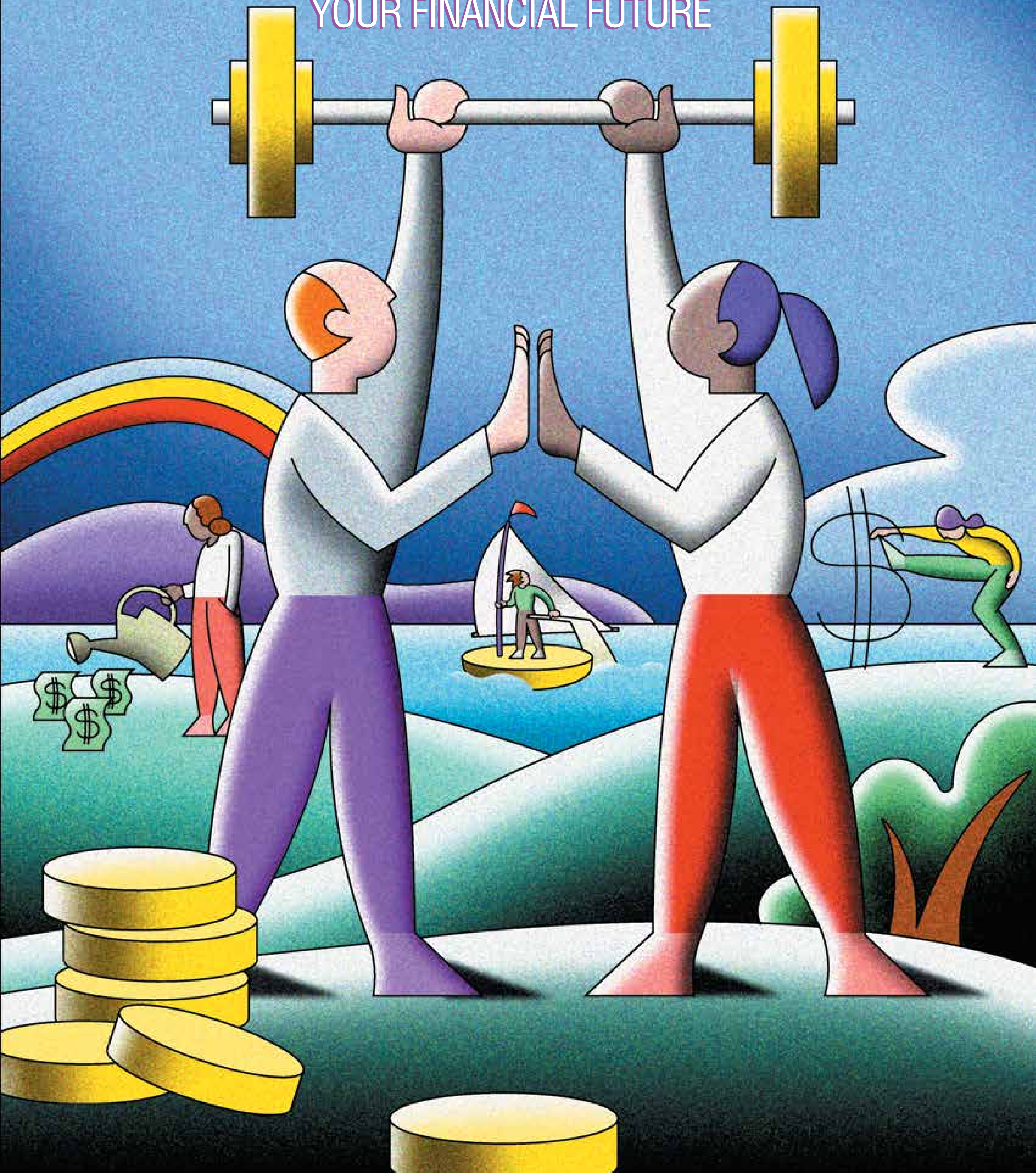
SAVINGS FITNESS:
A GUIDE TO YOUR MONEY AND YOUR FINANCIAL FUTURE



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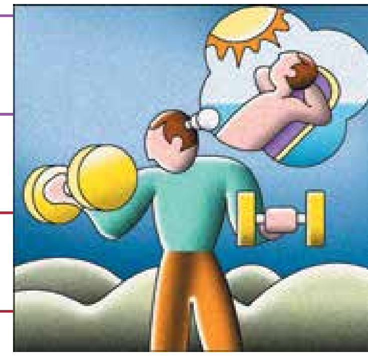
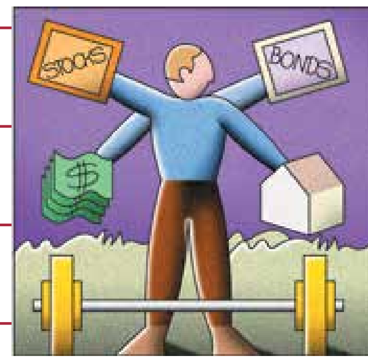
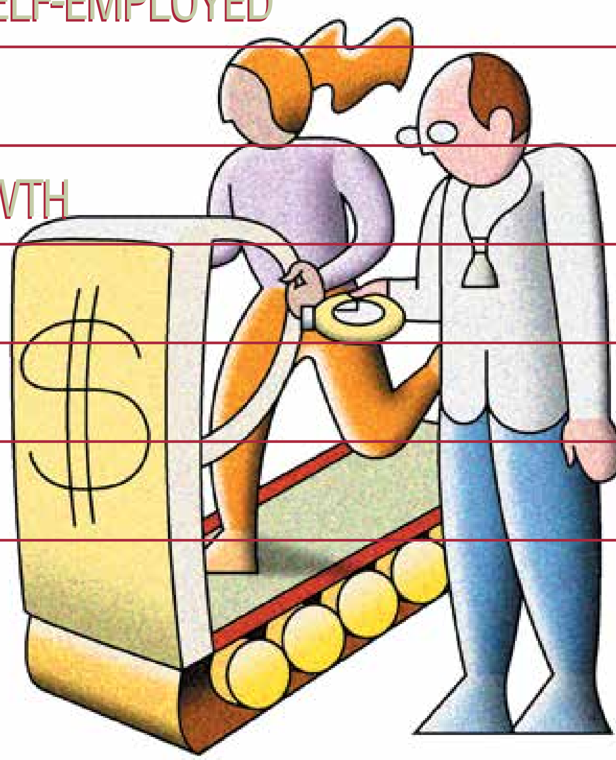
This booklet constitutes a small entity compliance guide for purposes of the Small Business Regulatory Enforcement Act of 1996

Content Highlights







Most of us know it is smart to save money for those big-ticket items we really want to buy — a new television or car or home. Yet you may not realize that probably the most expensive thing you will ever buy in your lifetime is your…retirement.

