday through Friday—and leave the rest of the time for visiting her son in Tucson, working on her cross-stitching, and learning how to wood carve. “I began thinking that I’m not getting any younger,” she says. “And I’ve been spending a lot of time cloistered in this [therapy] room.”

With this realization, she took some action. She opened an Individual Retirement Account (IRA), and began monthly contributions. However, she got a late start. Therefore, her dream of leisure pursuits will have to wait. Yes, she’s frustrated, but wiser. “We have to start taking care of ourselves,” she says. “We can’t expect someone else to do it for us.”

In this age of precarious Social Security payments, company layoffs and tough economic times, she’s right on the money. The first step to a secure retirement is realizing that you have to prepare for it. “Many massage therapists love working with people,” says Steve Wightman, a Massachusetts-based certified financial planner (CFP) whose wife, Margaret Wacks, is a massage therapist. “But the financial part may be painful.”

Well, here’s a relatively pain-free way to learn about retirement planning, and get some basic financial
First of all, some retirement facts: The old three-legged stool of retirement—Social Security, company pension and savings—is changing before our eyes. For one thing, Social Security was never meant to replace full income. Today’s retirees receive about 40 percent of their working income from the Social Security Administration, and this figure is likely to decrease with the current tax cuts. (In recent years, surveys of Generation X’ers revealed that few of them believe that Social Security will be around by the time they retire.)

Second, we’re all living a lot longer. The government, in its statistical wisdom, predicts that on average, a 50-year-old retiree will live another 33 years. From a short stay on the front porch swing, retirement has now become a full third of our lives.

Finally, if you think you can count on a company pension, just think of Enron. Don’t panic. With a little planning and a lot of discipline, you can create a financially secure retirement. Don’t wait to get started, however. Your greatest allies in retirement planning are time and consistency. For example, investing $400 a month for 20 years in the stock market (and assuming the stock market’s historic long-term return of 10 percent) will yield you approximately $400,000—not a bad amount at all for less than $15 a day.

Through this process, you’ll also get an added bonus: You’ll learn a lot about what you really want from life. “Money is really about our aspirations and our ideals,” says George Kinder, a CFP and Buddhist teacher based in Cambridge, Massachusetts, and author of The Seven Stages of Money Maturity (Delacourt Press, 1999).

So let’s get started. No matter what retirement means to you—flyfishing, a part-time massage practice, living in Bali, or just watching the flowers grow—you’ll get there more assuredly if you just take action.

Know Thyself

First, figure out what retirement means to you. Like Sylvia Harden, would you like to work part-time and spend time on hobbies and visiting friends and family? Is your dream to travel the world? Would you like to go back to school? Learn a new trade? Start with a concrete vision of what you would like your later years to be like.

Take action: Try this exercise that George Kinder uses with new clients. Answer the following questions:

• If you had all the money you needed, what would you do with your life?
• If the doctor says you only have five to 10 years left, what would you do with your life?
• If the doctor tells you have only 24 hours to live, what would you miss?

Sitting down and answering these questions yourself may help you to decide what you value in life, and what you would miss if you never had a chance to do it. As the old saying goes, if you don’t know where you’re going, you just may end up there.

Make A Commitment

A 2000 survey taken of American high school seniors showed only 51.9 percent of them correctly answering questions on credit cards, retirement planning and taxes. And in 1999, nearly half a million Americans under age 35 declared bankruptcy. A correlation, perhaps?

Take action: Nancy Castleman, partner in Goodadvicepress.com, a financial education Web site (goodadvice@ulster.net), recommends massage therapists invest the time of a session a week—an hour or an hour and a half—to educate themselves about money. (See “Sources of Information” sidebar on Page 54 for a list of publications, Web sites, and books that might be a starting point.) You can accomplish an incredible amount in that time, she says. “And you’ll save yourself a fortune in the process.”

Lauren Locker, a fee-only certified financial planner based in Totowa, New Jersey, and our guest financial planner (see Page 55), recommends going back to college—if only for the financial planning seminars that many offer to the community for reasonable fees. “Take classes at unbiased places,” she says. “And don’t skip the ABC’s. Try to learn about the basics of investing and not just retirement.”

Know How Much You Will Need

Figure out how much money you will need in retirement. Don’t count on unexpected windfalls, marriage or miracles. “One retirement myth is that you’ll need only 60 to 70 percent of what you need today,” Locker says. “When you retire, however, you often have more time to play, and may need as much money as you need today.”

