

TRACKING DOWN FUTURE MONEY-AT RETIREMENT AND AFTER

Now that you know from Chapter 1 how much money you have today, you can estimate how much that money could be worth – because it will probably grow – in the 10 years between now and retirement. The worksheets will help you project a 10-year total, which will help you estimate a 30-year total. Yes, it's just a guesstimate, because the further in the future you plan, the more that can happen. But the totals give you some idea of how much you may have for your retirement years.*

In addition, the worksheets in this chapter will let you see how much your money can grow by investing it in different ways. In fact, you will be able to assign different rates of return to different types of savings and to see how your decisions can impact the growth of



your money over the next 10 years. Rates of return are simply the amount your money earns over a certain period.

How your money increases over time will depend on the nature of your investments, the rates of return, and other factors, such as the economy. One kind of investment, for instance, is a bond, which is often referred to as a "fixed income" investment because the interest rate is fixed. As an example, if you owned a bond with an original value of \$10,000 and you got a 5 percent return (or yield) on your investment, your original investment would increase to \$16,289 in 10 years.

Digging Deeper

You will probably want to dig deeper by assigning different rates of return to different pots of money – workplace savings accounts, IRAs, bank savings accounts -- you have put aside for retirement. Let's say you have \$2,000 in a checking account that you never use. Your rate of return, in this case, with interest compounded monthly, will be low, maybe 1 percent. But your money is safe. Then let's say you've invested in a stock mutual fund for 15 years using your retirement plan account and you get a return of 11 percent. Investments in securities can bring a higher rate of return than simple interest because prices of securities often rise and gains are compounded. Of course, security prices can fall, as we saw with stocks in 2000 and 2001. The tradeoff for aiming for higher returns is taking on more risk, including the risk of losing money. Keep this in mind in selecting rates of return for the worksheets that follow.

In the example above, with some money invested in stocks and some in a safer, interest-bearing account, you are already doing what the experts recommend. You are practicing "asset allocation" – by putting your money in different types of products that earn different rates of return. Financial planners highly recommend this technique as a way to spread risk. A general allocation is to have some money in "cash," such as a savings, checking, or money market account with

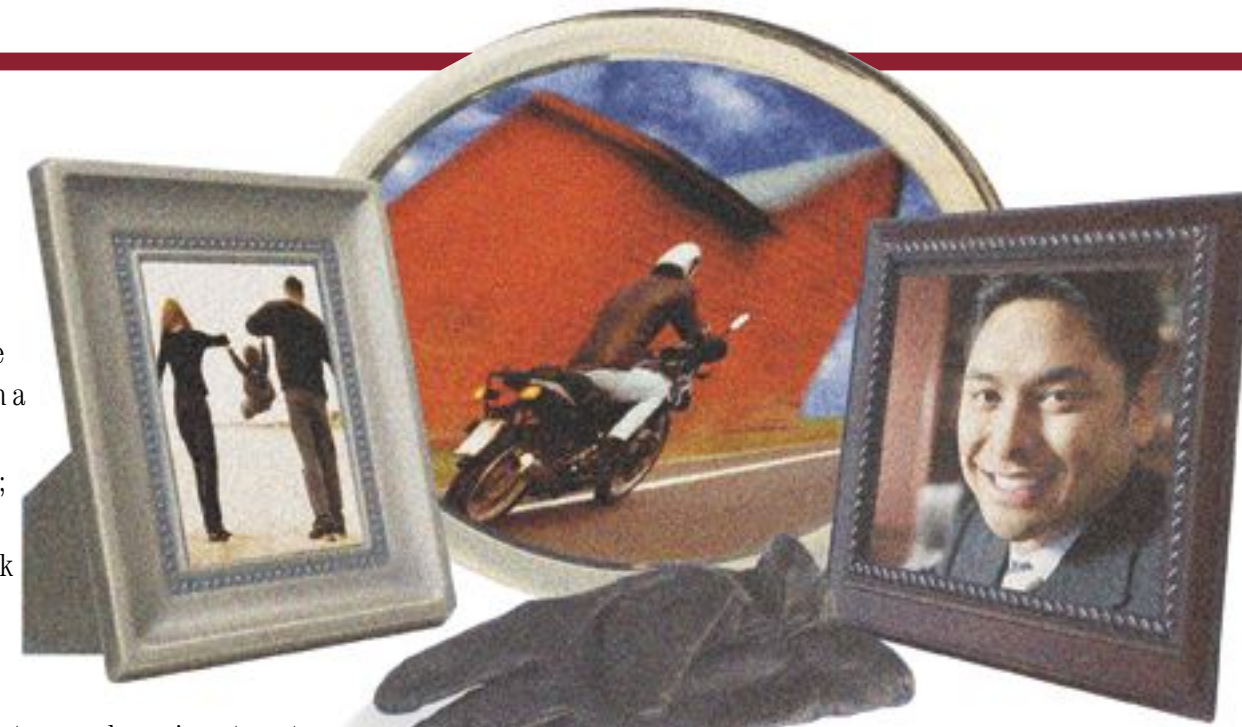
little or no risk; some money in bonds, with a little more risk but paying more interest; and some money in stocks, with more risk but a likely higher return, especially in the long run.