Perhaps you've never thought of "buying" your retirement. Yet that is exactly what you do when you put money into a retirement nest egg. You are paying today for the cost of your retirement tomorrow.

The cost of those future years is getting more expensive for most Americans, for two reasons. First, we live longer after we retire — with many of us spending 15, 25, even 30 years in retirement — and we are more active.

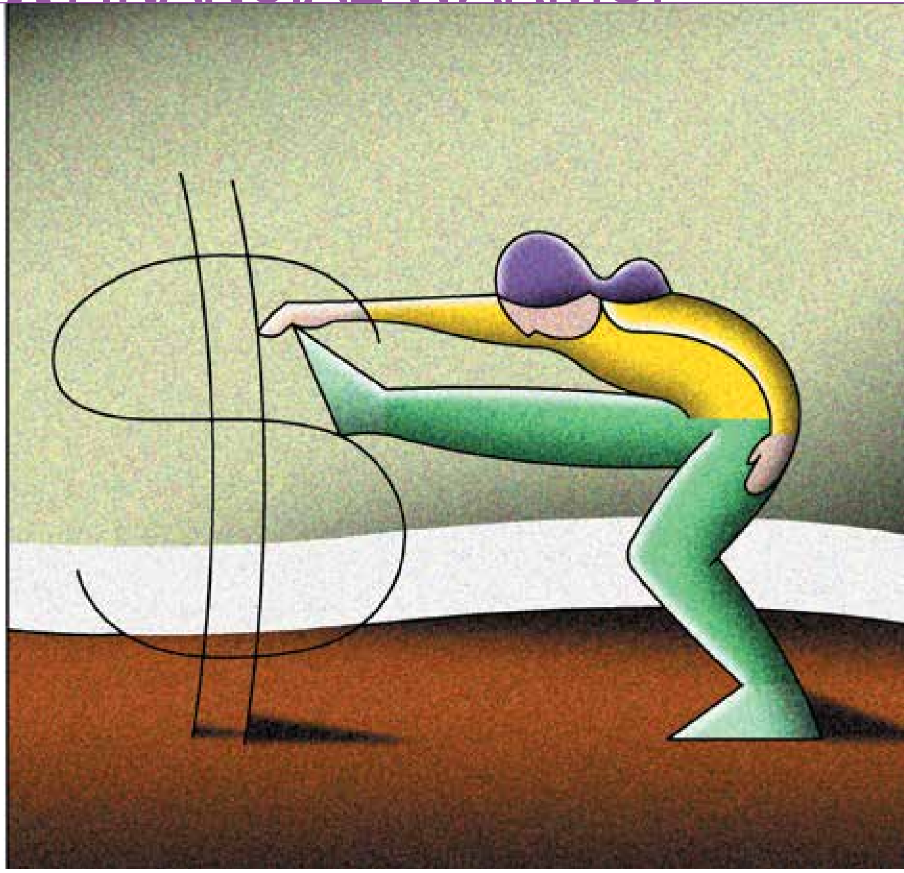
Second, you may have to shoulder a greater chunk of the cost of your retirement because fewer companies are providing traditional pension plans. Many retirement plans today, such as the popular 401(k), are paid for primarily by the employee, not the employer. You may not have a retirement plan available at work or you may be self-employed. This puts the responsibility of choosing retirement investments squarely on your shoulders.

Unfortunately, just about 54 percent of all workers are earning retirement benefits at work, and many are not familiar with the basics of investing. Many people mistakenly believe that Social Security will pay for all or most of their retirement needs. The fact is, since its inception, Social Security has provided a minimum foundation of protection. A comfortable retirement usually requires Social Security, employer-based retirement plan benefits, personal savings, and investments.

In short, paying for the retirement you truly desire is ultimately your responsibility. You must take charge. You are the architect of your financial future.

That may sound like an impossible task. Many of us live paycheck to paycheck, barely making ends meet. You may have more pressing financial needs and goals than "buying" something so far in the future. Or perhaps you've waited until close to retirement before starting to save. Yet you still may be able to afford to buy the kind of retirement you want. Whether you are 18 or 58, you can take steps toward a better, more secure future.

A FINANCIAL WARMUP



That's what this booklet is all about. The U.S. Department of Labor and Certified Financial Planner Board of Standards Inc. (CFP Board) want you to succeed in setting financial and retirement goals. *Savings Fitness: A Guide to Your Money and Your Financial Future* starts you on the way to setting goals and putting your retirement high on the list of personal priorities.

The Department of Labor's interest in retirement planning stems from its desire to improve the security of American workers in retirement. In 1995, the Department launched its Retirement Savings Education Campaign. Saving is now a national priority, with the passage of the Savings Are Vital to Everyone's Retirement Act of 1997 (SAVER). The Department continues to educate Americans about retirement savings.