Take action: Try this simple equation: Add up your current expenses. Subtract any expenses that may be gone by the time you retire (a mortgage payment, for example). Then add in additional expenses that may arise in retirement, such as travel, health care and education.

Call the Social Security Administration at 800-772-1213, or visit its Web site at secure.ssa.gov/index.html to find out if you qualify for Social Security benefits.

A Retirement Calculator

Planned retirement age? Current age?

# Years to SAVE for retirement =

Annual expenses? Less annual expected Soc. Sec. dollars.

Less all other annuities annually. Annual need. D-(E+F)

Number of years you expect to live in retirement.

Total estimated need. G x H

Total Est. funds need to save? C x I

Here’s a handy table put together by financial planner Steve Wightman to help you calculate your retirement needs.
A Flash Course In Establishing An IRA

If you choose to set up an IRA, here are some basic suggestions on how to do it:

- **Decide what type of IRA**—Roth, Traditional or both—that you would like. If you want to save taxes today, the Traditional IRA will give you an immediate tax deduction. The Roth will help you save taxes down the road. You also may consider opening both.
- **Pick your account location.** You can choose your bank, mutual fund company, such as T. Rowe Price, or discount broker, such as Fidelity or Charles Schwab. Compare fees, including maintenance, custodian and nonactivity fees, and services. Either call the 800 number and ask to be mailed the IRA application, or visit the Web site to download the form. The bank, brokerage firm or mutual fund company is merely your IRA’s custodian. The investment is all yours.
- **Choose the type of investment** you would like in your IRA—stocks, bonds, cash or a mixture. A stock index fund is a good way to start. Most discount brokers and mutual fund companies allow a good deal of flexibility when it comes to changing the investments you hold in your IRA, which you can do as the market changes or you near retirement. Sign up for automatic contributions. Send in a canceled check, and each month they will deduct the set amount from your checking or money market account. It’s as easy as pie, and you won’t miss the money you don’t see.
- **Be consistent and patient.** Let the money accumulate, and stop worrying about your future. Remember, a penny saved is more than a penny earned, with compound interest.

**Investment Returns vs. Inflation**

<table>
<thead>
<tr>
<th></th>
<th>1950s</th>
<th>1960s</th>
<th>1970s</th>
<th>1980s</th>
<th>1990s</th>
<th>2000s*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stocks (S&amp;P 500)</td>
<td>10.5</td>
<td>9.9</td>
<td>6.7</td>
<td>9.4</td>
<td>8.4</td>
<td>11.8</td>
</tr>
<tr>
<td>Corporate Bonds</td>
<td>0.1</td>
<td>1.5</td>
<td>6.2</td>
<td>8.2</td>
<td>7.8</td>
<td>6.8</td>
</tr>
<tr>
<td>Treasury Bonds</td>
<td>9.7</td>
<td>4.0</td>
<td>3.2</td>
<td>1.8</td>
<td>0.9</td>
<td>0.4</td>
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<tr>
<td>Treasury Bills</td>
<td>7.8</td>
<td>3.9</td>
<td>9.9</td>
<td>8.9</td>
<td>4.9</td>
<td>0.4</td>
</tr>
<tr>
<td>Inflation</td>
<td>1.9</td>
<td>3.9</td>
<td>6.3</td>
<td>8.9</td>
<td>4.9</td>
<td>0.4</td>
</tr>
</tbody>
</table>


**Pay Yourself First**

Next, set up a retirement fund (see next page to learn about the different ones), and make contributing to it a priority—the same as paying your mortgage or rent check, car bill or health insurance. How much money should you sock away each month? That depends, of course, on what you can afford, but most experts say to try to save at least 10 percent of your income.

“We think it’s wise to one way or another sock away 10 percent or so right off the top,” says Castleman.

**Take action:** The key to this type of saving and investing is making it automatic. If you don’t get your hands on the money, you won’t be tempted to spend it. Find an investment plan that allows direct deposit. Try a discount brokerage firm or mutual fund company, such as Charles Schwab, Fidelity or T. Rowe Price. “When we do things automatically,” says Locker, “we adjust to how things are.”

**Legend: Traditional IRA**

- **Individual Retirement Accounts, or IRAs,** are personal accounts available to anyone—regardless of how old you are, or where you work, so long as you earn taxable income. *(This income can include wages, salaries, tips, commissions and alimony.) You can open an IRA at a bank, a brokerage house or discount broker, and choose to invest in stocks, bonds or cash. Upide: Depending on your income and whether you have access to a retirement plan at work, you may be able to contribute money before taxes. *(This is what is known as a tax-deductible plan.) Also, your money grows tax-free—or what is known as tax-deferred. Downside: There is a limit to how much you can contribute each year (see table, Page 50). Some Americans
who make more than a certain amount are not eligible at all. In addition, many investors simply do not take full advantage of these plans. "The number one mistake people make with IRAs is that they don’t start early enough, or they don’t fund it enough," says Wightman.

