P.Y.F.

Participant's Guide

About Bank On

Bank On Hampton Roads is truly a unique experience. Like a wellness plan for your finances, Bank On Hampton Roads offers all the education, support and encouragement you need to launch your financial plans. In this five month program, participants are encouraged to take the financial challenge to:

- Increase Income
- Grow Savings
- Reduce Debt
- Improve Credit Score
- Protect Assets

The way Bank On Hampton Roads works is you attend one class per month and meet with a personal financial coach once per month. In class you will learn some of the strategies for overcoming paycheck to paycheck living and speedy ways to reduce debt and see your savings grow. As you meet with your financial coach, you will build a financial plan centered on your goals and your dreams. With the combination of knowledge and improved financial management techniques, you can see your dreams become reality!

Bank On Hampton Roads is one of over 70 programs across the United States organized to improve your financial opportunities by building relationships with trusted financial partners and empowering you to take greater financial control.

Classes begin in February and September and the program is absolutely free to the participant.

Many of Bank On Hampton Roads resources are available online at www.bankonhr.org.

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Welcome

Welcome to the *Pay Yourself First* module! Saving money is an important part of building your financial future. This module will give you some tips to help you get started. It will also show you how your money can grow when you save and give you some important information about saving and investment products.

Objectives

After completing this module, you will be able to:

- Explain why it is important to save
- Determine goals for saving money
- Identify savings options
- Determine which savings options will help you reach your savings goals
- Recognize which investment options are right for you

Participant Materials

This *Pay Yourself First* Participant Guide contains:

- Information to help you learn the material
- Tools and instructions to help you save
- Checklists and tip sheets
- A glossary of the terms used in this module

bank on
Hampton Roads

Pre-Test
Test your knowledge about financial services

1. **Which of the following is true about the value of saving? Select all that apply**
   a) Reduces the need for credit in emergencies
   b) Helps to achieve your financial goals
   c) Helps you manage your expenses better
   d) Improve your standard of living

2. **Annual Percentage Yield (APY) means:**
   a) The amount of interest you pay on a loan
   b) The percentage you will earn on your savings or other deposit account which includes compounding
   c) The minimum percent of your income you must save each year to keep your savings account
   d)How long you need to keep your money in a savings account

3. **What is a mutual fund or exchange traded fund (ETF)?**
   a) A collection of many stocks and/or bonds
   b) An individual stock
   c) An individual bond
   d) All of the above

4. **What are the advantages of traditional retirement accounts?**
   a) The account can never lose value
   b) The account grows tax free until withdrawal
   c) The contribution is taxed annually
   d) Greater potential growth when compared to a savings account

5. **What are ways to contribute to your monthly savings and investing?**
   a) Contribute to a workplace account (401(k), 403(b), 457, TSP)
   b) Contribute to an individual retirement account (IRA)
   c) Direct deposit into a savings account
   d) All of the above

Managing Expenses

Remember we discussed in past lessons how our money choices are divided between past, present and future? It is too easy to fall into the debt trap that will keep us stuck just focusing on monthly payments. Often, retailers try to focus us on payments rather than the total cost of ownership of items we purchase. This is particularly true for larger items. Our desire for instant gratification could leave us with a stream of payments that linger long into the future. When we build a plan that includes all anticipated needs, we begin to give higher priority to savings for future, rather than just attending to current needs.

Future: Do you remember in one of our beginning lessons we talked about "EARN, SPEND, BORROW, SAVE"? We said in that lesson that unless we are able to reverse the order of our priorities, that savings generally doesn't happen. By building a plan for the future, you give your budget a forward look. The problem with this chart is that past choices dictate how we move forward. By reversing the order and controlling expenses, you can take control of the past and the future at the same time. You are advancing yourself toward your goals by first establishing emergency savings, then goal savings and investing for longer term retirement and education savings for children.

One trick is to automate your savings. For emergency savings and periodic, that could mean that you have a portion of your pay sent directly to your savings rather than transferring it out of your checking. When you don't see it in your checking account, it is less tempting to use that money for other purchases. For investing, many employers have a retirement plan you can participate in. Sometimes employers even match your contributions. That is a huge win for your future you!

Present: We spend for present needs when we pay for our housing, utilities, food, childcare, etc. Taxes come out of current spending as does any of our charitable giving. Present needs will take the largest portion of our monthly budget. If we aren't careful, we can find that our spending plan only covers current needs and never gets to the place of funding our future needs.

Past: When we take money from current spending to pay for purchases we made in the past, we are incurring fees and interest for the use of that money. These decisions may have been wise if they secure our sources of income and provide for our basic needs. Borrowing money to have a car so you can get to work may be a wise choice, particularly if the car payment is affordable and your transportation is reliable.

