WISER®

Improving the long term financial security of all women through education and advocacy

The Beginner's Guide to Saving and Investing

So your parents or your colleagues or maybe just your conscience is on your case to stop spending everything you earn and start saving and investing some of that hard-earned money. But where to begin?? It can seem intimidating to start investing, but once you have enough money to cover your living expenses and have accumulated some emergency savings, investing is a great way to start saving money for the long-term. This guide will lay out some options that you have for saving and investing and help you get started.

General Tips

- If you have access to a retirement plan through your employer, be sure to take advantage of that opportunity first. Make sure you are contributing *at least* enough to get the full amount of any matching contributions that your company might offer.
- Include savings as a part of your budget as early as possible. Even if you have to start small, it is better than not saving at all and it *will* add up over time. Check out WISER's website for budgeting worksheets and other resources to help you save and organize your finances.
- Diversify your investments (invest in a lot of different places), so you don't risk losing a significant amount of your money if one investment doesn't perform well.

The Basics of Investing

Investing your money allows you to earn interest on that money, which over time can build your savings at a faster rate than simply leaving your money in a traditional bank account. There are many options for investing, including safe alternatives that will make you a bit more money than a bank account, and riskier investments that give you the chance to earn more. It is important to keep in mind that all investing involves risk and has no absolute guarantees. If anyone promises you a very high return with "no risk," be skeptical. Furthermore, there is no proven best investment strategy. With rare exceptions, the only way to potentially make a lot of money from investing is to accept a certain high level of risk.

The good news is that time is the most valuable asset in investing: if you start investing at a young age, you can afford to put your money in higher risk investments because you have the time to ride the highs and lows of the market. Over time, the market has historically performed well compared to other investments. If you start

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early, you also have more time for the interest you earn to keep earning additional interest as well. This is what is meant by the term "compounded interest."

Why is Inflation Important to Investing?

The price of goods and services is continually increasing. In any given year it can go up a lot or just a little. This is called the rate of inflation. For example, the average price of a gallon of milk in 2000 was $2.78, but in 2017 it cost $3.30. If you decide to keep all of your savings in a shoebox instead of investing it, the money will lose buying power over time due to inflation. It is important to invest your money so that it can outpace inflation and grow over time.

Common Places to Save and Invest Your Money

Checking and Savings Accounts

You can open a checking and/or savings account at your local bank or credit union. You can even have your paycheck automatically deposited into your bank account. Although it is a good place to keep money you use for your day-to-day expenses, or to build up an emergency savings fund, it is not a good place to invest or grow your money for the long term. A savings or checking account may pay less than 1% interest, which does not keep up with the pace of inflation.

Employer-Sponsored Retirement Plans

Some employers provide a retirement plan, which can be a very important and valuable benefit. Most employer-provided retirement plans are called "defined contribution plans." These plans offer eligible employees the opportunity to save for retirement by having a portion of their paycheck deposited into a retirement plan account. Such plans are commonly known as 401(k), 403(b) or 457 plans, but they are all basically the same. Contributions to these plans are made tax-free and allowed to grow tax-free until you start withdrawing the benefits in retirement.

Many employers will also match some portion of the employee contribution. If your employer offers a retirement plan, sign up right away and ask your employer if they match a percentage of what you invest. Contribute as much as you can afford, and definitely put it as much as you need to get the full employer match if there is one. Otherwise it's like leaving free money on the table!

Sometimes companies require you to work for a certain period of time before you can start contributing to their retirement plan. If this is the case where you work, find out how long that period is and sign up the moment you are eligible.

Individual Retirement Accounts (IRAs)

If your employer does not offer a retirement plan, it is especially important that you find other ways to save for retirement. An Individual Retirement Account (IRA) is a convenient way for all working people to save for their retirement. There are two main types of IRA's: Traditional IRAs and Roth IRAs.

You pay taxes on the money you contribute to a **Roth IRA** (by using after-tax income), but the money you save grows tax-free, and you do not pay taxes on withdrawals in retirement. This is different from a **Traditional IRA**, which is a tax-deferred account. Tax-deferred means you don't pay taxes when you make contributions but you pay taxes when you withdraw the money.

Roth IRA contributions are limited by income level, but if you are under that income limit, this is generally the better IRA option because of the tax-free growth it offers. If your income is above those limits, you can only contribute to a Traditional IRA.

You can open an IRA with many financial institutions, including banks, mutual fund companies and brokerage firms. You can also open an IRA even if you participate in an employer-sponsored retirement plan. IRAs are intended to be long-term savings accounts. In general, you will be penalized if you withdraw from your IRA before you reach 59 ½ years of age. A few exceptions to this rule include: withdrawals for college tuition, certain medical expenses and first time home purchases.

Savings Bonds

Savings Bonds are considered a safe and trustworthy investment because the U.S. government backs them. This is a great low-risk investment for those who have fewer funds to work with. There are different types of savings bonds; the most recent and one of the most popular types is the I Bond. A key feature of the I Bond is that it is inflation-protected.

I Bonds provide an interest that is tied to the inflation rate, so the rate changes every 6 months (on May 1st and November 1st). The rate has been as low as less than 1%, but it has also been as high as almost 7%. The historical average is 3.63%.

I Bonds earn interest each month, and the interest is compounded every six months. You can earn interest on them for as long as 30 years, and can cash them out after 5 years without losing interest. You lose only three months interest if you cash them out before you reach 5 years. This is an especially good option for anyone with limited savings who may worry about putting money into a long-term investment that they can't easily cash out if needed for an emergency.

You purchase I Bonds at face value; for example, you pay $50 for a $50 bond. Earnings made on the interest are exempt from state and local income taxes. Federal income taxes can be deferred for up to thirty years, or until you cash them in, whichever comes first.

You can buy saving bonds through the U.S. Treasury by setting up an account at www.TreasuryDirect.gov. You can also set it up to make regular savings bond purchases through automatic deductions from your checking or savings account. Additional information about savings bonds is also available online at *TreasuryDirect.gov.*

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