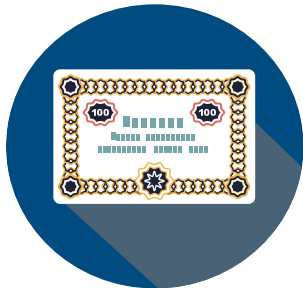


STRENGTHENING YOUR FITNESS PLAN



Saving for Retirement

Once you've reduced unnecessary debt and created a workable spending plan that frees up money, you're ready to begin saving toward retirement.

You may do this through a company retirement plan or on your own – options that are covered in more detail later in this booklet. First, however, let's look at a few of the places where you might put your money for retirement.

- **Savings accounts, money market mutual funds, certificates of deposit, and U.S. Treasury bills.** These are sometimes referred to as cash or cash equivalents because you can get to them quickly and there's little risk of losing the money you put in.
- **Domestic bonds.** You loan money to a U.S. company or a government body in return for its promise to pay back what you loaned, with interest.
- **Domestic stocks.** You own part of a U.S. company.
- **Mutual funds.** Instead of investing directly in stocks, bonds, or real estate, for example, you can use mutual funds. These pool your money with money of other shareholders and invest it for you. A stock mutual fund, for example, would invest in stocks on behalf of all the fund's shareholders. This makes it easier to invest and to diversify your money.

Choosing where to put your money

How do you decide where to put your money? Look back at the short-term goals you wrote down earlier – a family vacation, perhaps, or the down payment for a home. Remember, you should always be saving for retirement. But, for goals you want to happen soon – say, within a year – it's best to put your money into one or more of the cash equivalents – a bank account or CD, for example. You'll earn a little interest and the money will be there when you need it.

For goals that are at least 5 years in the future, however, such as retirement, you may want to put some of your money into stocks, bonds, real estate, foreign investments, mutual funds, or other assets. Unlike savings accounts or bank CDs, these types of investments typically are not insured by the federal government. There is the risk that you can lose some of your money. How much risk depends on the type of investment. Generally, the longer you have until retirement and the greater your other sources of income, the more risk you can afford. For those who will be retiring soon and who will depend on their investment for income during their retirement years, a low-risk investment strategy is more prudent. Only you can decide how much risk to take.

Why take any risk at all? Because the greater the risk, the greater the potential reward. By investing carefully in such things as stocks and bonds, you are likely to earn significantly more money than by keeping all of your retirement money in a savings account, for example.

The differences in the average annual returns of various types of investments over time are dramatic. Over the last 50 years, the compound annual rate of return of short-term U.S. Treasury bills, which roughly equals the return of other cash equivalents such as savings accounts, has been 4.5 percent. The compound annual rate of return of long-term government bonds over the same period has been 6.9 percent. Large-company stocks, on the other hand, while riskier, have averaged an annual return of 10.8 percent.

Let's put that into dollars. If you had invested \$1 in Treasury bills 50 years ago, it would have grown to approximately \$9 today. However, inflation, at an annual average of 3.9 percent, would have eaten about \$8 of that gain, leaving \$1 as the return. If the \$1 had been invested in government bonds, it would have grown to about \$28, with \$4 left after inflation. If the \$1 had been invested in large-company stocks, it would have grown to nearly \$169, with about \$25 left after inflation. None of these rates of returns is guaranteed in the future, but they clearly show the relationship between risk and potential reward.



Even setting aside a small portion of your paycheck each month will pay off in big dollars later. ”

Many financial experts feel it is important to save at least a portion of your retirement money in higher risk – but potentially higher returning – assets. These higher risk assets can help you stay ahead of inflation, which eats away at your nest egg over time.

Which assets you want to invest in, of course, is your decision. Never invest in anything you don't thoroughly understand or don't feel comfortable about.