CFP Board also has a keen interest in helping Americans meet their personal and financial goals. A nonprofit, certifying and standards-setting organization, CFP Board exists to benefit the public by granting the CFP® certification and upholding it as the recognized standard of excellence for personal financial planning. To this end, CFP Board authorizes individuals who meet its competency, ethics and professional standards to use its trademarks CFP®, CERTIFIED FINANCIAL PLANNER™, CFP® (with plaque design) and CFP® in the U.S. CFP Board currently oversees more than 67,000 CFP® professionals in the U.S. who advise individuals and families on a broad range of personal finance topics, including retirement, budgeting, taxes, investments, estate planning, and insurance among many others.

This booklet shows you the key tool for making a secure retirement a reality: financial planning. It will help clarify your retirement goals as well as other financial goals you want to "buy" along the way. It will show you how to manage your money so you can afford today's needs yet still fund tomorrow's goals. It will help you make saving for retirement and other goals a habit. You'll learn there is no such thing as starting to save too early or too late — only not starting at all! You'll learn how to save your money to make it work for you, and how to protect it so it will be there when you need it for retirement. It explains how you can take the best advantage of retirement plans at work, and what to do if you're on your own.

The worksheets in the back of the booklet can help you begin your savings fitness plan. Interactive versions of the worksheets are also available online at www.dol.gov/ebsa.

Yes, retirement *is* a big purchase. The biggest one you may ever make. Yet you can afford it — with determination, hard work, a sound savings habit, the right knowledge, and a well-designed financial plan.

Getting Fit… Managing Your Financial Life

It starts with a dream, the dream of a secure retirement. Yet like many people you may wonder how you can achieve that dream when so many other financial issues have priority. Besides trying to pay for daily living expenses, you may need to buy a car, pay off debts, save for your children's education, take a vacation, or buy a home. You may have aging parents to support. You may be going through a major event in your life such as starting a new job, getting married or divorced, raising children, or coping with a death in the family.

How do you manage all these financial challenges and at the same time try to "buy" a secure retirement? How do you turn your dreams into reality?

Start by writing down each of your goals in *Worksheet 1–Goals and Priorities* in the back of this booklet. You may want to have family members come up with ideas. Don't leave something out at this stage because you don't think you can afford it. This is your "wish list."

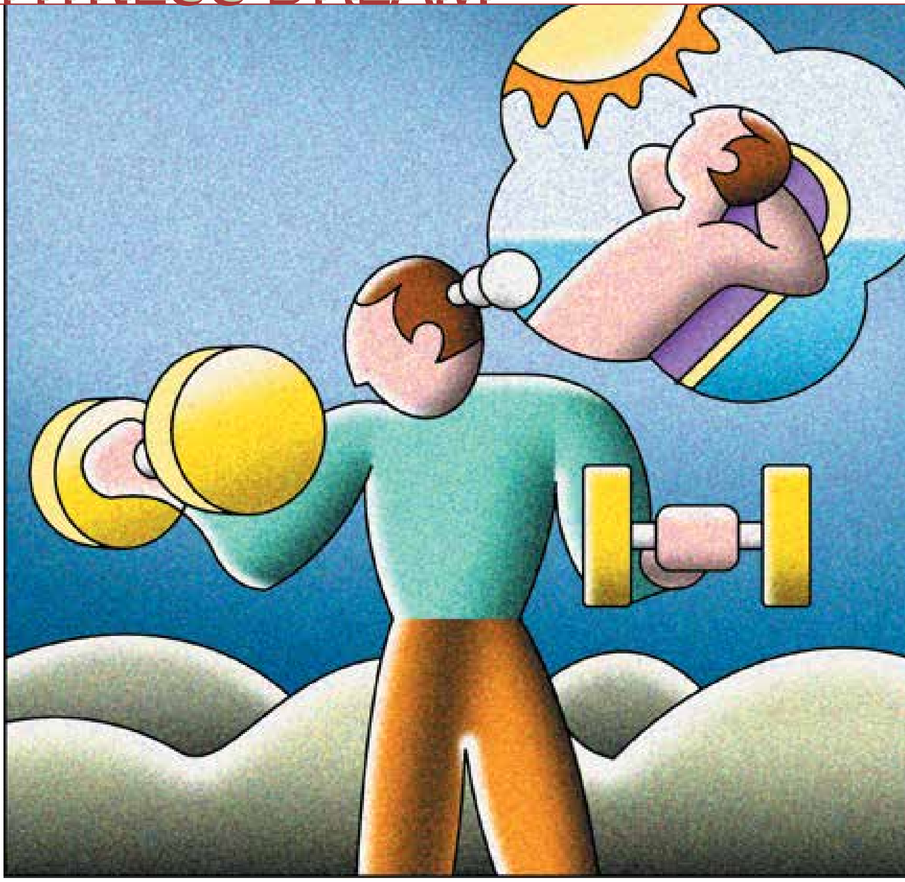
Organize them into goals you want to accomplish within the next 5 years or less, and goals that will take longer than 5 years. It's important to separate them because, as you'll see later, you save for short-term and long-term goals differently.

Next, organize your goals in order of priority.

Make retirement a priority! This needs to be among your goals regardless of your age. Some goals you may be able to borrow for, such as college, but you can't borrow for retirement.

Write down on Worksheet 1 what you need to do to accomplish each goal: When do you want to accomplish it, what will it cost (we'll tell you more about that later), what money have you set aside already, and what you are willing to do to reach the goal.

YOUR SAVINGS FITNESS DREAM



Look again at the order of priority. How hard are you willing to work and save to achieve a particular goal? Would you work extra hours, for example? How realistic is a goal when compared with other goals? Reorganize their priority if necessary. Put those goals that are unrealistic into your wish list. Maybe later you can turn them into reality too.

Beginning Your Savings Fitness Plan

Now let's look at your current financial resources. This is important because, as you will learn later in this booklet, your financial resources affect not only your ability to reach your goals, but also your ability to protect those goals from potential financial crises. These are also the resources you will draw on to meet various life events. *Worksheet 2– Financial Documents Checklist* in the back of this booklet can help you get organized.

