

HOW TO SAVE FOR YOUR FUTURE

a guide for financial security





Save for your future.

Save For Your Future™ 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 2002, the average monthly Social Security retirement benefit was \$895.00. Could you live on that? Many financial professionals estimate you'll need at least 70%-80% of your pre-retirement income to live comfortably in retirement. Social Security only provides about 40% of pre-retirement income for the average worker. You'll need to make up the difference.

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.

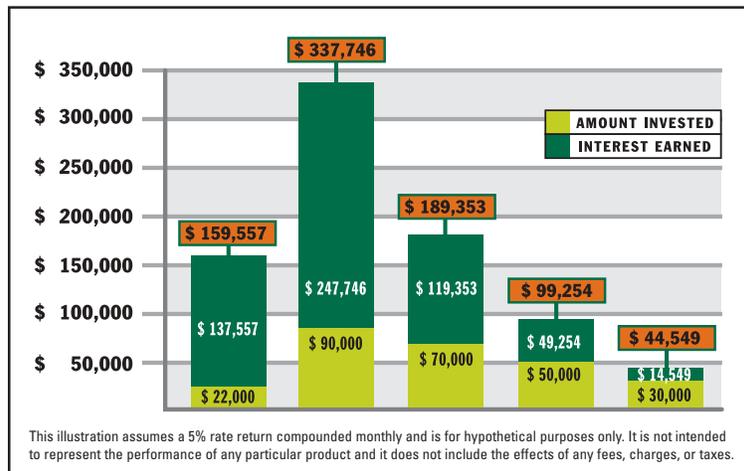
Feed it often and watch it grow.

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.



\$ 159,557	Saved \$2,000 per year from age 20 to 30. Kept money in account until age 65.
\$ 337,746	Saved \$2,000 per year from age 20 to 65.
\$ 189,353	Saved \$2,000 per year from age 30 to 65.
\$ 99,254	Saved \$2,000 per year from age 40 to 65.
\$ 44,549	Saved \$2,000 per year from age 50 to 65.



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, non-profit 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 a higher potential rate of return, such as a mutual fund or a CD. Of course, five to ten years is still not a



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

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 70%-80% 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.

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



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

need to save each year to fund your retirement. You can find an interactive Ballpark Estimate online at the Save For Your Future™ website:
www.saveforyourfuture.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 about the Save For Your Future™ campaign at:
www.saveforyourfuture.org

The national Save For Your Future™ education campaign is committed to informing Americans about the need to save and plan for retirement and other life stages. Developed in partnership by ASEC and its many coalition members, this annual campaign will include events and activities throughout the country devoted to educating and motivating Americans to take charge of their financial future. ASEC thanks State Farm® for its national sponsorship of the 2003 campaign.

American Savings Education Council

www.asec.org
www.choosetosave.org

Employee Benefit Research Institute

www.ebri.org
www.ourhealthbenefits.org

State Farm®

www.statefarm.com

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

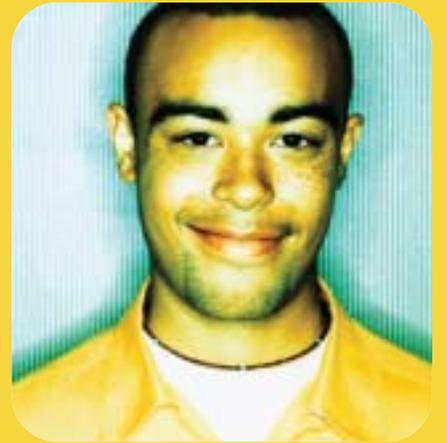
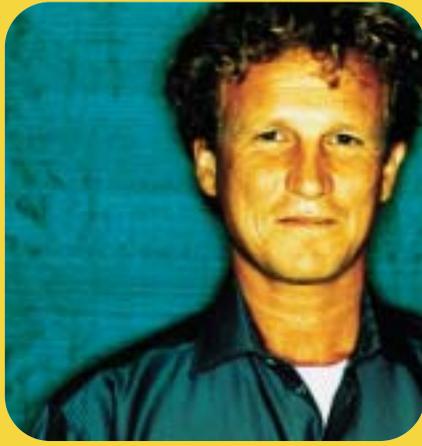
www.armycommunityservice.org/vacs_finance/home.asp

Air Force Crossroads

www.afcrossroads.com/



**Save For Your Future.
It will be here before you know it.**



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