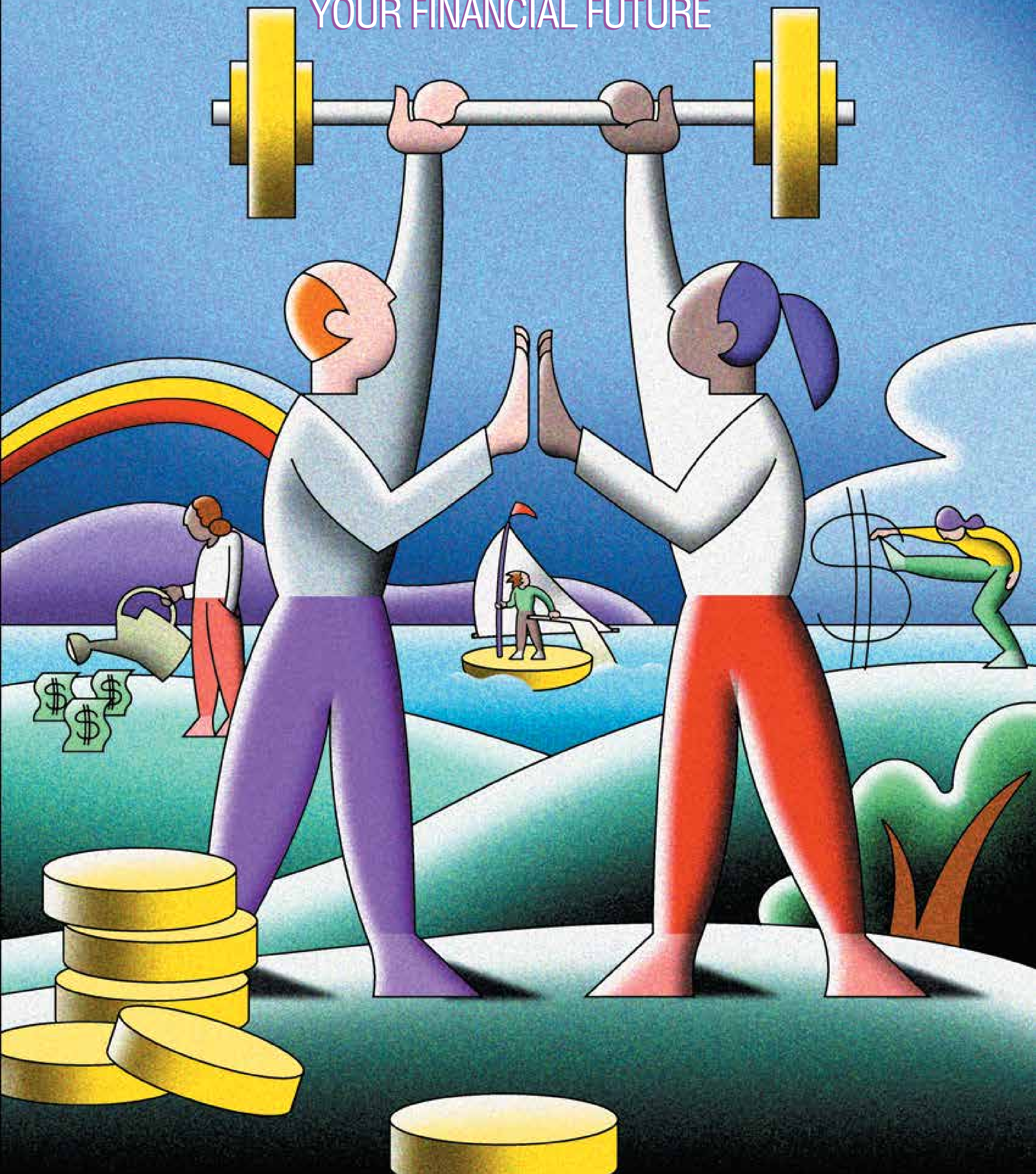
SAVINGS FITNESS:
A GUIDE TO YOUR MONEY AND YOUR FINANCIAL FUTURE



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This booklet constitutes a small entity compliance guide for purposes of the Small Business Regulatory Enforcement Act of 1996

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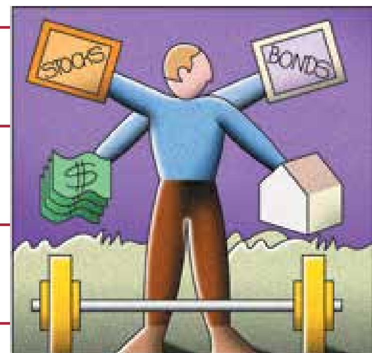

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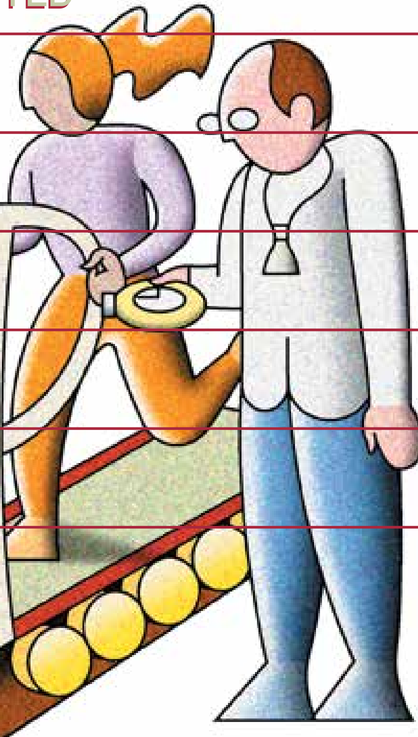

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Most of us know it is smart to save money for those big-ticket items we really want to buy — a new television or car or home. Yet you may not realize that probably the most expensive thing you will ever buy in your lifetime is your…retirement.

Perhaps you've never thought of "buying" your retirement. Yet that is exactly what you do when you put money into a retirement nest egg. You are paying today for the cost of your retirement tomorrow.

The cost of those future years is getting more expensive for most Americans, for two reasons. First, we live longer after we retire — with many of us spending 15, 25, even 30 years in retirement — and we are more active.

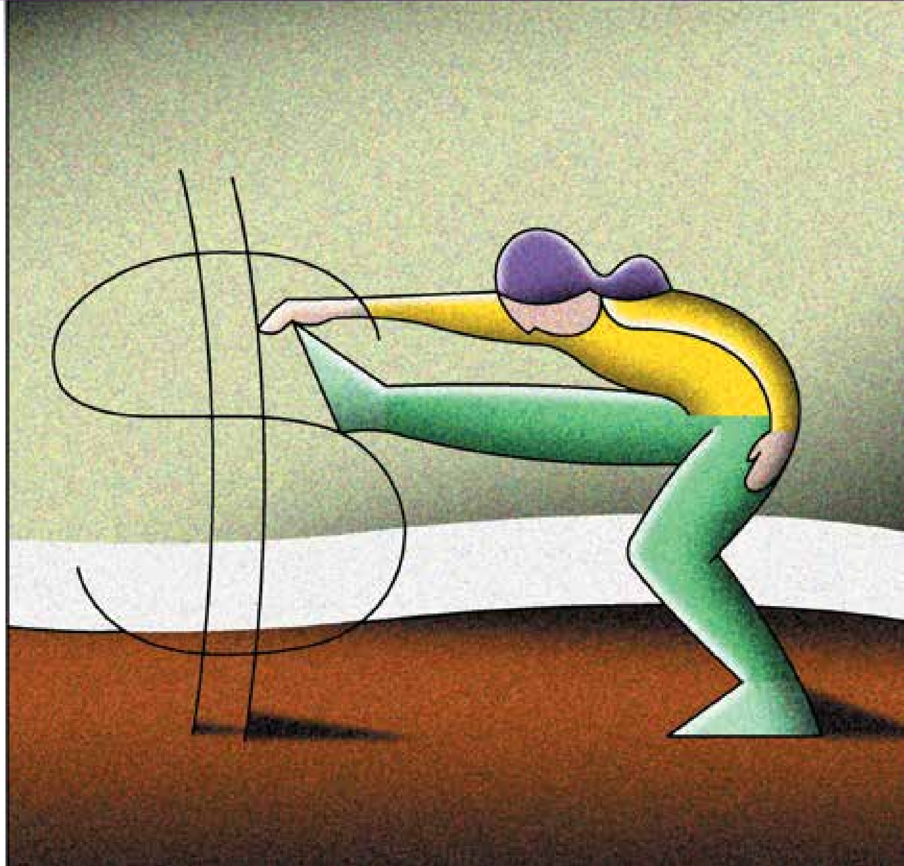
Second, you may have to shoulder a greater chunk of the cost of your retirement because fewer companies are providing traditional pension plans. Many retirement plans today, such as the popular 401(k), are paid for primarily by the employee, not the employer. You may not have a retirement plan available at work or you may be self-employed. This puts the responsibility of choosing retirement investments squarely on your shoulders.

Unfortunately, just about 54 percent of all workers are earning retirement benefits at work, and many are not familiar with the basics of investing. Many people mistakenly believe that Social Security will pay for all or most of their retirement needs. The fact is, since its inception, Social Security has provided a minimum foundation of protection. A comfortable retirement usually requires Social Security, employer-based retirement plan benefits, personal savings, and investments.

In short, paying for the retirement you truly desire is ultimately your responsibility. You must take charge. You are the architect of your financial future.

That may sound like an impossible task. Many of us live paycheck to paycheck, barely making ends meet. You may have more pressing financial needs and goals than "buying" something so far in the future. Or perhaps you've waited until close to retirement before starting to save. Yet you still may be able to afford to buy the kind of retirement you want. Whether you are 18 or 58, you can take steps toward a better, more secure future.

A FINANCIAL WARMUP



That's what this booklet is all about. The U.S. Department of Labor and Certified Financial Planner Board of Standards Inc. (CFP Board) want you to succeed in setting financial and retirement goals. *Savings Fitness: A Guide to Your Money and Your Financial Future* starts you on the way to setting goals and putting your retirement high on the list of personal priorities.

The Department of Labor's interest in retirement planning stems from its desire to improve the security of American workers in retirement. In 1995, the Department launched its Retirement Savings Education Campaign. Saving is now a national priority, with the passage of the Savings Are Vital to Everyone's Retirement Act of 1997 (SAVER). The Department continues to educate Americans about retirement savings.

CFP Board also has a keen interest in helping Americans meet their personal and financial goals. A nonprofit, certifying and standards-setting organization, CFP Board exists to benefit the public by granting the CFP® certification and upholding it as the recognized standard of excellence for personal financial planning. To this end, CFP Board authorizes individuals who meet its competency, ethics and professional standards to use its trademarks CFP®, CERTIFIED FINANCIAL PLANNER™, CFP® (with plaque design) and CFP® in the U.S. CFP Board currently oversees more than 67,000 CFP® professionals in the U.S. who advise individuals and families on a broad range of personal finance topics, including retirement, budgeting, taxes, investments, estate planning, and insurance among many others.

This booklet shows you the key tool for making a secure retirement a reality: financial planning. It will help clarify your retirement goals as well as other financial goals you want to "buy" along the way. It will show you how to manage your money so you can afford today's needs yet still fund tomorrow's goals. It will help you make saving for retirement and other goals a habit. You'll learn there is no such thing as starting to save too early or too late — only not starting at all! You'll learn how to save your money to make it work for you, and how to protect it so it will be there when you need it for retirement. It explains how you can take the best advantage of retirement plans at work, and what to do if you're on your own.

The worksheets in the back of the booklet can help you begin your savings fitness plan. Interactive versions of the worksheets are also available online at www.dol.gov/ebsa.

Yes, retirement *is* a big purchase. The biggest one you may ever make. Yet you can afford it — with determination, hard work, a sound savings habit, the right knowledge, and a well-designed financial plan.

Getting Fit... Managing Your Financial Life

It starts with a dream, the dream of a secure retirement. Yet like many people you may wonder how you can achieve that dream when so many other financial issues have priority. Besides trying to pay for daily living expenses, you may need to buy a car, pay off debts, save for your children's education, take a vacation, or buy a home. You may have aging parents to support. You may be going through a major event in your life such as starting a new job, getting married or divorced, raising children, or coping with a death in the family.

How do you manage all these financial challenges and at the same time try to "buy" a secure retirement? How do you turn your dreams into reality?

Start by writing down each of your goals in *Worksheet 1–Goals and Priorities* in the back of this booklet. You may want to have family members come up with ideas. Don't leave something out at this stage because you don't think you can afford it. This is your "wish list."