Calculate your net worth. This isn't as difficult as it might sound. Your net worth is simply the total value of what you own (assets) minus what you owe (liabilities). It's a snapshot of your financial health. Use *Worksheet 3–Balance Sheet to Calculate Net Worth* in the back of this booklet to write down your information and do the calculation.

First, add up the approximate value of all your assets. This includes your home (if you own one) and your checking and savings accounts. Include the current value of investments, such as stocks, real estate, certificates of deposit, retirement accounts, IRAs, and any other retirement benefits you have.

Now add up your liabilities: the remaining mortgage on your home, credit card debt, auto loans, student loans, income taxes due, taxes due on the profits of your investments, if you cashed them in, and any other outstanding bills.

Subtract your liabilities from your assets. Do you have more assets than liabilities? Or the other way around?

Your aim is to create a positive net worth, and you want it to grow each year. Your net worth is part of what you will draw on to pay for financial goals and your retirement. A strong net worth also will help you through financial crises.

Review your net worth annually. Recalculate your net worth once a year. It's a way to monitor your financial health.

Identify other financial resources. You may have other financial resources that aren't included in your net worth but that can help you through tough times. These include the death benefits of your life insurance policies, Social Security survivor's benefits, health care coverage, disability insurance, liability insurance, and auto and home insurance. Although you may have to pay for some of these resources, they offer financial protection in case of illness, accidents, or other catastrophes.

Envision Your Retirement

Retirement is a state of mind as well as a financial issue. You are not so much retiring *from* work as you are moving *into* another stage of your life. Some people call retirement a "new career."

What do you want to do in that stage? Travel? Relax? Move to a retirement community or to be near grandchildren? Pursue a favorite hobby? Go fishing or join a country club? Work part time or do volunteer work? Go back to school? What is the outlook for your health? Do you expect your family to take care of you if you are unable to care for yourself? Do you want to enter this stage of your life earlier than normal retirement age or later?

The answers to these questions are crucial when determining how much money you will need for the retirement you desire — and how much you'll

Planning for Retirement While You Are Still Young

Retirement probably seems vague and far off at this stage of your life. Besides, you have other things to buy right now. Yet there are some crucial reasons to start preparing now for retirement.

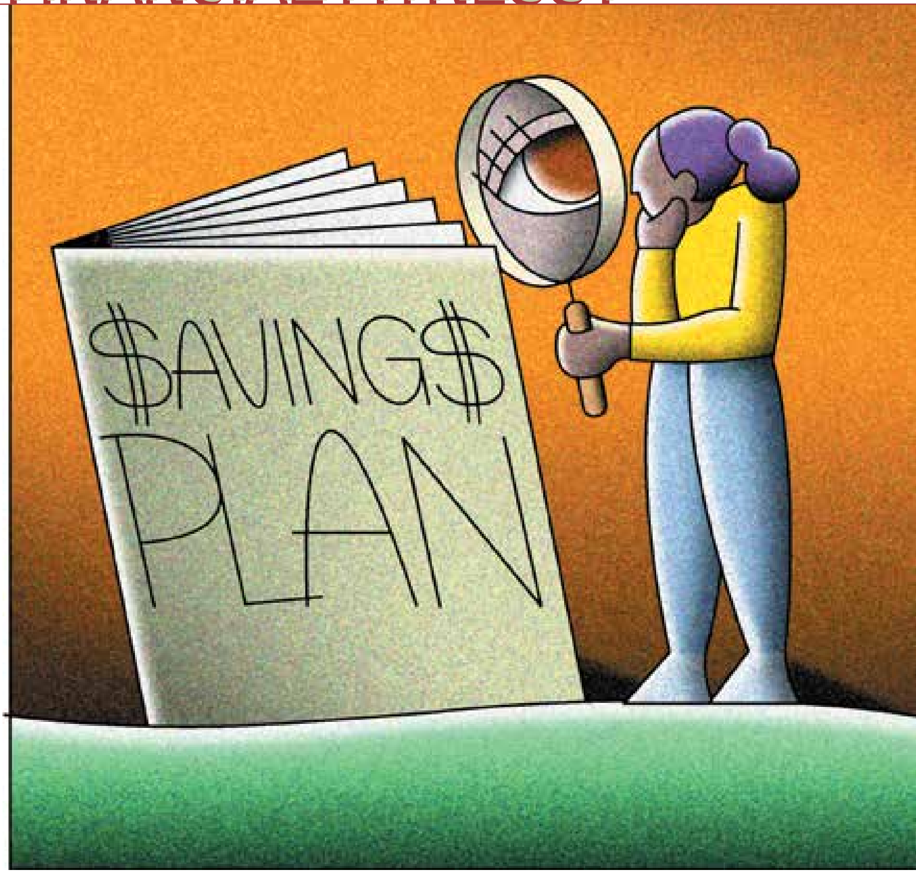
You'll probably have to pay for more of your own retirement than earlier generations. The sooner you get started, the better.

You have one huge ally — time. Let's say that you put $1,000 at the beginning of each year into an IRA from age 20 through age 30 (11 years) and then never put in another dime. The account earns 7 percent annually. When you retire at age 65 you'll have $168,515 in the account. A friend doesn't start until age 30, but saves the same amount annually for 35 years straight. Despite putting in three times as much money, your friend's account grows to only $147,914.

You can start small and grow. Even setting aside a small portion of your paycheck each month will pay off in big dollars later. Company retirement plans are the easiest way to save. If you're not already in your employer's plan, sign up.

You can afford to invest more aggressively. You have years to overcome the inevitable ups and downs of the stock market.

Developing the habit of saving for retirement is easier when you are young.



need to save between now and then. Let's say you plan to retire early, with no plans to work even part time. You'll need to build a larger nest egg than if you retire later because you'll have to depend on it far longer.

Estimate How Much You Need to Save For Retirement

Now that you have a clearer picture of your retirement goal, it's time to estimate how large your retirement nest egg will need to be and how much you need to save each month to buy that goal. This step is critical! The vast majority of people never take this step, yet it is very difficult to save adequately for retirement if you don't at least have a rough idea of how much you need to save every month.

