HOW TO SAVE FOR YOUR FUTURE

a guide for financial security

Choose to Save®

choosetosave.org

Save for your future®.

Choose to Save® is designed to encourage Americans to take four basic steps to secure their financial future:

1. ***Calculate*** how much money you may need for retirement or other goals.
2. ***Plan*** how to accumulate money and other assets to help meet your needs.
3. ***Act*** to implement your plan and save the money you (and your family) may need.
4. ***Reassess*** your financial needs and the progress of your plan every year during the three month period between the time you receive your annual Social Security Statement and your birthday. If your needs have changed or your plan isn't working, readjust one or both of them.

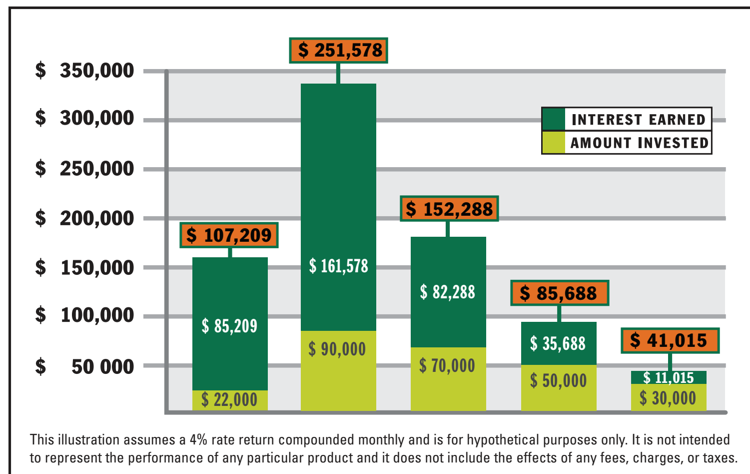
What are your financial goals? How can you save enough money for the future? Where should you begin? These questions are enough to make anyone anxious. Well, take a deep breath and relax. Preparing for your future financial security can be challenging, but you can do it. This little booklet will help you get started.

Your Social Security Statement — a great place to start.

Each year, about three months before your birthday, Social Security mails you your own personalized benefit statement. Among other things, it gives you an estimate of how much your Social Security benefit may be when you retire, based on your earnings and date of birth.

Look at the numbers.

In 2009, the average monthly Social Security retirement benefit was $1153.00. Could you live on that? Many financial professionals estimate you'll need at least 78%-94% of your pre-retirement income to live comfortably in retirement. Social Security only provides about 40% of preretirement income for the average worker. You'll need to make up the difference.



This illustration assumes a 4% rate return compounded monthly and is for hypothetical purposes only. It is not intended to represent the performance of any particular product and it does not include the effects of any fees, charges, or taxes.

Amount	Savings
$ 107,209	Saved $2,000 per year from age 20 to 30. Kept money in account until age 65.
$ 251,578	Saved $2,000 per year from age 20 to 65.
$ 152,288	Saved $2,000 per year from age 30 to 65.
$ 85,688	Saved $2,000 per year from age 40 to 65.
$ 41,015	Saved $2,000 per year from age 50 to 65.

Use the three months between the time you get your statement and your birthday to begin planning for a secure financial future. If you're already saving, use your statement as an annual reminder to re-evaluate your progress.

Hey, where did all my money go?

You started the day with $10 in your wallet. You may not recall spending much, but by the time you get home, your wallet is empty. How does that happen?

Here's one way to find out. For three months, record every dime you spend and every single item you buy. A small notebook you can carry with you everywhere is great for this exercise. As a backup, request a receipt for every purchase you make. You'll probably be surprised at how much you spend and where your money goes.

When three months have passed, look at each of your purchases. Are you spending money on things you can just as easily live without? Try eliminating some of the things you do not need. Start small – maybe one less cup of coffee, or try bringing your lunch once a week. Just think how much savings you could accumulate if you stopped spending or spent less money on some of your more "unneeded" purchases.

Feed it often and watch it grow.

You may not need a lot of money to accumulate meaningful savings. Thanks to compound interest, small regular savings can add up over time. Because with compound interest, it's not just your money that earns interest – your interest earns interest as well – creating a snowball effect. The longer you save, the more compound interest works for you. So the sooner you start saving, the better off you'll be.

Is it in the cards?