Also, many investors place cash investments, such as CDs and money market accounts, in these vehicles. This is a big mistake for long-term investing, since your investment return will likely lag behind inflation. "In the long run, their portfolio in real money is shrinking," says Wightman.

As an alternative, try a stock index mutual fund that tracks the overall market. Also, you must start removing the money from your Traditional IRA the year you turn 70 1/2.

Maximum IRA Contributions*

<table>
<thead>
<tr>
<th>Year</th>
<th>Normal contribution</th>
<th>Catch-up contribution (for 50 and older)</th>
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</thead>
<tbody>
<tr>
<td>2002</td>
<td>$3,000</td>
<td>$500</td>
</tr>
<tr>
<td>2003</td>
<td>$3,000</td>
<td>$500</td>
</tr>
<tr>
<td>2004</td>
<td>$3,000</td>
<td>$500</td>
</tr>
<tr>
<td>2005</td>
<td>$4,000</td>
<td>$500</td>
</tr>
<tr>
<td>2006</td>
<td>$4,000</td>
<td>$1,000</td>
</tr>
</tbody>
</table>

*as of February 2003

Roth IRA: This newer version of the IRA (named after its chief proponent in the Senate, Sen. William Roth (R-Del.), who discovered a loophole in the tax code that allowed this type of plan) allows you to place the same amount each year (see IRA table above) as the Traditional IRA, except the money you contribute is not tax deductible. In other words, it’s money you’ve already paid taxes on. So what’s so good about that?

Upside: You never have to pay taxes on this money again. Therefore, your money grows tax-deferred for as long as you want it to, you can even pass it on to your heirs.

“When Senator Roth pushed this through, it was the greatest single thing for retirement planning,” says Wightman. Also, you can use this money without penalty after it has been invested for at least five years for a down payment for a first house, education or health-care costs. “It’s a wonderful, sometimes overlooked tool in education planning,” says Wightman.

Downside: There’s not too much not to like about this retirement vehicle. Of course, you’re limited to how much you can contribute each year (just like a Traditional IRA, those who make more than a certain salary cannot contribute at all). Also, investors may err on the side of safety and miss the advantages of this long-term investment by putting money market or CD investments in a Roth.

SEP And Simple IRAs: A Simplified Employee Pension, or SEP, allows those who are self-employed, sole proprietors or independent contractors to establish a retirement plan for employees (including SAVINGS INCENTIVE MATCH PLAN).
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If you’re nearing your retirement date and too much money is still in the stock market, you could lose big time.

Expect Changes In Federal Policy

The only real certainty about federal tax-advantaged retirement savings accounts is that they are always in a state of flux. For example, in January, the Bush Administration proposed sweeping changes to Congress that will eliminate income caps and expand the amounts investors can contribute each year. Many lawmakers oppose this bill as is, so several compromises are likely.

“The old plans will still be there,” says Steve Wightman. “However, there will be even more options, so investors will be able to save even more.”

Ask your financial adviser for the latest regulations the next time you visit him or her.

Stocks Outperform Over Most Longer Term Periods

(% of Periods Stocks Outperform Bonds and Cash Over Various Periods, 1926–2001)

<table>
<thead>
<tr>
<th>Periods</th>
<th>5-Year</th>
<th>10-Year</th>
<th>20-Year</th>
<th>30-Year</th>
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</thead>
<tbody>
<tr>
<td>Total # of Periods</td>
<td>72</td>
<td>67</td>
<td>57</td>
<td>47</td>
</tr>
<tr>
<td>78%</td>
<td>84%</td>
<td>98%</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>

Source: T. Rowe Price

Chart 3. Over the last 75 years, stocks have nearly always outperformed bonds and cash investments. The “Total Number of Periods” refers to how many trailing year-end to year-end five-year periods were monitored between 1926 and 2001. The first box shows that stocks outperformed bonds and cash during 78 percent of the possible 72 five-year periods, or roughly 56 periods.

