



## “I’m Ready to Save, Now What?” The Basics of Saving and Investing

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 an important next step. Whether you have \$25 or \$2,500 to save or invest, this guide offers options to help you get started.

### General Tips:

- Include savings as a part of your budget. Even if you have to start small, it is better than not saving at all and it will add up over time.
- If you have access to a retirement plan through your employer, be sure to take advantage of that opportunity, in addition to these other options for saving and investing. Make sure you are contributing at least enough to get the full amount of any matching contributions that your company might offer.
- Diversify your investments (meaning invest in a few different places), so you don’t risk losing a significant amount of your money if one investment doesn’t perform well.

### OPTION 1: 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, and/or are getting closer to retirement age. There are different types of savings bonds; one of the most popular types is the I Bond. A key feature of the I Bond is that it is inflation-protected.

#### *How do I Bonds Work?*

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 10%. The historical average is about 3-4%.

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.

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## ***How Do You Purchase I Bonds?***

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](http://www.TreasuryDirect.gov). You can also set it up to make regular savings bond purchases through automatic deductions from your checking or savings account. You can also receive part or all of your tax refund in the form of a savings bond by filling out IRS Form 8888 with your tax return.

## **OPTION 2: CDs (Certificates of Deposit)**

CD's, or certificates of deposit, are available at most banks, credit unions, and savings and loan associations. They are similar to I bonds in that they are intended to be kept until their maturity date, at which time you withdraw the money you originally invested along with accumulated interest. Although they can be less convenient than traditional savings accounts because you cannot simply withdraw money whenever you wish, they generally earn higher interest rates. Like traditional savings accounts, they are also insured. If you are nearing retirement age (for example, retiring in 1-3 years), CDs are a good investment choice as a short-term investment, especially because they are low-risk.

### ***CD Basics:***

The terms of CDs run from three months to five or more years in length, and they usually have fixed interest rates. This means that the interest rate will remain constant throughout the entire term of the CD. The minimum amount required to purchase a CD can vary depending on the financial institution where you purchase it. If you wish to receive some money during the course of the CD's term, you can request to have the interest mailed to you intermittently, or have it moved to a checking or savings account. However, this reduces the amount of interest you earn on the CD, because you are preventing the interest from being compounded.

### ***Important Things to Know about CDs:***

**Closing Your CD** - If you withdraw your money before the end of the CD's term, you will usually be penalized for it. Unless you have an urgent need for the money, it is best to wait until the end of the CD's term to take out any funds.

**"Rollover"** - When the end of your CD's term is approaching, your financial institution will typically send you a document stating that you can withdraw your funds or have them "rolled over" into a new CD. If you wish to withdraw the money, make sure you know if there is a time window during which you must withdraw, otherwise the bank may automatically then deposit your money into a new CD. This means you will once again have to wait for the end of the term to receive it without penalty.

**Callable CDs** - Callable CDs are just like regular CDs except the issuer has the right to "call" or redeem your CD from you before it matures. This is convenient for the issuer because if interest rates decline, they may be able to borrow money for cheaper than what they are paying you. The issuer will likely call

the CD and you will have to invest your money in another CD or investment vehicle. Make sure you know if your CD is “callable,” and if so, after what period of time. A CD’s call date is NOT the same as its maturity date. A CD’s call date could be one year, while its maturity date is 20 years down the road.

The Securities and Exchange Commission also offers useful tips on what you need to consider before purchasing a certificate of deposit. [www.sec.gov/investor/pubs/certific.htm](http://www.sec.gov/investor/pubs/certific.htm)

## **OPTION 3: Mutual Funds**

Mutual funds can be a great investment choice for people of all ages. Although there are hundreds of different mutual funds, knowing a few general facts about them can help get you started.

