



Managing Money & Love



Issue 10: Investing

Procrastinating is one of the biggest mistakes people make with their money. Postponing investment decisions can mean losing money!

When you make an investment, you are setting aside money for future income or to reach your goals. When you invest, you're letting money work for you instead of having to work for money.

Today there are a variety of investment choices. This issue shows you the financial benefits of investing, explains some basic investment terms and motivates you to start an investment program.

Many think they don't have enough money to invest. If you are one of them, consider what will happen if you wait to start an investment program.

Situation

Should you start a savings program now with \$50 each month or wait 10 years and save \$150 each month? The reason for waiting is that you expect your income to be greater in 10 years.

The chart to the right compares the two options over a 20-year period.

Saving Now vs. Saving Later Earning 9% Interest		
Beginning	Monthly Amount Saved	End Result 20 Years from Now
Now	\$50	\$33,394
In 10 Years	\$150	\$29,027

While the end results in the example don't appear to be substantially different at first glance, consider these "hidden" figures. If you begin investing now, in 20 years you will have invested a total of \$12,000, and your nest egg will have grown to \$33,394. Wait 10 years and you'll end up investing more to end up with less. You'll invest a total of \$18,000 that will grow to \$29,027. This means by waiting, you will have set aside \$6,000 more to earn \$4,367 less in 20 years. The example assumes you can earn an average of 9 percent in the 20-year period.

Learn as much as you can about investing. It's not difficult and can be quite profitable.



Time Value of Money

The Impact of Time Value of Money at 9% Interest

You are ready to start investing when:

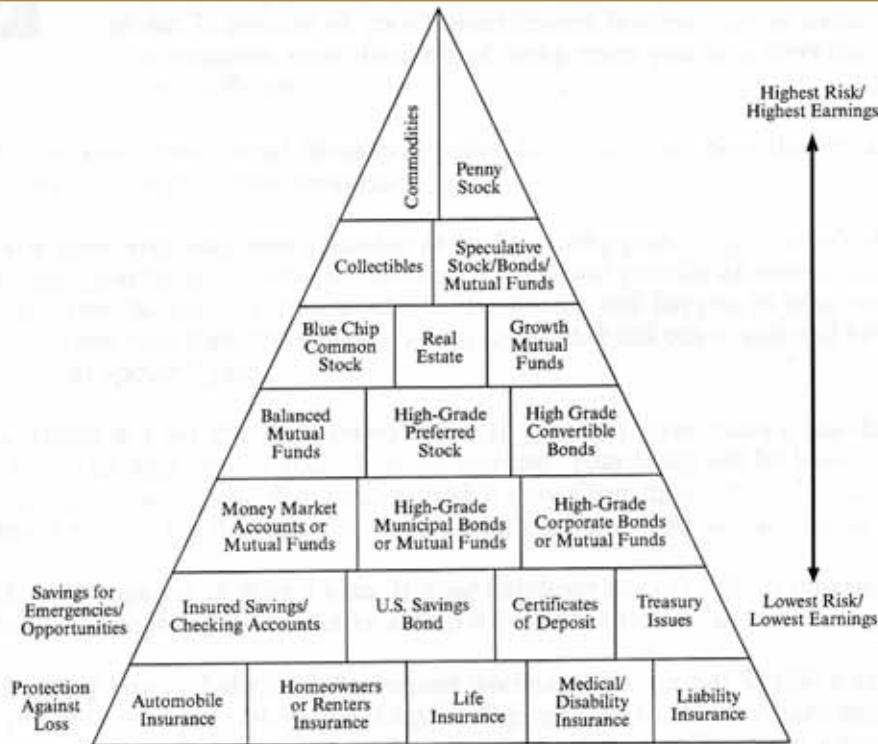
- ✓ Your income exceeds your spending;
- ✓ You have an emergency savings fund equal to three to six months' living expenses; and
- ✓ All insurance needs, including life, health, disability and property are covered.



