



Steps to a Secure Retirement



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For most people, the days of a company-backed traditional pension that would provide for a comfortable retirement income are over. We all have more responsibility now to start saving for our retirement, so our savings will grow to fit our needs, and then wisely manage our money so it will last.

Whether you are in your 40s or 70s you'll find AARP has tools, resources and information to help you plan for a secure retirement. Start now—visit www.aarp.org/finance. Download *Money Matters* Tip Sheets with more steps to take at www.aarp.org/orderfinancialpubs. Check out the financial calculators at www.aarp.org/money. Join our online community and share your saving and investing tips with others at www.aarp.org/onlinecommunity.

Take Charge of Your Plan for Retirement With These Steps:

- Know How Much You Need to Save
- Save for Retirement
- Manage Your Savings
- Figure Out When You Can Afford to Retire
- Ask for Help
- Subscribe to Receive Legislative Alerts and Other Information
- Sign Up to Receive Regular Updates on Financial Issues
- Get Involved to Help in Your Community

Know How Much You Need to Save

Securing your financial future takes some planning. By following these simple steps you can map your path to financial security:

- **Set goals.** Focus your plan so you will reach the goals you have identified.
- **Evaluate your financial status.** You can't make financial plans until you know how much money you have and where you spend it. Keeping an expense diary for a few weeks can open your eyes as to where your money goes.
- **Calculate how much you'll need for retirement.** You need to set your sights on how much you'll need to ensure the retirement you want.
- **Put the magic of compounding to work.** Whether you put money in a savings or investment account, your money can dramatically grow over time. That's because of compounding. Compound interest is the interest earned on reinvested interest, in addition to the original amount invested. As your investment grows, you earn interest on a bigger and bigger pool of money. The value of \$1,000 compounded at various rates of return over time is as follows:

Value of \$1,000 Compounded at Various Rates of Return Over Time

Years	4%	6%	8%	10%
10	\$1,481	\$1,791	\$2,159	\$2,594
20	\$2,191	\$3,207	\$4,661	\$6,728
30	\$3,243	\$5,743	\$10,063	\$17,449

Save for Retirement

The sooner you start saving for retirement the better, but it is never too late to pay attention to expanding your retirement nest egg.

- **Contribute to your 401(k).** Retirement savings accounts help you build a strong financial future and save on your taxes now. If your employer has a 401(k) plan, sign up. Take advantage of any employer match; it's free money that grows your account. If you don't have a plan through work, set up an Individual Retirement Account (IRA). Find out if you are eligible for the retirement Saver's Tax Credit at www.irs.gov. This frequently overlooked tax credit can trim how much you need to pay in taxes if you contribute to an IRA, 401(k) or other retirement plan. The credit is available based on how much you contribute and if you earn less than \$26,500 for an individual or \$53,000 for a couple filing jointly (2008 figures).
- **Reduce your debt.** You'll be more comfortable in retirement with less debt. AARP has many suggestions to help you save money and reduce your debt at www.aarp.org/finance.



You have to take an active role in growing your nest egg for retirement. Start saving and planning now for a more comfortable retirement.

Manage Your Savings

You have to take an active role in growing your nest egg for retirement. How much you'll have for retirement often depends on how much you and your employer contribute to your workplace savings plan, and how successful you are investing that money.

- **Understand your investment options.** At times the choices can seem overwhelming. Each investment option has trade offs between return, risk, liquidity, and growth. The *Money Matters* Tip Sheets at www.aarp.org/orderfinancialpubs explain the various investment vehicles to help you make the right decisions.
- **Watch out for fees.** Fees and expenses reduce your returns. Take the time to look beyond the projected investment return to the fees you're charged. That way you will have more of your money working for you. The cost of investing can have dramatic effects as time goes on.

What the Fees Cost You on an Initial \$10,000 Investment

Years	Pay these fees for a low-cost fund (0.50%)	Pay these fees for a mid-cost fund (1.25%)	The low-cost fund saves you...
10 years	\$796	\$1,925	\$1,129
20 years	\$2,531	\$5,902	\$3,371
30 years	\$6,034	\$13,585	\$7,551

- **Diversify.** Diversification is a way to help reduce risk in your overall portfolio and improve your returns over time. If your investments are diversified enough, you increase your chances of owning investments that rise in value over time. Just as important, however, diversifying your portfolio helps lessen the impact of investments that lose value.

