



Life Cycle Saving and Investing Activity

To Say

Stages in the Life Cycle

As people move through the stages of the life cycle, their financial goals and investment strategies will change. Savings and investments that are appropriate for a young couple with small children may be inappropriate for a single person approaching retirement.

The following case studies illustrate possible savings and investment choices for people at various life stages. Ultimately, each person must make decisions and take action in light of unique household situations and current economic conditions.

You may use one or more of these case studies to generate discussion. Possible suggestions for each life cycle stage are given, but participants may generate other excellent ideas.

Case Study ONE

Nathan is 26 years old and is working at his first job out of college. His major expenses are rent for an apartment he shares with his roommate Mike and student loans. He drives an older car that is paid off. He has little money saved for emergencies and would like to travel some day. He became eligible to participate in his company's 401(k) retirement plan January 1, 2003.

Life Stage: Young single adult

Goals: Emergency fund, car, travel

Suggestions

Nathan could deposit money each payday into an interest bearing savings account at the bank or credit union. To remove the temptation to spend it before he gets to the bank, he should consider automatic payroll deduction.

Nathan should save money for relatively short term goals in a money market mutual fund or insured certificates of deposit, or a diversified mutual fund whose goal is safety as well as growth.

Other suggestions?

Participate in the company's retirement plan! Invest some of your savings in aggressive long-term growth investments such as common stock in new companies with good potential. You have the luxury of time to let your money work for you.

Case Study TWO

Erin and Chris have been married for three years and have a newborn baby. They both work and live in an apartment. They would love to own their own home.

Life Stage: Two-income household with baby

Goals: Better housing, money for future goals

Suggestions

After this couple has an emergency fund equal to three times monthly expenses in an insured savings account and adequate life insurance protection, they could put some of your savings into low and moderate risk investments to stay ahead of inflation.

Examples of low risk investments are money market mutual funds, balanced mutual funds that have both bonds and conservative stock investments, and insured certificates of deposit. Moderate-risk investments include common stock and corporate bonds.

Buying a home can be a good investment, depending on its location and the local housing market.

Other suggestions?

Case Study Three

Sean and Kristin have been married for 12 years and have five children. Their family lives several hundred miles away.

Life Stage: Married couple, school-age children

Goals: Education fund, family travel

Suggestions

After this couple has an adequate emergency fund and conservative investments, they can start putting some of your savings into growth-oriented investments that pay little or no current income, but have a chance of keeping ahead of inflation. Examples are high-grade common stocks and growth-oriented mutual funds.

Aggressive growth funds should be used only if they are comfortable with higher risk. These funds invest in companies with high potential of both success and failure. Stocks in this category can yield large returns in the long run, but the risk of loss of principal is great.

Sean and Kristin should also check out tax-advantaged opportunities for saving for higher education for their children: Roth IRA, Education Bonds (EE and I), and 529 Plans.

Other Suggestions?

Case Study Four

Debra is widowed and has two children aged 12 and 14.

Life Stage: Single parent with teenagers

Goals: Meet college bills, build future security

Suggestions

Draw upon previous savings and investments, if available, to meet increased educational expenses not covered by scholarships, student employment or loans. Continue to save and invest for financial security.

Other Suggestions?

Case Study FIVE

Kendall and Sue are farmers with children who are grown and have left home.

Life Stage: Middle-aged couple with adult children

Goals: Savings for retirement

Suggestions

Many farm and ranch couples have very little set aside for retirement. If Kendall and Sue do not, they should develop an aggressive plan to guarantee financial security in later life. If they already have investments, Kendall and Sue should fine tune their investment portfolio in keeping with their financial goals. They should begin to hold some of their money in conservative investments such as high quality bonds and certificates of deposit. They should also consider growth-oriented investments that will appreciate over time and stay ahead of inflation. Only the affluent can afford the gamble of high-risk securities as they approach retirement.

They can also consider tax advantaged investments such as municipal bonds. For those who live in town, down-sizing allows them to take advantage of the one-time capital gains tax exemption on your home after age 55.

Other Suggestions?

Case Study SIX

Dolores is a retired widow. She lives in her own home and has children nearby who are available.

Life Stage: Retired persons

Goals: Maximize income, preserve principal

Suggestions

Dolores should select income-oriented mutual funds, utility stocks, insured certificates of deposit, preferred stocks, conservative blue-chip common stock, government bonds, treasury bills and investment grade corporate bonds.

She needs to monitor income needs and investment yields. To balance loss of purchasing power, she should consider investing a small percentage of funds in growth-oriented common stocks or stock mutual funds.

Other Suggestions?