Age	Contributions Made Early		Age	Contributions Made Later	
22	\$2,000	Total of \$18,000 Invested	22	\$0	Total of \$70,000 Invested
23	2,000		23	0	
24	2,000		24	0	
25	2,000		25	0	
26	2,000		26	0	
27	2,000		27	0	
28	2,000		28	0	
29	2,000		29	0	
30	2,000		30	0	
31	0		31	2,000	
32	0	32	2,000		
33	0	33	2,000		
34	0	34	2,000		
35	0	35	2,000		
36	0	36	2,000		
37	0	37	2,000		
38	0	38	2,000		
39	0	39	2,000		
40	0	40	2,000		
41	0	41	2,000		
42	0	42	2,000		
43	0	43	2,000		
44	0	44	2,000		
45	0	45	2,000		
46	0	46	2,000		
47	0	47	2,000		
48	0	48	2,000		
49	0	49	2,000		
50	0	50	2,000		
51	0	51	2,000		
52	0	52	2,000		
53	0	53	2,000		
54	0	54	2,000		
55	0	55	2,000		
56	0	56	2,000		
57	0	57	2,000		
58	0		2,000		
59	0	59	2,000		
60	0	60	2,000		
61	0	61	2,000		
62	0	62	2,000		
63	0	63	2,000		
64	0	64	2,000		
65	0	65	2,000		
Amount available at age 65:					

Investment Choices

Financial Planning Pyramid



A Tool for You

The “**Rule of 72**” is a quick and simple way to estimate how your money can grow. You can use this rule in two ways.

- (1) Divide 72 by the **interest rate** you expect to earn. This shows how many years it takes to double your money.

Let’s assume you are going to be earning 6% interest on your money.

$$\frac{72}{6\% \text{ interest}} = 12 \text{ years}$$

- (2) Divide 72 by the **number of years** in which you want your money to double. You will get an estimate of the interest rate you will need to earn.

Let’s assume you want your money to double in **six years**.

$$\frac{72}{6 \text{ years}} = 12\% \text{ interest}$$

Try it!

How many years will it take you to double your money with your choice of interest rate?

$$\frac{72}{\% \text{ interest}} = \text{— years}$$

1. List your current investments on the pyramid. _____
2. Where do the majority of them fall? _____
3. Do they meet your risk tolerance? _____

Why Should You Invest?

Check and discuss your reasons.

- _____ To accelerate the growth of your savings
- _____ To put your available money to work
- _____ To provide additions to your other income
- _____ To accumulate a down payment for a home
- _____ To increase your current purchasing power
- _____ To decrease your reliance on consumer loans
- _____ To decrease income lost on interest payments
- _____ To provide for your children’s education
- _____ To create a sizable retirement nest egg
- _____ To enable an earlier than expected retirement
- _____ To increase your wealth, security and independence
- _____ To provide advantages for your loved ones and heirs

Top 10 Ways To Prepare for Retirement



1. **Know your retirement needs.** Retirement is expensive. Experts estimate you'll need about 70% of your preretirement income – lower earners, 90% or more – to maintain your standard of living when you stop working. Understand your financial future.
2. **Find out about your Social Security benefits.** Social Security pays the average retiree about 40% of pre-retirement earnings.
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 if you request one. 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.
4. **Contribute to a tax-sheltered savings plan.** If your employer offers a tax-sheltered savings plan, such as a 401(k), sign up and contribute all you can. Your taxes will be lower, your company may kick in more and automatic deductions make it easy. Over time, deferral of taxes and compounding of interest make a big difference in the amount of money 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.
6. **Put money into an Individual Retirement Account.** You can put \$2,000 a year into an Individual Retirement Account (IRA) and delay paying taxes on investment earnings until retirement age. If you don't have a retirement plan (or are in a plan and earn less than a certain amount), you can also take a tax deduction for your IRA contributions.
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 saving a high priority. Devise a plan, stick to it and set goals for yourself. Remember, it's never too late to start. Start saving now, whatever your age.
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 should 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.

in the next issue: **Consumer Skills**

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