

TIME'S THE COIN OF YOUR LIFE

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Body Text:

* If you add to a savings plan every January, you'll enhance the benefits of compound interest.

A strange thing happened in December -- strange and embarrassing.

With only two days to spare before the year ended, I started a 529 college-savings plan for my 1-year-old son, Tanner. I could have done it last January, but why rush? To get the deduction on my Missouri tax return, I needed to get the money deposited by the year's last day.

Here's the embarrassing part: I'm an investment consultant.

My life's work is helping families to plan for financial goals such as education and retirement. We try to get their financial affairs in order so they can take advantage of the eighth wonder of the world -- compound interest. I tell people that planning, done early, yields better results. But like most of us, I waited until the last minute, and it cost me.

To be sure, by starting Tanner's plan by year's end, I locked in the tax savings by virtue of a Missouri deduction I can claim when filing my 2004 return. Not bad for a day's work. But by delaying, I lost a year of tax-free growth.

I'll use round numbers in my example. Let's say I put \$1,000 into the Missouri Saving for Tuition plan in late December. Almost immediately, I receive a 6 percent return because of the state income-tax deduction on my contribution.

But if I had made the contribution in early January, my investment would have received the same deduction, and it would have been enhanced by the tax-free return of the investment option I chose in the MOST program. In this case, the return was more than 10 percent for the year. So, instead of a 16 percent tax-free return on my money, I received about 1 percent while that money sat in my savings account plus 6 percent from tax savings. It's better than nothing, but nowhere near 16 percent.

Applications of this idea work with other types of savings,

too:

Individual retirement accounts

Contributions to individual retirement accounts made in January receive the year's return tax-free or tax-deferred. If held outside the IRA until late in the year, the money will generate a return on which you might have to pay taxes. Making contributions early in the year can be worth a lot of money over a lifetime of investing.

For example, investing \$3,000 at year's end for 30 years at a compound rate of 8 percent gives you about \$340,000 in retirement. If the money is invested at the beginning of each year, the result is \$367,000 after 30 years.

Company-sponsored plans

If you fund a 401(k) plan more heavily in the first part of the year, it allows for greater tax-deferred growth. Over time, it should provide more dollars for retirement from the same dollars out of your pocket. If you contribute more than the amount your company will match and if your cash flow can support it, try deferring double or even triple the amount to your 401(k) in the first part of the year. Then, reduce contributions to only the amount matched by your company.

The same dollars go into the plan, but you'll have more dollars working for more months. If your company plan doesn't provide matching contributions, early funding can be a great way to enhance your long-term returns.

Debt and credit payments

Applied in reverse, the strategy works just as strongly in your favor. Where practical, try making any extra credit-card, mortgage or car payments in January. Debt payments made at the beginning of the year will reduce the interest you'll pay.

Most any saving or debt strategy can be enhanced by recognizing the time value of money. Also, getting a jump on your year-end goals in January tends to reduce stress.

Wouldn't it be nice to cruise into the Christmas season, maybe starting in October, knowing that your annual saving and investing goals have been accomplished? Many people make resolutions for reading, eating, volunteering, exercising and spending time with family.

This year, whatever else is on your list, resolve to complete some of your year-end financial objectives this month. As for me, I plan to take my advice by contributing to Tanner's future education.

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Ask for help

Gauge the time value of money using these links, which will help to test your savings plan:

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www.prenhall.com/divisions/bp/app/cfidemo/TVM/TVMCalculator.html

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www.moneychimp.com/calculator/compound_interest_calculator.htm

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