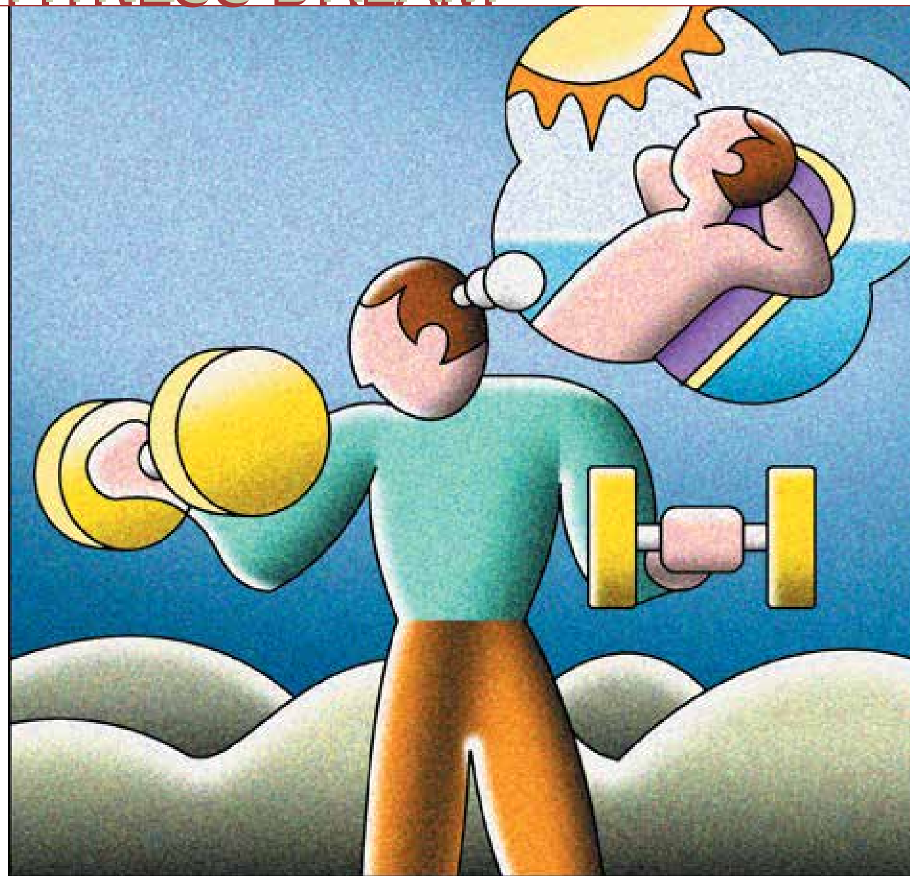
Organize them into goals you want to accomplish within the next 5 years or less, and goals that will take longer than 5 years. It's important to separate them because, as you'll see later, you save for short-term and long-term goals differently.

Next, organize your goals in order of priority.

Make retirement a priority! This needs to be among your goals regardless of your age. Some goals you may be able to borrow for, such as college, but you can't borrow for retirement.

Write down on Worksheet 1 what you need to do to accomplish each goal: When do you want to accomplish it, what will it cost (we'll tell you more about that later), what money have you set aside already, and what you are willing to do to reach the goal.

YOUR SAVINGS FITNESS DREAM



Look again at the order of priority. How hard are you willing to work and save to achieve a particular goal? Would you work extra hours, for example? How realistic is a goal when compared with other goals? Reorganize their priority if necessary. Put those goals that are unrealistic into your wish list. Maybe later you can turn them into reality too.

Beginning Your Savings Fitness Plan

Now let's look at your current financial resources. This is important because, as you will learn later in this booklet, your financial resources affect not only your ability to reach your goals, but also your ability to protect those goals from potential financial crises. These are also the resources you will draw on to meet various life events. *Worksheet 2– Financial Documents Checklist* in the back of this booklet can help you get organized.

Calculate your net worth. This isn't as difficult as it might sound. Your net worth is simply the total value of what you own (assets) minus what you owe (liabilities). It's a snapshot of your financial health. Use *Worksheet 3–Balance Sheet to Calculate Net Worth* in the back of this booklet to write down your information and do the calculation.

First, add up the approximate value of all your assets. This includes your home (if you own one) and your checking and savings accounts. Include the current value of investments, such as stocks, real estate, certificates of deposit, retirement accounts, IRAs, and any other retirement benefits you have.

Now add up your liabilities: the remaining mortgage on your home, credit card debt, auto loans, student loans, income taxes due, taxes due on the profits of your investments, if you cashed them in, and any other outstanding bills.

Subtract your liabilities from your assets. Do you have more assets than liabilities? Or the other way around?

Your aim is to create a positive net worth, and you want it to grow each year. Your net worth is part of what you will draw on to pay for financial goals and your retirement. A strong net worth also will help you through financial crises.

Review your net worth annually. Recalculate your net worth once a year. It's a way to monitor your financial health.

Identify other financial resources. You may have other financial resources that aren't included in your net worth but that can help you through tough times. These include the death benefits of your life insurance policies, Social Security survivor's benefits, health care

coverage, disability insurance, liability insurance, and auto and home insurance. Although you may have to pay for some of these resources, they offer financial protection in case of illness, accidents, or other catastrophes.

Envision Your Retirement

Retirement is a state of mind as well as a financial issue. You are not so much retiring *from* work as you are moving *into* another stage of your life. Some people call retirement a "new career."

What do you want to do in that stage? Travel? Relax? Move to a retirement community or to be near grandchildren? Pursue a favorite hobby? Go fishing or join a country club? Work part time or do volunteer work? Go back to school? What is the outlook for your health? Do you expect your family to take care of you if you are unable to care for yourself? Do you want to enter this stage of your life earlier than normal retirement age or later?

The answers to these questions are crucial when determining how much money you will need for the retirement you desire — and how much you'll

Planning for Retirement While You Are Still Young

Retirement probably seems vague and far off at this stage of your life. Besides, you have other things to buy right now. Yet there are some crucial reasons to start preparing now for retirement.

You'll probably have to pay for more of your own retirement than earlier generations. The sooner you get started, the better.

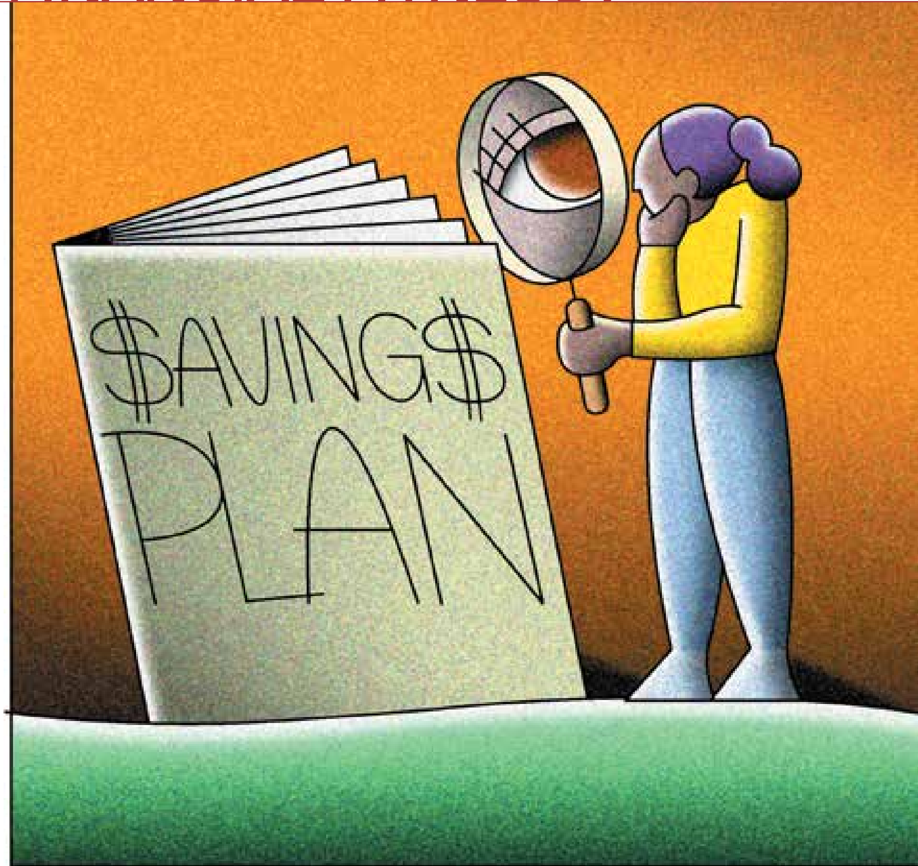
You have one huge ally — time. Let's say that you put $1,000 at the beginning of each year into an IRA from age 20 through age 30 (11 years) and then never put in another dime. The account earns 7 percent annually. When you retire at age 65 you'll have $168,515 in the account. A friend doesn't start until age 30, but saves the same amount annually for 35 years straight. Despite putting in three times as much money, your friend's account grows to only $147,914.

You can start small and grow. Even setting aside a small portion of your paycheck each month will pay off in big dollars later. Company retirement plans are the easiest way to save. If you're not already in your employer's plan, sign up.

You can afford to invest more aggressively. You have years to overcome the inevitable ups and downs of the stock market.

Developing the habit of saving for retirement is easier when you are young.

need to save between now and then. Let's say you plan to retire early, with no plans to work even part time. You'll need to build a larger nest egg than if you retire later because you'll have to depend on it far longer.



Estimate How Much You Need to Save For Retirement

Now that you have a clearer picture of your retirement goal, it's time to estimate how large your retirement nest egg will need to be and how much you need to save each month to buy that goal. This step is critical! The vast majority of people never take this step, yet it is very difficult to save adequately for retirement if you don't at least have a rough idea of how much you need to save every month.

There are numerous worksheets and software programs that can help you calculate approximately how much you'll need to save. Professional financial planners and other financial advisers can help as well. At the end of this booklet, we provide *Worksheet 4–Retirement Savings* to get you started.

Here are some of the basic questions and assumptions to keep in mind.

How much retirement income will I need?

An easy rule of thumb is that you'll need to replace about 80 percent of your pre-retirement income. If you're making $50,000 a year (before taxes), you might need about $40,000 a year in retirement income to enjoy the same standard of living you had before retirement. Think of this as your annual "cost" of retirement.

However, no rule of thumb fits everyone. Expenses typically decline for retirees: taxes are smaller (though not always) and work-related costs usually disappear. But overall expenses may not decline much if you still have a home and other debts to pay off. Large medical bills may keep your retirement costs high. Much will depend on the kind of retirement you want to enjoy. Someone who plans to live a quiet, modest retirement in a low-cost part of the country will need a lot less money than someone who plans to be active, take expensive vacations, and live in an expensive region.

For younger people in the early stages of their working life, estimating income needs that may be 30 to 40 years in the future is obviously difficult. Worksheet 4 can help you come up with a rough estimate. Every year or two, review your retirement plan and adjust your retirement savings estimate as your annual earnings grow and your vision of retirement begins to come into focus.

How To Prepare For Retirement When There's Little Time Left

What if retirement is just around the corner and you haven't saved enough? Here are some tips. Some are painful, but they'll help you toward your goal.

- It's never too late to start. It's only too late if you don't start at all.
- Sock it away. Pump everything you can into your tax-sheltered retirement plans and personal savings. Try to put away at least 20 percent of your income.
- Reduce expenses. Funnel the savings into your nest egg.
- Take a second job or work extra hours.
- Make sure your investments are part of the solution, not part of the problem. To boost your returns, diversify your holdings and keep an eye on fees. But don't take risks you can't afford and don't trade too much.
- Retire later. You may not need to work full time beyond your planned retirement age. Part time may be enough.
- Refine your goal. You may have to live a less expensive lifestyle in retirement.
- Delay taking Social Security. Benefits will be higher when you start taking them.
- Make use of your home. Rent out a room or move to a less expensive home and save the profits.
- Sell assets that are not producing much income or growth, such as undeveloped land or a vacation home, and invest in income-producing assets.

How long will I live in retirement?