There are numerous worksheets and software programs that can help you calculate approximately how much you'll need to save. Professional financial planners and other financial advisers can help as well. At the end of this booklet, we provide *Worksheet 4–Retirement Savings* to get you started.

Here are some of the basic questions and assumptions to keep in mind.

How much retirement income will I need?

An easy rule of thumb is that you'll need to replace about 80 percent of your pre-retirement income. If you're making $50,000 a year (before taxes), you might need about $40,000 a year in retirement income to enjoy the same standard of living you had before retirement. Think of this as your annual "cost" of retirement.

However, no rule of thumb fits everyone. Expenses typically decline for retirees: taxes are smaller (though not always) and work-related costs usually disappear. But overall expenses may not decline much if you still have a home and other debts to pay off. Large medical bills may keep your retirement costs high. Much will depend on the kind of retirement you want to enjoy. Someone who plans to live a quiet, modest retirement in a low-cost part of the country will need a lot less money than someone who plans to be active, take expensive vacations, and live in an expensive region.

For younger people in the early stages of their working life, estimating income needs that may be 30 to 40 years in the future is obviously difficult. Worksheet 4 can help you come up with a rough estimate. Every year or two, review your retirement plan and adjust your retirement savings estimate as your annual earnings grow and your vision of retirement begins to come into focus.

How To Prepare For Retirement When There's Little Time Left

What if retirement is just around the corner and you haven't saved enough? Here are some tips. Some are painful, but they'll help you toward your goal.

- It's never too late to start. It's only too late if you don't start at all.
- Sock it away. Pump everything you can into your tax-sheltered retirement plans and personal savings. Try to put away at least 20 percent of your income.
- Reduce expenses. Funnel the savings into your nest egg.
- Take a second job or work extra hours.
- Make sure your investments are part of the solution, not part of the problem. To boost your returns, diversify your holdings and keep an eye on fees. But don't take risks you can't afford and don't trade too much.
- Retire later. You may not need to work full time beyond your planned retirement age. Part time may be enough.
- Refine your goal. You may have to live a less expensive lifestyle in retirement.
- Delay taking Social Security. Benefits will be higher when you start taking them.
- Make use of your home. Rent out a room or move to a less expensive home and save the profits.
- Sell assets that are not producing much income or growth, such as undeveloped land or a vacation home, and invest in income-producing assets.

How long will I live in retirement?

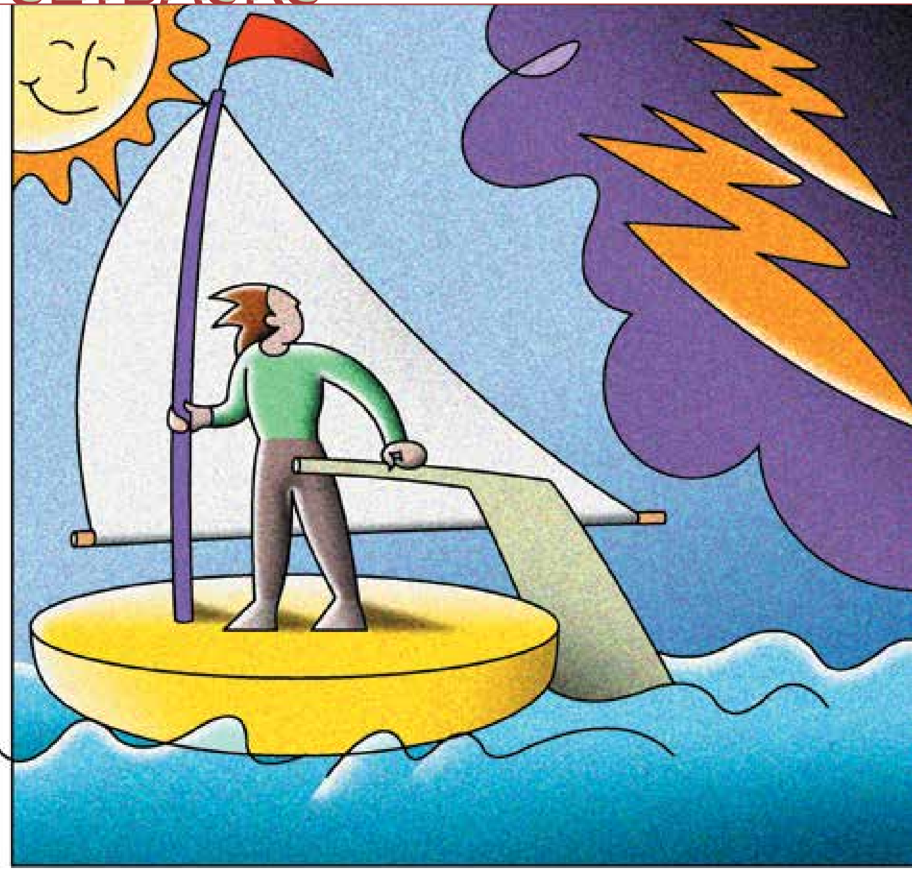
Based on current estimates, a male retiring at age 65 today can expect to live approximately 18 years in retirement. A female retiring today at age 65 can expect to live approximately 20 years.

These are average figures and how long you can expect to live will depend on factors such as your general health and family history. But using today's average or past history may not give you a complete picture. People are living longer today than they did in the past, and virtually all expert opinion expects the trend toward living longer to continue.

What other sources of income will I have?

You can get your Social Security statement and an estimate of your retirement benefits on the Social Security Administration's Web site, www.socialsecurity.gov/mystatement. For more information, visit their website or call **800-772-1213.**

AVOIDING FINANCIAL SETBACKS



Will you have other sources of income?
For instance, will you receive retirement benefits that provide a specific amount of retirement income each month? Is the benefit adjusted for inflation?