We run into danger when past spending impacts our ability to meet our current needs and to establish savings for the future. By reducing the amounts we pay for past purchases, we free up money for present and future needs. Are you beginning to see some of those debts being reduced? Taking charge of your debt can help you not only build credit scores, but also experience less financial stress.

A truly sustainable budget
is one in which spending
is less than income…
that excess goes to savings.

Four Types of Savings

There are a number of reasons we need savings. We may even want to separate different types of savings into different accounts or keep it all in one account, but track your progress using a spreadsheet or paper.

Emergency Savings: The most important purpose for savings is for emergencies. We all have unexpected expenses the crop up from time to time. If we could have anticipated them, we would have put them in our spending plan, but we all know that Murphy's law is alive and well. "Anything that can go wrong, will go wrong… and at the worst time".   If unexpected expenses were rare, payday lenders and credit card companies would not have such a thriving business. In Bank On we begin with an initial emergency fund of $300. The reason for this is that the average unexpected cost we encounter is between $300 - $500. We encourage you to grow your savings from there to $500, $1,000, one month's expenses, then 3 – 6 month's expenses. Why so much? Because in the event that you are injured or lose a job, it could take that long to get your affairs back in order.

Periodic Reserve: We talked about periodic expenses in the Money Management lesson and by this time, you should have some funds set aside for the periodic each month. Remember that periodic expense planner we completed? We identified our periodic expenses and calculated how much we needed to save each month. The thing about periodic expenses is that they are coming regardless of whether we plan or not. Periodic expenses is also the biggest reason why people give up on budgeting since the budget only included the regular monthly expenses and wasn't realistic. Periodic expenses can be a great contributor to our credit card balances if we don't have a reserve set aside. One of our goals should be to reduce those credit card balances and not increase them.

Savings for Goals: When we begin to reserve funds for our goals we turn our wishes into realistic plans. We all want things in life and most of those things have a cost. When you established your S.M.A.R.T. goals you established specific amounts, timelines and monthly savings needed to see them happen. If you aren't careful though, unfunded goals will remain wishes until you begin to implement those plans. I would encourage you to take a look back at your goals in your Passport and consider if you are committed enough to those goals to fund them each and every month.

Retirement: The biggest need for savings will be to fund our retirement years. We can expect to live 20 – 30 years in retirement. If you just multiplied your annual salary by 20 or 30 you would get an estimate of how much you need to set aside. Retirement funding can be truly scary if we are not prepared. To help you build a good solid estimate of your retirement needs, one of your homework assignments will be to visit www.choosetosave.org/ballpark to complete your ballpark estimate for your retirement savings. This calculator includes Social Security payments expected along with other retirement benefits that might be available to you. The calculator will then provide you an estimate of how much you should save monthly to prepare for your golden years.

Far too many seniors find themselves unprepared for the costs of retirement and are forced back into the workforce when they are unable to continue their lifestyle. The earlier we save, the more likely we are to have a good quality of life throughout our lifetime.

Savings: What Type of Account?

The reason you want to consider these types of savings accounts is that your money is secure and there is virtually no risk of losing any money in these accounts. These accounts pay interest so you can grow your funds. Currently, interest yields are low, but when you think savings, think SECURE. You want these funds to be accessible in the event you need them and to know they are not subject to market fluctuations.

Savings Account

- Pays interest on your balance
- May be required to maintain a minimum balance
- Lower minimum deposit usually required to open this type of account
- By law, there are limits to the number of withdrawals from savings accounts

Money Market

- Savings account with higher interest rate (variable rate)
- May require a higher opening balance than traditional savings
- The more you have in it, the higher the interest rate
- Can access your money if you need it
- Monthly withdrawals may also be limited

Certificate of Deposit (CD) / Share Certificate (same thing but called differently by banks and credit unions)

- Hold your money for a specific period of time (usually 6 months to 5 years)
- Provide fixed interest rates higher than a savings account or money market account
- The longer the term, the higher the interest rate
- Money is locked-in so there may be a penalty for early withdrawal

Annual Percentage Yield (A.P.Y.)

When financial institutions advertise rates of interest on a savings account, they will often be expressed in terms of an annual percentage yield. This is the annual interest rate you can expect to earn. Interest may be compounded daily, weekly or monthly. The more often your money compounds, the higher the A.P.Y. and the more interest you will receive. This rate is higher than the nominal interest rate, because it includes the effect of compounding.

When comparing accounts, you should look for the A. P. Y. rather than the stated interest rate, because compounding periods can vary between accounts. The A. P. Y. give you an apples to apples comparison between accounts.

NOTE: Interest is considered income and may need to be reported on your annual tax return.