Another way to spread your investments among different categories is to invest in index mutual funds. Index funds are a collection of investments, such as bonds or stocks, that closely match the performance of the major holdings for that category of investment. For

instance, a Standard and Poor's (S & P) index fund tracks the 500 broad-based stocks that comprise the S & P 500 Index. A bond index fund would track the performance of major bond holdings in that index. In this way, your investment is following the financial market for that particular category.

Experts recommend that you spread your money among a range of investments so that your money is "diversified." In addition, most experts add that you should not only invest *among* categories but *within* each major category as well. For instance, your risk of losing money is less if you buy shares in several mutual funds investing in various types of assets (such as large company stocks, small company stocks and bonds). Even investing in just one mutual fund will help you to diversify compared to investing in individual securities on your own, since mutual funds, by their nature, allow you to invest in a collection of stocks, bonds, etc.

Financial planners believe that diversifying your investments helps reduce risk as markets move up and down. For example, in 1980 when some certificates of deposit (CDs) were paying 12 percent, stocks were barely



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CLUE 2

Average Annual Returns Over 10-Year Period: 1995-2004

INVESTMENT

	PERCENT
Checking account/money market account	4.15
10-year certificate of deposit	5.42
S & P 500 Index (large company stocks)	12.07
Russell 2000 Index (small company stocks)	11.54
Lehman Brothers 30-year bond index	7.72

ABOUT WORKSHEETS B (PAGE 12) AND C (PAGE 14):

YOUR MONEY AND NEW SAVINGS

One quick way to estimate how much money you could have by your first year of retirement is to multiply your total retirement assets from Worksheet A, Chapter 1, by 1.629 (the factor equal to a 5 percent rate of return for 10 years). The result shows how much you will have if your money grows at 5 percent in that 10-year period. For example:

$$\begin{array}{r}
 \$100,000.00 \text{ (total from Worksheet A)} \\
 \times 1.629 \\
 \hline
 \$162,900.00
 \end{array}$$

The 5 percent return, by the way, is used to keep things simple: remember investment returns go up and down and cannot be guaranteed.

But digging deeper may mean coming up with your own numbers, and the worksheets that follow let you do just that. To keep it simple, the worksheets give you a choice of rates of return – 3, 5, and 7 percent – and include multiplication factors for each of these rates. (Instructions continue on pg. 13)

holding their own; but in 1999 most stock prices were rising fast, and CDs were paying 5 percent. You will see sample rates of return for some common places to put your money in the box above.

