VERMONT

Retirement Savings

What is your idea of the perfect retirement? Actively saving today will help you put away the funds needed to reach some or all of your retirement goals.

You could enjoy more than 18 years of retirement.

The average life expectancy in the U.S. for someone who is 65 years old today is age 85 for women and 83 for men. Most elderly Americans rely on Social Security as the major source of their retirement income. Based on 2018 data from the Social Security Administration, in Vermont, the average monthly benefit paid to a retired worker was $1,419.* As you consider your own plans, will just over $1,400 a month, or $17,028 a year, be enough money to comfortably support yourself in retirement?

One way to answer this question is to look at your current lifestyle and the amount of income it requires. Consider how many of your existing expenses you'll still have to pay in retirement. How many new expenses might you have — particularly ones associated with your medical care? It's estimated that you will need approximately 80 percent of your current income in retirement to maintain your present standard of living. Chances are that $17,000 a year will not be enough.

If you're not already saving for retirement, it's time to start. This sheet will give you some suggestions on how to begin putting money away. Here are some suggestions for starting and maintaining an effective savings plan.

Look at where you are spending your money

Most people agree that it's a good idea to save money. However, many people struggle with where the money is going to come from to regularly invest in retirement savings. One tool you can use to identify savings dollars is to keep a spending diary. It doesn't have to be fancy. It may just be a piece of paper you keep in your wallet or purse. Ideally, you should record in your diary for one month. At the very least, maintain a diary for one week and then multiply the amount you spend times four to see what your monthly spending habits are.

Saving a Little Goes a Long Way

A key to successfully starting and continuing a savings plan is determination and consistency. One way to motivate yourself is to look at how taking small steps to save now can grow into big returns later. You might be surprised at how quickly your savings can grow if you do without a few "extras" each month. Thanks to compounding interest, you can quickly grow a tidy nest egg.

The examples below assume you establish a monthly savings habit and keep it up for ten years:

If you forego dinner out for two at an average cost of $50, that's $200 a month.

- $200 earning 5% rate of return over 10 years = **$31,186**

If you forego online streaming subscriptions at a monthly cost of $80.

- $80 earning a 5% rate of return over 10 years = **$12,474**

If twice a month you forego, movie and popcorn for two at an average cost of $32, that's $64 a month.

- $64 earning a 5% rate of return over 10 years = **$9,998**

If you forego purchasing a daily $1 lottery ticket, that's $30 a month.

- $30 earning a 5% rate of return over 10 years = **$4,678**

Adopted from "Taking the Mystery Out of Retirement Planning" from the U.S. Department of Labor.

Start tracking your expenses

With your set expenses out of the way, it's time to track your discretionary expenses. One example is how much you spend on food. Some months you may spend more on eating out or snacks. Write down the dollar amount you spend, WHEN YOU SPEND IT. Write down what you spent the money on. Keep it simple. Your entries may just be, "$1.45, coffee." The point is to track your spending habits.

Review your spending habits

At the end of your tracking period, take a highlighter and mark those expenditures that are not essential. Non-essential purchases mean those things that you decide you could have lived without. For example, if you didn't need to buy the giant 32 oz. soda, highlight it. Rank-order the items you've marked as non-essential. If you had to give something up, what would be the first thing you would cut? Mark that item with a number one. Continue through your highlighted list and number the diary entries from those you would cut first to those you would cut last.

Review how saving could benefit you

Depending on where you place your retirement savings, the interest you'll earn on that money can begin to impressively add up over time. (See box, other side.) When you put money away for retirement savings, you are usually investing your money in a fund or plan where it will be kept for many years. For example, if you put away $50 each month for 25 years and that money earned 8 percent interest, you would add almost $50,000 to your retirement nest egg.

Pay yourself first

If you have a workplace plan available to you, you may be able to have money automatically deducted from your paycheck into the retirement plan. Talk to your employer about what your options are. An automatic deduction makes it easier for you to "pay yourself first" before you're tempted to spend the money on other things. Also, depending on the plan, your money can be put aside before you pay tax on your income. If you're working to just begin a savings account, consider having a savings deposit automatically withdrawn each month from your checking account.

Determine where to invest your money

Participating in a workplace retirement savings plan is the easiest option for most people. However, if you don't have a plan available to you at work, check with the community or professional organizations you are a member of. One membership benefit may be the availability of retirement savings plans. Other resources include local financial institutions.

Watch your money grow

Keep in mind that the money you are saving and investing now will be earning income for you until you withdraw it. As your money grows, consider setting specific goals for your retirement. Write down some of the things you hope to do when you retire. Envisioning these positive long-term goals can be a powerful way to motivate you to continue saving for your future.

Making Sense of Money Terms

There are many options for you to consider in investing your retirement savings dollars. In determining where your funds might be best placed, consider how long you have until you retire and the level of risk you are willing to take. If you are working with a retirement advisor, make sure the advisor is aware of when you hope to retire and what your long-term goals are. Below are some common types of investment opportunities.

BONDS

Bonds are loans that investors make to companies or governments. Bonds are sold to investors as a means of raising the funds needed for a particular project or initiative. The bondholder receives regular interest payments from the issuer of the bond, usually twice a year thoughout the life of the loan. Municipal bond interest is free from federal income tax and is free from state tax in Vermont. Corporate bonds can pay a higher interest rate than municipal bonds, but they typically represent a greater risk to the investor.

MONEY MARKET FUNDS

Money market funds are short-term, low-risk mutual fund investments that come due in 90 days or less. The management fee is less than 1% of an investor's assets; interest over and above that amount is credited to shareholders monthly.

MUTUAL FUNDS

Mutual funds are operated by an investment company that raises money from shareholders and invests it in stocks, bonds, options, commodities, and/or money market securities. The investment company pools your money with the money of other investors and invests the funds on your behalf. Mutual funds may invest aggressively (more risk) or conservatively (less risk). You should determine the risk level you are comfortable with before deciding which fund is appropriate for you.; interest over and above that amount is credited to shareholders monthly.

STOCKS

Stocks represent the ownership of a share of the company selling the stock. A company sells stock to raise money to run the business. If the company does well, the shares of stock will increase in value. If a company performs badly, stockholders can see the value of their shares go down. Stock value often goes up and down. As an investment option, the stock market has historically provided investors with the highest rate of return over many other types of investment choices.

TREASURY BOND

The U.S. Treasury issues debt obligations on behalf of the U.S. government. These issues can be short-term in the form of treasury bills that mature in one year or less, Treasury notes that mature in one to 10 years, or Treasury bonds that mature in 10 years or longer. All Treasury securities are exempt from state and local taxes, but not federal taxes.