

Radio Glencoe Podcasting

Real Life, Real Answers

Episode 1 – Saving and Investing for Retirement

Jasmin interviews a financial planner about saving money for retirement and takes a listener call.

Jasmin

This is Jasmin, your host of *Real Life, Real Answers*, where we learn about the challenges we young folks will face when we get out into that big, exciting, and very real world called adult life. Today our topic is investing and saving up for retirement. Now, I know you're probably asking, "Say what, Jasmin? You want me to think about retirement *already*?" That's the question I want to ask our guest, Sarah Wells, a financial planner specializing in retirement savings. Welcome, Sarah.

Sarah

Hi, Jasmin, I'm glad to be here. And to answer your question, yes, it seems like putting the cart before the horse to talk about retirement when you're so young. But it's never too early to start practicing good financial habits, including saving and wise investing, so you can get to a point in life where you are able to relax and enjoy the benefits of your years of hard work.

Jasmin

But how can you save very much when you're just getting started working? It seems like you could save more when you're older, when you're further along in your career and making more money.

Sarah

Well, when you're young, you have more years ahead of you to save, and even if you put aside less money now than when you're older, you'll still be better off than if you wait until later and start saving then. Is this because your money will begin to collect interest sooner?

Jasmin

Sarah

You've done your homework! Yes, compound interest allows a little money now to go a long way in the future. If you start putting small amounts of money in an interest-bearing account now and keep at it, you will be able to earn far more interest over time than if you start in your 40s and put in larger amounts of money.

Jasmin

So it *pays* to think ahead.

Sarah Exactly. There are many ways to invest that can pay off in the short or long term. In the short term, you can invest in CDs.

Jasmin CDs? You don't mean compact discs?

Sarah No, in this case CD stands for certificate of deposit. This is a way of investing money at a higher interest rate than a regular savings account. You buy a CD for a specific amount and must leave the money deposited for a specified period of time that can range from three months to 30 years. The longer the period, the more interest you earn. But if you withdraw the money early, you have to pay a penalty.

Jasmin What if you don't have enough money to commit to a CD?

Sarah You can make even small amounts of money work for you. For example, an interest-bearing checking account can pay you a small percentage of interest, though most accounts require a minimum balance, typically several hundred dollars.

Jasmin Before we talk about retirement savings, we've got a caller.

Caller (male) Welcome to the show, I understand you have a question for Sarah about the stock market?

Caller (male) Hi, I'm calling because I've heard you can get rich quick playing the stock market. Is this true?

Sarah Well, if something sounds too good to be true, is usually is. Investing in stocks can work out great for savvy investors who educate themselves about financial trends and make smart decisions. But it's risky. You can make, or lose, a lot of money in a short period of time with stocks.

Caller (male) What is stock, anyway?

Sarah Stock is sold in shares. A share of stock represents a tiny percentage of ownership in a corporation. The amount of wealth or loss resulting from a stock purchase depends on how many shares you own, the share price at the time you bought them, and the share price at the time you sell them. In addition, from time to time corporations pay dividends, a certain

Caller (male) amount of money you earn for holding an amount of stock. You can find stock prices published in newspapers or on the Internet. So...say I want to invest in the company that made my snowboard. How do I buy their stock?

Sarah Serious investors often pay for the services of a stockbroker who consults them in the buying and selling of stocks. More casual investors do their own research and use online brokers to take stock orders and process them. ETRADE.COM is a popular Web site used for buying and selling stocks.

Caller (male) Cool. I'll look into it. Hey, thanks for all the good info. [end call]

Jasmin Sarah, what's the most common way people save for retirement?

Sarah Individual retirement accounts, or IRAs, are the most common types of retirement plans. A traditional IRA defers interest tax until the time you withdraw funds, while Roth IRAs are free of interest tax. You have to observe some rules, however. The money you invest in an IRA cannot be withdrawn before 59½ years of age; if you do, you must pay a 10% penalty. You also must withdraw IRA funds before age 70½ or pay a penalty equal to 50% of the amount you would have withdrawn.

Jasmin What if you're younger and really need the money for something like buying a house?

Sarah I'm glad you mentioned that, because there are some instances where you can withdraw without a penalty. These include paying college expenses for you, your spouse, children, or grandchildren, or for a first-time home purchase. Overall, though, your required minimum distribution, the amount you must begin withdrawing at retirement age, will be higher if you can avoid dipping into your IRA too early.

Jasmin How does the IRA work? It's not like a savings account at a bank, right?

Sarah No. Simply put, IRAs are administered by financial custodians such as investment brokerages. These custodians create funds

that are typically mixtures of stocks, bonds, and mutual funds. An IRA can be an investment of different amounts of money in a single fund or many different ones. While there's always the risk that an IRA can lose money, the custodians carefully watch the financial performance of the funds and make adjustments to try to ensure that their values increase over the long term. This maximizes your investment potential.

Jasmin

We've got another caller. You're on the show, what's your question?

Caller (female)

Hi! I'm calling to find out about mutual funds and bonds. I know you just mentioned them, but, um...what are they?

Sarah

Bonds are pledges made by government and corporations to potential investors when they need to raise money. A bond does not give you ownership like stocks; instead, you lend money, and after a period time the bond matures and you get your money back with interest.

Caller (female)

So if you buy bonds, you're sort of like a bank, lending out money.

Sarah

That's one way of putting it. Now, mutual funds: these are created by investment companies, which take the savings of many people and invest them in a portfolio of stocks, bonds, or both. When you buy into a mutual fund, you might pay a loading charge that can be paid back when you either buy or sell shares in the fund.

Caller (female)

These aren't retirement funds?

Sarah

They're not designed specifically for retirement, but many people use them that way. Mutual funds can be aggressive, designed for short-term gains, or conservative, designed for stable growth over time. Aggressive funds are riskier but can pay off quickly; conservative funds are less risky but take longer to build value.

Jasmin

Thanks for the call! Sarah, I wanted to ask about these "green" mutual funds I've heard about.

Sarah

Green funds are popular with

environmentally-conscious investors. These funds buy stock in companies that meet environmental or social requirements. Again, they can be aggressive or conservative in their approach.

Jasmin

Wow! We have got a LOT to think about as we wrap up another episode of ***Real Life, Real Answers***. Sarah, thanks for being here. Any additional advice?

Sarah

Thanks, Jasmin. The first thing I would suggest is that your listeners become accustomed to making and sticking to personal budgets. When you have a budget it's much easier to know how much money you have available to invest, and also to stick to a financial plan that lets you invest yet also meet all your short-term needs. It helps to be educated and prepared.

Jasmin

I agree! Remember everybody, knowledge is power; you just need to get it and use it!