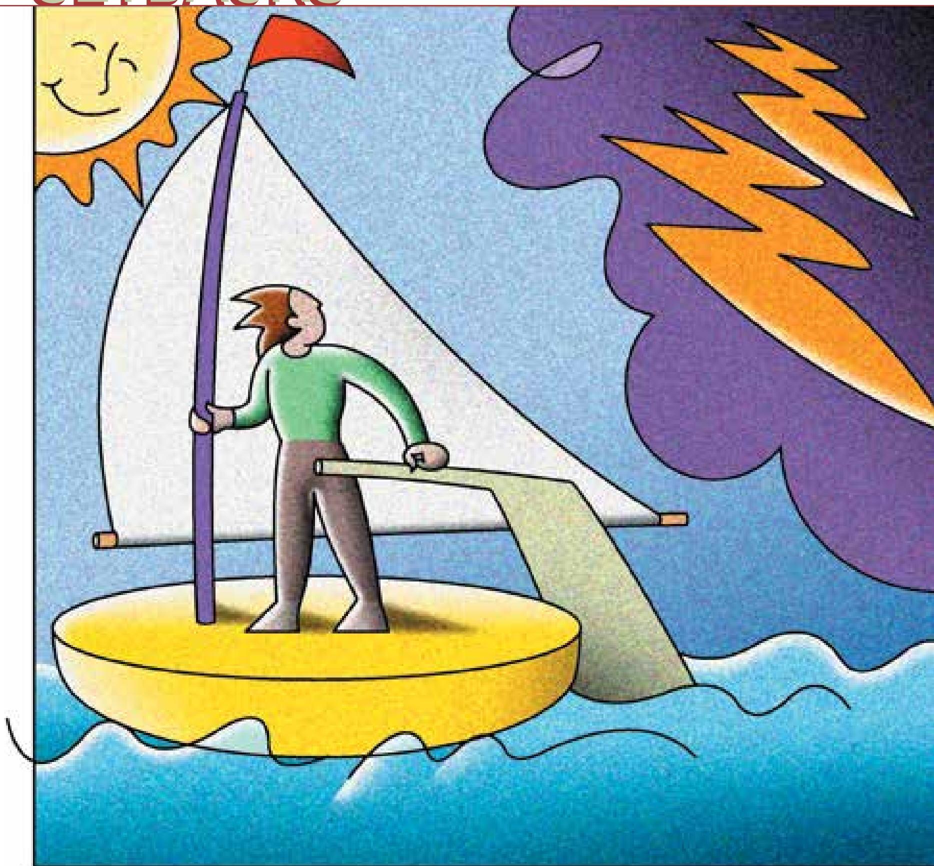
Based on current estimates, a male retiring at age 65 today can expect to live approximately 18 years in retirement. A female retiring today at age 65 can expect to live approximately 20 years.

These are average figures and how long you can expect to live will depend on factors such as your general health and family history. But using today's average or past history may not give you a complete picture. People are living longer today than they did in the past, and virtually all expert opinion expects the trend toward living longer to continue.

What other sources of income will I have?

You can get your Social Security statement and an estimate of your retirement benefits on the Social Security Administration's Web site, www.socialsecurity.gov/mystatement. For more information, visit their website or call **800-772-1213.**

AVOIDING FINANCIAL SETBACKS



Will you have other sources of income?
For instance, will you receive retirement benefits that provide a specific amount of retirement income each month? Is the benefit adjusted for inflation?

What savings do I already have for retirement?
You'll need to build a nest egg sufficient to make up the gap between the total amount of income you will need each year and the amount provided annually by Social Security and any retirement income. This nest egg will come from your retirement plan accounts at work, IRAs, annuities, and personal savings.

What adjustments must be made for inflation?
The cost of retirement will likely go up every year due to inflation — that is, $40,000 won't buy as much in year 5 of your retirement as it will the first year because the cost of living usually rises. Although Social Security benefits are adjusted for inflation, any other estimates of how much income you need each year — and how much you'll need to save to provide that income — must be adjusted for inflation. The annual inflation rate is 2.1 percent currently, but it varies over time. In 1980, for instance, the annual inflation rate was 13.5 percent; in 1998, it reached a low of 1.6 percent. When planning for your retirement it is always safer to assume a higher, rather than a lower, rate and have your money buy more than you previously thought.

What will my investments return?
Any calculation must take into account what annual rate of return you expect to earn on the savings you've already accumulated and on the savings you intend to make in the future. You also need to determine the rate of return on your savings after you retire. These rates of return will depend in part on whether the money is inside or outside a tax-deferred account.

It's important to choose realistic annual returns when making your estimates. Most financial planners recommend that you stick with the historical rates of return based on the types of investments you choose or even slightly lower.

How many years do I have left until I retire?
The more years you have, the less you'll have to save each month to reach your goal.

How much should I save each month?
Once you determine the number of years until you retire and the size of the nest egg you need to "buy" in order to provide the income not provided by other sources, you can estimate how much you need to save.

It's a good idea to revisit this worksheet at least every year or two. Your vision of retirement, your earnings, and your financial circumstances may change. You'll also want to check periodically to be sure you are achieving your objectives along the way.

"Spend" For Retirement

Now comes the tough part. You have a rough idea of how much you need to save each month to reach your retirement goal. But how do you find that money? Where does it come from?

There's one simple trick for saving for any goal: spend less than you earn. That's not easy if you have trouble making ends meet or if you find it difficult to resist spending whatever money you have in hand. Even people who make high incomes often have difficulty saving. But we've got some ideas that may help you.

Let's start with a "spending plan" — a guide for how we want to spend our money. Some people call this a budget, but since we're thinking of retirement as something to buy, a spending plan seems more appropriate.

A spending plan is simple to set up. Consider the following steps as a guide as you fill in the information in *Worksheet 5–Cash Flow Spending Plan* in the back of this booklet.

Income. Add up your monthly income: wages, average tips or bonuses, alimony payments, investment income, and so on. Don't include anything you can't count on, such as lottery winnings or a bonus that's not definite.

Expenses. Add up monthly expenses: mortgage or rent, car payments, average food bills, medical expenses, entertainment, and so on. Determine an average for expenses that vary each month, such as clothing, or that don't occur every month, such as car insurance or self-employment taxes. Review your checkbook, credit and debit card records, and receipts to estimate expenses. You probably will need to track how you spend cash for a month or two. Most of us are surprised to find out where and how much cash "disappears" each month.

Include savings as an expense. Better yet, put it at the top of your expense list. Here's where you add in the total of the amounts you need to save each month to accomplish the goals you wrote down earlier in Worksheet 1.

Subtract expenses from income. What if you have more expenses (including savings) than you have income? Not an uncommon problem. You have three choices: cut expenses, increase income, or both.

Cut expenses. There are hundreds of ways to reduce expenses, from clipping grocery coupons and bargain hunting to comparison shopping for insurance and buying new cars less often. The section that follows on debt and credit card problems will help. You also can find lots of expense-cutting ideas in books, magazine articles, and financial newsletters.

Increase income. Take a second job, improve your job skills or education to get a raise or a better paying job, make money from a hobby, or jointly decide that another family member will work.

Tips. Even after you've tried to cut expenses and increase income, you may still have trouble saving enough for retirement and your other goals. Here are some tips.

Pay yourself first. Put away first the money you want to set aside for goals. Have money automatically withdrawn from your checking account and put into savings or an investment. Join a retirement plan at work that deducts money from your paycheck. Or deposit your retirement savings yourself, the first thing. What you don't see you don't miss.

Put bonuses and raises toward savings.

Make saving a habit. It's not difficult once you start.

Revisit your spending plan every few months to be sure you are on track. Income and expenses change over time.

Avoid Debt And Credit Problems

High debt and misuse of credit cards make it tough to save for retirement. Money that goes to pay interest, late fees, and old bills is money that could earn money for retirement and other goals.

How much debt is too much debt? Debt isn't necessarily bad, but too much debt is. Add up what you pay monthly in car loans, student loans, credit card and charge card loans, personal loans — everything but your mortgage. Divide that total by the money you bring home each month. The result is your "debt ratio." Try to keep that ratio to 10 percent or less. Total mortgage and nonmortgage debt should be no more than 36 percent of your take-home pay.

What's the difference between "good debt" and "bad debt"? Yes, there is such a thing as good debt. That's debt that can provide a financial pay off. Borrowing to buy or remodel a home, pay for a child's education, advance your own career skills, or buy a car for getting to work can provide long-term financial benefits.

Bad debt is when you borrow for things that don't provide financial benefits or that don't last as long as the loan. This includes borrowing for vacations, clothing, furniture, or dining out.

Do you have debt problems? Here are some warning signs:

Borrowing to pay off other loans.
Creditors calling for payment.
Paying only the minimum on credit cards.
Maxing out credit cards.
Borrowing to pay regular bills.
Being turned down for credit.

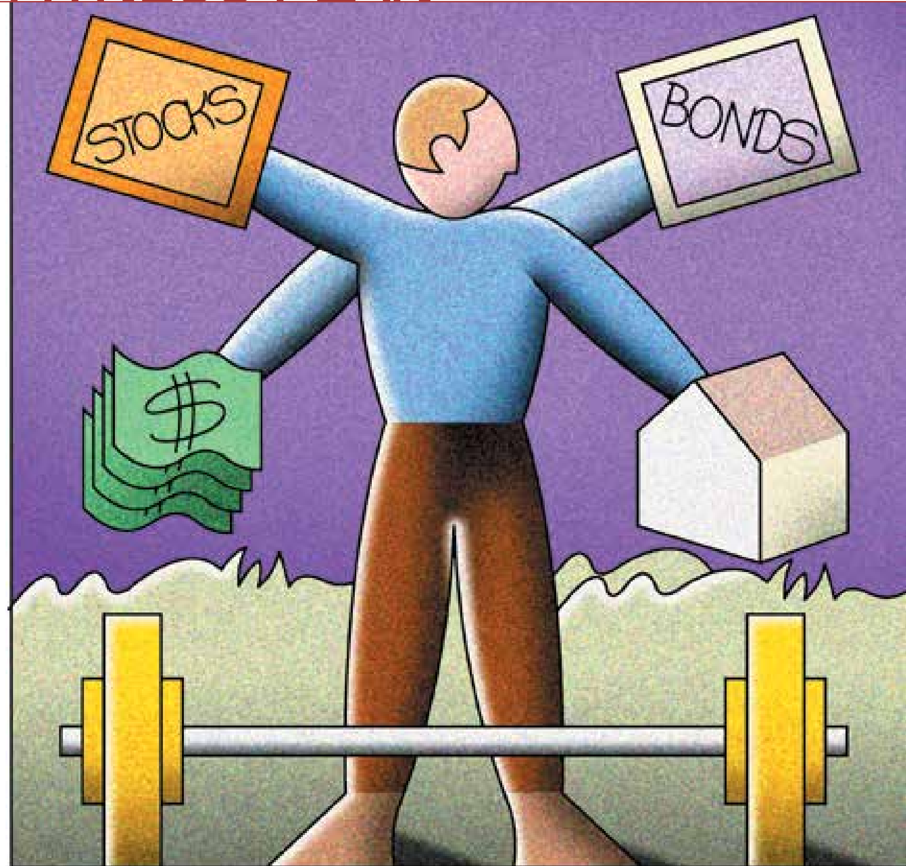
Avoid high-interest rate loans. Loan solicitations that come in the mail, pawning items for cash, or "payday" loans in which people write postdated checks to check-cashing services are usually extremely expensive. For example, rolling over a payday loan every 2 weeks for a year can run up interest charges of over 600 percent! While the Truth-in-Lending Act requires lenders to disclose the cost of your loan expressed as an annual percentage rate (APR), it is up to you to read the fine

Facts Women Should Know About Preparing For Retirement

Women face challenges that often make it more difficult for them than men to adequately save for retirement. In light of these challenges, women need to pay special attention to making the most of their money.

- **Women tend to earn less than men and work fewer years.**
- **Women stay at jobs for a shorter period of time, work part time more often, and interrupt their careers to raise children. Consequently, they are less likely to qualify for company-sponsored retirement plans or to receive the full benefits of those plans.**
- **On average, women live 5 years longer than men, and thus need to build a larger retirement nest egg for themselves.**
- **Some studies indicate women tend to invest less aggressively than men.**
- **Women tend to lose more income than men following a divorce.**
- **Women age 65 or older are more than 60 percent more likely than men the same age to receive income below the poverty level.**

For more information, call the Employee Benefits Security Administration at 1-866-444-3272 and ask for the booklets *Women and Retirement Savings, Taking the Mystery Out of Retirement Planning*, and *QDROs: The Division of Retirement Benefits through Qualified Domestic Relations Orders* (for example, divorce orders). Also call the Social Security Administration at 800-772-1213 for their booklet *What Every Woman Should Know*, or visit the agency's website at www.socialsecurity.gov.



print telling you exactly what the details of your loan and its costs are.