Credit cards. On the positive side, they are extremely convenient, useful and can have many good features. On the negative side, it's easy to get yourself in over your head in a hurry. Because when it comes to credit cards, compound interest can work against you. If you carry a balance from month to month, you'll be paying interest on your interest.

Watch the mail for your Social Security benefit statement. It should arrive three months before your birthday.

For example, let's say you buy a TV for $325 using a credit card that charges 13% interest, compounded monthly. If you made just the monthly minimum payment of $10, it would take you 41 months to pay off your purchase – and you'd end up paying a total of $410 instead of $325. And that's at a 13% interest rate. Credit cards can charge interest rates as high as 23% or more.

The only sure way to avoid credit card debt is not to have credit cards. Of course, that's not very realistic for most of us. So, use your credit cards carefully. Keep close track of your purchases and pay off the balance every month. Also, shop around for the lowest interest rate you can find – it can make a huge difference.

If you're trying to get out of debt, pay off your highest interest credit card first. Then begin paying off your second highest interest credit card and so on. And talk to your credit card companies. In some cases, they may help you by lowering your interest rate or eliminating fees.

Remember, help is available. There are reputable, nonprofit organizations that can help you put together a repayment plan and help you work with your credit card companies. Be prepared – it can take a while to get out of debt. But once you do, you'll feel great!

Ready for an emergency?

The time to think about how you'll pay for an emergency is BEFORE the emergency happens. That's why many financial professionals recommend you keep savings equal to at least three to six months of basic living expenses in an easily accessible, low-risk account like a savings account. How much money do you need every month just to get by? Let's figure it out.

Use your expense tracking to get started. First, add up your fixed monthly expenses like rent or mortgage payments and utilities. Then add the amount you spent for food and other necessities. By averaging these expenses over a three-month period, you'll know what amount you absolutely must have each month. Once you know that, you'll know what you need for your emergency fund.

Set your goals: inspired, but realistic.

Once you've tracked your expenses and eliminated unnecessary items, made a plan to pay off your credit card debt and started your emergency fund, then what?

You need to think about what you want for yourself and your family. Do you want to buy a house? Send your kids to college? Retire comfortably? Write down your financial goals with as much detail as possible, such as "I want to retire in my current house. I want to visit my children and grandchildren four times each year and go on weekend trips."

Prioritize your goals and include the number of years you'll have to save for that goal. The more detail you include on each of your goals, the easier it will be to develop a specific plan to reach them.

Reaching your goals.

The variety of saving and investment vehicles can be overwhelming. So here are some tips. When you outlined your dreams, you also wrote down how long you have to reach them. That information can help you choose the appropriate savings vehicles.

Short-Term Goals – These are items that you intend to purchase within the next year or two, such as a new computer or a vacation. For short-term savings, think safety. Some of the vehicles that are appropriate for short-term savings include a savings account, a certificate of deposit (CD), or a money market account. These accounts offer a lower rate of return, but are also low risk.

Intermediate-Term Goals – These are goals that you will need to meet within a five to ten year time frame. They can include things like a down payment on a home or college tuition. When you have a little more time to save, you have the option to use vehicles with

Retirement? College? A new home?
What are your financial goals?

a higher potential rate of return, such as a mutual fund or a CD. Of course, five to ten years is still not a long time when it comes to investing, so you may still want to choose vehicles with a moderate level of risk.

Long-Term Goals – These are goals that you need to reach in more than ten years such as college tuition and retirement. As your time horizon increases, you have the opportunity to use more growth-oriented vehicles with potential higher rates of return and risks, such as stocks and mutual funds.

Never keep all of your eggs in one basket. Diversify your investments by spreading your savings over a variety of investment options, such as stocks, CDs and bonds. And remember, ALL investments have the potential to increase and decrease in value. But when you own a variety of investments, you increase the likelihood that some will do well when others do poorly.

Saving for college.

College isn't cheap. And the cost increases each year. Fortunately, there are a variety of tools available to help you save for your own or your children's higher education. Currently, two of the more popular education savings vehicles are Coverdell Education Savings Accounts and 529 College Savings Plans.

But you should do a little research. The Internet and public library are great places to start. There is a lot of information available on different schools and their costs – not to mention information on scholarships and grants. And try talking to the financial aid office at your local college. They may have some ideas that can help you.

The bottom line is, if you set goals, start early, and take advantage of the tools available, you can pass the tuition test.

Saving for retirement.