Time Is On Your Side


<table>
<thead>
<tr>
<th>Periods</th>
<th>1-Year</th>
<th>3-Year</th>
<th>5-Year</th>
<th>10-Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rolling</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Rolling</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Periods</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>
| Source: T. Rowe Price

Chart 4. Although stock news continues to be grim so far this year, over long periods (especially 10-year time frames), it is rare to lose money.

For Employees, or SIMPLE, allows employers with under 100 employees to set up a matching retirement plan. See a financial adviser for more information on these.

401(k)s and 403(b)s: These oddly named plans are named after the section of the Internal Revenue Code that makes them possible. [403(b)s are for nonprofit organizations.] These employer-sponsored plans allow you to contribute a portion of your salary before taxes to your retirement funding. Often, your employer will match part of your contribution (free money!).

Defined Pension Plans or Defined Benefit Plans: These are the traditional company pension plans—you work for Healthy Valley Spa for 20 years, and you receive a certain amount of money at retirement, usually based on your salary and years at the company. You take this money either as an annuity (annual payments, not unlike still drawing a salary) or a lump sum, which you may transfer into another investment account.

Upside: You get to choose your investment choices. Also, you often get free money from your employer when they match a portion of your contribution. Downside: Not enough Americans who qualify for these plans take advantage of them (a good argument against privatizing Social Security). Also, you must choose how the money is invested (see upside). Usually you get to pick from a selection of mutual funds, company stock and money market accounts. Unfortunately, many investors choose too much company stock (think: Enron), or choose cash or low-risk investments, which will not beat inflation over the long run.

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Upside: All is done for you.

Downside: If the company goes under, or has financial troubles, your pension plan may be at its mercy.

The Minimum You Need To Know About Investing

For any type of investing, whether it’s in a retirement plan, or a regular account, the more you know, the better off you will be. Basically, there are three different investment types: stocks, bonds and cash.

Bonds: In a nutshell, these are IOUs given out by the government or a corporation. You loan them money (usually in $1,000 increments), and they pay you interest.

Upside: You know exactly how much money you will make on these.

Downside: They often do not keep up with inflation.

Cash: These are traditional passbook bank savings accounts, money market accounts or certificates of deposit (CDs). (Or, the cash you stick under your bed in a mason jar.)

Upside: No real investment risk.

Downside: No real investment gains. You simply cannot keep up with inflation if all your money is in cash. (This is what is called losing your purchasing power, or why your current car costs as much as your parents’ first house.)

Stocks: When you buy a stock, you’re simply buying part in a company—General Motors, for example, or the

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You also want good diversification. People who have that in this market suffered a lot less.

For beginners, several rules of thumb may help you invest: First, do not place money you will need within five years in the stock market. For example, if you plan to buy a house in three years, place your down payment cash in a money market account, or certificate of deposit. Likewise, if you intend to retire in five years, make sure the money that you need for your first year of retirement is safely ensconced in cash investments.

A second rule of thumb is to follow what Wightman calls “lifestyle investing.” Simply take your age and subtract it from 100. If you are 55 years old, for example, and you have $50,000 to invest, you need 45% in stocks. “It’s a very simple formula to follow,” says Wightman. Perhaps the best formula of all is the sleep rule: If you can’t sleep at night, you’re in the wrong investments.

How To Retire Early
We asked for some input from John Wasik, author of Retire Early and Live the Life You Want Now (Holt, 1999) and the Kipling Talk inventor (Owl/Holt, 2001). Wasik also is a personal finance columnist for Bloomberg News [www.bloomberg.com]. Here are his main suggestions on how to achieve early retirement.

• Get out of debt. “It’s always a matter of looking at your long- and short-term debt,” says Wasik. “Your best chances of retiring are very low debt and very high savings.” There’s nothing fancy or technical about this step—just good old American thrift and hard work. “No clever way of doing it. Just pay it off.”

• Save as much as you can. “This means at least 10 percent of your income; even more if you want to retire early,” he says. Easy ways to do this are maxing out your retirement plans, and cultivating a simple lifestyle.

• Take into account new, retirement expenses. “Health care always is a nasty one,” he says. “Once you stop working, you have to look at individual plans, and these are expensive and restrictive, until you qualify for Medicare.”

• Pay down your mortgage. This is one of the oldest, most overlooked tricks in the book. “You can contribute whatever you feel comfortable with,” says Wasik. “Even $10 more a month.”

• Consider the wild cards: You don’t want to be blindsided by costs you didn’t expect. “I would look at other things with family, such as aging parents. How are they to be provided for?”

• Talk with your siblings. “A lot of things. Have a powwow about it.” Of course, there’s the other end of the spectrum. “Do you have kids who may end up living with you? This seems to be a trend,” he says.