- **Keep pace with market changes.** Markets do change. You should readjust your assets periodically to match your target allocation of stocks, bonds, and cash. If the value of the stocks in your portfolio increases, the ratio of stocks to bonds could change. Over time, you could end up with more risk than you realize.
- **Consider index funds.** One way to lower fees and diversify holdings is through index funds. These are mutual funds that hold a sample of the stocks or bonds that are included in a particular index, such as the Standard & Poor's 500 index. The purpose of the fund is to mimic the performance of that index versus funds that are actively managed by an investment professional. According to the Financial Industry Regulatory Authority's website, www.finra.org, in any given year most actively managed funds do not beat the market.
- **Watch for fraud.** Scammers work hard to take your money. Watch out for shady or inappropriate investments and promises of high returns and no risk. Check out every salesperson and product before you invest, no matter how good the deal sounds. Depending on the kind of product, you can check with the Financial Industry Regulatory Authority at www.finra.org/BrokerCheck, with your state insurance department at www.naic.org, or your state securities regulator at www.nasaa.org.

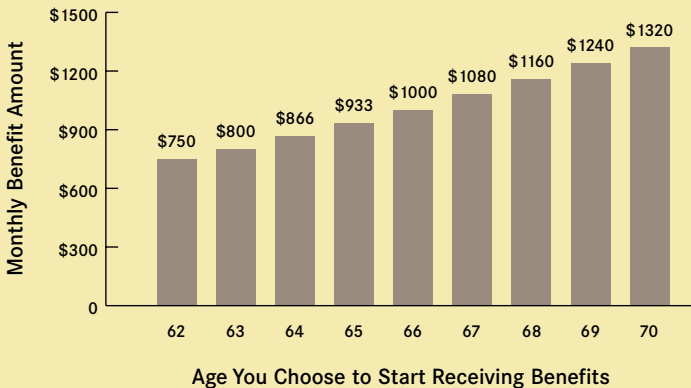
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Figure Out When You Can Afford to Retire

You need to know where the money to live on in retirement is going to come from.

- **Estimate your Social Security benefits.** Starting Social Security as soon as you can may not be the soundest move. If you take early retirement at age 62, your monthly benefit will be reduced by 25% from what you would get if you wait until “normal retirement age,” which is between 65 and 67, depending on when you were born. If you wait until after normal retirement age, you’ll get a bonus amount. The Social Security Benefit Estimator at www.ssa.gov/estimator lets you project your benefit amount depending on when you retire.

Monthly Benefit Amounts Differ Based on the Age You Decide to Start Receiving Benefits*



*This example assumes a benefit of \$1,000 at a Full Retirement Age of 66

Source: Social Security Administration. “When to Start Receiving Retirement Benefits,” Nov. 2008.
www.ssa.gov/pubs/10147.html

- **Know the withdrawal rules.** Pensions, 401(k)s, and Roth and traditional IRAs each have rules about when and how you can take money from your retirement accounts and what the tax consequences may be. For example, you can begin to withdraw penalty free from your 401(k) at age 59 ½, but your withdrawals will be taxed as income. When you reach age 70 ½ you will have to start paying taxes on money you have invested in tax-deferred accounts because you will need to begin required minimum distributions from those accounts. Check the articles at www.aarp.org/finance for details.
- **Create a “retirement paycheck.”** You’ll need a personalized plan that combines what you have to spend, what you want to spend, and all your sources of income. Start with your Social Security and develop a withdrawal strategy from retirement accounts, mutual funds, or any other investments. Most experts say you should remove no more than about 4% from your savings each year to preserve your principal. Consider an annuity for a portion of your retirement account to obtain a lifetime income stream that, when combined with Social Security, covers your necessary living expenses.
- **Work longer.** Like many others, you may want to plan on working longer to maximize your investment horizon. Working longer allows you to save longer because you can keep contributing to retirement accounts, to have access to employer-sponsored health care, and to delay claiming Social Security to secure a higher monthly benefit. For advice about working longer go to www.aarp.org/money/work.

Careful planning now will help
prepare you for a better retirement.



Ask for Help

The financial world you have to navigate is increasingly complex. Know where to seek guidance and what questions you should ask. Wherever you turn for help, make sure you can trust the person giving you advice.

- **Know the qualifications of financial professionals.** Many financial professionals call themselves by similar names, but they may not provide the same services or have the same expertise. Always check all professionals' background and complaint history before you hire them. Go to the FINRA BrokerCheck at www.finra.org/BrokerCheck, your state insurance department at www.naic.org, or your state securities regulator at www.nasaa.org.
- **Verify professional designations.** Some people try to impress potential clients with designations that make it sound like they are experts on working with older clients. You can check what's behind more than 80 designations or credentials at www.finra.org/designations. Look for designations that indicate the recipient has taken extensive training, passed a comprehensive certification examination, and agreed to abide by a code of ethics.
- **Ask questions.** Interview several financial professionals before you rely on anyone. You'll find articles about how to pick a financial professional, along with questions to ask at www.aarp.org/finance.

Know where to seek guidance and what questions you should ask.



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