Issue 10
Investing

HEALTHY, WEALTHY, & WISE

Learning to improve financial health, increase wealth, and make wise consumer choices

Investing Your Money

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 or to reach your 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 issue shows you the financial benefits of investing, explains some basic investment terms, and motivates you to start an investment program.

Many think they don't have enough money to invest. If you are one of them, consider what will happen 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.

The chart to the right compares the two options over a 20-year period.

Saving Now vs. Saving Later Earning 9% Interest

Beginning	Monthly Amount Saved	End Result 20 Years from Now
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 and your nest egg will have grown to $33,394. Wait 10 years and you'll end up investing more to end up with less. You'll invest a total of $18,000 that will grow to $29,027. This means by waiting you will have set aside $6,000 **more** to earn $4,367 **less** in 20 years. The example assumes you can earn an average of 9 percent in the 20-year period.

Learn as much as you can about investing. It's not difficult and can be quite profitable.

MISSISSIPPI STATE UNIVERSITY™
EXTENSION

Time Value of Money

The Impact of Time Value of Money at 9% Interest

You are ready to start investing when

✔ *Your income exceeds your spending;*

✔ *You have an emergency savings fund equal to 3 to 6 months' living expenses; and*

✔ *All insurance needs, including life, health, disability, and property are covered.*

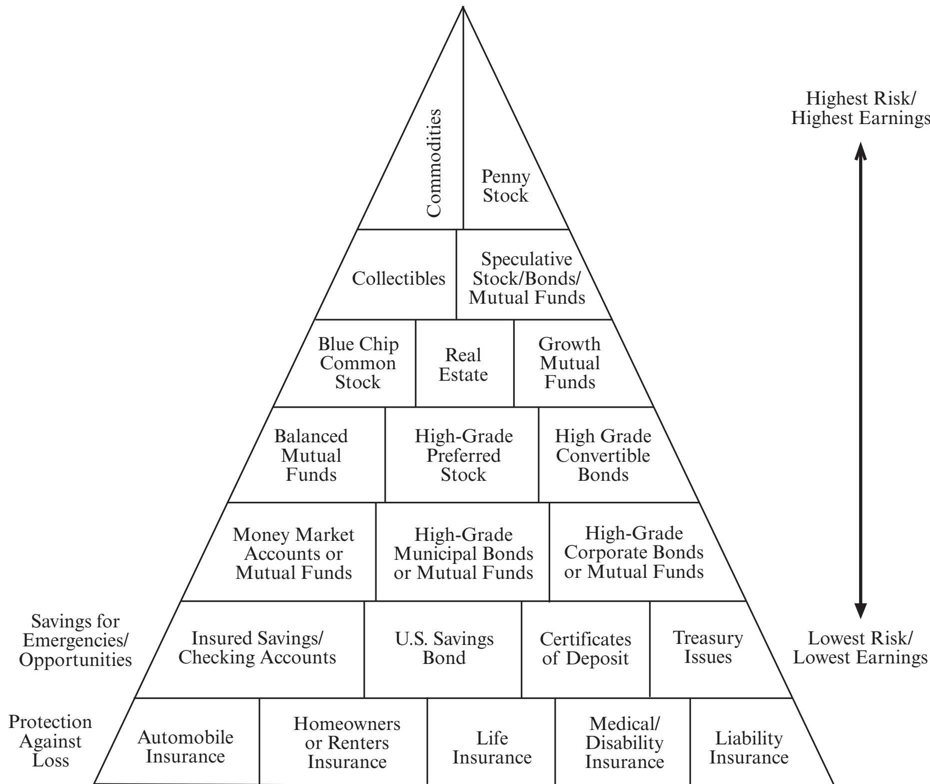
	Contributions	**Age**	**Contributions**
Age	**Made Early**	22	**Made Later**
22	$2,000	23	$0
23	2,000	24	0
24	2,000	25	0
25	2,000	26	0
26	2,000	27	0
27	2,000	28	0
28	2,000	29	0
29	2,000	30	0
30	2,000	31	0
31	0	32	2,000
32	0	33	2,000
33	0	34	2,000
34	0	35	2,000
35	0	36	2,000
36	0	37	2,000
37	0	38	2,000
38	0	39	2,000
39	0	40	2,000
40	0	41	2,000
41	0	42	2,000
42	0	43	2,000
43	0	44	2,000
44	0	45	2,000
45	0	46	2,000
46	0	47	2,000
47	0	48	2,000
48	0	49	2,000
49	0	50	2,000
50	0	51	2,000
51	0	52	2,000
52	0	53	2,000
53	0	54	2,000
54	0	55	2,000
55	0	56	2,000
56	0	57	2,000
57	0	58	2,000
58	0	59	2,000
59	0	60	2,000
60	0	61	2,000
61	0	62	2,000
62	0	63	2,000
63	0	64	2,000
64	0	65	2,000
65	0		2,000
Amount available at age **65**:	**$579,471**		**$470,249**

Total of $18,000 Invested

Total of $70,000 Invested

Investment Choices

Financial Planning Pyramid



1. List your current investments on the pyramid. ____________________________
____

2. Where do the majority of them fall? ____
____

3. Do they meet your risk tolerance? ____
____

Why Should You Invest?

Check and discuss your reasons.

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

*(1) Divide 72 by the **interest rate** you expect to earn. This shows how many years it takes to double your money.*

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

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

*(2) 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.***

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

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

1. **Know your retirement needs**. Retirement is expensive. Experts estimate you'll need about 70 percent of your pre-retirement income—but lower earners need 90 percent or more—to maintain your standard of living when you stop working. Understand your financial future.

2. **Find out about your Social Security benefits**. Social Security pays the average retiree about 40 percent of preretirement earnings.

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.

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, deferral of taxes and compounding of interest 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.

6. **Put money into an Individual Retirement Account**. You can put $2,000 a year into an Individual Retirement Account (IRA) and delay paying taxes on investment earnings until retirement age. If you don't have a retirement plan (or are in a plan and earn less than a certain amount), you can also take a tax deduction for your IRA contributions.

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 late to start. Start saving 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.

IN THE NEXT ISSUE: ***Consumer Skills***

Revised by **Dr. Bobbie Shaffett**, Extension Professor, from *Marriage and Money* newsletter series by Joy Buffalo, County Extension Agent, Franklin County, and Dr. Lynn Russell, Extension Family Resource Management Specialist, University of Arkansas Extension Service.

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