Make It Automatic

Automating your savings contributions can not only make savings simpler, but it is a great way to put savings first. There are a number of ways you can automate your savings.

Prior to Paycheck: Savings can be automatically drafted before you receive your pay and set into an employer retirement account.

From Paycheck: You can also direct money to your savings account by splitting your paycheck with your employer. Your payroll department can provide a form for you to designate how much will be deposited to your savings and the remainder of your paycheck will be deposited to checking. This is an awesome way to set it and forget it. Let that savings grow without having to transfer from your checking account! When your savings is automatically deposited from your paycheck, you might not even miss the money since it never goes to your checking account, you focus your attention on stretching your checking deposit to pay for the things you need each month.

Automatic Transfer: You can also have your financial institution transfer from your checking to your savings. You can set up an automatic transfer when your paycheck is received so that you don't have to transfer it yourself. When we transfer ourselves, we often will transfer after all the other expenses, and there is rarely any money left to transfer. Making it automatic ensures the savings deposit happens before the costs of the month eat away at your funds.

Other Sources for Savings: For those extra funds, now is a great time to make a plan for how much of those funds will go to savings. Many people receive a refund at tax time, periodic pay increases or receive a bonus in addition to their salary. If you make a plan to save a portion, you can use it to reach your goals faster or to set aside for those unexpected or periodic expenses that might occur. Think about other opportunities to save as well, like when you get a pay increase, a bonus even saving spare change can add up.

Emergency Savings

Amount in emergency savings	<$500	>$500
Difficulty paying mortgage or rent	42%	16%
Overdrawn account	52%	22%
Worried a lot about personal finance	53%	21%

There are more reasons to have savings than just financial. Having emergency savings has been demonstrated by a study conducted by Consumer Federation in 2008, to improve our quality of life.

Remember we talked about emergency savings as one of our savings targets earlier? There are peripheral benefits of having emergency savings that are not necessarily monetary. Consumer Federation of America conducted a study comparing those who have less than $500 of savings with people who have more than $500.

Some of the key benefits that this study found was that people with less than $500 of savings report having greater difficulty paying mortgage or rent, they are more likely to overdraw their accounts and they are more likely to be worried about their personal financial situation.

Stress, particularly financial stress is one of the leading factors that impact our health. By building savings, we reduce the impact of financial stress. Your quality of life improves with less stress and greater probability of financial stability.

Periodic Expenses

Periodic expenses is another reason why we all need to have some reserve set aside. In the Money Management lesson, we learned about the importance of building a regular periodic reserve into your monthly spending plan. You may remember this chart that showed how the monthly periodic reserve puts your periodic expenses on a payment plan so that you don't have big hits to your spending on particular months.

In our example, we have $200 each month being set aside to cover the irregular expenses that come along. Imagine never having to stress about how to come up with personal property taxes, car repair funds or holiday expenses. Wouldn't that make life a lot easier? Periodic reserves can make that prospect a reality in your life.

Not having periodic reserve is one of the leading causes of credit card debt. Imagine all the interest you can use for your own needs by preparing for those periodic expenses before they happen.

Saving for Goals

One of our reasons for savings is to build funds to see our goals become achievements.

So often, when we have a special item that is beyond what we can set aside in a month, we turn to credit to make those larger purchases. Retailers know that we are influenced to forgo waiting for the things we want and prone to think in terms of monthly payments. They profit from our lack of savings. When we have savings established, we no longer need to depend on credit for our purchases.

At our first class, you wrote down the goals you would like to achieve in Bank On. Later you were tasked with turning those goals into S.M.A.R.T. goals. In those S.M.A.R.T. goals you identified how much you would set aside monthly and how long you would save to make that goal a reality.

Investing: Saving for Retirement Years

Saving for retirement is more important than ever. Many underestimate their need for retirement savings. Estimates provided by Fidelity Investors in 2007, show that a healthy 65-year old man has a 24 percent chance of living to at least age 90, while a healthy 65-year-old woman has a 35 percent chance of living to age 90. Yet, Fidelity Research Institutes surveys show that pre-retirees believe they need to make their retirement savings stretch only until age 83, or an 18-year retirement. That means that pre-retirees' current estimates of retirement savings requirements are likely to fall short of actual needs for one-fourth of men and one-third of women. If you had to replace 25 years of your living expenses, how much money would you need?

To help you determine how much money you'll need for retirement, visit the Ballpark Estimator at www.choosetosave.org.

You'll also want to take advantage of any retirement plans offered through your work or contribute to an IRA (Individual Retirement Account). As a bonus, the IRS offers a savers credit for people who participate in these plans. Low income families can get up to ½ of their contribution refunded at tax time. This allows people to take advantage of their employer match and still get much of their contribution refunded to them.