What savings do I already have for retirement?
You'll need to build a nest egg sufficient to make up the gap between the total amount of income you will need each year and the amount provided annually by Social Security and any retirement income. This nest egg will come from your retirement plan accounts at work, IRAs, annuities, and personal savings.

What adjustments must be made for inflation?
The cost of retirement will likely go up every year due to inflation — that is, $40,000 won't buy as much in year 5 of your retirement as it will the first year because the cost of living usually rises. Although Social Security benefits are adjusted for inflation, any other estimates of how much income you need each year — and how much you'll need to save to provide that income — must be adjusted for inflation. The annual inflation rate is 2.1 percent currently, but it varies over time. In 1980, for instance, the annual inflation rate was 13.5 percent; in 1998, it reached a low of 1.6 percent. When planning for your retirement it is always safer to assume a higher, rather than a lower, rate and have your money buy more than you previously thought.

What will my investments return?
Any calculation must take into account what annual rate of return you expect to earn on the savings you've already accumulated and on the savings you intend to make in the future. You also need to determine the rate of return on your savings after you retire. These rates of return will depend in part on whether the money is inside or outside a tax-deferred account.

It's important to choose realistic annual returns when making your estimates. Most financial planners recommend that you stick with the historical rates of return based on the types of investments you choose or even slightly lower.

How many years do I have left until I retire?
The more years you have, the less you'll have to save each month to reach your goal.

How much should I save each month?
Once you determine the number of years until you retire and the size of the nest egg you need to "buy" in order to provide the income not provided by other sources, you can estimate how much you need to save.

It's a good idea to revisit this worksheet at least every year or two. Your vision of retirement, your earnings, and your financial circumstances may change. You'll also want to check periodically to be sure you are achieving your objectives along the way.

"Spend" For Retirement

Now comes the tough part. You have a rough idea of how much you need to save each month to reach your retirement goal. But how do you find that money? Where does it come from?

There's one simple trick for saving for any goal: spend less than you earn. That's not easy if you have trouble making ends meet or if you find it difficult to resist spending whatever money you have in hand. Even people who make high incomes often have difficulty saving. But we've got some ideas that may help you.

Let's start with a "spending plan" — a guide for how we want to spend our money. Some people call this a budget, but since we're thinking of retirement as something to buy, a spending plan seems more appropriate.

A spending plan is simple to set up. Consider the following steps as a guide as you fill in the information in *Worksheet 5–Cash Flow Spending Plan* in the back of this booklet.

Income. Add up your monthly income: wages, average tips or bonuses, alimony payments, investment income, and so on. Don't include anything you can't count on, such as lottery winnings or a bonus that's not definite.

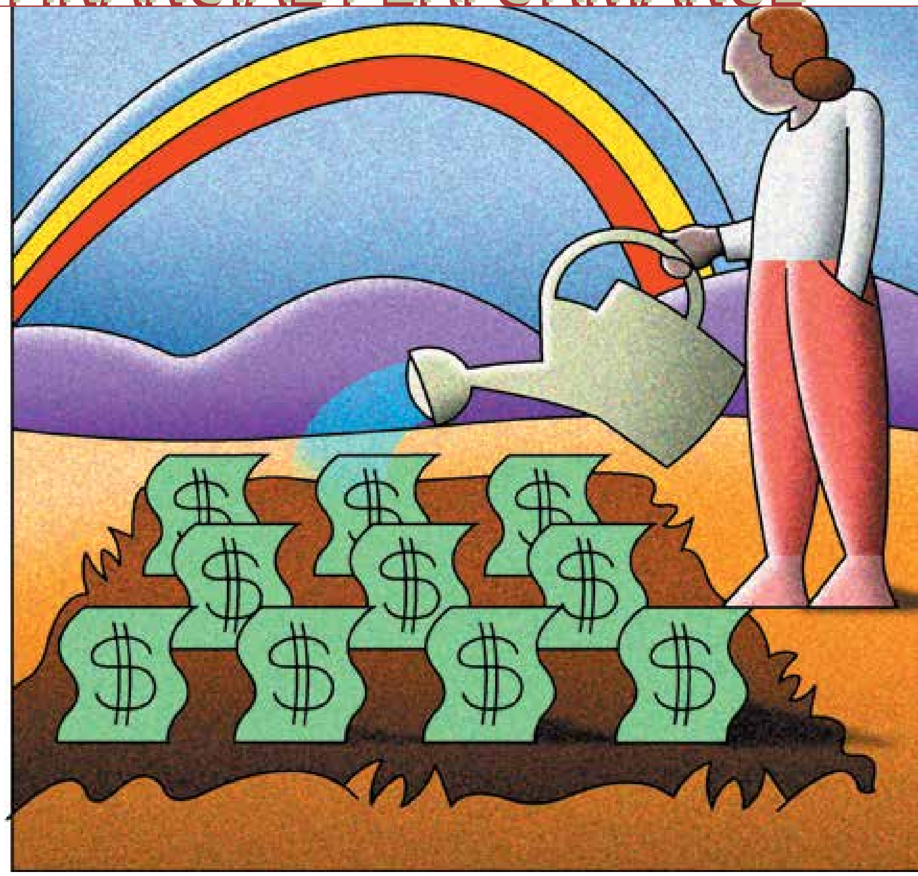
Expenses. Add up monthly expenses: mortgage or rent, car payments, average food bills, medical expenses, entertainment, and so on. Determine an average for expenses that vary each month, such as clothing, or that don't occur every month, such as car insurance or self-employment taxes. Review your checkbook, credit and debit card records, and receipts to estimate expenses. You probably will need to track how you spend cash for a month or two. Most of us are surprised to find out where and how much cash "disappears" each month.

Include savings as an expense. Better yet, put it at the top of your expense list. Here's where you add in the total of the amounts you need to save each month to accomplish the goals you wrote down earlier in Worksheet 1.

Subtract expenses from income. What if you have more expenses (including savings) than you have income? Not an uncommon problem. You have three choices: cut expenses, increase income, or both.

