

Marriage and Money

▼ Issue Eleven

Investing Your Money

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Procrastinating is one of the biggest mistakes people make with their money. Postponing investment decisions can mean losing money!

When you make an investment, you are setting aside money for future income, benefit or profit to meet your financial goals. When you invest, you're letting money work for you instead of having to work for money. Today, there are a variety of investment choices. This newsletter will show you the financial benefits of investing, explain some basic investment terms, and motivate you to start an investment program.

Many young couples think they don't have enough money to invest. If you're one of them, consider what happens if you wait to start an investment program.

Situation: Should you start a savings program now with \$50 each month or wait 10 years and save \$150 each month. The reason for waiting is that you expect your income to be greater in 10 years. This chart compares the two options over a 20-year period.

	Monthly Amount	End Result 20 Years
Beginning Now	50	\$33,394
In 10 years	150	\$29,027

While the end results in the example don't appear to be substantially different at first glance, consider these "hidden" figures. If you begin investing now, in 20 years you will have invested a total of \$12,000. Wait 10 years and you'll end up investing a total of \$18,000. This means by waiting you will have to set aside \$6,000 **more** to earn \$4,367 **less** in 20 years. The example assumes you can earn an average of 9 percent during the 20-year period. Learn as much as you can about investing early in your marriage. It's not difficult and can be quite profitable.

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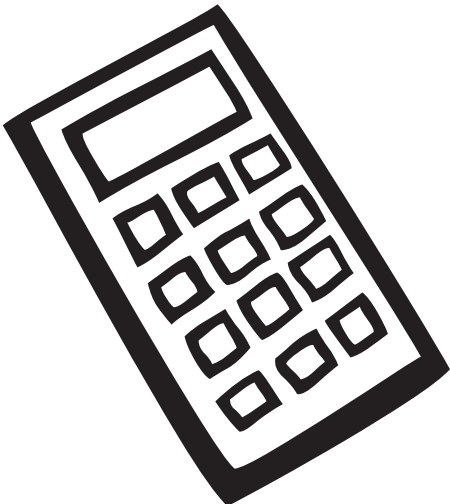
Time Value of Money

The Impact of Time Value of Money at 9% interest.

(\$2,000 payments made yearly.)

You are ready to start investing when:

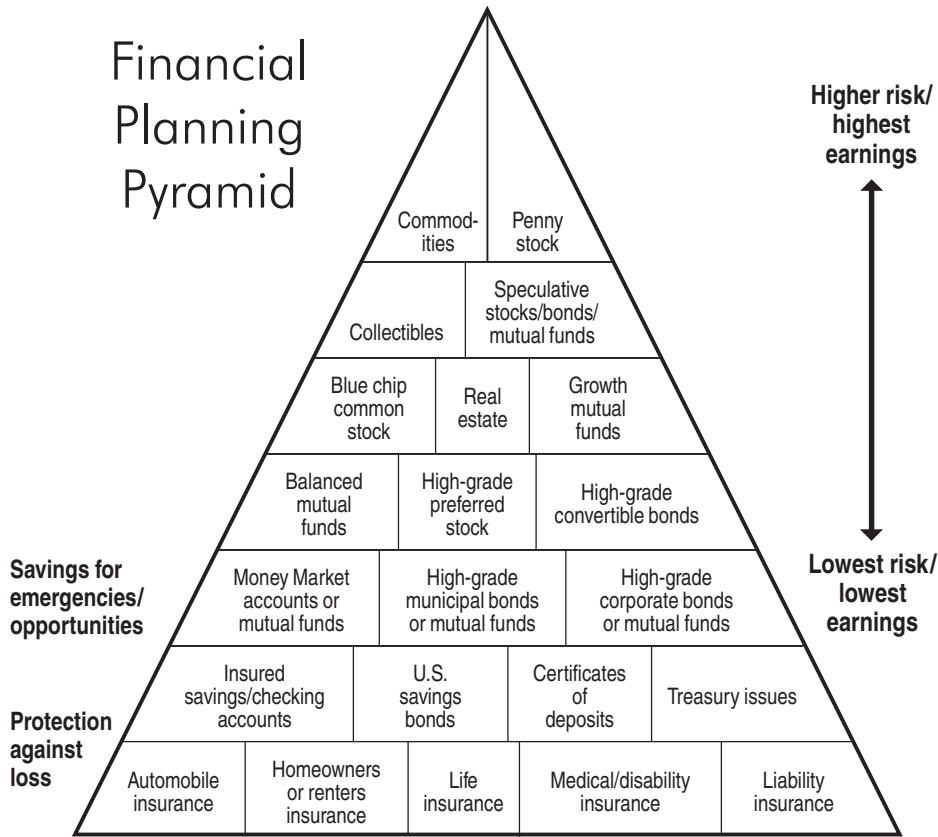
1. Your income exceeds your spending.
2. You have an emergency savings fund equal to 3 to 6 months' living expenses; and
3. All insurance needs including life, health, disability, and property are covered.



