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Give Your Retirement Savings Account a Raise

By Auditor of State Tim Berry

We all know how hard it is to save money these days, as evidenced by the fact that Americans' retirement savings rates have steadily declined over the years. In fact, it is estimated that there will be a $57 billion shortfall for those planning to retire in the year 2030! Rather than saving, many of us are headed in the opposite direction of debt accumulation. Not including mortgages and home equity loans, America's debt totals are now eclipsing the $2 trillion mark. So what can we do about this problem?

Most of us are already aware that we don't save enough, yet we don't do anything about it. This may sound silly, but whether or not we are aware of it, inertia and/or the "status quo" play a large part in shaping how we plan for retirement. Most of us start off by saving a certain dollar amount that is earmarked for retirement, but then that amount is never adjusted as our salaries and earnings increase over the years.

Here are a couple of things to consider as you think about how you can break out of the savings rut and put away more for tomorrow.

1. Salary Increases – The next time you receive a raise or promotion at work, you should also give your retirement deferral a raise, as well. Whether it is the entire raise amount or just a percentage, make sure that some of that raise is used to increase your biweekly deferral into your retirement account. In her recent article, *A No-Brainer Way to Save for Retirement*, M.P. Dunleavey cites an example of a 30-something person earning $43,000 a year who receives a 3% raise annually and who currently has $26,000 in a retirement account. If that person directed 2% of his/her raise each year toward his/her retirement account between now and age 65, assuming an 8% return, the individual would end up with $1.5 million at retirement.[1] The key is to set money aside before it becomes part of your budget. Over time, this should become an automatic response to any raise you receive.

2. Tax Refunds, Gifts and Other Unexpected Funds – Anytime you receive unexpected funds, try to put them away for a future savings goal. If you cannot put them into your retirement savings Plan, then look to put them into a college savings plan for your children or put the money away for a future goal, such as the purchase of a house or car.

These are just a couple ways to start changing how we look at new-found money. For many of us in State employment, we will be receiving a Pay for Performance increase in February 2008. Please consider giving your Deferred Compensation Plan account a raise, as well, and strive to make this an automatic reaction to any salary increase you get throughout your career. Over time, these small pay increases can turn into a huge payoff for your future retirement plans. ■

Auditor's Corner

Raising Savvy Savers

Money management begins at home.

It's never too early—or too late—to start teaching your children how to manage money responsibly. Put them on the right path with these basic lessons.

- As soon as your children can count, explain how money works. Show them how you pay for groceries at the store, and let them make simple purchasing decisions.
- When your kids start school, explain the concepts of saving and spending. Start your children on an allowance and encourage them to save for a special treat or purchase.
- Once your children understand saving, open savings accounts for them at the bank. Take them with you to make deposits. Explain how their money can grow with interest.
- When they reach junior high, help your kids to understand stock market basics. If your child is interested in video games, for example, watch the share price of a gaming company, and discuss what causes it to rise or fall.

- By the time they're in high school, you can teach your children how to budget and manage their expenses. If your teenager has a job, encourage him or her to save for a goal. ■

1 This hypothetical illustration does not represent the performance of any investment options and does not reflect any charges, expenses or fees that may be associated with your Plan. The tax-deferred accumulation shown above would be reduced if these fees had been deducted.

Three Powerful Savings Tools

Try these time-tested strategies for retirement investing.

Nobody knows what the financial markets will do in the future. Because you can't forecast bull or bear markets, try to create a portfolio diversified enough to balance risk, and don't lose sight of your long-term investing goals. Your retirement plan offers three powerful tools that can help to build your nest egg.

Personalize Your Portfolio

Start with asset allocation: an investment combination that fits you. The optimal mix is aggressive enough to outpace inflation, but stable enough to let you sleep at night. Many fund managers have long favored a 60/40 allocation of stock funds to bond funds.[2] As a retirement investor, you may want to include a money market (cash) allocation and consider a 60/35/5 mix of stock funds, bond funds and cash. That may sound conservative, but it can help you maintain confidence in bear markets.

The Right Blend

Your second tool is diversification: a mix of different types of stock and bond funds. Your stock allocation, for example, may include domestic and international funds[3], large- and small-company[4] funds, plus growth and value funds. On the bond side, you could own short-, intermediate- and long-term bond funds. When you diversify, aim for a mix of investments that behave differently from each other, so that at any given time, some may perform better than others.

Taking the Average

The third tool is dollar cost averaging (DCA).[4] When you contribute a fixed amount each month to your retirement savings plan, you may be able to achieve every investor's goal of buying low and selling high. Over time, that technique may help to lower your average cost per share. The hypothetical example below shows how monthly contributions of $100 might lower your average cost per share over a year.

Time Period	Share Price	Shares Purchased
January–March	$25.00	12
April–June	$15.00	20
July–September	$10.00	30
October–December	$20.00	15
Average Price	$17.50	77
Average Cost with DCA	$15.58	

To calculate your average cost per share, divide your total annual investment ($1,200) by the total number of shares purchased (77). The average cost is $15.58, lower than the average share price because your monthly investments buy more shares when the price is lower.

These time-tested strategies can remove the temptation to react to short-term market swings, and they can help to enforce regular savings habits. ■

How Much Will I Need?

Find the answer with a savings calculator.

Most of us dream of retirement, but only 43% of Americans know how much it will cost us.[6] For an idea of how much you may need, start by thinking about how you'll spend your time—and money—in retirement.

If you plan to travel, for example, you'll likely spend more than if you stay close to home. Also, consider your current expenses. Some of them, like your mortgage and insurance costs, may remain constant. Count on some variable expenses, for things like hobbies and medical care.

Use the savings calculator at **smartmoney.com/retirement/planning** to learn how much you'll need.[7] If you find that your savings fall short of your goal, consider increasing your monthly plan contributions. ■

Please consider the investment objectives, risks, fees and expenses carefully before investing. For this and other important information, you may obtain mutual fund prospectuses and disclosure documents from your registered representative. Read them carefully before investing.

2 A bond fund's yield, share price and total return change daily and are based on changes in interest rates, market conditions, economic and political news and the quality and maturity of its investments. In general, bond prices fall when interest rates rise and vice versa.
3 Foreign investments involve special risks, including currency fluctuations and political developments.
4 Equity securities of companies with relatively small market capitalization may be more volatile than securities of larger, more established companies.
5 Dollar cost averaging does not ensure a profit, nor does it protect against loss in declining markets. To be effective, there must be a continuous investment regardless of fluctuating price levels. Investors should consider their financial ability to continue to make purchases through periods of fluctuating price levels. Please consider the investment objectives, risks, fees and expenses carefully before investing. For information about investment options available in your Plan, contact your Plan's investment professional.
6 Employee Benefit Research Institute, 2007.
7 Great-West Retirement Services® is not responsible for and does not endorse the content contained in the additional Web site provided. This Web site is for general education and information only and is provided as a benefit to the users of the site. SmartMoney and Great-West Retirement Services are separate and unaffiliated companies.

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