Too much money in one type of investment is always a bad idea and puts your money at risk. For example, many American workers are holding a lot of their employers' stock in their retirement accounts. This ties both your current paycheck and your retirement savings to one employer's success ... or failure. This can be risky.

WORKSHEET B YOUR MONEY- 10 YEARS FROM TODAY

Asset Growth Factors for Three Selected Rates of Return

1.344 for 3% 1.629 for 5% 1.967 for 7%

	¹ Current \$ value <small>(from Worksheet A, Column 3)</small>	² Asset growth factor <small>(rate of return)</small>	³ Asset value in 10 years <small>(Column 1 x Column 2)</small>
Work-related retirement savings			
401(k) or 403(b)			
Keogh			
SEP-IRA			
SIMPLE IRA			
Other			
IRAs (traditional)			
IRAs (Roth)			
Other			
Home equity (market value)			
Mortgage and liens (enter as negative amount)			
Personal savings and investments			
Other assets (collections, etc.)			
TOTAL ASSETS			

They are lower than the 8 to 10 percent returns often used before the stock market fell in 2000. Whether you're an optimist or pessimist about interest and rates of return, being conservative in your estimates is safer; better to have extra money than too little.

Worksheet B, *Your Money - 10 Years from Today* will let you take your current retirement saving sources and then figure out how much they might grow over 10 years, depending on how the money is invested.

In Worksheet B, you will be able to transfer the dollar amounts for your income sources directly from Column 3 of Worksheet A, starting with 401(k) and 403(b) plans. Then multiply each of these results by an asset growth (rate of return) factor you'll see at the top of Worksheet B. Write the total in Column 3.

The rate you choose depends on what you've done with your retirement savings. If they're all in fixed income investments, your rate is predetermined. If they're in mutual funds, you'll need to do some research to figure out past rates of return as a guide for estimates for the future. Retirement plan statements should indicate past rates of return. But remember, for investments, past performance never guarantees future results.

Like Worksheet A, Social Security benefits and pensions are not included since you most likely won't receive these sources of income until retirement. There will be more later in the publication about how waiting to receive Social Security (and pension) benefits will mean a bigger check.

Estimating a rate of return on your home will depend on the real estate market in your community. Figure a low estimate for this and for any personal property in which the value depends

on how much a buyer would pay. Also consider any mortgage or liens you have on the home since those would be repaid from any cash you would obtain on the sale of the home.

If you have other investments, such as annuities, put them in the "Other assets" column of Worksheet B.

As an example of a possible calculation, suppose you have \$10,000 in a traditional IRA, and you believe it will earn 5 percent over the next 10 years. Your calculation would look like this:

$$\begin{array}{l} \$10,000.00 \text{ (amount in an IRA)} \\ \times 1.629 \text{ (rate of return factor for 5\%)} \\ \hline \$16,290.00 \text{ (savings in 10 years)} \end{array}$$

When you have finished Worksheet B, go on to Worksheet C, *New Savings Between Now and Retirement*. This worksheet will allow you to take any additional workplace and personal savings you can expect to add between now and retirement and determine how much they will grow to at the time of your retirement.

You can enter any estimated periodic contributions (such as to your 401(k) or IRA) between now and retirement in the first column. In addition to these sources, include in the worksheet any money you can count on receiving in the next 10 years - for example an inheritance. Remember that you are only estimating the rate of return on this money over a period of years and that you will need to review your estimate from time to time.

Multiply these amounts by the savings growth factor for the rate of return you select from the top of Worksheet C. As with Worksheets A and B, three different rates of

WORKSHEET C NEW SAVINGS BETWEEN NOW AND RETIREMENT

Savings Growth Factors for Three Selected Rates of Return

139.741 for 3% 155.282 for 5% 173.085 for 7%

	1	2	3
	Estimated monthly savings amount	Savings growth factor	Value of savings in 10 years <small>(Column 1 x Column 2)</small>
Work-related retirement savings			
401(k) or 403(b)			
Keogh			
SEP-IRA			
SIMPLE IRA			
Other			
IRAs (traditional)			
IRAs (Roth)			
Other			
Home equity (market value)			
Mortgage and liens (enter as negative amount)			
Personal savings and investments			
Other assets (collections, etc.)			
TOTAL ASSETS			

return have been selected but based upon the nature of your investments, you may want to use a different rate of return. Enter the results in the third column.

