

44-Saving and Investing

Investing

Investing-spending money with the expectation of receiving a profit in return

Risk-return ratio-How much risk is involved compared to how much return. *The farther from retirement the higher the risk that is acceptable.*

Liquidity-How quickly your investments can be turned into cash to use



Low Risk/Low Return Investments



Bonds-loans to governments or businesses that are paid back plus interest (low risk/low reward)

Certificates of Deposit (CDs)-a saving account that has a fixed interest rate and set date of withdrawal (Ex. 36 months/3.5% interest) (low risk/low reward)

*Medium Risk/Medium Return
Investments*

Mutual Funds-a combination of many stocks and bonds that lessens the risk to the investor (medium risk/medium reward)



**MUTUAL
FUNDS**



High Risk/High Return Investments

Stocks-share or pieces of a company that can be purchased (high risk/high reward) price can go up or down very fast

Dividends-payments of company profits to stockholders

Retirement Plans

Social Security-small retirement pension from U.S. government, citizens pay taxes during working career, draw during retirement

Annuities-private retirement investment that pays a set amount per month during retirement based on amount invested



Other Ways to Pay for Retirement



IRA-Individual Retirement Account, not taxed now, taxed upon withdrawal
Roth IRA-Contributions are taxed now, no taxes later

401K-retirement plan supported by employer, taxes not paid until withdrawn, employer often matches part of contributions
403B-similar to 401K, used for non profit organizations

All of these serve the same purpose. The ones that people get are determined by their employer and what they offer.

Retirement Accounts Grow with Compound Interest

- **EXAMPLE**

- Mr. Feuer is 23 years old and decides he wants to open up a ROTH 403b retirement account with UCPS. Keep in mind, a retirement account is different from a checking, savings, or emergency fund account. A retirement account is not allowed to be touched until the person is of the appropriate age to withdraw from it.
- If Mr. Feuer contributes \$100 to his ROTH 403b until he retires, and his account grows at 11% interest (average % of **good** growth retirement funds) then at age 65 he'll have \$1,198,694.
- This will really blow your mind right here... In that time, **he only would have contributed \$51,600 of his own money (\$100 per month for 43 years)**. Compound interest at 11% will give him the remaining \$1,147,094
- If you decided to invest more money per month like \$200, you'd have **DOUBLE** the money!
- Moral of the story... Start your retirement account as soon as you get your first full time job after college!