These are the simple facts: The longer you wait, the less time you'll have to save for retirement. Which means the longer you wait to save, the longer you may have to wait to retire.

Most people who retire at age 65 can expect to live 20 or more years in retirement. So how much will you need? As we mentioned earlier, many financial professionals suggest you'll need at least 78%-94% of your pre-retirement income to maintain your current standard of living. If you want to stay close to home, this may be right on target for you. But if you're planning to take a cruise every month, you'll need to consider saving a lot more.

Another important consideration is healthcare. Longer life can mean greater chances of medical problems in retirement. If you have a family history of medical problems, you may want to save more. Medicare and Medicaid are government programs that can provide some help, but they may not cover everything.

Of course, you may already have more saved for retirement than you think. You now have your estimated Social Security benefit amount from your statement. You may also have a 401(k) or similar savings plan at work, a traditional defined benefit plan, individual retirement accounts (IRAs) and other savings. It all adds up.

Be sure to take advantage of any retirement benefits your employer offers. Some have traditional defined benefit plans that pay a set dollar amount each year you're in retirement. Others offer defined contribution plans, such as 401(k) plans, that allow you to make contributions to your account with before-tax dollars. Your contributions come right out of your paycheck, making it easy to save on a consistent basis. And your employer may match a portion of your contributions. Don't miss out on that.

If you change jobs, consider rolling over your retirement account assets into an IRA or into your new employer's plan. In some cases you may even be able to leave the money in your current employer's plan.

Start saving now. The sooner you begin, the sooner you can retire.

The Ballpark Estimate® pre-retirement planning worksheet was developed by the American Savings Education Council (www.asec.org). This one-page worksheet will give you a rough estimate of what you need to save each year to fund your retirement. You can find an interactive Ballpark Estimate online at the *Choose to Save®* web site: www.choosetosave.org

Help is always available.

If this is all a bit much for you, please remember, you're not alone. Financial professionals are available to help you plan your future. If you decide to see a financial professional, take your time and talk with several before choosing one.

Review your goals each year.

Your situation and your goals may change. That's why you should take time each year to evaluate your progress. Did you meet your goals? Do you have new goals for the coming year?

You might also consider making one new goal each year. For example, if you spent your tax refund check last year, maybe you could make it a goal to put this year's refund toward your retirement savings.

As we've shown you, every little bit helps. Start now and get ready for what the future might bring.

Save for your future. And your family's future. It will be here before you know it.

Additional tools and resources.

Find additional tools and more information at: www.choosetosave.org

The national *Choose to Save*® education campaign is committed to informing Americans about the need to save and plan for retirement and other life stages.

Employee Benefit Research Institute
www.ebri.org

Choose to Save®
www.choosetosave.org

American Savings Education Council
www.asec.org

Financial Literacy Education Commission
www.mymoney.gov

U.S. Department of Labor
www.dol.gov/ebsa/

U.S. Department of the Treasury
www.savingsbonds.gov

U.S. Social Security Administration
www.ssa.gov
www.socialsecurity.gov

U.S. Department of Health and Human Services:
Centers for Medicare and Medicaid Services
www.medicare.gov
http://cms.hhs.gov

U.S. Department of Defense:
Navy and Marine Corps
www.lifelines2000.org/home.htm

Army
www.armycommunityservice.org/vacs_finance/home.asp

Air Force Crossroads
www.afcrossroads.com/

Save for your future®.
It will be here before you know it.

Monthly Expense Worksheet

Expense	Amount
SAVINGS*	$
RENT / MORTGAGE	$
UTILITIES: *heat, water, electricity*	$
FOOD: *groceries, dining out, snacks*	$
TRANSPORTATION: *gas, oil, car payment, repairs, insurance*	$
TRANSPORTATION: *bus or subway fare*	$
CREDIT CARD PAYMENTS	$
INSURANCE: *health, renter's, homeowner's*	$
LOAN REPAYMENTS	$
TUITION	$
CLOTHING	$
CHILD CARE / AFTER-SCHOOL PROGRAMS	$
UNIFORMS, BOOKS, SCHOOL SUPPLIES	$
ENTERTAINMENT: *movies, videos, cd's, books, travel*	$
HOLIDAY GIFTS	$
OTHER EXPENSES	$
TOTAL EXPENSES	$

*** If you think of saving money as a regular monthly expense, you will be more likely to stick with a savings plan.**

Choose to Save®

**The Ballpark Estimate® Pre-Retirement Worksheet on reverse side is designed to provide a rough estimate of what you will need to save annually to fund a comfortable retirement. It provides an approximation of projected Social Security benefits and utilizes only one of many possible rates of return on your savings. Ballpark reflects today's dollars and does not account for inflation; therefore, you should recalculate your savings needs on a regular basis and as your salary and circumstances change. You won't want to stop with the Ballpark Estimate; it is only a first step in the retirement planning process. You will need to do further analysis, either yourself using a more detailed worksheet or computer software, or with the assistance of a financial professional. ©Copyright, EBRI Education and Research Fund. All rights reserved.