All employer matched retirement = FREE MONEY, so be sure to take advantage if you can. The more you can take advantage of any employer match the more you will build wealth for your golden years.

Retirement savings allows you to increase your standard of living in retirement over those who have only Social Security. With government benefits adjustments, Social Security and Medicare may be very different in the future. Even Social Security representatives are telling us to establish a financial plan for retirement that includes more than just government benefits.

Investing Choices

When you are preparing for retirement, you may want to invest rather than merely save money in an interest bearing savings account. Since you would have a longer period of time before you need to depend on the funds, you might choose to assume some risk with your investments. As a general rule of thumb, if your timeline is long term (10-years or more), investing might be an option to consider. With greater risk, you could receive a greater reward. When we talk about risk, we mean that you could potentially lose a portion of the money you invested. This is why we don't mention investing when it comes to providing for emergencies, periodic or short term goals. With greater time, you could recover from a loss if one should occur. The benefits of investing is the potential for greater gain.

Stocks: represent ownership in the company. When you buy a share of stock, you own a portion of the company. The company must answer to its shareholders related to its performance. Many companies will sell shares of their stock to raise money for projects, new products, or just for general operations. You are investing in that company's success when you buy a share.

With stocks there are two ways you can make money. Companies sometimes return a dividend, or a portion of their profits, to their shareholders. It is like a bonus the shareholders receive when the company is doing well and has an abundance of cash. They share their profits with the shareholders. The second way stocks can make money is if the price goes up in the market. The stock appreciates in value. The share you may own now is worth more when you choose to sell it. While markets do over time tend to go up, there are periods where markets can go down.

Sometimes when the company doesn't do well the stock price will go down, but also, the economy could also affect stock prices too. Many investors get nervous when prices go down, so they sell their shares and realizing a small loss before the loss gets bigger. But, because the market goes through periods of good and bad times, if shareholders hold their stock through a bad economic downturn, it is possible the stock would regain its value over time. Investment advisors recommend you "buy low and sell high". If you sell your shares in a downturn, then you are selling when the price is lower instead of higher.

When the market has a downturn, it is called a "bear" market. When the markets are increasing in value, it is called a "bull" market.

Bonds: unlike stocks, bond offer no ownership in the company. You are loaning money to that company or government for a specified period of time in exchange for an interest payment. The period of time is call the "term".   Bonds pay interest on specified intervals and when the term is completed, the original investment is returned.

Bonds don't generally have as much risk as stocks and so they generally pay a lower rate of return expressed in the interest rate offered. Generally, when markets are doing well, companies can get money easily by selling their stocks so they are don't need to sell bonds to generate funds. In good markets, companies generally offer a lower interest rate for their bonds. In bear markets, companies can't sell their stocks so easily so they need to offer a higher interest rates on their bonds so they can get the funds they need. Owning a mix of both stocks and bonds allows an investor to diversify their investments. When stocks are high, bonds generally pay less interest, when stocks are low, bonds pay higher interest.

Investing Choices (Cont'd)

Diversification is a strategy investors use to reduce their risk of loss in investments. Diversification means purchasing a variety of investments that perform differently in different conditions. It is a method to maximize potential return while reducing the risk of a portfolio. A portfolio is just a group of investments held by a person or by an investment company.

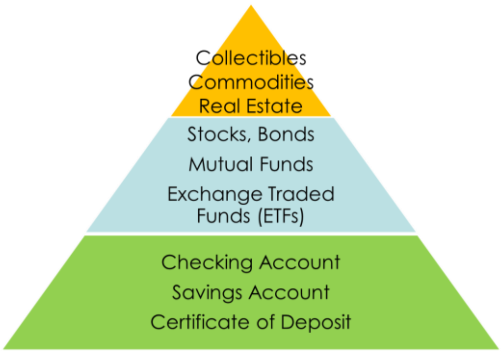
Mutual Funds, Exchange Traded Funds (E.T.F.): Mutual Funds and Exchange Traded Funds allow you to buy a whole group of companies without having the money for all the individual stock shares; you can own smaller pieces of a number of companies. Funds are the easiest way for the average person to invest in the stock market.

By purchasing funds, you automatically get benefits of diversification, because you are buying a basket of companies rather than just one. If one company goes bad, all of your investment doesn't have to suffer. Like they say, "never put all your eggs in one basket"!

The other benefit of purchasing funds is that you don't need to be a stock expert. The manager of the fund is an expert and chooses the stocks for you.

