

IRAs

An Individual Retirement Account (IRA) is a personal savings plan that offers tax advantages for setting aside money for retirement. IRAs allow investors to deposit up to \$2,000 annually (\$3,000 beginning in 2002) and reap the benefits of tax-free saving. There are five different types of IRA's: the Traditional IRA, the Education IRA, the SEP IRA, the Simple IRA, and the Roth IRA. The information contained herein will concentrate only on the Traditional IRA and the Roth IRA, which are the most common.

In many instances a Traditional IRA allows for contributions to be tax deductible. Tax deduction depends on the amount of income earned, and whether or not you participate in an employer sponsored retirement plan. Therefore, depending on an individual's filing status and gross income, contributions may range from fully deductible to completely non-deductible. The main advantage to opening a Traditional IRA is that contributions are made to the account tax-free, and earn compound interest. Unfortunately, when the money is withdrawn from the account it is taxed (investors are eligible to withdrawal at age 59 1/2).

According to Forbes magazine "a Roth IRA is worth more than a Traditional IRA because withdrawals from it are forever tax-free. Contributions are not deductible when funds are contributed, but the Roth IRA earnings accumulate tax-free and remain tax-free upon distribution. Whichever IRA appeals to you, make sure you take the time to think about your future, decide if you have the money to put away, and if so begin to save as soon as possible.

With all of the expenses a college student might face, saving for the future is often an afterthought. People, especially students, need to realize that NOW is the perfect time to begin thinking about the future. By investing early in life and allowing investments to grow (untouched) there is great opportunity for a financially stable and secure retirement. In order for this idea to become a reality the use of stocks, mutual funds, bonds and IRAs is inevitable.

For more information on these topics visit www.macklin.org.

Is

Retirement

Affordable ?

Presented by: The SIFE Team
of Montgomery College

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Retirement. Not a word used often in the vernacular of today's youth, but planning for the future at an early age could be your ticket to accumulating a small fortune. Minimal investments early on in life may build a substantial amount of personal wealth, allowing for a better than average lifestyle in the future. But, in order to achieve the "good life," a general understanding of inflation and compound interest is vital to successful investments. There are multiple ways to invest for retirement:

- 📌 Individual Stocks
- 📌 Mutual Funds
- 📌 IRAs

Each of these investment strategies have the potential to fulfill your financial goals, and secure your future.

INFLATION

Inflation is the rise of the general level of prices in an economy, and significantly impacts our everyday lives. Understanding the real value of money in respect to inflation is important when investing. Making sure inflation rates do not exceed interest rates is crucial to the growth of any investment. For example, a movie ticket in the 1950s had an approximate cost of 50 cents; later, in 1975 that same movie ticket increased to \$4; and currently in 2002, the cost has virtually doubled, ranging from \$7-\$8. Clearly, as time progresses inflation will undeniably effect the investor's buying power. Keep a watchful eye on continuously fluctuating inflation rates, and secure the growth of investments.

COMPOUND INTEREST

Benjamin Franklin called this phenomenon "the eighth wonder of the world," but you and I can just call it compound interest. Compound interest

is the exponential growth that occurs when even a small amount of money continually earns interest on itself. At the end of a 54 year period, just one dollar a day in an account that earns an annual interest rate of 10% will yield \$1,000,000 (Refer to figure 1). To benefit from compound interest it is imperative to invest as soon as possible because time determines the amount of wealth accumulated.

Savings per yr.	5 yrs.	10 yrs.	30 yrs.	54 yrs.
\$1	\$ 3,000	\$ 6,000	\$ 75,000	\$ 1,000,000
\$2	\$ 5,000	\$ 12,000	\$ 150,000	\$ 2,000,000
\$5	\$13,000	\$ 30,000	\$ 375,000	\$ 5,000,000
\$10	\$25,000	\$ 60,000	\$ 750,000	\$10,000,000
\$15	\$38,000	\$ 90,000	\$1,100,000	\$15,000,000
\$20	\$50,000	\$120,000	\$1,500,000	\$20,000,000

Figure 1

THE STOCK MARKET

How Safe Is Our Stock Market Over The Long Term?

The stock market is a constantly fluctuating trading system where securities are purchased and sold on a daily basis. Ever-changing stock prices make it difficult to know when to buy and when to sell. Yes, investing in the stock market is a gamble, but informed decisions can reduce the risks and increase rewards. In order to determine the safety of one's invested money over time, consider these points:

- 📌 How well has the company been achieving success in its market? (Revenue,

- 📌 What is the P/E ratio of the stock? (A Price/Earning ratio is the value put on stock by the investing public)
- 📌 Seek quality advice from people you trust and who are knowledgeable in the field of investing.

Change is certain, but history proves that a long term investment with a stable company will be profitable over a period of time.

MUTUAL FUNDS

A Mutual Fund is a group of stocks that spreads out the investor's money over many different companies. Mutual Funds work by issuing shares of stock to investors in exchange for cash. They are not risk-free; however, the risk of loss is less than investing in a single company.

Some advantages to Mutual Funds are

Low costs: by pooling money together in a mutual fund, you can purchase stocks or bonds with a much lower trading cost

Professional management: a professional advisor will manage deposits into different stocks or bonds

Diversification: the idea of spreading out money across many different types of investments (an investor can own hundreds or thousands of individual securities through a single fund)

Investing in a Mutual Fund lowers your risk enormously by allowing the investor to acquire many different securities in an efficient manner. There are many different types of Mutual Funds to fit any kind of investor. For more information about the different types of Mutual Funds visit www.mutualfund.com.