### ***What are Mutual Funds?***

A mutual fund is a type of investment that pools together many people’s money under the control of a fund manager (which can be a person or company that invests the money). Depending on the type of fund, the fund manager usually invests the money in a combination of “securities” (stocks, bonds, and money market accounts). You buy shares of the fund at a price called the “net asset value.”

The key aspect of mutual funds is that your money is spread throughout several investments. This makes mutual funds more risky than bonds or CDs, but not as risky as investing in a single stock which is based on an individual companies’ performance, and is therefore subject to more volatility and risk. When you purchase a mutual fund, you purchase shares of several stocks, not just a single stock.

### ***Things to Consider when Choosing Mutual Funds:***

With hundreds of available mutual funds to choose from, it is important to know what you are looking for in order to make a wise investment choice. In choosing how much risk to take (which impacts your potential return), the main thing you should think about is how far away you are from retirement. If you are not planning to retire for another 20 years, your investment can contain riskier funds because if you lose money, you will likely have time to make it back. When you are nearing retirement age, you should move your funds into those with lower risk and return, to secure your investment.

Personal feelings should also be taken into account when investing. It is essential to consider your general financial situation in order to determine how much risk you can take with your money. If you are risk averse and do not think you will feel comfortable riding through the highs and lows of the market, it also may be better for you to simply accept lower return but with peace of mind.

### ***How to Buy Mutual Funds:***

If you are selecting mutual funds through your employer’s 401(k) plan, you will be given a select menu of options from which to choose that should offer well- balanced choices. If you are buying them on your own, you have a few options:

- You can buy mutual funds directly from the fund companies, such as Vanguard or Fidelity [provided as examples, not as an endorsement]. Look for a large, “no-load” mutual fund company, which means that it will not charge commission for services.

- You can buy them from a “supermarket” which is basically one company offering investors’ access to a broad range of mutual funds. You can set up a brokerage account from one of the fund companies that will enable you to buy funds from other providers. Be aware of fees, however, that might come along with the convenience of using a “supermarket.”
- You can choose to go to a financial advisor or broker to purchase mutual funds. Because you have personal assistance, this option is often accompanied by sales charges, so be sure to ask about those possible fees upfront.

## **OPTION 4: Individual Retirement Accounts (IRAs)**

If your employer does not offer a pension plan or 401(k)-type plan, it is especially important that you find other ways to save for retirement. One good option is to open an Individual Retirement Account (IRA). You can open an IRA even if you are also investing in your company’s retirement plan.

There are two main types of IRA’s: Traditional IRAs and Roth IRAs. Both provide avenues through which to save money for the long-term. You can open an IRA with many financial institutions, including banks, mutual fund companies and brokerage firms. You can ask for free information on IRA’s from your financial institution of choice to help you choose which IRA is best for you.

### ***Traditional vs. Roth IRA:***

A key difference between Traditional and Roth IRAs is how they deal with taxes. The funds you contribute to a Traditional IRA are tax-deferred, so you pay nothing now but must pay taxes when you withdraw money at retirement. Conversely, you pay taxes on your Roth IRA contributions (using post-tax income), but that money can grow tax-free and you pay no taxes when you withdraw funds. Roth IRA contributions are limited by income level; if your income is above those limits, you can only contribute to a Traditional IRA. Check out WISER’s Fact Sheets on Traditional and Roth IRAs for specific information about contribution and deduction income limits.

### ***IRA Basics:***

When you open a Traditional or Roth IRA, you choose the combination of investments you want to incorporate from a menu of stocks, mutual funds, CD’s, money market investments etc. In 2024, you can contribute up to \$7,000 to your IRA; \$8,000 if you are 50 years or older. Keep in mind that you can contribute less than the maximum amount, too. The contribution year for your IRA starts on January 2 and ends on April 15 of the following year. 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.

A potential perk of having a Roth IRA is that you are not forced to take minimum distributions from that account in retirement; you can leave it untouched if you prefer. This is important to note because your IRA tax benefits can continue even after you die for the person that inherits your IRA.