Age	Contributions Made EARLY	Age	Contributions Made LATER
22	\$ 2,000	22	
23	\$ 2,000	23	
24	\$ 2,000	24	
25	\$ 2,000	25	
26	\$ 2,000	26	
27	\$ 2,000	27	
28	\$ 2,000	28	
29	\$ 2,000	29	
30	\$ 2,000	30	
31		31	\$ 2,000
32		32	\$ 2,000
33		33	\$ 2,000
34		34	\$ 2,000
35		35	\$ 2,000
36		36	\$ 2,000
37		37	\$ 2,000
38		38	\$ 2,000
39		39	\$ 2,000
40		40	\$ 2,000
41		41	\$ 2,000
42		42	\$ 2,000
43		43	\$ 2,000
44		44	\$ 2,000
45		45	\$ 2,000
46		46	\$ 2,000
47		47	\$ 2,000
48		48	\$ 2,000
49		49	\$ 2,000
50		50	\$ 2,000
51		51	\$ 2,000
52		52	\$ 2,000
53		53	\$ 2,000
54		54	\$ 2,000
55		55	\$ 2,000
56		56	\$ 2,000
57		57	\$ 2,000
58		58	\$ 2,000
59		59	\$ 2,000
60		60	\$ 2,000
61		61	\$ 2,000
62		62	\$ 2,000
63		63	\$ 2,000
64		64	\$ 2,000
65		65	\$ 2,000
Amount available at age 65	\$579,451		\$470,249
Total amount invested	\$ 18,000		\$ 70,000

Investment Choices

Financial Planning Pyramid



- List your current investments on the pyramid. _____

- Where do the majority of them fall? _____

- Do they meet your risk tolerance? _____

Why Should You Invest?

Check and discuss your reasons.

- | | |
|--|--|
| _____ To accelerate the growth of your savings. | _____ To decrease income lost on interest payments. |
| _____ To put your available money to work. | _____ To provide for your children's education. |
| _____ To provide additions to your other income. | _____ To create a sizable retirement nest egg. |
| _____ To accumulate a down payment for a home. | _____ To enable an earlier than expected retirement. |
| _____ To increase your current purchasing power. | _____ To increase your wealth security and independence. |
| _____ To decrease your reliance on consumer loans. | _____ To provide advantages for your loved ones and heirs. |

A Tool for You

The "Rule of 72" is a quick and simple way to estimate how your money can grow. You can use this rule in two ways.

- Divide 72 by the **interest rate** you expect to earn. This will show how many years it will take to double your money.

Let's assume you are going to be earning **6% interest** on your money.

$$\frac{72}{6\% \text{ interest}} = 12 \text{ years}$$

- Divide 72 by the number of years in which you want your money to double. You will get an estimate of the interest rate you will need to earn.