As an example, if you save \$100 a month in a workplace 401(k) plan, and if you believe that investment will earn 5 percent per year, the calculation would look like this:

$$\begin{array}{r} \$100.00 \text{ (savings each month)} \\ \times 155.282 \text{ (rate of return factor for 5\%)} \\ \hline \$15,528.20 \text{ (savings in 10 years)} \end{array}$$

You are making great progress in tracking down your retirement assets and solving the first half of your retirement mystery. Now move on to Worksheet D, *Monthly Income Over a 30-Year Retirement*, to take all of your anticipated assets from Worksheets B and C and convert them to a monthly income that you can use later to compare with your anticipated monthly expenses in retirement.

In this worksheet we now add Social Security and pension benefits since it deals with income you can rely on during retirement.

You can fill in the box in Column 3 for Social Security benefits by using information readily available from your Social Security Administration (SSA) statement. You should be getting a SSA statement every year with information about your own benefit.

If you have a fixed pension from work, the amount for Worksheet D is based on your pay at the end of your career. Your employer, union, or the pension plan administrator can give you details about the amount and start date of your pension, and whether you will get your pension in a lump sum or fixed monthly checks (see discussion in Chapter 5 describing these options to help you choose). If you receive your benefit as a lump sum, put that amount in Column 1. If you receive it as a fixed monthly benefit, fill in only Column 3.

If you were in a traditional pension plan that was abandoned for some reason, like your employer going out of business, you will still receive some (or all) of your pension benefits since these plans are federally insured. Information about your plan and benefits may be available from the Pension Benefit Guaranty Corporation. (See Chapter 6 for PBGC contact information.)

For those assets you tracked down for Worksheets B and C, take the totals for each source, such as your 401(k) plan, from both worksheets, add them together and enter them in Column 1. Select an income conversion factor representing the rate of return you expect to earn on those assets in the future and enter it in Column 2. Multiply Column 1 by Column 2 and enter the result in Column 3. Remember, this calculation is a guesstimate, since things that impact your income, such as your tax status, will vary.

When you add up all of the numbers in Column 3, you will have a monthly income for the 30 years of your retirement. This fixed monthly income is used to simplify the calculations. Realize that it takes into account both the continued growth of your assets while you are withdrawing money to live on.

Also keep in mind that while the worksheet includes your home equity (less any mortgage or liens), you may need to live in your home for some time or use some of the assets from its sale to purchase another home, so it may not provide immediate income.

Here is an example of the Worksheet D calculation:

$$\begin{array}{r} \$50,000.00 \text{ (401(k) account balance)} \\ \times 0.005368 \text{ (income conversion factor for 5\%)} \\ \hline \$268.40 \text{ (per month)} \end{array}$$

WORKSHEET D MONTHLY INCOME OVER A 30-YEAR RETIREMENT

Income Conversion Factors for Assumed Rates of Interest
0.004216 for 3% 0.005368 for 5% 0.006653 for 7%

	1 Accumulated assets <small>(Column 3 from Worksheet B plus Column 3 from Worksheet C)</small>	2 Income conversion factor	3 Monthly income beginning at retirement <small>(Column 1 x Column 2)</small>
Social Security			
Work-Related Retirement Savings			
Pension benefits			
401(k) or 403(b)			
Keogh			
SEP-IRA			
SIMPLE IRA			
Other			
IRAs (traditional)			
IRAs (Roth)			
Home equity (market value)			
Mortgage and liens (enter as negative amount)			
Personal savings and investments			
Other assets (collections, etc.)			
TOTAL ASSETS			