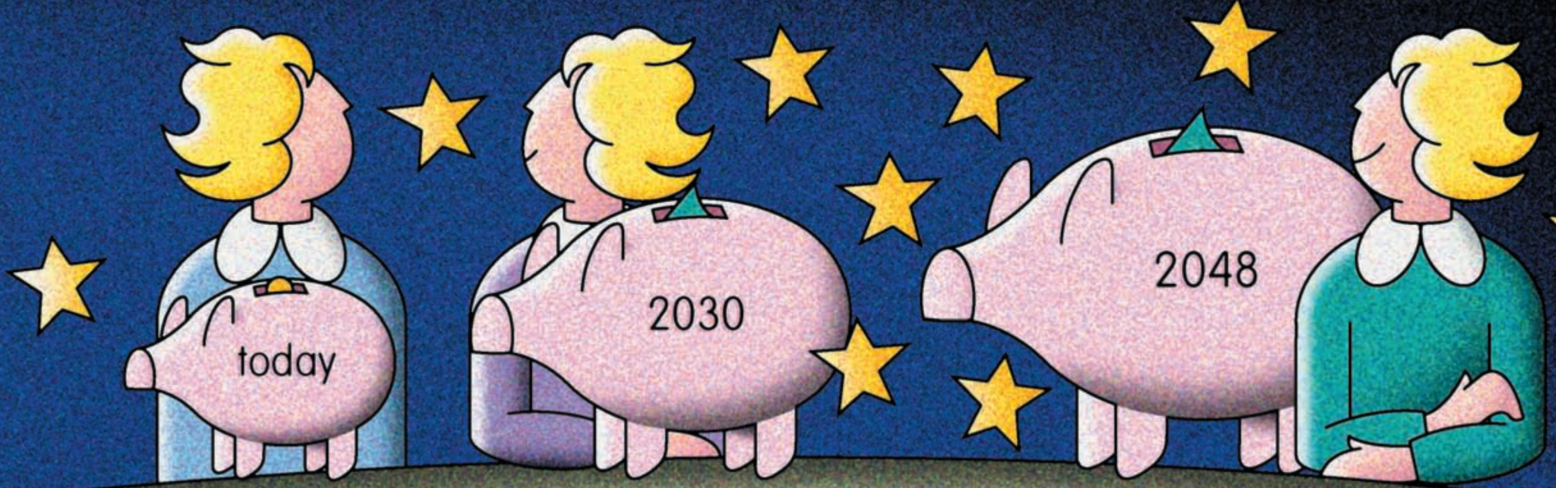



NEW EMPLOYEE SAVINGS TIPS–

# Time Is On Your Side

You're starting a new job. Perhaps it's your first full-time job or maybe you've been working for a while. It may feel like there are many demands on your income: rent, credit card debt, school loans, or car payments. Although it's important to save for these short-term goals, remember to save for your long-term goals as well. If you start saving now, the money will have years to grow and you'll have a better chance of being able to do all the things you want to do in the future. Plus, by starting early, you will need to save a lot less later on.

## 1. Find the money and get started

Take a look at what you're earning and how much you're spending. Put together a budget, and find some money to put into savings. Some ideas are:

- Take your lunch, your coffee, or your sodas to work,
- Work some extra hours, get a second job,
- Give up cable TV, or skip happy hour.

But in the end, you have to decide how you're going to save and get yourself started.

**Think about this:**

**Jennifer puts $1,000 into savings every year from age 20 to age 30, contributing a total of $11,000. She stops, but she doesn't spend it – she leaves it there. Michael starts at age 30 and saves $1,000 a year until he is 64, contributing a total of $35,000.**

**But guess what. Jennifer's account is worth more* than Michael's at age 65, even though she put in a lot less. Why? Jennifer started earlier and compound interest has longer to make her money grow.**

*To find out how much more, see the chart on page 2.

## 2. Take advantage of your employer's retirement savings plan

Workplace savings plans are the easiest way to save.