Cut expenses. There are hundreds of ways to reduce expenses, from clipping grocery coupons and bargain hunting to comparison shopping for insurance and buying new cars less often. The section that follows on debt and credit card problems will help. You also can find lots of expense-cutting ideas in books, magazine articles, and financial newsletters.

Increase income. Take a second job, improve your job skills or education to get a raise or a better paying job, make money from a hobby, or jointly decide that another family member will work.



Tips. Even after you've tried to cut expenses and increase income, you may still have trouble saving enough for retirement and your other goals. Here are some tips.

Pay yourself first. Put away first the money you want to set aside for goals. Have money automatically withdrawn from your checking account and put into savings or an investment. Join a retirement plan at work that deducts money from your paycheck. Or deposit your retirement savings yourself, the first thing. What you don't see you don't miss.

Put bonuses and raises toward savings.

Make saving a habit. It's not difficult once you start.

Revisit your spending plan every few months to be sure you are on track. Income and expenses change over time.

Avoid Debt And Credit Problems

High debt and misuse of credit cards make it tough to save for retirement. Money that goes to pay interest, late fees, and old bills is money that could earn money for retirement and other goals.

How much debt is too much debt? Debt isn't necessarily bad, but too much debt is. Add up what you pay monthly in car loans, student loans, credit card and charge card loans, personal loans — everything but your mortgage. Divide that total by the money you bring home each month. The result is your "debt ratio." Try to keep that ratio to 10 percent or less. Total mortgage and nonmortgage debt should be no more than 36 percent of your take-home pay.

What's the difference between "good debt" and "bad debt"? Yes, there is such a thing as good debt. That's debt that can provide a financial pay off. Borrowing to buy or remodel a home, pay for a child's education, advance your own career skills, or buy a car for getting to work can provide long-term financial benefits.

Bad debt is when you borrow for things that don't provide financial benefits or that don't last as long as the loan. This includes borrowing for vacations, clothing, furniture, or dining out.

Do you have debt problems? Here are some warning signs:

Borrowing to pay off other loans.
Creditors calling for payment.
Paying only the minimum on credit cards.
Maxing out credit cards.
Borrowing to pay regular bills.
Being turned down for credit.

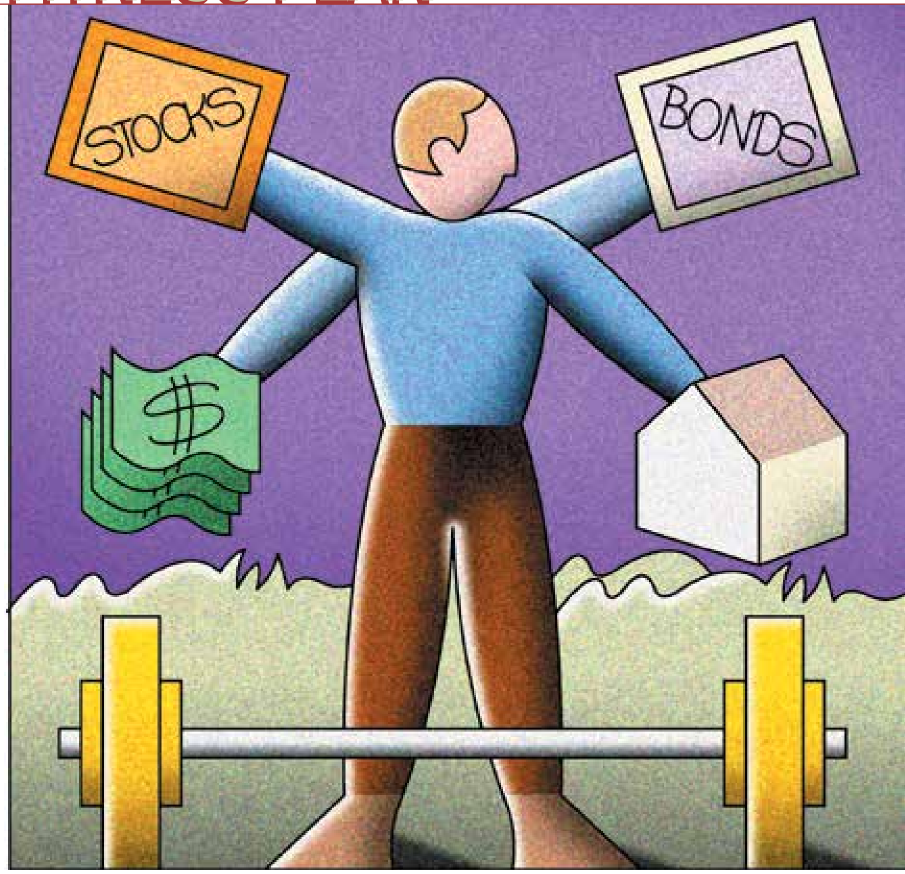
Avoid high-interest rate loans. Loan solicitations that come in the mail, pawning items for cash, or "payday" loans in which people write postdated checks to check-cashing services are usually extremely expensive. For example, rolling over a payday loan every 2 weeks for a year can run up interest charges of over 600 percent! While the Truth-in-Lending Act requires lenders to disclose the cost of your loan expressed as an annual percentage rate (APR), it is up to you to read the fine

Facts Women Should Know About Preparing For Retirement

Women face challenges that often make it more difficult for them than men to adequately save for retirement. In light of these challenges, women need to pay special attention to making the most of their money.

- **Women tend to earn less than men and work fewer years.**
- **Women stay at jobs for a shorter period of time, work part time more often, and interrupt their careers to raise children. Consequently, they are less likely to qualify for company-sponsored retirement plans or to receive the full benefits of those plans.**
- **On average, women live 5 years longer than men, and thus need to build a larger retirement nest egg for themselves.**
- **Some studies indicate women tend to invest less aggressively than men.**
- **Women tend to lose more income than men following a divorce.**
- **Women age 65 or older are more than 60 percent more likely than men the same age to receive income below the poverty level.**

For more information, call the Employee Benefits Security Administration at 1-866-444-3272 and ask for the booklets *Women and Retirement Savings, Taking the Mystery Out of Retirement Planning*, and *QDROs: The Division of Retirement Benefits through Qualified Domestic Relations Orders* (for example, divorce orders). Also call the Social Security Administration at 800-772-1213 for their booklet *What Every Woman Should Know*, or visit the agency's website at www.socialsecurity.gov.



print telling you exactly what the details of your loan and its costs are.

