KEMBA DELTA FEDERAL CREDIT UNION

Invest Money to Reach Your Goals

The Basics of Investing

Once you've identified your financial goals and established a spending plan, you know what you're saving for and how much you'll need to get there. For longer-term objectives, one of the best ways to watch your money grow is to invest.

When you invest, you put money aside for long-term goals such as retirement or a child's education. Just as you should pay yourself first when you're saving for short-term goals, such as buying a computer, you should establish this same habit when investing. The easiest way to do this is by having money automatically deducted from your bank account or paycheck and put into the investment vehicle of your choice.

Tax-Advantaged Retirement Accounts

One of the primary reasons people invest money is to ensure a secure retirement. To make it easier for you to grow your retirement nest egg, the federal government enables you to put your retirement investments into certain accounts that have tax advantages.

- **Individual Retirement Accounts (IRAs):** If you're single and have a job, you can put away as much as $5,000 ($6,000 if you're age 50 or older) each year in an individual retirement account (IRA). If you're married and your spouse has a job, you and your spouse can put away as much as $10,000 each year ($12,000 if you're both age 50 or older). *In the future, the contribution limit may be different, so double check this figure with a financial advisor.*

  The money you put into an IRA often can be deducted from your taxable income, so you pay less in taxes each year.

  Your IRA money is not taxed until it is withdrawn – a big advantage because you'll have more money that will grow by compounding year after year.

You can withdraw your money without penalty after you reach age 59 1/2. Under certain conditions, such as buying a home, you may be able to take funds out of certain IRAs without paying a penalty. If you take money out and do not meet the conditions, you'll face a large penalty. You'll have to pay 10 percent, or $1 for every $10 that you withdraw. You'll pay income taxes on the money, as well.

- **Roth IRAs:** You won't get a tax deduction on the money you contribute to a Roth IRA each year. In other words, the money you put into a Roth IRA comes from "after-tax" dollars. However, one advantage to a Roth IRA is that, after age 59 1/2, you can take out the money you put in, plus the interest earned on the account, without paying taxes on any of the money. You can also withdraw the original amount you put into a Roth IRA before reaching age 59 1/2 without paying a penalty or taxes if you withdraw the money for qualified expenses, such as a down payment on a first home. (Of course, this slows down your potential earnings for retirement.)

  The amount of money you can put into a Roth IRA is the same as a traditional IRA; however, you can't fully fund both. The rules about Roth IRAs are different if you convert money from another account into a Roth IRA. It's best to talk with a tax professional or financial advisor to get the latest information about a Roth IRA.

- **401(k) and 403(b) Plans:** 401(k) plans typically are offered by private employers, while 403(b) plans usually are available to employees of nonprofit organizations. Despite the different names, the plans work similarly. Usually, you tell the company how much to take out of your paycheck to put into your plan. (The maximum amount is set by the federal government.)

  Many employers "sweeten the pot" by matching part of the amount you put in. For example, an employer might put 25 cents, 50 cents, or $1 into your retirement account for each dollar you put in. This is like getting a bonus, so it pays to put in as much as you can afford.

  A 401(k) or 403(b) plan offers a number of advantages to you. You don't pay taxes on the money you put into the plan. You pay taxes on the money only after you take it out of the plan – usually after you retire. The money you put into the plan usually can be invested in a wide range of investments, from risky to reasonably safe.

  After you put money into a 401(k) or 403(b) plan, leave it there. It's true that you can borrow from many of these accounts, but borrowing slows down how fast the account grows. If you borrow, you'll have less money with which to retire. These loans are paid back with after-tax dollars, so you wind up paying tax on this money twice – the second time occurs when you withdraw it at retirement! Also, if you leave your job and cannot repay the loan within a short time period, you'll pay taxes on the balance of the loan. And, if you're younger than 59 1/2, you also will pay a penalty of $1 for every $10 you took out.

Investment Vehicles

Investments are usually made in assets such as stocks, bonds, real estate, and mutual funds. While these types of assets carry more risk than savings accounts, they offer the potential to earn more in the long run. Common investment methods are:

- Mutual funds pool your money with the money of many other people. Instead of buying just a few assets, a professional fund manager purchases many stocks, bonds, or other investment vehicles. This diversifies your investment so that you don't have "all of your eggs in one basket." Professional management, diversification, and the opportunity to invest even small amounts of money are some of the benefits of mutual funds.
- Treasury securities include federal government bills, notes, and bonds. Interest payments are guaranteed and the principal is safe as long as you hold the security to maturity (the time at which the government agrees to pay back the principal). However, if you sell the security before maturity, you risk losing some of the principal if interest rates have risen.
- Stocks give you ownership in part of a company. In general, if the company does well, the value of the stock rises and you may receive some of the profit in the form of a dividend. Of course, if the company doesn't do well, the value of the stock goes down.
  Stocks can be risky. They can also be affected by outside factors, such as political and market events, that have nothing to do with the company's performance. Over time – "time" being the most important factor – many stocks do increase in value. To lower risk, it's a good idea to have stock in more than one company. It's also a good idea to have stock in different industries (another way of diversifying your investments) and to hold stocks for long periods of time.
- Bonds are issued by companies and the government. When you buy a bond, you're lending money to the issuer. The bond is a legal promise to pay you interest for the use of your money and to repay you the original amount you paid for the bond (the principal). There are various types of risk associated with bonds. The potential for your money to grow, however, is greater than if your money is sitting in a savings account.
- Real estate investments include residential rental property, raw land, a real estate investment trust (REIT), or commercial (business) real estate. Real estate is an attractive investment to many people. There is pride in ownership and your investment is tangible

  An investment in real estate does have some distinct risks. It is possible for property values to go down as well as up, so you could lose some of your investment principal. Interest rates may rise, causing your monthly payments to go up if you do not have a fixed-rate mortgage. Also, real estate is subject to property taxes, even if it is not income producing. Most of all, real estate is not a "liquid" investment – that is, it may be hard to sell the property when you want to, leaving your money tied up when you need it.

You're On Your Way

Once you've accomplished these 10 Basic Steps to Getting Smart About Money, you'll be well on your way to becoming a savvy money manager. As you begin using your new money-management skills, remember to revisit your goals and spending plan as often as necessary. Revise them when you experience a life-changing event, such as marriage, the birth of a child, or divorce. Remember, achieving financial well-being is a lifelong learning process.