The key to recognizing just how expensive these loans can be is to focus on the total cost of the loan — principal and interest. Don't just look at the monthly payment, which may be small, but adds up over time.

Handle credit cards wisely. Credit cards can serve many useful purposes, but people often misuse them. Take, for example, the habit of making only the 2 percent minimum payment each month. On a $2,000 balance with a credit card charging 18 percent interest, it would take 30 years to pay off the amount owed. Then imagine how fast you would run up your debts if you did this with several credit cards at the same time. (For more information on handling credit wisely, see the "Resources" section at the end of this booklet.)

Here are some additional tips for handling credit cards wisely.

Keep only one or two cards, not the usual eight or nine.

Don't charge big-ticket items. Find less expensive loan alternatives.

Shop around for the best interest rates, annual fees, service fees, and grace periods.

Pay off the card each month, or at least pay more than the minimum.

Still have problems? Leave the cards at home or cut them up.

How to climb out of debt. Despite your best efforts, you may find yourself in severe debt. *Worksheet 6–Debt Reduction* in the back of this booklet can help you come up with a plan to pay down your credit card and other bad debt. A credit counseling service can help you set up a plan to work with your creditors and reduce your debts. Or you can work with your creditors directly to try and work out payment arrangements.

Saving For Retirement

Once you've reduced unnecessary debt and created a workable spending plan that frees up money, you're ready to begin saving toward retirement. You may do this through a company retirement plan or on your own — options that are covered in more detail later in this booklet. First, however, let's look at a few of the places where you might put your money for retirement.

Savings accounts, money market mutual funds, certificates of deposit, and U.S. Treasury bills. These are sometimes referred to as cash or cash equivalents because you can get to them quickly and there's little risk of losing the money you put in.

Domestic bonds. You loan money to a U.S. company or a government body in return for its promise to pay back what you loaned, with interest.

Domestic stocks. You own part of a U.S. company.

Mutual funds. Instead of investing directly in stocks, bonds, or real estate, for example, you can use mutual funds. These pool your money with money of other shareholders and invest it for you. A stock mutual fund, for example, would invest in stocks on behalf of all the fund's shareholders. This makes it easier to invest and to diversify your money.

Choosing where to put your money. How do you decide where to put your money? Look back at the short-term goals you wrote down earlier — a family vacation, perhaps, or the down payment for a home. Remember, you should always be saving for retirement. But, for goals you want to happen soon — say, within a year — it's best to put your money into one or more of the cash equivalents — a bank account or CD, for example. You'll earn a little interest and the money will be there when you need it.

Tips On How To Save Smart For Retirement

- **Start now. Don't wait. Time is critical.**
- **Start small, if necessary. Money may be tight, but even small amounts can make a big difference given enough time, the right kind of investments, and tax-favored vehicles such as company retirement plans and IRAs.**
- **Use automatic deductions from your payroll or your checking account for deposit in mutual funds, IRAs, or other investment vehicles.**
- **Save regularly. Make saving for retirement a habit.**
- **Be realistic about investment returns. Never assume that a year or two of high market returns will continue indefinitely. The same goes for market declines.**
- **If you change jobs, keep your retirement account money in your former employer's plan or roll it over into your new employer's plan or an IRA.**
- **Don't dip into retirement savings.**

For goals that are at least 5 years in the future, however, such as retirement, you may want to put some of your money into stocks, bonds, real estate, foreign investments, mutual funds, or other assets. Unlike savings accounts or bank CDs, these types of investments typically are not insured by the federal government. There is the risk that you can lose some of your money. How much risk depends on the type of

investment. Generally, the longer you have until retirement and the greater your other sources of income, the more risk you can afford. For those who will be retiring soon and who will depend on their investment for income during their retirement years, a low-risk investment strategy is more prudent. Only you can decide how much risk to take.

Why take any risk at all? Because the greater the risk, the greater the potential reward. By investing carefully in such things as stocks and bonds, you are likely to earn significantly more money than by keeping all of your retirement money in a savings account, for example.

The differences in the average annual returns of various types of investments over time is dramatic. Over the last 50 years, the compound annual rate of return of short-term U.S. Treasury bills, which roughly equals the return of other cash equivalents such as savings accounts, has been 5.2 percent. The compound annual rate of return of long-term government bonds over the same period has been 7.1 percent. Large-company stocks, on the other hand, while riskier have averaged an annual return of 9.8 percent.

Let's put that into dollars. If you had invested $1 in Treasury bills 50 years ago, it would have grown to approximately $13 today. However, inflation, at an annual average of 4.1 percent, would have eaten about $11 of that gain leaving $1.75 as the return. If the $1 had been invested in government bonds, it would have grown to $31, with $4.16 left after inflation. If the $1 had been invested in large-company stocks, it would have grown to $105, with $14.22 left after inflation. None of these rates of returns is guaranteed in the future, but they clearly show the relationship between risk and potential reward.

Many financial experts feel it is important to save at least a portion of your retirement money in higher risk — but potentially higher returning — assets. These higher risk assets can help you stay ahead of inflation, which eats away at your nest egg over time.

Which assets you want to invest in, of course, is your decision. Never invest in anything you don't thoroughly understand or don't feel comfortable about.

Reducing investment risk. There are two main ways to reduce risk. First, diversify *within* each category of investment. You can do this by investing in pooled arrangements, such as mutual funds, index funds, and bank products offered by reliable professionals. These investments typically give you a small share of different individual investments and will allow you to spread your money among many stocks, bonds, and other financial instruments, even if you don't have a lot of money to invest. Your risk of losing money is less than if you buy shares in only a few individual companies. Distributing your investments in this way is called *diversification*.

Second, you can reduce risk by investing *among* categories of investments. Generally speaking, you should put some of your money in cash, some in bonds, some in stocks, and some in other investment vehicles. Studies have shown that once you have diversified your investments within each category, the choices you make about how much to put in these major categories is the most important decision you will make and should define your investment strategy.

Why diversify? Because at any given time one investment or type of investment might do better than another. Diversification lets you manage your risk in a particular investment or category of investments and decreases your chances of losing money. In fact, the factors that can cause one investment to do poorly may cause another to do well. Bond prices, for example, often go down when stock prices are up. When stock prices go down, bonds often increase in value. Over a long time — the time you probably have to save for retirement — the risk of losing money or earning less than you would in a savings account tends to decline.

By diversifying into different types of assets, you are more likely to reduce risk, and actually improve return, than by putting all of your money into one investment or one type of investment. The familiar adage "Don't put all your eggs in one basket" definitely applies to investing.

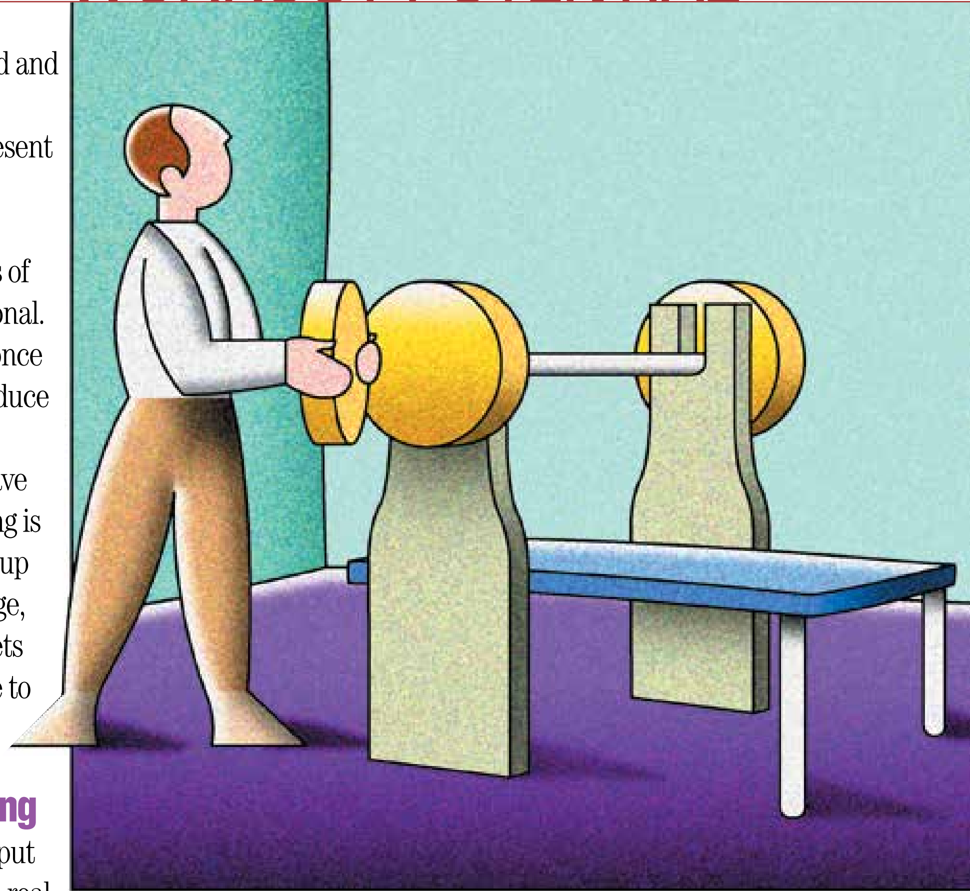
Deciding on an investment mix. How you diversify — that is, how much you decide to put into each type of investment — is called asset allocation. For example, if you decide to invest in stocks, how much of your retirement nest egg should you put into stocks: 10 percent … 30 percent … 75 percent? How much into bonds and cash? Your decision will depend on many factors: how much time you have until retirement, your life expectancy, the size of your current nest egg, other sources of retirement income, how much risk you are willing to take, and how healthy your current financial picture is, among others.

Your asset allocation also may change over time. When you are younger, you might invest more heavily in stocks than bonds and cash. As you get older and enter retirement, you may reduce your exposure to stocks and hold more in bonds and cash. You also might change your asset allocation because your goals, risk tolerance, or financial circumstances have changed.

Rebalancing your portfolio. Once you've decided on your investment mix and invested your money, over time some of your investments will go up and others will go down. If this continues, you may eventually have a different investment mix than you intended. Reassessing your mix, or rebalancing, as it is commonly called, brings your portfolio back to your original plan. Rebalancing also helps you to make logical, not emotional, investment decisions.

For instance, instead of selling investments in a sector that is declining, you would sell an investment that has made gains and, with that money, purchase more in the declining investment sector. This way, you rebalance your portfolio mix, lessen your risk of loss, and increase your chance for greater returns in the long run.

Here's how rebalancing works: Let's say your original investment called for 10 percent in U. S. small company stocks. Because of a stock market decline, they now represent 6 percent of your portfolio. You



would sell assets that had increased and purchase enough U.S. small company stocks so they again represent 10 percent of your portfolio.

How do you know when to rebalance? There are two methods of rebalancing: calendar and conditional. Calendar rebalancing means that once a quarter or once a year you will reduce the investments that have gone up and will add to investments that have gone down. Conditional rebalancing is done whenever an asset class goes up or down more than some percentage, such as 25 percent. This method lets the markets tell you when it is time to rebalance.

The Power Of Compounding

Regardless of where you choose to put your money — cash, stocks, bonds, real estate, or a combination of places — the key to saving for retirement is to make your money work for you. It does this through the power of compounding. Compounding investment earnings is what can make even small investments become larger given enough time.

You're probably already familiar with the principle of compounding. Money you put into a savings account earns interest. Then you earn interest on the money you originally put in, plus on the interest you've accumulated. As the size of your savings account grows, you earn interest on a bigger and bigger pool of money.

POWER OF COMPOUNDING

The value of $1,000 compounded at various rates of return over time is as follows:

Years	4%	6%	8%	10%
10	$ 1,481	$ 1,791	$ 2,159	$ 2,594
20	$ 2,191	$ 3,207	$ 4,661	$ 6,728
30	$ 3,243	$ 5,743	$ 10,063	$ 17,449

The chart provides an example of how an investment grows at different annual rates of return over different time periods. Notice how the amount of gain gets bigger each 10-year period. That's because money is being earned on a bigger and bigger pool of money.

Also notice that when you double your rate of return from 4 percent to 8 percent, the end result after 30 years is over three times what you would have accumulated with a 4 percent return. That's the power of compounding!

The real power of compounding comes with time. The earlier you start saving, the more your money can work for you. Look at it another way. For every 10 years you delay before starting to save for retirement, you will need to save three times as much each month to catch up. That's why no matter how young you are, the sooner you begin saving for retirement, the better.