Risk vs. Return

Remember we mentioned that investments by nature have greater risk associated with them. Savings and checking accounts have virtually no risk of loss. The FDIC or NCUA insurance is a layer of protection to ensure that even if the bank should go bankrupt by making bad loan decisions, that you as the depositor have your money secured. That is why checking, savings and certificates of deposit (or share certificates if you are with a credit union) are safe and secure for holding your money and some may even give you interest in return. Some financial institutions offer Individual Retirement Accounts that only invest in these types of products and still keep the FDIC/NCUA insurance protections.



As we move toward greater risk investments, bonds, mutual funds, exchange traded funds and stocks have greater risk because you could potentially lose a portion of the money you invested if the markets do poorly or if the company should fall on hard times. These investments with greater risk, do not have the benefit of FDIC/NCUA insurance. They would only be available through an investment company or within an employer retirement account.

Riskier even still are collectibles, commodities and real estate. The reason that these types of investments are risky is that you must find someone to purchase them and their value is only what someone else will pay. For example, if you collect coins, you may have some very rare ones in my collection, but you have to locate a buyer for them and will only get what you can persuade the buyer to give for them. It is the same with real estate; land or houses will only be worth the buyer will pay. It takes longer to sell these types of investments because there is generally not a ready made market for them. To compensate for that risk, it is possible that you could earn a larger return on your investment.

Savings vs. Investing

SAVING (Safety)	INVESTING (Growth)
Short term – emergencies, short-term goals	**Long term** – long-term goals, retirement
Insured by FDIC/NCUA	Not insured
No risk of loss to your contribution	Risk for loss of some of your contribution
Slow growth	Potential higher long term growth

When determining where to put your money to get the greatest benefit, think of your reason for saving and the time you have before you need the money.

If your plans are short term, say less than 10 years away, you will want to have that money in a location that is safe and easily accessed when needed. Emergency funds need to be secure and then need to be easily accessed when the emergency arises. Because we never know when an emergency might happen, we treat emergency funds as if they are short term. You may have some periodic expenses and short term goals that would need to be maintained in a secure account so they are ready when they are needed.

Savings accounts (including checking and certificates of deposit) are insured by either the Federal Deposit Insurance Corporation (FDIC) or National Credit Union Administration (NCUA). There is virtually no risk of loss for your deposits, but as a result, you will have less interest to grow your account. When you think of savings, you think SAFETY.

The money you put in an investment account should be for longer term goals. Some people may invest for their children's education and most of us need to invest for our retirement years. While you may earn a greater return for your money in an investment account, it is not insured and you could lose a portion of your contribution. Because you have a longer time period, if there is a negative year where investments do not perform as well, you have time to recover your losses before needing to draw the money out of those accounts. For most of us, investing is the only way we could earn enough to pay for the costs of retirement.

Investing Principle: Diversification

We talked a little about diversification when we discussed the different types of investments. Diversification is a strategy of combining different types of investments together in your account to maximize growth potential while reducing risk.

There are some different ways we can diversify. One way is to purchase stocks and bonds in your investment portfolio, knowing that stocks and bonds act differently in different market conditions. Some people even choose a variety of different stocks from differing industries that may spread risk over a number of companies rather than just one company.

We mentioned that you can diversify by purchasing mutual funds or exchange traded funds. Funds already have a selected group of stocks or bonds. This allows you to diversify across different companies or industries with just one purchase. For even greater diversification, some will purchase a variety of funds. There are mutual funds that purchase stocks in a particular industry, like financials or pharmaceuticals and there are funds that purchase a variety of large companies or a variety of small companies. There are funds that just purchase bonds and some that purchase a mix of stocks and bonds. To learn more about the funds that are available for your investment, most employers have a retirement representative who can answer questions about what funds you might want to purchase.

As you get closer to needing your money, most advisors recommend reducing your risk. Target date retirement funds are great for that. As you get closer to your target date, the fund automatically adjusts to less risky investments so that by the time you need them, the fund is almost like a savings account with very little risk. This allows you to purchase one investment and have the adjustments made automatically as you get closer to the time you need your money. These funds may also be called lifecycle funds. They usually have a year associated with them, so you may see a Lifecycle fund dated 2030 for someone who may be retiring near the year 2030.

Most retirement accounts offered through your employer only offer funds and rarely are individual stocks or bonds offered. You would need to set up an investment account outside of your employer if you are interested in investing in a specific company.

Retirement Accounts

Depending on what type of company you work for, your retirement account might have a different name. The numbers refer to the IRS code section that created them, but most function similarly.

Workplace Retirement Accounts: You may have access to a 401(k) account if you work for a for-profit business, but is might be called a 403(b) if you work in a tax-exempt or educational arena. Governments have different retirement account names like 457 or TSP, but all of these accounts allow you the employee to select from a variety of investments to help you reach your retirement goals.

Personal Retirement Accounts: IRA stands for Individual Retirement Account. These are accounts you can set up with your financial institution or with an investment firm where you set aside money yourself to invest for your retirement years.

