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Start Saving for Retirement

Like most people, you probably want to retire someday. That means having enough money in savings and investments to enjoy a comfortable lifestyle without having to work. You may think it's too early to start, but financial experts agree that no one's too young to save for retirement. In fact, the key to success is to start saving as early as you can.

Starting early allows you to accumulate more savings over a gradual period of time. In addition, the power of compound interest is increased the sooner you start to save. The longer you wait, the less your savings will grow.

For example, assume that you're 22 and that you'd like to retire at 62. If you put $3,000 a year into your Individual Retirement Account (IRA) for 40 years, assuming an average annual return of 10 percent, you'd have over $1.4 million by the time you want to retire. But if you put off saving for 10 years and start when you're 32, you'd have an amount over $500,000 at retirement. By waiting those 10 years to get started, you'd end up with almost a million dollars less! (Please note that this is an illustration only. There is no guarantee that any investment will return 10 percent over time. Your actual return will depend on a variety of factors including your actual investment, market conditions, and other factors.)

When you're just starting out and have bills and loans to pay, you may find it tough to make saving for retirement a priority. Saving regularly, even if the amounts are small, can yield big balances down the road. Even if you earn an average salary, you can end up a millionaire if you start saving early.

The younger you are, the more time you have before retirement age. You may therefore be able to make some investments that have higher risk and higher potential reward compared to a person closer to retirement age who needs to be more conservative.

Some people never get started with retirement saving. Year after year, they spend their time and resources on their current needs. Then one day they realize that retirement age is approaching fast and they're totally unprepared. Don't let it happen to you!

Here are some tips for creating the retirement savings you want:

- **As soon as you start making money, start saving money!** Set-up an account to take out a certain percentage from each paycheck. It can be easy and painless to save when the money is "out of sight, out of mind."
- **Check your budget to determine how much you can save.** Consider saving from 10 to 20 percent of what's left of your monthly income after living expenses and debts are paid.
- **Make savings a habit!** Even if you're still in school and only working part-time, and can start at just $50 a month, the amount you're able to save is less important than making the commitment and sticking with it. Over time, you can always increase the amount you save, but you can't make up for lost years of compound interest.

Start Saving for Retirement (continued)

Tips for creating the retirement savings you want (continued):

- If your employer offers a retirement plan such as a 401(k) plan, take advantage of it. Over 50 million American workers are eligible to contribute to their employers' plans, but 12.5 million are not contributing. It's a missed opportunity that will have a major impact on the amount of retirement savings they'll have.
- Remember, the dollars you contribute to a 401(k) plan are tax-deferred. This means the money is not taxed at the time you contribute it. With each contribution you make, you're saving for retirement some of the money you would have otherwise paid in taxes. If your employer matches some or all of your 401(k) contributions, take full advantage of it by funding any amount that is matched.
- Study the specifics of your company's plan. If you have a question about your 401(k) plan, be sure to ask your employer. Try to talk with a retirement plan expert if you can.
- In addition to your company-sponsored plan, you may be eligible to open your own personal retirement account, for example a Roth IRA. With a Roth IRA, your contributions aren't tax-deferred, but your withdrawals at retirement will be tax-free.
- Carefully consider tradeoffs when setting your financial priorities. For example, let's say you're trying to decide between paying off your loans on a faster schedule or putting the money into savings and investments. If you have low-interest student loans, you may earn more by giving priority to saving and investing. But if you have high-interest credit card debt, you may find it's financially advantageous to pay your debt first and then focus on saving and investing. But remember, many people carry at least some debt for most of their lives. If you continue to put off saving until all your debts are paid, you may never start saving the money you need to retire.
- Consider splitting your portfolio of investments between more conservative (lower risk, lower potential return) and more aggressive (higher risk, higher potential return).
- Over the coming years, whether you manage your investments on your own or work with an investment professional, it's important to be well-informed. Be proactive about gaining as much investing knowledge as you can from the Internet, books, magazines, and other sources.

Top 10 Ways to Prepare for Retirement

Source: U.S. Department of Labor

1. **Know your retirement needs.**
   Retirement is expensive. Experts estimate that you'll need about 70% of your pre-retirement income—lower earners, 90% or more—to maintain your standard of living when you stop working.

2. **Find out about Social Security.**
   Social Security pays the average retiree about 40% of pre-retirement earnings. Call the Social Security Administration at 1-800-772-1213 for a free Social Security Statement and find out more about your benefits at www.socialsecurity.gov.

3. **Learn about your employer's pension or profit sharing plan.**
   If your employer offers a plan, check to see what your benefit is worth. Most employers will provide an individual benefit statement. Before you change jobs, find out what will happen to your pension. Learn what benefits you may have from previous employment. Find out if you will be entitled to benefits from your spouse's plan. Contact the U.S. Department of Labor for a free booklet about protecting your pension.

4. **Contribute to a tax-sheltered plan.**
   If your employer offers a tax-sheltered retirement savings plan, such as a 401(k), sign up and contribute all you can subject to the limitations of the plan. Your taxes will be lower, your company may kick in more, and automatic deductions make it easy. Over time, compound interest and tax deferrals make a big difference in the amount you will accumulate.

5. **Ask your employer to start a plan.**
   If your employer doesn't offer a retirement plan, suggest that it start one. Simplified plans can be set up by certain employers. For information on simplified employee pensions, order Internal Revenue Service Publication 590 by calling 1-800-829-3676. Or you can view a copy on the IRS Web site.

6. **Put money into an IRA.**
   You can put up to $5,000 a year into an Individual Retirement Account (IRA), up to $6,000 if you are 50 or older, and gain tax advantages. When you open an IRA, you have two options—a traditional IRA or the newer Roth IRA. The tax treatment of your contributions and withdrawals will depend on which option you select. Also, you should know that the after-tax value of your withdrawal will depend on inflation and the type of IRA you choose.

7. **Don't touch your savings.**
   Don't dip into your retirement savings. You'll lose principal and interest, and you may lose tax benefits. If you change jobs, roll over your savings directly into an IRA or your new employer's retirement plan.

8. **Start now, set goals, and stick to them.**
   Start early. The sooner you start saving, the more time your money has to grow. Put time on your side. Make retirement savings a high priority. Devise a plan, stick to it, and set goals for yourself. Remember, it's never too early or too late to start saving. So start now, whatever your age!

Top 10 Ways to Prepare for Retirement (continued)

9. **Consider basic investment principles.**
   How you save can be as important as how much you save. Inflation and the type of investments you make play important roles in how much you'll have saved at retirement. Know how your pension or savings plan is invested. Financial security and knowledge go hand in hand.

10. **Ask questions.**
    These tips point you in the right direction. But you'll need more information. Talk to your employer, your bank, your union, or a financial advisor. Ask questions and make sure the answers make sense to you. Get practical advice and act now.

The material provided above is for information only and is not intended to provide specific investment advice to any individual for any particular purpose. For advice related to your personal situation, you should consult an investment and tax professional.

The financial examples provided above are not based on the actual returns of a particular investment or portfolio of investments and are for illustration purposes only. Your actual returns will depend on your specific investments and their performance during the period of time you hold them.

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