Using Employer-Based Retirement Plans

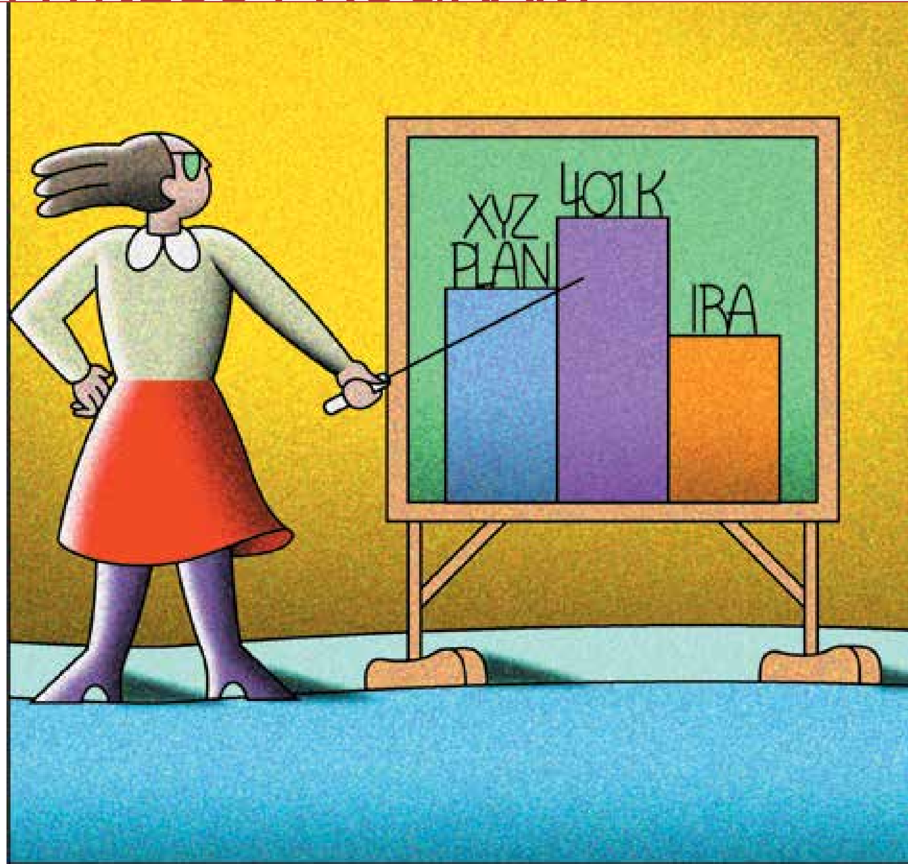
Does your employer provide a retirement plan? If so, say retirement experts . . . grab it! Employer-based plans are the most effective way to save for your future. What's more, you'll gain certain tax benefits. Employer-based plans come in one of two varieties (some employers provide both): defined benefit and defined contribution.

Defined Benefit Plans. These plans pay a lump sum upon retirement or a guaranteed monthly benefit. The amount of payout is typically based on a set formula, such as the number of years you have worked for the employer times a percentage of your highest earnings on the job. Usually the employer funds the plan — commonly called a traditional pension plan — though in some plans workers also contribute. Most defined benefit plans are insured by the federal government.

How To Make The Most Of A Defined Contribution Plan

- **Study your employee handbook and talk to your benefits administrator to see what plan is offered and what its rules are. Read the summary plan description for specifics. Plans must follow federal law, but they can still vary widely in contribution limitations, investment options, employer matches, and other features.**
- **Join as soon as you become eligible.**
- **Put in the maximum amount allowed.**
- **If you can't afford the maximum, try to contribute enough to maximize any employer matching funds. This is free money!**
- **Study carefully the menu of investment choices. Some plans offer only a few choices, others may offer hundreds. The more you know about the choices, investing, and your investment goals, the more likely you will choose wisely.**
- **Many companies match employee contributions with stock instead of cash. Financial experts often recommend that you don't let your account get overloaded with company stock, particularly if the account makes up most of your retirement nest egg. Too much of a single stock increases risk.**
- **Plan fees and expenses reduce the amount of retirement benefits you ultimately receive from plans where you direct the investments. It's in your interest to learn as much as you can about your plan's administrative fees, investment fees, and service fees. Read the plan documents carefully. For more information on fees, call EBSA's toll-free line at 1-866-444-3272 and request the booklet *A Look at 401(k) Plan Fees*.**

Defined Contribution Plans. The popular 401(k) plan is one type of defined contribution plan. Unlike a defined benefit plan, this type of savings arrangement does not guarantee a specified amount for retirement. Instead, the amount you have available in the plan to help fund your retirement will depend on how long you



participate in the plan, how much is invested, and how well the investments do over the years. The federal government does not guarantee how much you accumulate in your account, but it does protect the account assets from misuse by the employer.

In the past 20 years, defined contribution plans have become more common than traditional defined benefit retirement plans. Employers fund most types of defined contribution plans, though the amount of their contributions is not necessarily guaranteed.

Workers with a retirement plan are more likely to be covered by a defined contribution plan, usually a 401(k) plan, rather than the traditional defined benefit plan. In many defined contribution plans, you are offered a choice of investment options, and you must decide where to invest your contributions. This shifts much of the responsibility for retirement planning to workers. Thus, it is critical that you choose to contribute to the plan once you become eligible (usually after working full time for a minimum period) and, even if you are automatically enrolled in the plan, to contribute as much as possible. Invest wisely — review your plan investment options and revisit your choices at least once a year.

Tax Breaks. Even though you may be responsible for funding a defined contribution plan, you receive important tax breaks. The money you invest in the plan and the earnings on those contributions are deferred from income tax until you withdraw the money (hopefully not until retirement). Why is that important? Because postponing taxes on what you earn allows your nest egg to grow faster. Remember the power of compounding? The larger the amount you have to compound, the faster it grows. Even after the withdrawals are taxed, you typically come out ahead.

The tax deduction also means that the decline in your take-home pay, because of your contribution, won't be as large as you might think. For example, let's assume you are thinking about putting $100 into a retirement plan each month and that the rate you pay on income taxes is 15 percent. If you don't put that $100 into a retirement plan, you'll pay $15 in taxes on it. If you put in $100, you postpone the taxes. Thus, your $100 retirement plan contribution would actually reduce your take-home pay by only $85. If you're in the 25 percent tax bracket, the cost of the $100 contribution is only $75. This is like buying your retirement at a discount.

Vesting Rules. Any money you put into a retirement plan out of your pay, and earnings on those contributions, always belong to you. However, contrary to popular belief, employees don't always have immediate access to the money their employer puts into their pension fund or their defined contribution plan. Under some plans, such as a traditional pension plan or a 401(k), you have to work for a certain number

of years — say, 3 — before you become "vested" and can receive benefits. Some plans vest in stages. Other defined contribution plans, such as the SEP and the SIMPLE IRA, vest immediately. You have access to the employer's contributions the day the money is deposited. No employer can require you to work longer than 7 years before you become vested in your retirement benefit.

Be aware of the vesting rules in your employer's plan.

Make sure you know when you're vested. Changing jobs too quickly can mean losing part or all of your retirement benefits or, at the very least, your employer's matching contributions.

Retirement Plan Rights. The federal government regulates and monitors company retirement plans. The vast majority of employers does an excellent job in complying with federal law. Unfortunately, a small fraction doesn't. For warning signs that your 401(k) contributions are being misused and other information on protecting your retirement benefits, visit EBSA's website at www.dol.gov/ebsa or call EBSA's toll-free number at 1-866-444-3272 and request the booklet *What You Should Know About Your Retirement Plan.*

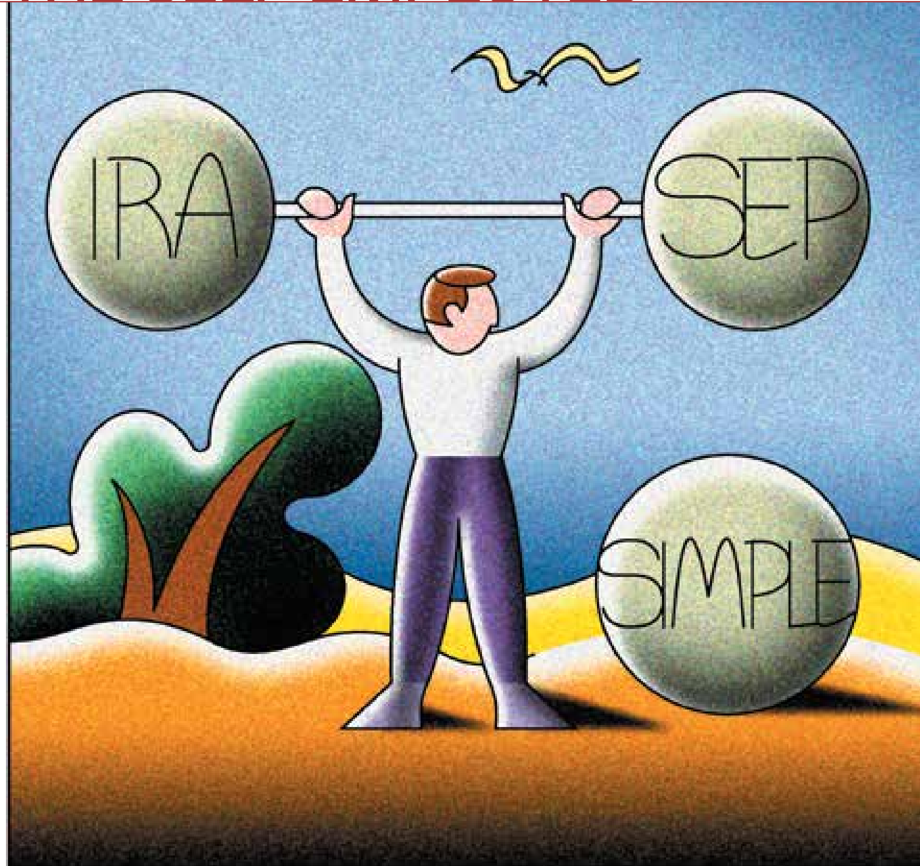
Retirement Planning For Employees In Small Companies

If you don't have a plan available at work, encourage your employer to start one. Many small employers believe their workers prefer higher salaries or other benefits, and they believe the rules are too complex and the costs too high.

Mention the following benefits:

- **A retirement plan can attract and retain valued employees in a competitive labor market, as well as motivate workers.**
- **Establishing a retirement plan and encouraging employee participation can help employers fund their own retirement. Even after taking into account the cost of establishing an employee plan, employers may still be better off than funding retirement on their own.**
- **Some plans cost less and have fewer administrative hassles than employers may realize. Alternatives to traditional defined benefit plans and the 401(k) include the SIMPLE IRA and the SEP.**

For more information, contact EBSA at 1-866-444-3272 and request *Choosing a Retirement Solution for Your Small Business, SIMPLE IRA Plans for Small Businesses, SEP Retirement Plans for Small Businesses, 401(k) Plans for Small Businesses, Automatic Enrollment 401(k) Plans for Small Businesses, Profit Sharing Plans for Small Businesses, or Payroll Deduction IRAs for Small Businesses*.



Types Of Defined Contribution Plans

The following are some of the most common types of defined contribution plans. For a more detailed description and comparison of some of these plans, visit the website www.dol.gov/ebsa and go to "Retirement Savings," then follow the prompt to the Small Business Advisor under "For Employers."

401(k) Plan. This is the most popular of the defined contribution plans and is most commonly offered by larger employers. Employers often match employee contributions.

403(b) Plan. Think of this as a 401(k) plan for employees of school systems and certain nonprofit organizations. Investments are made in tax-sheltered annuities or mutual funds.

SIMPLE IRA. The Savings Incentive Match Plan for Employees of Small Employers is a simpler type of employer-based retirement plan. There is also a 401(k) version of the SIMPLE.

Profit Sharing Plan. The employer shares company profits with employees, usually based on the level of each employee's wages.

ESOP. Employee stock ownership plans are similar to profit sharing plans, except that an ESOP must invest primarily in company stock. Under an ESOP, the employees share in the ownership of the company.

SEP. Simplified employee pension plans are used by both small employers and the self-employed.

Other retirement plans you may want to learn more about include 457 plans, which cover state and local government workers, and the Federal Thrift Savings Plan, which covers federal employees. If you are eligible, you may also want to open a Roth IRA.

