

# Money for Life

September 2008

Dear Readers,

As fall rolls around, many families shift back into a more structured routine, after the casual and spontaneous summer season. That shift often includes finances – moving back toward more careful planning if summer has led to a little carelessness. That makes fall a great time to review your financial plans for retirement – or begin making plans, if you haven't done so in the past.

**No matter what your age, now is the time to prepare and save for retirement.**

*Young adults* investing for the long term can make tremendous progress. A 22-year-old who invests \$2,000/year every year through age 66 will invest a total of \$90,000.

Since they're investing for the long term, they can invest more aggressively - suppose their investment earns an average annual return of 10%.

The result of \$90,000 investment? **\$1,500,000!!**

*Note: planning for a 10% rate of return may seem unrealistic these days, given the poor recent stock market performance. However, the long-term return of the stock market does stand at over 10%/year, so it is not out-of-line for a long-term investor to consider a 10% return!*

*However, even projecting more conservatively (8%), the investor above would yield \$775,000.*

What if that young adult had waited till age 32 to start? That would mean they would invest for 35 years - a total of \$70,000.

Their result (at 10%) would be **\$596,254**. Still a valuable contribution to retirement. But when you compare the two examples, it's clear that starting as early as possible does make a big difference.

“That’s all fine,” you say “but I am way past 22 and even 32.” Good news: **now** is still the right time!

**Middle Age.** Suppose you're 52. You may choose less aggressive investments, since your time frame is shorter - let's estimate a 7% average annual investment return.

\$2,000/year, earning 7%, for 15 years will yield over \$50,000. That's not enough to fund your entire retirement, but it sure would be a nice chunk of extra money. If you invest it at 6% after retirement, that \$50,000 could add \$300/month to your retirement income for 30 years! Or it could be set aside for major expenses: necessities like a new roof, or luxuries like a special trip.

**Pre-Retirees.** Even if you have only 5 years till retirement, it is definitely worth saving. Suppose you save \$2,000/year, and invest more conservatively - we'll estimate a 6% return. Your result would be \$11,274. If you save \$3,000/year in those last five years, you will accumulate \$16,911. Either way, it will be extra money you'll be thankful for later on.

It's never too early and it's never too late to save for retirement!



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## Calculating Your Retirement Finances: Internet Aids to Retirement Planning

Remember the old saying that "time is money?" It has gained a new meaning in the Internet Age, where just a few hours on your computer could help put you on the path to a more financially comfortable retirement.

Research shows that Americans who calculate their retirement needs and income are more likely to be financially prepared for retirement than those who do not.

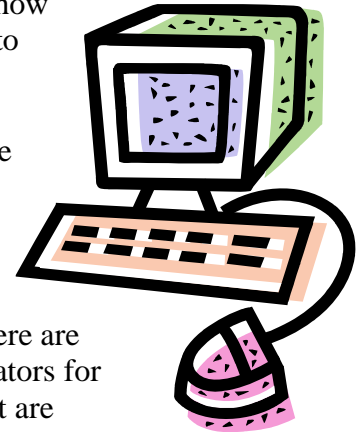
Of course, the best place to begin any retirement calculation is by knowing what you may expect to receive from Social Security ... and then figuring how much more you will need in order to enjoy a long and comfortable retirement.

Each year, every worker age 25 and older is mailed a Social Security Statement. Read it carefully because it is a roadmap to your personal financial future. It shows how much you and your family can expect to receive from Social Security when you retire, or if you become disabled or die.

A visit to Social Security's financial planning website at [www.socialsecurity.gov/planners](http://www.socialsecurity.gov/planners) will provide you with even more information. The site provides calculators that help you find out what your social security retirement benefits might be with different retirement ages or different scenarios for future earnings amounts.

Financial advisors generally say you will need 70-110 percent of your pre-retirement earnings to maintain your pre-retirement standard of living comfortably. Under current law, if you have average earnings, your Social Security retirement benefits will replace only about 40 percent, so you will need to supplement your benefits with a pension, savings or investments.

To find out if your retirement savings are on track to meet your needs, a simple, non-commercial tool is available. The **Ballpark E\$timate of Retirement Savings Needs** ([www.choosetosave.org/ballpark/](http://www.choosetosave.org/ballpark/)) is an easy-to-use, on-line calculator that helps you quickly identify approximately how much you need to save to fund a comfortable retirement. The on-line interactive version of the Ballpark E\$timate enables users to fine-tune their projections for their own situations. Although there are many web-based calculators for retirement savings, most are commercial and may be tied to advertising. The Ballpark E\$timate was developed by the non-profit American Savings Education Council, and is completely non-commercial.



*Note:* A two-page worksheet version of the Ballpark E\$timate is also available, in either English or Spanish, if you wish to share it with others who do not have web access. The paper version does not allow you to fine-tune your projections as well, but it is still a good starting spot. You'll find the paper (non-interactive) version at the same website.

For more information about retirement planning, check out ISU Extension's publications at <http://www.extension.iastate.edu/finances/personal/retirement/retirement.htm>

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