The key to recognizing just how expensive these loans can be is to focus on the total cost of the loan — principal and interest. Don't just look at the monthly payment, which may be small, but adds up over time.

Handle credit cards wisely. Credit cards can serve many useful purposes, but people often misuse them. Take, for example, the habit of making only the 2 percent minimum payment each month. On a $2,000 balance with a credit card charging 18 percent interest, it would take 30 years to pay off the amount owed. Then imagine how fast you would run up your debts if you did this with several credit cards at the same time. (For more information on handling credit wisely, see the "Resources" section at the end of this booklet.)

Here are some additional tips for handling credit cards wisely.

Keep only one or two cards, not the usual eight or nine.

Don't charge big-ticket items. Find less expensive loan alternatives.

Shop around for the best interest rates, annual fees, service fees, and grace periods.

Pay off the card each month, or at least pay more than the minimum.

Still have problems? Leave the cards at home or cut them up.

How to climb out of debt. Despite your best efforts, you may find yourself in severe debt. *Worksheet 6–Debt Reduction* in the back of this booklet can help you come up with a plan to pay down your credit card and other bad debt. A credit counseling service can help you set up a plan to work with your creditors and reduce your debts. Or you can work with your creditors directly to try and work out payment arrangements.

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.

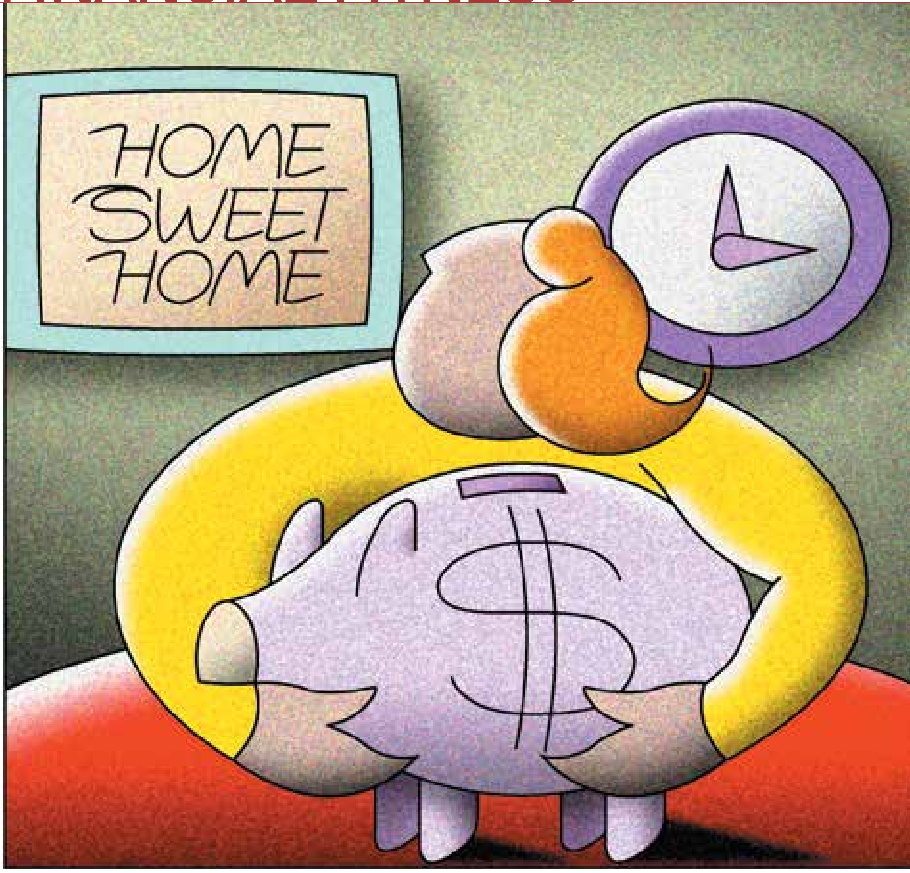
Mutual funds. Instead of investing directly in stocks, bonds, or real estate, for example, you can use mutual funds. These pool your money with money of other shareholders and invest it for you. A stock mutual fund, for example, would invest in stocks on behalf of all the fund's shareholders. This makes 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.

Tips On How To Save Smart For Retirement

- Start now. Don't wait. Time is critical.
- Start small, if necessary. Money may be tight, but even small amounts can make a big difference given enough time, the right kind of investments, and tax-favored vehicles such as company retirement plans and IRAs.
- Use automatic deductions from your payroll or your checking account for deposit in mutual funds, IRAs, or other investment vehicles.
- Save regularly. Make saving for retirement a habit.
- Be realistic about investment returns. Never assume that a year or two of high market returns will continue indefinitely. The same goes for market declines.
- If you change jobs, keep your retirement account money in your former employer's plan or roll it over into your new employer's plan or an IRA.
- Don't dip into retirement savings.

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 is 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 5.2 percent. The compound annual rate of return of long-term government bonds over the same period has been 7.1 percent. Large-company stocks, on the other hand, while riskier have averaged an annual return of 9.8 percent.

Let's put that into dollars. If you had invested $1 in Treasury bills 50 years ago, it would have grown to approximately $13 today. However, inflation, at an annual average of 4.1 percent, would have eaten about $11 of that gain leaving $1.75 as the return. If the $1 had been invested in government bonds, it would have grown to $31, with $4.16 left after inflation. If the $1 had been invested in large-company stocks, it would have grown to $105, with $14.22 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.

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.