Roth vs. Traditional

	Traditional	Roth
Contribution	No Tax	Tax
Growth	No Tax	No Tax
Withdrawal	Tax	No Tax

Now let's talk about the difference between a Roth and a traditional account. Employers are sometimes offering the option of putting your money in a Roth account instead of a traditional account. The big difference between the two accounts is when the money is taxed.

For a **Roth account**, you pay tax on the money your contribute. This means that contributions don't reduce your taxable income for the year. For people in a low income tax bracket, you may decide it is worth it to pay the tax now and not later when your taxable income could be much greater. The Roth account doesn't get taxed when you take the money out, so during your retirement years, your tax bill could be much less.

Traditional retirement accounts don't tax your contribution, but when you take out the money, it is taxed. Traditional accounts also force you to take money out by the time you are 70 and ½. The government wants to make sure they get their taxes before the end of your life.

In both cases, any earnings while your money remains in the account grow without being taxed in the year earned. This helps your money grow even more for your retirement years.

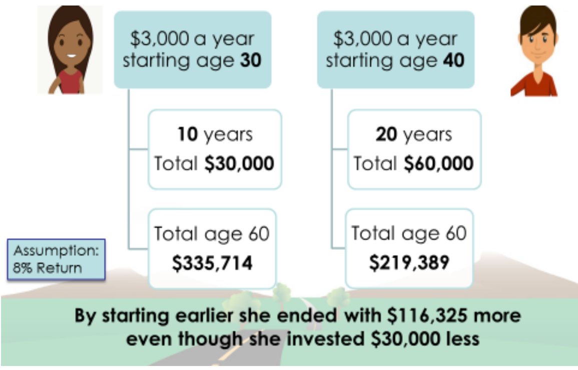
How Much Do You Need?

How much money should you be setting aside for your retirement years? Well it depends on a number of factors. A very simple calculation would be to multiply your annual salary by 25 since it is estimated that most people will live in retirement for 20 -30 years. That assumes that it would take you all of what you earn now to live in the future. For someone earning $20,000, that would be about $500,000 needed in retirement.

In addition to your retirement account, some people can look to Social Security and pensions to supplement the amounts they saved. To help you map out how much you need to set aside each month, there is a tool on the web called a Ballpark Estimator (www.choosetosave.org/ballpark). It also comes in the form of an app for your phone. Using this tool you can put in assumptions about your situation and it will calculate how much you should be saving to reach your retirement goals.

In the appendix of your Participant Guide there is a guide for some of the assumptions related to the factors that affect your ability to fund your retirement. You might want to use this guide when entering your inputs in the Ballpark Estimator for retirement.

Time Is On Your Side



When it comes to investing for retirement, time is the most important factor. Starting early allows you to keep more of your monthly income and still reach your retirement goals.

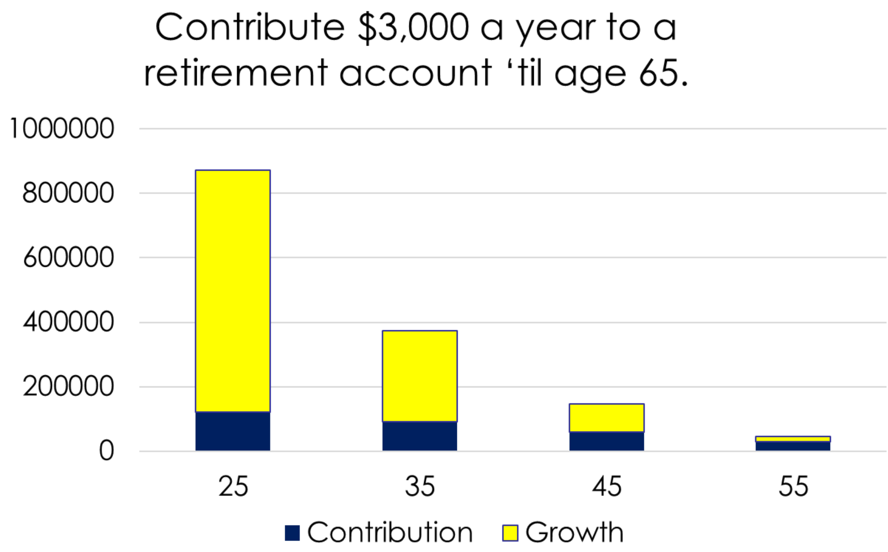
Let's take a look at an example:

Sally began investing in her retirement account at age 30. She contributed $3,000 each year or $250 per month. Over 10 years she invested $30,000. At age 40, she decided to stop contributing and let her investments grow.