Ballpark Estimate® Pre-Retirement Planning Worksheet**

If you are married, you and your spouse should each fill out your own Ballpark Estimate worksheet taking your marital status into account when entering your Social Security benefit in number 2 below.

1 How much annual income will you want in retirement? $ ______

(Figure at least 70% of your current annual gross income just to maintain your current standard of living.)

2 Subtract the income you expect to receive annually from: – $ ______

For married couples – the lower earning spouse should enter either their own benefit based on their income or 50% of the higher earning spouse's benefit, whichever is higher. For a more personalized estimate, enter the appropriate benefit figure from your Social Security Statement from the Social Security Administration (1-800-772-1213, www.ssa.gov).

SOCIAL SECURITY: – $ ______

If you make

$25,000 or less	**Enter $8,000**
$25,000 - $40,000	**Enter $12,000**
$40,000 or more	**Enter $14,500**

TRADITIONAL EMPLOYER PENSION: – $ ______

A plan that pays a set dollar amount for life, where the dollar amount depends on salary and years of service (in today's dollars).

PART-TIME INCOME: – $ ______

OTHER: – $ ______

This is how much you need to make up for each retirement year: **TOTAL:** $ ______

Now you want a ballpark estimate of how much money you'll need in the bank the day you retire. So the accountants went to work and devised this simple formula. For the record, they figure you'll realize a constant real rate of return of 3% after inflation, you'll live to age 87, and you'll begin to receive income from Social Security at age 65. If you anticipate living longer than age 87 or earning less than a 3% real rate of return on your savings, you'll want to consider using a higher percentage of your current annual gross income as a goal on line 1.

3 Determine the amount you'll need to save. $ ______

Multiply the amount you need to make up by the factor below:

Age you expect to retire:	Your factor is:
55	21.0
60	18.9
65	16.4
70	13.6

4 Expect to retire before age 65? + $ ______

Multiply your Social Security benefit by the factor below:

Age you expect to retire:	Your factor is:
55	8.8
60	4.7

5 Multiply your savings to date by the factor below. – $ ______

(Include money accumulated in a 401(k), IRA, or similar retirement plan.)

If you want to retire in:	Your factor is:
10 years	1.3
15 years	1.6
20 years	1.8
25 years	2.1
30 years	2.4
35 years	2.8
40 years	3.3

Don't panic. Those same accountants devised another formula to show you how much to save each year in order to reach your goal amount. They factor in compounding. That's where your money not only makes interest, your interest starts making interest as well, creating a snowball effect.

Total additional savings needed at retirement: **TOTAL:** $ ______

6 Determine the ANNUAL amount you'll need to save.

Multiply the TOTAL amount by the factor below.

If you want to retire in:	Your factor is:
10 years	.085
15 years	.052
20 years	.036
25 years	.027
30 years	.020
35 years	.016
40 years	.013

$ ______ /yr

How much money do you need each year?

Tips to help you select a goal:

70% to 80% — You will need to pay for the basics in retirement, but you won't have to pay many medical expenses as your employer pays the Medicare Part B and D premium and provides employer-paid retiree health insurance. You're planning for a comfortable retirement without much travel.

You are older and/or in your prime earning years.

80% to 90% — You will need to pay your Medicare Part B and D premiums and pay for insurance to cover medical costs above Medicare, which on average covers about 55%. You plan to take some small trips, and you know that you will need to continue saving some money.

100% to 120% — You will need to cover all Medicare and other health care costs. You are very young and/or your prime earning years are ahead of you. You would like a retirement lifestyle that is more than comfortable. You need to save for the possibility of long-term care.

This is how much money you will need to contribute from savings.

This is how much money you will need to have saved when you retire.

This is how much you need to save each year to get there.

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