What To Do If You Can't Join an Employer-Based Plan

You may not be able to join an employer-based retirement plan because you are not eligible or because the employer doesn't offer one. Fortunately, there are steps you can still take to build your retirement strength.

Take a job with a plan. If two jobs offer similar pay and working conditions, the job that offers retirement benefits may be the better choice.

Start your own plan. If you can't join a company plan, you can save on your own.

You can't put away as much on a tax-deferred basis, and you won't have an employer match. Still, you can build a healthy nest egg if you work at it.

Open an IRA. You can put up to $5,500 a year into an individual retirement account on a tax-deductible basis if your spouse isn't covered by a retirement plan at work, or as long as your combined incomes aren't too high. Persons who are 50 or older can contribute an additional $1,000. You also can put the same amount tax-deferred into an IRA for a nonworking spouse if you file your income tax return jointly. (By the way, you don't have to put in the full amount; you can put in less.) With a traditional IRA, you delay income taxes on what you put in and on the earnings until you withdraw the money. With a Roth IRA, the money you put in is already taxed, but you won't ever pay income taxes on the earnings as long as the account is open at least 5 years.

CAUTION

- **Don't borrow from your retirement plan or permanently withdraw funds before retirement unless absolutely necessary.**
- **Your retirement plan may allow you to borrow from your account, often at very attractive rates. However, borrowing reduces the account's earnings, leaving you with a smaller nest egg. Also, if you fail to pay back the loan, you could end up paying income taxes and penalties. As an alternative, consider budgeting to save the needed money or pursue other affordable loan options.**
- **Also avoid permanently withdrawing funds before retirement. This often happens when people change jobs. According to a study by the Employee Benefits Research Institute, 46 percent of workers changing jobs rolled over into an IRA or a new employer's retirement plan at least some of the money they received from their former employer's retirement plan.**
- **Pre-retirement withdrawals reduce the ultimate size of your nest egg. In addition, you'll probably pay federal income taxes on the amount you withdraw (10 percent to as high as 35 percent) and a 10 percent penalty may be tacked on if you're younger than age 59½. In addition, you may have to pay state taxes. If you're in a SIMPLE IRA plan, that early withdrawal penalty climbs to 25 percent if you take out money during the first 2 years you're in the plan.**

Consider an annuity. An annuity is an agreement with an insurance company in which you pay money in return for its paying either a regular fixed amount when you retire or an amount based on how much your investment earns. There is no limit on how much you can invest in a private annuity, and earnings aren't taxed until you withdraw them.

However, annuities present complex issues regarding taxes, fees, and withdrawal strategies that may not make them the best investment choice for you. Consider discussing this type of investment first with a financial planner.

Build your personal savings. You can always save money on your own, either in mutual funds, stocks, bonds (such as U.S. Savings Bonds), real estate, CDs, or other assets. It's best to mark these investments as part of your retirement fund and don't use them for anything else unless absolutely necessary.

Investing in an IRA, an annuity, or in personal savings means you are totally responsible for directing your own investments. How conservatively or aggressively you invest is up to you. It will depend in part on how willing you are to take investment risks, your age, the stability of your job, and other financial needs. Learn as much as you can about investing and about specific investments you are considering. You also may want to seek the help of a professional financial planner. Go to www.LetsMakeAPlan.org for tips on choosing a financial planner who puts your interests first.

What To Do If You Are Self-Employed

Many people today work for themselves, either full time or in addition to their regular job. They have several tax-deferred options from which to choose.

SEP. This is the same type of SEP described earlier under employer-based retirement plans. Only here, you're the employer and you fund the SEP from your earnings. You can easily set up a SEP through a bank, mutual fund, or other financial institution.

"Keogh". "Keoghs" are more complicated to set up and maintain, but they offer more advantages than a SEP. For one thing, they come in several varieties. Some of the varieties allow you to sock away more money — sometimes a lot more money — than a SEP.

SIMPLE IRA. Described earlier under employer-based retirement plans, a SIMPLE IRA can be used by the self-employed. However, generally you can't save as much as you can with a SEP or "Keogh".

IRA. Usually you are better off funding a SEP or a "Keogh" unless your self-employment income is small.

Annuities. See annuities under the section on "What to Do if You Can't Join an Employer-Based Plan."

Managing For A Lifetime Of Financial Growth

As mentioned earlier, you probably will experience several major events in your life that can make it more difficult to start or keep saving toward retirement and other goals. The key is to have a clear plan, to stay focused on your goals, and to manage your money so that life events don't prevent you from keeping on target.

Here are a few suggestions for saving for retirement while financially managing some common life events.

Marriage. Getting married creates new financial demands that compete for retirement dollars, such as changing life insurance needs and saving to buy a home. But it's usually less expensive for two people to live together, thus freeing up dollars. Also, you probably still have time on your side. A spending plan is essential. Remember, every little bit helps.

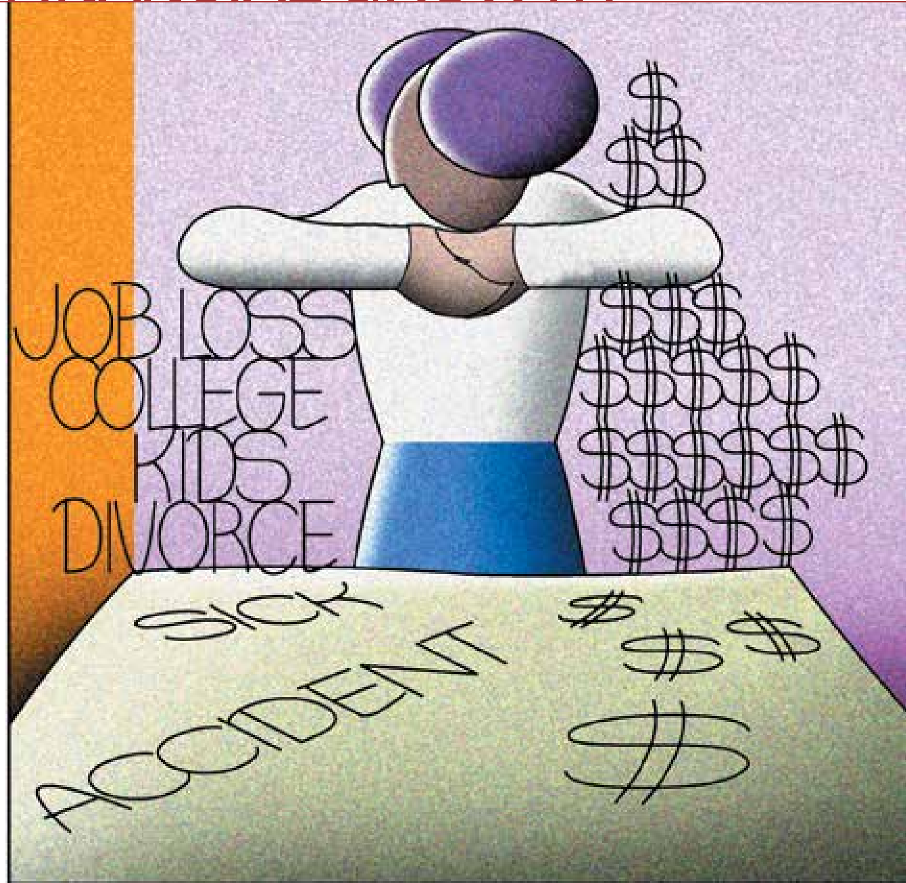
Raising children. The U.S. Department of Agriculture estimates that it costs the average American middle-income family approximately $295,560 to raise a child to age 17. Furthermore, in some cases a spouse may stay out of the workforce to raise children, thus cutting into income and the opportunity to fund retirement. Having a child may alter your major financial goals, but should never eliminate them. Make the best effort you can. Also, many financial planners stress that saving for retirement should have priority over saving for a child's college education. There are financial aid programs for college-bound students but not for retirement.

Changing jobs. It's estimated that the average worker changes jobs more than 10 times in a working lifetime. Changing jobs often puts you at risk of not vesting in your current job, or a new job may not offer a retirement plan. Consider keeping your money in your former employer's retirement plan or rolling it into a new company plan or an individual retirement account (IRA). Don't cash out and spend the money, however small the amount.

Divorce. It's important that you know the laws regarding your spousal rights to Social Security and retirement benefits. Under current law, spouses and dependents have specific rights. Remember, retirement assets may well be the biggest financial asset in the marriage. Be sure to divide those assets carefully. It's also critical to review your overall financial situation before and after your divorce. Income typically drops for partners in the wake of a divorce, particularly for women.

Disability. A severe or long-lasting disability can undermine efforts to save for retirement. Although Social Security Disability benefits can help sustain a family if severe disability strikes, you may wish to explore the availability and cost of other forms of disability insurance.

Death. The premature death of a spouse can undermine efforts for the partner to save for retirement, particularly if there are dependent children. That's why it is important to check your Social Security statement to find out how much children will receive if a parent dies. Maintaining adequate life insurance is also important. Be sure that you have properly named the beneficiaries for any insurance policies, retirement plans, IRAs, and other retirement vehicles.



Coping With Financial Crises

Life has a way of throwing unexpected financial roadblocks, detours and potholes in our path. These might be large medical bills, car or home repairs, a death in the family, loss of a job, or expensive legal problems. Such financial emergencies can derail your efforts to save for retirement or other goals. Here are some strategies for managing financial crises.

Establish an emergency fund. This can lessen the need to dip into retirement savings for a financial emergency. Building an emergency fund is tough if income is tight, but every few dollars help. Fund it with pay from extra working hours or a temporary job, a tax refund, or a raise. Put the money into a low-risk, accessible account such as a savings account or money market fund.

Insure yourself. Insurance protects your financial assets, such as your retirement funds, by helping to take care of the really big financial disasters. Here's a list of insurance coverage you should consider buying:

HEALTH. If you and your family aren't covered under an employer's policy, at least try to buy catastrophic medical coverage on your own.

DISABILITY. Did you know you are more likely before age 65 to miss at least 3 months of work because of a disability than you are to die? Social Security Disability Insurance can pay you and your family benefits if you are severely disabled and are expected to be so for at least 12 months. (Worker's compensation only helps if the disability is work-related.) In addition, your employer may offer some disability coverage, but you may need to supplement it with private coverage.

RENTERS. Homeowners usually are insured against hazards such as fire, theft, and liability, but the majority of renters aren't. Renter's insurance is inexpensive.

AUTOMOBILE. Don't drive "bare." It's usually against the law to drive without auto coverage, to say nothing of being costly if you are in an accident.

UMBRELLA. This provides additional liability coverage, usually through your home or auto insurance policies, in the event you face a lawsuit.

LIFE. Having life insurance can help you or your spouse continue to save if either one of you dies before retirement. Social Security may be able to pay benefits to your spouse and/or minor children. On the other hand, you may not need life insurance if no one depends financially on you. There are many types of life insurance, with a variety of fees and commissions attached.

LONG-TERM CARE. This insurance can help pay for costly long-term health care either at home or in a health-care facility or nursing home. It protects you from draining savings and assets you otherwise could use for retirement.

Borrow. If you must borrow because of a financial emergency, carefully compare the costs of all options available to you.

Sell investments. It's usually advisable to sell taxable investments first. Try not to touch your faster growing retirement accounts. Taking money out of your retirement accounts could trigger income taxes and penalties.