Joe contributed the same amount each month, but he began at age 40 and contributed until he was 60 years old when he needed his retirement money. He contributed a total of $60,000 (twice what Sally contributed). Because he earned an average of 8% on his retirement account, his total value was more than three times what he contributed.

Sally's total value was more than 10 times what she contributed. What was the difference? Sally's account had more time to grow before she needed to use the money. She ended up with more than $116,000 more than Joe even though she invested less, just by starting earlier.

Time Value of Money



Let's look at the time value of money a different way. Across the bottom are the ages you might begin contributing to your retirement. We again, assumed an 8% rate of return for the investments.

See how the person who began at age 25 has much more growth compared with what they contributed? They contributed for more years, but the real difference comes in how much that investment grows. The differences in the contributions really don't add up as much as the growth does.

No matter when you begin, it is always better to start now rather than wait to contribute to your retirement.

[Used https://www.investor.gov/additional-resources/free-financial-planning-tools/compound-interest-calculator with monthly compounding]

Investment to Reach $500,000

Start at age	Need to Save Monthly
25	$143
30	$218
35	$335
40	$526
45	$849
50	$1,445
55	$2,733
60	$6,805

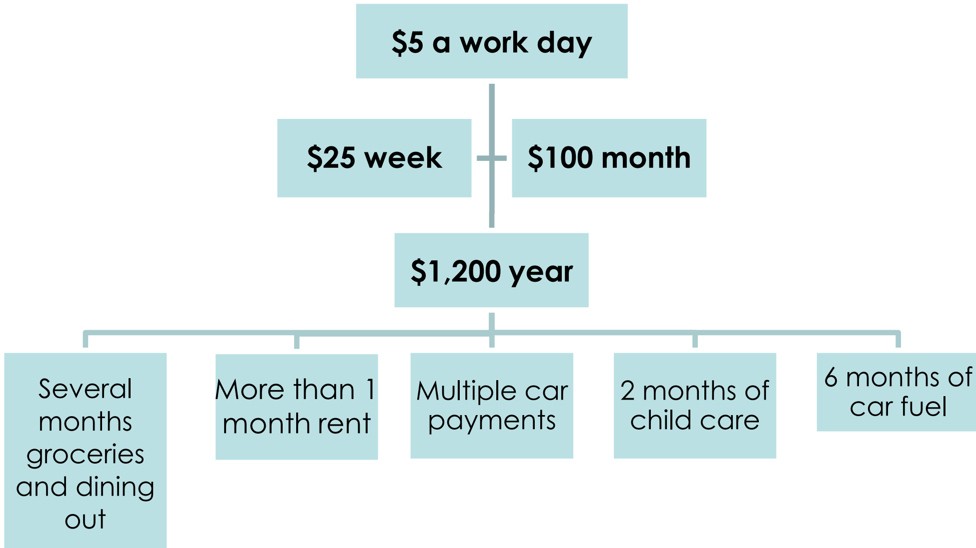
Let's look at it a different way. Most economists predict you will need one million dollars for retirement. That's based on an annually salary of $55,000, retiring at 65 and living until 85. But, let's say that Social Security or pensions are able to help out with some of that cost. If I set my goal to accumulate $500,000 for retirement years, here is how much I would need to put aside each month based on the age I start. $500,000 may sound like a lot of money, but if you consider you may live 25 years in retirement, that essentially equates to an annual salary of $20,000 without the addition of Social Security or pensions. Currently the average Social Security recipient receives approximately $13,000 annually.

See how little I need to put aside if I start early compared with waiting even just 10 years more? The compounding effect of my investments really help me to keep more of my monthly income and still reach my goals.

The longer you wait to start saving, the more it will take out of pocket. Let's look at the chart. If you start saving at 25 years of age, you'll need to put away only $158 a month to achieve a one million dollar goal.

Of course, these numbers depend on the rate of interest you're earning, but it gives you some idea of how it works. For this example an annual rate of return was assumed

Daily Decisions



Many people spend all of the money they make. You may believe you do not have enough money to start saving, but we usually can find the money to spend on those things we want. You've all tracked your spending, so you know where your money is going, so what are some things you can do to start saving money?

Daily decisions can have a huge impact. For example, let's say you spend $5 every workday on coffee. That's $125 a month and $1,200 a year. Based on average costs in Virginia Beach, that equates to several months of groceries and dining out, more than one month's rent, multiple car payments, a couple of months of child care or ½ a year of fuel for my car.

How about going out to lunch during the work week. At $8 a day, that's $160 a month or $2,080 a year. If you bring your lunch just half the time, you'll be able to save over $1,000 a year.

Everyday we make choices that will either help us achieve our goals or keep us from realizing our dreams. Remember, we are in this for the long term, but the choices we make will define how well we succeed.