If your employer offers a 401(k) or similar retirement savings plan, this is how it works:

- You generally need to take the first step and sign up for it. Sometimes, your employer will automatically sign you up.
- Then you decide how much you will contribute from each paycheck and where the money is invested.
- Often, there's free money involved in a 401(k). The technical term for the free money is an employer match – many employers contribute to their employees' 401(k) accounts once the employee begins to put money in. If, for example, your employer matches 50 cents for each dollar you contribute, that's an immediate 50% return. There is no other investment that will give you that kind of guaranteed return – don't pass it up. Find out how much your employer match is and how much you need to contribute to get all of it.

Some larger employers offer a traditional, old-fashioned defined benefit pension plan. In this type of plan, the employer contributes the money, invests it and pays a benefit to retirees based on their pay and the number of years they worked for the employer. For more information, check out the resources at the end.

## 3. Open an Individual Retirement Account (IRA)

Whether or not your employer has a retirement savings plan, you can start saving in an IRA. An IRA is a personal account that you set up with a financial institution, like a bank or a mutual fund company. You can send a check to the financial institution or have a certain amount deducted regularly from your checking or savings account, or from your paycheck.

There are two different types of IRAs, Traditional and Roth IRAs, which offer different tax advantages. It's tricky to determine absolutely which one will provide the greater tax advantages, so do some research and make your best guess. The important thing is to get started.

There are income limits and limits on how much you can contribute to an IRA each year. But for many of us the problem is that money is tight. Keep in mind that you can start with a much smaller amount and then increase it later when you have more to save.

## 4. Learn about some basic investment choices

Whether you sign up for a 401(k) account at work or start saving money in an IRA, you will have to decide where the money will be invested. Many investors focus largely on mutual funds, and if you are just starting to invest, take a look at these two types of mutual funds: index funds and life cycle funds.

An index fund is a mutual fund that mirrors the performance of some particular segment or part of the stock or bond market. The fees that you pay can be quite low because the fund manager plays a limited role. One popular type of index fund, a Standard & Poor's (S&P) 500 Index fund, tracks the stock prices of 500 large companies.

A life cycle fund is a mutual fund geared toward investors by age. If, for example, you plan to retire somewhere around the year 2045 you might choose a 2045 fund. The advantage of this type of fund is that it adjusts the balance of your investments (usually stocks and bonds) to fit your age and the number of years until retirement.

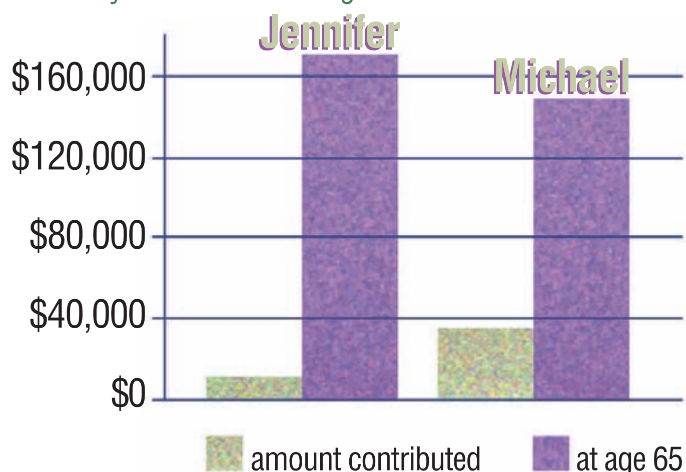
## 5. Leave the money there

This may be the hardest part of all.

When you change jobs or think you need some extra cash – resist the urge to cash out these accounts and spend the money. Instead, leave it there and watch it grow.

### How much more will Jen have than Mike?

In this example, using a 7% interest rate, Jen has $20,601 more. Although the amounts will change depending on the interest rate, the person who starts early and leaves it there will always have the advantage.




These are a few tips to get you started. You can read much more in *Savings Fitness: A Guide to Your Money and Your Financial Future*, *What You Should Know About Your Retirement Plan*, and other U.S. Department of Labor publications at www.dol.gov/ebsa or call 1.866.444.EBSA (3272).

**U.S. Department of Labor** Employee Benefits Security Administration