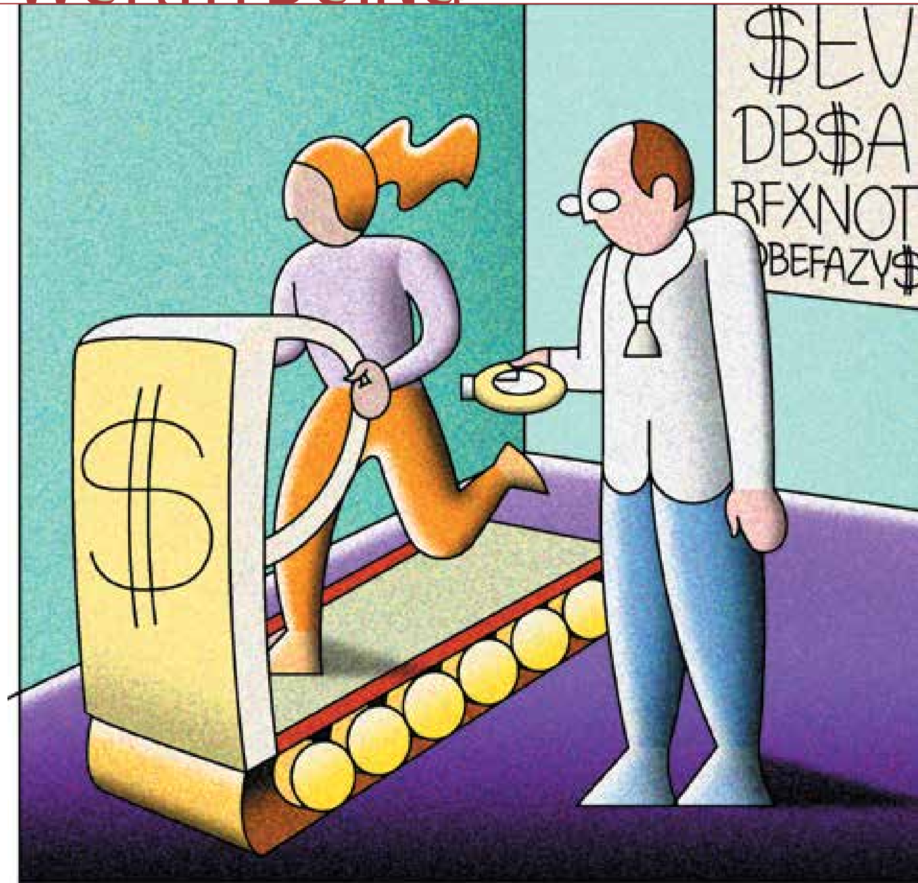
If You Choose To Work With A Financial Planner

You are the one ultimately responsible for the management of your own financial affairs. However, you may want additional help along the way from a professional financial planner. A professional planner can:

- **Provide expertise you don't have.**
- **Help improve your current financial management.**
- **Save you time.**
- **Provide an objective perspective.**
- **Help you through a financial crisis.**
- **Motivate you to take action.**

For more information, visit CFP Board's website www.LetsMakeAPlan.org or call 1-800-487-1497 to request free copies of the Consumer Guide to Financial Planning and the Consumer Guide to Financial Self-Defense. The website also contains a wealth of information about financial planning and an advanced search function that enables you to find a financial planner who fits your needs and who will put your interests first.

A WORKOUT WORTH DOING



Monitor Your Progress

Financial planning is not a one-time process. Life, your goals, tax laws, and your financial world have a way of changing, sometimes dramatically. Go back to *Worksheet 5–Cash Flow Spending Plan* and complete the last two columns to help you track your progress.

Periodically review your spending plan.

Monitor the performance of investments. Make adjustments if necessary.

Make sure you contribute more toward your retirement as you earn more.

Update your various insurance safety nets to reflect changes in income or personal circumstances.

Keep your finances in order.

Where To Go From Here

You now realize that saving for your own retirement is critical and that it is primarily your responsibility. You may get help along the way, but most of the work is going to rest on your shoulders. No one will work harder or care more about your retirement and your other financial goals than you.

Look back at your goals outlined in Worksheet 1. Perhaps they seem more realistic now. Even if you can't do as much as you would like to right away, you can do something.

Think of this booklet as a starting point. Continue to educate yourself about managing your money and investing. Consider professional resources as well, such as your benefits department, financial planners, and other financial experts who can help you not only with your financial questions, but, more importantly, can help motivate you into action.

Finally, there is only one real key to "buying" that retirement you've dreamed of. It doesn't matter whether you are still young or whether retirement is just around the corner. It doesn't matter whether you're in your first job, trying to save for a home, or putting a child through college.

All that matters is that you start saving...now!

Resources

This publication is presented by the:
Employee Benefits Security Administration
U.S. Department of Labor
200 Constitution Ave., N.W.
Washington, DC 20210
Web site: www.dol.gov/ebsa
Toll-free publication request line:
1-866-444-3272

Certified Financial Planner Board of Standards, Inc.
1425 K Street, NW, Suite 500
Washington, DC 20005
Website: www.LetsMakeAPlan.org
Toll-free number: 1-800-487-1497

Sample Financial Calculator websites:

Calculator for Workers Nearing Retirement
www.dol.gov/ebsa/publications/nearretirement.html
EBSA's publication "Taking the Mystery Out of Retirement Planning" provides online interactive worksheets for workers who are 10 to 15 years from retirement to help them get an idea of whether their retirement savings are on track.

Other Calculators
www.kiplinger.com – Select "Retirement Savings Calculator."

www.choosetosave.org/asec/ – Select "Ballpark Estimate."

www.finra.org – Select "Investors," then "Tools & Calculators" and "Retirement Calculator."

http://money.cnn.com – Select "Calculators."

(Note: The sites above are only a sample of calculators available on the web. The Department of Labor does not endorse a specific calculator or the products and services offered on these websites.)

Getting Out of Debt:

www.ftc.gov/credit
The Federal Trade Commission has information on a number of debt and credit topics, including getting out of debt, credit counseling and repair, and understanding your credit report.

http://www.federalreserve.gov/consumerinfo/fivetips_creditscore.htm
The Federal Reserve Board website has information about credit reports and how to improve your credit score, and a credit card repayment calculator that estimates how long it will take to pay off a credit card balance.

www.consumerfinance.gov
The Consumer Financial Protection Bureau has information to educate consumers about credit card debt, student loans and mortgage.

Other web sources that highlight savings and retirement planning:

http://investor.gov
View the U.S. Securities and Exchange Commission's investor information website for online help with investing and consumer protection questions.
Toll-free consumer information number:
1-800-732-0330

www.mymoney.gov
This website is sponsored by the Financial Literacy and Education Commission, and has among its offerings the My Money Tool kit.

www.ftc.gov
Check out the Federal Trade Commission's section "Consumer Protection," including alerts on investment schemes.

RESOURCES

www.publications.usa.gov
The Federal Citizen Information Center's site contains text versions of hundreds of consumer publications. See the "Money" section for a list of brochures on money management and retirement planning.

www.socialsecurity.gov
Visit the Social Security Administration's website for pages on retirement. Wage earners can estimate their retirement benefits online.

www.irs.gov
The IRS website provides tax information on IRAs, 401(k) plans, SEP and SIMPLE plans, and much more.

www.savingsbonds.gov
The Bureau of the Public Debt's website features pages on savings bonds, a savings bond calculator, and instructions for buying bonds online.

www.fdic.gov
The Federal Deposit Insurance Corporation's website offers a financial education program, "Money Smart," a comprehensive financial education curriculum designed to help individuals outside the financial mainstream enhance their financial skills and create positive banking relationships.

www.investoreducation.org
Investors of all ages can learn about the basics of investing at the Investor's Clearinghouse, sponsored by the Alliance for Investor Education (AIE).

www.aarp.org
The AARP site provides advice on a host of retirement planning issues. Link to "Money" for information on financial planning.

www.nefe.org
Browse the website of the National Endowment for Financial Education for a wealth of preretirement information.

www.jumpstartcoalition.org
Jump$tart Coalition for Personal Financial Literacy offers personal financial education materials aimed at grades K-12.

www.consumerfed.org
The Consumer Federation of America offers several financial publications, including Your Credit Score and 66 Ways to Save Money, and runs the America Saves campaign to encourage savings among low-to-moderate income households.

Worksheets

Use these worksheets to help you manage your financial life and begin your savings fitness plan. Take your time. You may want to fill out one or two worksheets and then spend some time gathering the information you need for the rest. Don't get stuck on the details. Guessing is okay and you can always come back later with more accurate or up-to-date numbers and information. If you are married, remember to include your spouse's information when filling out the worksheets.

You may want to make a copy of the worksheets before you get started, or print out an extra copy online. That way you can come back at a later date – in six months or a year – to update the worksheets and track your progress. This will help you start saving for a secure retirement, and other goals you may have. Interactive versions of the worksheets are also available online at www.dol.gov/ebsa/publications/savingsfitness.html to help with the calculations.

WORKSHEET TITLE	DATE COMPLETED
1. Goals and Priorities	______________
2. Financial Documents Checklist	______________
3. Balance Sheet to Calculate Net Worth	______________
4. Retirement Savings	______________
5. Cash Flow Spending Plan – first two columns	______________
– last two columns	______________
6. Debt Reduction	______________

1. Goals and Priorities

Date ____________

Write down your goals, listing both short-term and long-term goals. Then number them in order of priority. Think about what you need to do to accomplish each goal, including cost, how much you have set aside already, and what you are willing to do to reach the goal. Remember to make saving for retirement a priority!

Priority	What is your goal?	By when?	How much will it cost?	What money do you have saved for this goal?	What are you willing to do?
SHORT-TERM GOALS (5 years or less)					
1	Example: emergency savings fund	1 year	6 months of expenses	3 months of expenses	Fill out these worksheets to find more savings, bring lunch to work every day
LONG-TERM GOALS (longer than 5 years)					
1	Example: a secure retirement	retirement age	% of pre-tax pay (see worksheet 4)	some savings in an IRA	sign up for workplace plan

2. Financial Documents Checklist

Date ______________

To help you fill out the worksheets that follow, gather together recent copies of the documents and statements listed below. You can get many of these documents from your employer, financial institutions, and insurance companies. You can get your Social Security Statement with an estimate of your retirement benefits at www.socialsecurity.gov/mystatement. To get a free credit report every twelve months, visit www.annualcreditreport.com or call 877-322-8228. The Resources section has additional websites, publications, and information to help you find and understand these documents.

Retirement Planning Documents and Statements

- ❒ Workplace retirement plan(s), including the Summary Plan Description(s) and benefit statement(s)
- ❒ Individual IRA account(s)
- ❒ Retirement benefits information from current or former spouse
- ❒ Annuity policies
- ❒ Social Security retirement benefits estimate

Tax Planning Documents

- ❒ Income tax returns for last year (federal, state and local)
- ❒ Recent pay stub with cumulative year-to-date information

Financial Documents and Statements

Investment-Related Documents and Statements

- ❒ Bank accounts (savings accounts, CDs)
- ❒ Mutual funds
- ❒ Brokerage accounts
- ❒ Stocks held outside of mutual funds or brokerage accounts
- ❒ Bonds held outside of mutual funds or brokerage accounts
- ❒ Partnership or other business agreements
- ❒ Other

Loan Documents, Statements, and Credit Reports

- ❒ Student Loans
- ❒ Mortgage(s)
- ❒ Car(s)
- ❒ Credit cards
- ❒ Other
- ❒ Copy of recent credit report

Insurance Documents and Statements

- ❒ Health, disability, and long term care insurance policies
- ❒ Homeowners, renters, auto, and umbrella insurance policies
- ❒ Life insurance policies
- ❒ Other

3. Balance Sheet to Calculate Net Worth

Date ____________

Use this balance sheet to calculate your net worth, which is the total value of what you own (assets) minus what you owe (liabilities). Your goal is to have a positive net worth that grows each year.

First, add up the approximate value of your assets, including your checking and savings accounts, investments, and property, such as your home (if you own it). Then add up your liabilities (debts), including any amounts you currently owe on a home mortgage, auto or student loans, credit card debt, and other outstanding amounts owed. Finally, subtract your liabilities from your assets to get your net worth.

ASSETS	VALUE	LIABILITIES	VALUE
Cash Reserves		Home mortgage	
Cash		Second mortgage	
Checking		Home equity loan	
Savings			
Savings bonds		Student loans	
Money market account		Auto loan	
Certificates of deposit (CDs)			
Other			
SUBTOTAL			
Home or Condo (if owned)		Credit cards	
SUBTOTAL			
Retirement Accounts			
401(k), 403(b)			
IRAs			
Annuities			
Other retirement plans			
SUBTOTAL		Other debt	
Personal Investments			
Mutual funds			
Stocks			
Bonds			
Brokerage accounts			
Real estate			
Other			
SUBTOTAL			
Other Assets			
SUBTOTAL			
TOTAL ASSETS		TOTAL LIABILITIES	
NET WORTH (Total Assets minus Total Liabilities)			

4 . Retirement Savings

Date ______________

Worksheet 4 can help you figure out how much you need to save each year towards your goal of a secure retirement. It estimates how much you should save as a percentage of your current annual salary to give you a savings goal. You can save through a retirement savings plan at work, on your own, or both. While the worksheet does not take into account your unique circumstances, it will give you an idea of how much to save each year and a clearer picture of your retirement goals. The sooner you start saving, the longer your savings have to grow.

As you fill out the worksheet, think about your plans including when you might retire, what savings you have, and how many years you hope to enjoy in retirement. Of course, your plans and circumstances may change, so update this worksheet periodically to reflect any changes.