• Look at the nonfinancial things. “Have some sort of provision for what you want to do—travel, learn something new, which may mean a master’s degree or certificate,” he says. “Look at some sort of budget.”

Wasik never recommends people retiring and doing nothing. “You have to have some other plan for this other part of life,” he says. “You have to identify your passion pursuits. You have to actively engage your mind, body and spirit, because you’re going to have more time on your hands. This may be the most important thing of all.”

Clare La Plante is a financial writer based in Skokie, Illinois. A columnist for MT, she has contributed articles to a number of national business publications. La Plante is the author of Wall Street on a Shoestring (Area Books, 1998). She can be contacted at CLaPlante@aol.com.

Market Timing Can Erode Portfolio Returns

<table>
<thead>
<tr>
<th>Growth of $1 Invested in S&amp;P 500 Index</th>
<th>12/31/01 - 12/31/00</th>
</tr>
</thead>
<tbody>
<tr>
<td>$15.47</td>
<td>$14.46</td>
</tr>
<tr>
<td>$7.40</td>
<td>$6.36</td>
</tr>
<tr>
<td>$2.49</td>
<td>$1.40</td>
</tr>
<tr>
<td>$0.64</td>
<td>$0.29</td>
</tr>
</tbody>
</table>

Source: T. Rowe Price

Chart 5. In 22 years, the value of a $1 investment in the stock market grew to $15.47. But unless you are a market expert, you are better off leaving your money alone over the long term.

Health care always is a nasty one; once you stop working, you have to look at individual plans.

Once you understand the basic asset groups, your next step is to make sure you have a good mix—or asset allocation. “You want to have an asset allocation that you are comfortable with; it’s like your lifeboat,” says Wightman.

Gap. You earn money by company growth and dividend payouts.

Upside. Since 1932, the stock market’s return has been around 10 percent.

Downside. The stock market, as we’ve seen these past two years, can take a downturn. If you’re nearing your retirement date and too much money is still in the stock market, you could lose big time. Also, it takes a lot of money to be diversified in stocks (which is also known as not putting all your eggs in one basket). Experts recommend between five and 10 solid stocks in a portfolio. For those who can’t afford that, consider mutual funds, which buy stocks in thousands of different companies and are managed by a professional. A stock index fund, which mirrors the performance of the stock market, is often a good choice.

Financial Experts

Lauren Locker—41 Vreeland Ave., Totowa, NJ 07512; E-mail: Lauren@lockerfinancial.com

Nancy E. Frank—Frank Advisory Services, 200 E. 78th St., #3-B, New York, NY 10021; E-mail: nfrank@nyc.rr.com

Steve Wightman—Wightman Financial Network, LLC; 800-366-6462

George D. Kinder—P.O. Box 1350, Littleton, MA 01460; E-mail: GDKINDER@aol.com

Company Contacts

Fidelity—800-343-3548; www.fidelity.com

Charles Schwab—866-855-6770; www.schwab.com

T. Rowe Price—800-922-9945; www.troweprice.com

Vanguard—877-662-7447; www.vanguard.com

Sources Of Information

www.fool.com: This Web site is one of the best out there; you’ll find lots of easy-to-read, even entertaining, information on everything from stock investing to, yes, retirement. Check out their “Fool’s School,” which has educational information galore.

www.wightmanfinancial.com: This site, produced by Steve Wightman’s firm, Wightman Financial Network, LLC features an entire section on retirement, as well as a free newsletter that will keep you apprised of the pending retirement plan changes.

T. Rowe Price’s Retirement Planning Guide: This free, 20-page booklet produced by mutual fund company T. Rowe Price contains a range of important retirement planning information. Includes handy charts and graphs. Call 800-225-5132.

Invest in Yourself: Six Secrets to a Rich Life (John Wiley & Sons) by Marc Eisenson, Gerri Detweiler and Nancy Castelman. This is a sort of commonsense guide to personal finance. You’ll find tips to living simply and well, and ways to work toward a peaceful retirement. Or check out the author’s Web site [www.goodadvicepress.com], where you’ll find lots of free articles and special reports.

To find a fee-only financial planner in your area—that is, an advisor who charges you only for advice, and does not sell products or earn a commission—visit the National Association of Personal Financial Advisors at [www.napfa.org]. Or, call 800-366-2732.

12/31/69 - 12/31/01

$12.47

$7.40

$2.49

$1.40

$0.64

Source: T. Rowe Price

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