

BY ROB CORBO

## Trade-offs: Making Retirement Savings Work

In the two previous articles in this series, I established the importance of saving for retirement. I identified traditional and Roth IRAs as viable investment vehicles for retirement savings, and exchange traded stock index funds as providing the best returns on investment for IRAs. I highlighted the importance of compounding, dollar cost averaging, and low investment fees in maximizing retirement savings. But I didn't address how we are going to get the money to make the necessary regular, uninterrupted contributions of up to \$6,000 a year, year in and year out for our construction careers. That's \$500 a month. That's substantial money for self-employed folks and small businesses.

The best way to generate money for retirement is from the fruits of your labor. If your market will bear it, add \$3 to your hourly rate (assuming 2,000 work hours a year) to generate \$6,000 a year to fund your annual IRA contribution. If \$3 is too much, then try \$2, or \$1. If you can't raise your rate, though, or you can, but want additional funds to open a spousal IRA (see "The Future Is Now: Making Retirement Savings Work," Mar/21), you may need to make trade-offs to find the cash—give up something to accomplish something else.

In business, there are always choices to make, priorities to establish, decisions to make, and goals to achieve. You don't choose to run a construction business unless you are strong and capable, used to sacrifices and trade-offs. In this article, we will examine how to fund retirement contributions by finding dollar trade-offs in business and household expenses. I will emphasize the need to spend wisely to achieve your retirement goals while remembering that a dollar not invested in retirement today is many more dollars lost in the future.

### SETTING PRIORITIES

Finding money for retirement contributions from business or household funds means examining spending and establishing priorities. For this article, retirement is our number one priority, but in reality, growing your business and providing a solid family life are just as important. So, I am not going to suggest taking the kids' milk money to finance retirement, but how about your own milk money? Does carrying your lunch to work every day make you a tightwad? Not if it's a trade-off; to free up dollars to spend elsewhere, eat dinner leftovers instead of buying lunch. By carrying your lunch to work, you can save \$8 a day or \$160 a month. Over 30 years, if you compound a monthly contribution of \$160 annually at 5%, you accrue \$127,563. Hello! Lucky for me, I like leftovers.

In spite of the impressive amount of money \$8 a day can become in retirement, I have spent many years' worth of lunch savings on traveling with my daughter to various national parks. A week's

vacation with her is as important to me as a well-financed retirement. What isn't a priority for me is a store-bought lunch every day. Find your "store-bought lunch" and trade it off to achieve your retirement goal (or take your kids on a vacation, or buy them a drum set).

Every now and then, I punch up the company's accounting program and look at the profit and loss statement for the previous 20 years. Seeing that we spent \$83,000 to rent a 10x25-foot storage facility to house business supplies and equipment prompts me to consider sacrificing the personal use of my two-car garage to save \$350 a month. Gasoline costs amounting to \$86,000 might lead me to consider a more fuel-efficient vehicle. For many small construction companies, vehicles are the largest capital expenditure. Trade off a new truck with all the bells and whistles but low fuel efficiency for one that's more modest with high fuel efficiency, or for a modest

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pre-owned truck that will cost you less for fuel and loan interest. (Paying loan interest, often a necessary evil, is the opposite of compounding savings interest; it subtracts from rather than adds to your future savings.)

One beauty of many pre-owned pickups is that they were leased by folks not in the trades and therefore haven't seen heavy use. One trade-off my business made was buying a used five-year-old F550 super duty diesel dump truck from Hertz Equipment Rentals. Concerned the F550 might have been beaten up, we first rented it for a week to see how it performed. To improve the deal, Hertz gave us the truck's maintenance and repair records and agreed to take a credit card. We had the money, less than half of the truck's original purchase price, but used a credit card with a 0% interest rate promotion for 12 months to pay for the truck. We got a great truck for a good price and had money to apply to other areas of the business.

Examples of trade-offs are endless. The "carry your lunch" example shows how much a small amount of money, pocket change, can compound. Small trade-offs and sacrifices at work or at home can help you achieve your retirement goal. Larger trade-offs, like buying

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a used truck instead of a new one, can get you there faster.

It's for you to decide what trade-offs are worth pursuing to achieve your goals. Two useful online tools for determining the worth of a trade-off are the compounding interest calculator at [investor.gov](http://investor.gov), which shows you the potential reward of dollars saved from a trade-off, and the loan interest calculator at [calculator.net](http://calculator.net), which shows the true cost of a purchase made with a loan. Quoting Einstein again (as I did in the two previous articles), "Compounding interest is the eighth wonder of the universe. He who understands it, earns it; he who doesn't, pays it." Use the compounding interest calculator to see "who earns it" and use the loan interest calculator to see "who pays it."

If you have extra money and want to supercharge your children's retirement, you can put them on the payroll, teach them the value of work, and establish a Roth IRA in their name. The federal government allows children of any age to work in businesses owned by their parents (except mining, manufacturing, or hazardous jobs). To be clear, I am suggesting office work. Start them at age 10 emptying the office trash and vacuuming the office floor. Keep them on the company payroll until they are 17 and have them end their construction career working with an accounting program or even

working in the field, if it's safe (and allowed in your state). The more skills they can master, the better life will be. Just \$40 a week will earn them \$2,000 a year, which they can contribute to an IRA for eight years, for a total of \$16,000. There are no federal income taxes on \$2,000 of earnings in a year. Get out your compounding interest calculators and figure a \$16,000 investment at 5% compounded annually for 50 years (\$183,478 when they turn 67). That's in addition to their own retirement savings from age 18 to 67.

So, pocket change can become a pot of gold. A few trade-offs and you can change the course of your family's fortunes. But once you make sure you will have money to finance your retirement, you also have to make sure you'll be around to spend it. In this age of COVID-19, I would be remiss not to say that building up your immune system should be a priority. Trade off the pack of smokes a day (\$8) and the case of beer a week (\$24) and add years to your retirement—as well as the money to pay for the extra years. (Cue up Adam Ant: "Don't drink, don't smoke, what do you do?")

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