Let's assume you want your money to double in 6 years.

$$\frac{72}{6 \text{ years}} = 12\% \text{ interest}$$

Try it!

How many years will it take you to double your money with your choice of interest rate?

$$\frac{72}{\% \text{ interest}} = \text{_____ years}$$

Top 10 Ways to Prepare for Retirement

The average time in retirement is 25 years. It is a long time to plan for financially.

- 1. Know your retirement needs.**
Retirement is expensive. Experts estimate that you'll need about 70 percent of your pre-retirement income – lower earners, 90 percent or more – to maintain your standard of living when you stop working. Take charge of your financial future. Start by requesting "Savings Fitness: A Guide to Your Money and your Financial Future" from the Employee Benefits Security Administration at (866) 444-3272.
- 2. Find out about your Social Security benefits.**
Social Security pays the average retiree about 40 percent of pre-retirement earnings. Call the Social Security Administration at 1-800-772-1213 for a free Social Security Statement and find out more about your benefits at www.socialsecurity.gov. One is sent each year prior to your birthday.
- 3. Learn about your employer's pension or profit sharing plan.**
If your employer offers a plan, check to see what your benefit is worth. Most employers will provide an individual benefit statement if you request one. Before you change jobs, find out what will happen to your pension. Learn what benefits you may have from previous employment. Find out if you will be entitled to benefits from your spouse's plan. For a free booklet about protecting your pension, call the Employee Benefits Security Administration at (866) 444-3272 and request "What You Should Know About Your Retirement Plan."
- 4. Contribute to a tax-sheltered savings plan.**
If your employer offers a tax-sheltered savings plan, such as a 401(k), sign up and contribute all you can. Your taxes will be lower, your company may kick in more, and automatic deductions make it easy. Over time, compound interest and tax deferrals make a big difference in the amount of money you will accumulate.
- 5. Ask your employer to start a plan.**
If your employer doesn't offer a retirement plan, suggest that it start one. Simplified plans can be set up by certain employers. For information on simplified employment pensions, order Internal Revenue Service Publication 590 by calling 1-800-829-3676. Or you can view a copy at www.irs.gov. You may also want to request a copy of "Choosing a Retirement Plan for Your Small Business" by calling the Employee Benefits Security Administration at (866) 444-3272.
- 6. Put your money into an individual retirement account.**
You can put \$3,000 a year into an Individual Retirement Account (IRA) and gain tax advantages. When you open an IRA, you have two options – a traditional IRA or the newer Roth IRA. The tax treatment of your contributions and withdrawals will depend on which option you select. Also, you should know that the after-tax value of your withdrawal will depend on inflation and the type of IRA you choose.
- 7. Don't touch your savings.**
Don't dip into your retirement savings. You'll lose principal and interest, and you may lose tax benefits. If you change jobs, roll over your savings directly into an IRA or your new employer's retirement plan.
- 8. Start now, set goals, and stick to them.**
Start early. The sooner you start saving, the more time your money has to grow. Put time on your side. Make retirement saving a high priority. Devise a plan, stick to it, and set goals for yourself. Remember, it's never too early or too late to start saving. So start now, whatever your age!
- 9. Consider basic investment principles.**
How you save can be as important as how much you save. Inflation and the type of investments you make play important roles in how much you'll have saved at retirement. Know how your pension or savings plan is invested. Financial security and knowledge go hand in hand.
- 10. Ask questions.**
These tips should point you in the right direction, but you'll need more information. Talk to your employer, your bank, your union, or a financial advisor. Ask questions and make sure the answers make sense to you. Get practical advice and act now.

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www.dol.gov/ebsa/pdf/top10ways.pdf
-or-
www.dol.gov/ebsa/publications/10_ways_to_prepare.html

NEXT MONTH: Putting It All Together

Adapted with permission from University of Arkansas Division of Agriculture Cooperative Extension Service.

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