Pay Yourself First

In summary, paying ourselves first means prioritizing future expenses over current expenses and past debts. By making that contribution first, you maximize your savings growth.

We discussed the four priorities for savings of emergencies, periodic, goals and retirement.

We talked about ways to automate your savings so you can set it and forget it.

We discussed investing and how it is different from savings, the various options we have when it comes to investing and how much we should set aside for retirement.

Finally, we discussed how our daily decisions might make a big difference when it comes to setting money aside for future use. Everyday we make choices that either get us closer to our goals or drive us further from them.

Post-Test

1. What is a major difference between saving and investing?

a) Most savings are federally insured; investment products are not
b) Savings products have a risk of loss and investments don't
c) Investments don't have as high a potential for growth as savings
d) Savings and investment products are the same

2. What are ways to automate savings?

a) Direct deposit a portion of pay into a separate savings account
b) Keep cash under your mattress
c) Have a portion of your pay go directly to a retirement account
d) Both a) and c) are correct

3. What are benefits of paying yourself first?

a) Improving your standard of living
b) Learning to manage money better
c) Having money for emergencies
d) All of the above

4.What are ways you can best diversify your retirement investments?

a) Invest in individual stocks
b) Invest in individual bonds
c) Invest in stock funds, bond funds or exchange traded funds
d) Invest in companies that you are familiar with

5. Which statement are true about retirement accounts? Select all that apply

a) The account can never decrease in value
b) The money in the account is taxed every year
c) The money in the account is not taxed while it grows
d) Over time, the investment is likely to grow more than savings

Glossary

Annual Percentage Yield (APY): the amount of interest you will earn on a yearly basis and is expressed as a percentage

Bonds: A debt instrument issued for a period of more than one year with the purpose of raising capital by borrowing.

Certificate of Deposit / Share Certificate: A certificate stating that the named party has a specified sum on deposit, usually for a given period of time at a fixed rate of interest. Banks issue Certificates of Deposit and redit unions issue Share Certificates.

Compound Interest: (principal + interest) x interest rate %

Diversification: A risk management technique that mixes a wide variety of investments within a portfolio

Interest: The amount of money banks or credit unions pay you for keeping money on deposit with them; expressed as a percentage

Individual Retirement Account (IRA): A tax-deferred retirement account for an individual that permits individuals to set aside money each year, with earnings tax-deferred until withdrawals begin at age 59 1/2 or later.

Liquidity: The ability of an asset to be converted into cash quickly

Money Market Account: A savings account that offers the competitive rate of interest in exchange for larger-than-normal deposits.

Mutual Fund: An investment program funded by shareholders that trades in diversified holdings and is professionally managed

Principal: What you save or invest.

Roth Retirement: A type of account which does not offer a tax benefit at the time of contribution, but does not tax the withdrawals.

Savings Account: A bank account that earns interest

Simple Interest: principal x interest rate % x time

Stocks: An instrument that signifies an ownership position (called equity) in a corporation, and represents a claim on its proportional share in the corporation's assets and profits.

Traditional Retirement: A type of account which offers a tax benefit at the time of contribution and fully taxes all withdrawals.

401(k) Plan: A retirement savings plan established by an employer in which employees set aside a percentage of pay in an account that earns interest.

Interactive Ballpark Estimate Guide

#	Question	Suggested Answer
1	Age:	Your age now
2	Current Annual Salary	Use income from last year's taxes or multiply your last paycheck to get an annual salary
3	Planned Retirement Age	The age you would like to stop working and live on your investments
4	Percentage Replacement Income	Financial Planners recommend between 80 – 100% of your pre-retirement income. Could you live on less than your current take home in retirement? How much less?
5	Expected Age of Death	Think of your ancestors that have passed; do you have hereditary diseases that would shorten your life? Better to plan for a long life…how about 100?
6	Inflation Assumption	3%
7	Wage Growth Assumption	Do you get regular salary increases? Think back to the last few years – did you increase your income? Will your salary increase 1%, 2%, 5%?
8	Rate of Return – Pre Retirement	8%
9	Rate of Return – Post Retirement	4%
10	Pension Benefits?	Yes or No
11	Age You Receive Pension	What age can you draw your pension?
12	Annual Amount of Pension	Check with your retirement plan specialist at work
13	Annual Part-Time Income at Retirement	Will you bring in some extra through part – time work? How much do you estimate you will earn?
14	Annual Other Income	Do you have other sources of income? Maybe an annuity? Maybe you rent a home?
15	Value of Current Retirement Savings	How much are you starting with?
16	Estimated Monthly Social Security Benefit	Get your statement at www.ssa.gov or use the estimator tools they offer online.