Saving for Retirement

What does DCA Mean?

- Dollar Cost Averaging:
  - The technique of buying a fixed dollar amount of a particular investment on a regular schedule, regardless of the share price. More shares are purchased when prices are low, and fewer shares are bought when prices are high.

What does DCA mean?

- Eventually, the average cost per share of the security will become smaller and smaller. Dollar-cost averaging lessens the risk of investing a large amount in a single investment at the wrong time.

- For example, you decide to purchase $100 worth of XYZ each month for three months. In Feb, XYZ is worth $25, so you buy 4 additional shares at this time. In Jan, it's worth $33, so you buy three shares. In March, it's worth $20, so you buy five shares. In total, you purchase 12 shares for an average price of $25 each.

Investment date	Amount invested	Price per share	# Shares purchased
January	$416.66	$33.21	
February	$416.66	$35.70	
March	$416.66	$34.83	
April	$416.66	$32.10	
May	$416.66	$33.71	
June	$416.66	$35.08	
July	$416.66	$29.04	
August	$416.66	$28.17	
September	$416.66	$27.92	
October	$416.66	$25.83	
November	$416.66	$26.42	
December	$416.66	$28.18	
Total		AV:	

What is a 401(k)?

- A 401k retirement plan is a special type of account funded through pre-tax payroll deductions.

What is a 401(k)?

- The funds in the account can be invested in a number of different stocks[7], bonds[8], mutual funds[9] or other assets, and are not taxed on any capital gains[10], dividends[11], or interest until they are withdrawn.

What's in a name? (Don't copy)

- The retirement savings vehicle was created by Congress in 1981 and gets its name from the section of the Internal Revenue Code that describes it; you guess it - section 401k.

What are the benefits of a 401(k)? Tax Benefits

- Dividend, interest, and capital gains are not taxed until they are disbursed (after you retire).
- Money is taken out of your check BEFORE you pay taxes.

OR

- You can choose a Roth 401(k) if your company offers it, and pay the tax upfront, allowing you to withdraw tax free later.

Employer Match

- Many employers offer a company match to your contribution.
  - For example, you contribute 4% of your income to 401(k) and your company will double the contribution.

  - Rules vary by employer.
  - Can you say “free money?”

Investment customization and flexibility

- You can choose among several different investing options within 401(k) to match your risk preference.

What is an IRA?

- Individual Retirement Account
- You set up directly, not offered by your company.

Why open an IRA?

- Your company doesn’t offer a 401(k)
- You’d like options not offered in your 401(k)
- You want to save more for your retirement

How and where to open an IRA?

- You can open an IRA at nearly any bank or brokerage house, either in-person or online. Opening an IRA is a very simple process, typically with help readily available. Often, there are just a few forms for you to complete.

- Check out Etrade or Fidelity to get started.

Earned Income and your IRA?

- The amount you are permitted to contribute to an IRA is limited to your earned income.
- (You can't put more in your IRA than you made last year!)

IRA Contribution Limits

- For the year 2008 and 2009, the most you can contribute to an IRA is $5,000. If you are 50 or over, you may contribute a total of $6,000.

Contribution Deadlines

- Each IRA contribution relates to a specific calendar year.
- You don't have to make the entire $5,000 contribution at once; you can make many smaller contributions, as long as the total contributed does not exceed $5,000.

What is the Rule of 72?

- 72/interest rate=number of years it takes for your investment to double.

- For example, the rule of 72 states that $1 invested at 10% would take 7.2 years ((72/10) = 7.2) to turn into $2.

Rate of Return	Rule of 72 (years to double)
2%	
3%	
5%	
7%	
9%	
12%	
25%	
50%	
72%	
100%	

Building your portfolio

- *How soon will you need to draw upon your investments?*
- *How concerned are you about inflation?*
- *How important is it that your investments not drop significantly in value?*
- *Are your investments a source of emergency funds?*