The worksheet breaks the calculations into four steps. A 7 percent rate of return is used to keep it simple: remember investing involves risk, so investment returns, even assuming a diversified mix of stocks and bonds, go up and down and cannot be guaranteed. The worksheet, which uses a 3 percent inflation rate, increases your salary 3 percent each year but does not include any other increases.

Step 1 estimates what your annual salary will be at retirement as a result of inflation and how much savings you will need in addition to Social Security for the first year of retirement. (The next three steps will help you determine how much to save to have enough savings to last through your retirement.)

To start, enter the number of years until you expect to retire on line 1. Next, enter your current annual salary – this is your total pay before taxes or other deductions. You can probably get this from your pay statement. Multiply your current annual salary by a projected salary growth factor from the box below the worksheet and enter the result on line 4. Select the factor that corresponds most closely to the number of years until you plan to retire. Multiply the amount on line 4 by 40 percent to estimate the annual income you will need for your first year of retirement.

Where does this 40 percent come from? On average, people need to replace about 80 percent of pre-retirement income for living in retirement. According to the Social Security Administration, Social Security retirement benefits replace about 40 percent of an average wage earner's income after retiring. This leaves approximately 40 percent to be replaced by retirement savings. However, keep in mind that this is an estimate and you may need more or less depending on your individual circumstances.

Step 1.

1. Number of years until retirement (retirement age minus current age) ____________
2. Current annual salary ____________
3. Projected salary growth factor ____________
4. Value of salary at retirement (multiply line 2 X line 3) ____________
5. Replacement rate x .40
6. Income goal for the first year of retirement (multiply line 4 X line 5) ____________

PROJECTED SALARY GROWTH FACTORS
(by number of years until retirement)

20	25	30	35	40	45
1.8061	2.0938	2.4273	2.8139	3.2620	3.7816

For example, if you are now 30 years old, plan to retire in 35 years at age 65, and earn $50,000 a year, the calculation for Step 1 would look like this:

Example for Step 1

Number of years until retirement	35
Current annual salary	$50,000
Projected salary growth factor	x 2.8139
Value of annual salary at retirement	$140,695
Replacement rate	x .40
Income goal for the first year of retirement	$56,278

Step 2 takes the result from Step 1, the income you need for the first year of retirement, and estimates how much you will need to last through retirement. In retirement, while your investments will continue to grow, the cost of retirement likely will go up every year due to inflation – that is, today's dollars will buy less each year because the cost of living usually rises. Step 2 estimates how much savings you will need, taking into account the growth of your investments and inflation through your retirement. People are living longer on average which means you could need retirement income for 30 years or more. Planning to live well into your 90s can help you have a secure retirement and avoid outliving your income.

Enter the result from Step 1 on the first line. Then enter the number of years you think you will spend in retirement. Select a projected income factor from the box under the Step 2 worksheet that corresponds most closely to the number of years you expect to live in retirement and enter it on line 3. Multiply line 1 by line 3 and enter the result on line 4. This is the estimated value of savings you need at retirement to last through retirement.

Step 2.

1. Income goal for the first year of retirement (from Step 1 line 6) ____________
2. Number of years in retirement ____________
3. Projected income factor ____________
4. Savings needed at retirement (multiply line 1 X line 3) ____________

PROJECTED INCOME FACTORS
(by number of years spent in retirement)

20	25	30	35	40
14.2649	16.4305	18.2204	19.6999	20.9228

If, for example, you are planning for 30 years in retirement, multiply the result from Step 1 by the projected income factor for 30 years in retirement.

Example for Step 2

Income goal for the first year of retirement	$56,278
Number of years in retirement	30
Projected income factor	x 18.2204
Savings needed at retirement	$1,025,408

If you have already started saving for retirement, congratulations! **Step 3** estimates how much your current retirement savings will grow by the time you plan to retire.

On line 1, enter your current retirement savings. Make sure you include all of the savings and assets you have for retirement. Next, enter the number of years until you plan to retire – use the same number you used in Step 1. Multiply your current savings by the projected value factor (from the box below the Step 3 worksheet) that you choose based on the number of years until retirement. The result is what your current savings will be worth at retirement.

Step 3.

1. Current savings __________
2. Number of years until retirement (from Step 1 line 1) __________
3. Projected value factor __________
4. Value of current savings at retirement (multiply line 1 X line 3) __________

PROJECTED VALUE FACTORS
(by number of years until retirement)

20	25	30	35	40	45
3.8697	5.4274	7.6123	10.6766	14.9745	21.0025

If, for example, you have $2,000 in retirement savings and plan to retire in 35 years you would make this calculation:

Example for Step 3

Current savings	$2,000
Number of years until retirement	35
Projected value factor	x 10.6766
Value of current savings at retirement	$21,353

Step 4 pulls the prior calculations together so you can see where you are today and how much to save each year as a percentage of your current salary. This percentage is also called your "target saving rate." Saving this amount each year will help you reach your retirement goals.

Start by entering the number of years until you plan to retire from Step 1 on line 1. Next, enter the estimated savings needed at retirement from Step 2. From Step 3, write down the value of your current savings at retirement on line 3. Subtract line 3 from line 2 and enter it on line 4 – this is the additional retirement savings you need.

Enter your current annual salary on line 5. Multiply it by the projected saving rate factor (in the box below the Step 4 worksheet) that corresponds to the number of years until you plan to retire and enter it on line 7. This is the maximum amount you would have if you saved your entire salary between now and retirement including inflation and investment earnings, or the maximum possible savings based on salary until retirement. Saving this much is not something you would normally do. This number is only used to help figure out how much of your salary to save. Divide line 4 by line 7. This is your target saving rate, or the percentage of your salary to save.

The target rate includes any contributions your employer makes to a retirement savings plan for you, such as an employer matching contribution. If, for example, you are in a 401(k) plan in which you contribute 4 percent of your salary and your employer also contributes 4 percent, your saving rate would be 8 percent of your salary.

Remember that the worksheet only gives you a rough idea, a savings goal. Some may face higher expenses in retirement because of personal circumstances and choose to save more. Some may have other sources of income in retirement such as a traditional defined benefit pension or money from selling a home that would lower the target rate.

You can compare your results with what you are currently saving after you complete Worksheet 5. If you are currently saving less, don't be discouraged. The important thing is to start saving, even a small amount, and increase that amount when you can. Come back and update this worksheet from time to time to reflect changes and track your progress.

Step 4.

1. Number of years until retirement (from Step 1 line 1) __________
2. Savings needed at retirement (from Step 2 line 4) __________
3. Value of current savings at retirement (from Step 3 line 4) __________
4. Additional retirement savings needed (subtract line 3 from line 2) __________
5. Current annual salary (from Step 1 line 2) __________
6. Projected saving rate factor __________
7. Maximum possible savings based on salary until retirement (multiply line 5 X line 6) __________
8. Target saving rate (divide line 4 by line 7) __________

PROJECTED SAVING RATE FACTORS
(by number of years until retirement)

20	25	30	35	40	45
55.2006	89.1753	138.6986	210.3277	313.3072	460.6579

This step pulls together results from the previous steps and gives you a target saving rate.

Example for Step 4

Number of years until retirement	35
Savings needed at retirement	$1,025,408
Value of current savings at retirement	− $21,353
Additional retirement savings needed	$1,004,055
Current annual salary	$50,000
Projected saving rate factor	x 210.3277
Maximum possible savings based on salary until retirement	$10,516,385
Target saving rate	9.5%

5 . Cash Flow Spending Plan

Date ________________

Use the first two columns of Worksheet 5 to create a budget, sometimes called a cash flow spending plan or a guide for how you expect to spend your money. Don't worry if you don't have all of the information. You can make a guess now and fill in more specific information later.

Start with your monthly income. If you know your annual gross income, divide it by 12 to get the monthly amount. Most pay statements or pay stubs list your total (or gross) income and your deductions, along with your net take-home pay. You can find your net take-home pay by subtracting your deductions from your gross income. List all taxes, including federal, state, and local income taxes, plus Social Security and Medicare taxes.

Next, enter all of your monthly expenses. You can find an average for expenses that are different or don't occur each month, such as heating or car insurance, by adding up the bills for the year and dividing by 12. Once you know your monthly income and expenses, multiply it times 12 to get an annual cash flow spending plan or budget. If you are spending more than you earn, page 10 of the booklet has ideas on how to cut expenses, increase income, or both.

Return to this worksheet at the end of the year to see how you did in following your budget. Use the last two columns to track your actual spending and see how it is different from what you planned to spend. If what you spent is more than you planned, enter it with a plus sign and if it was less, enter it with a minus sign. This will make it easier for you to add up the differences for the year and find ways to spend less, if you need to. Each year you can review your cash flow plan and make changes for the next year's budget to help you reach your financial goals.

Add up your total retirement savings, both at work and on your own. If your employer also contributes money to your retirement savings plan, in a 401(k) plan for example, enter that amount in the row labeled employer match and add it to your retirement savings to get the total retirement savings. Divide the total retirement savings by gross income (the first line in the worksheet) to get your current retirement savings rate. You can compare it to the results from worksheet 4, which is your target saving rate.

	1 – Your current monthly and annual budget		2 – Track how your spending varies from what you planned	
	Monthly	Annual	Actual spending	Was it more (+) or less (-) than planned
INCOME:				
Gross income (total pay before deductions)				
Deductions:				
Retirement contributions				
Health, dental, vision insurance				
Disability, long-term care insurance				
Life insurance				
Taxes				
Other deductions				
Net take-home pay (gross income minus deductions)				
Other income				
TOTAL NET INCOME				
EXPENSES:				
Savings and investing				
Retirement (outside of workplace plan)				
Cash reserves				
Down payment for a home				
Education				
Other				
Housing				
Mortgage (including condo fees)				
Rent				
Maintenance				
Food (at home)				

	1 – Your current monthly and annual budget		2 – Track how your spending varies from what you planned	
	Monthly	Annual	Actual spending	Was it more (+) or less (-) than planned
Utilities Electricity Heat Internet/cable Phones Water/sewer				
Clothing				
Taxes Real estate Other property taxes Other taxes				
Insurance Homeowner or renter Car Life (if purchasing outside of work) Disability, long-term care (if purchasing outside of work)				
Loans payments Car Credit card Education Other				
Caregiving Child care Elder care				
Personal care Haircut Dry cleaning Gym Other				
Transportation Car repairs and maintenance Gas Parking Public transportation				

	1 – Your current monthly and annual budget		2 – Track how your spending varies from what you planned	
	Monthly	**Annual**	**Actual spending**	**Was it more (+) or less (-) than planned**
Health care – out-of-pocket spending Health, dental, vision insurance (if purchasing outside of work) Doctor visits Hospital Medicine Over-the-counter medicine Noncovered items				
Travel/vacations				
Entertainment Eating out Hobbies Movies/theatre				
Charitable contributions				
Other Gifts Membership dues Pet-related costs				
TOTAL EXPENSES				
TOTAL NET INCOME – TOTAL EXPENSES				
Subtotal retirement savings (Workplace plan contributions + saving on your own)				
Employer match				
Total Retirement Savings				
Current retirement savings rate as a percentage of gross income (total retirement savings ÷ gross income)				
Target saving rate (from Worksheet 4)				

6 . Debt Reduction

Date ________________

This worksheet will help you organize your debt so that you can plan how you will pay down each debt and track your progress. Money that goes to pay interest, late fees, and old bills could be saved and invested to earn more for retirement and other goals.

In Worksheet 6, list your home mortgage first, if you have one. Then list your auto loans, student loans, any credit card debts, or other money that you owe. In the final column, write down which debts you will pay off first, second, and so on. Generally, you may want to pay off the debts with the highest interest rates first. However, if you have a debt with a small balance, you may want to pay it off to get it off your list. The Resources section provides websites and publications on how to get a copy of your credit report, repair your credit, calculate how long it will take to pay off credit card debt, and other information.

Creditor	Interest Rate	Balance	Required minimum monthly payment	Planned payment	Priority
	%	$	$	$	
	%	$	$	$	
	%	$	$	$	
	%	$	$	$	
	%	$	$	$	
	%	$	$	$	
	%	$	$	$	
	%	$	$	$	
	%	$	$	$	
	%	$	$	$	
	%	$	$	$	
	%	$	$	$	
	%	$	$	$	
	%	$	$	$	
	%	$	$	$	
	TOTAL	$	$	$	

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