Tips for Saving and Spending

Are you a saver or a spender? How you handle money now can have dramatic results later on in life. Use this information to guide you through making changes to your spending and saving habits.

Steps You Can Take

1. If you have a retirement plan through your employer, fund it to the maximum amount. The saying "There is no such thing as a free lunch" is not true when it comes to most retirement plans. By contributing as much as you can, you are collecting "free money" in several ways. Because your contributions are deducted from your gross income, you are saving a significant amount by contributing to your plan before taxes are taken out of your check. Your money grows tax-deferred, meaning that you pay no taxes on any interest or appreciation while your money grows until you withdraw the funds many years from now. If your employer matches your contributions, as many do, you are missing a golden opportunity if you do not contribute the maximum your employer will match. With the employer match and compounding interest (earning interest on your interest), over a lifetime, your fund can grow to several times what you contributed.
2. If you receive your annual pay raise, divert at least one-third of it to an increase in your retirement fund or savings plan. An increase of a few percentage points can disappear easily into your monthly budget after taxes are taken out. If you earmark part of your raise each year toward your savings plan, it can make a significant difference over your working lifetime.
3. When you select your retirement or investment options, make sure you factor in the risks of being too cautious, as well as too aggressive. By leaving money in a safe but low-interest account, you run the risk that your investment will barely beat inflation over time. On the other hand, you do not want to be overly aggressive if you may need those funds in the next few years. Normal market fluctuations can mean that if you need your money during a downturn, you might be forced to take a loss on your investment because you cannot wait for the market to rebound.
4. Remember that even if you are reaching retirement age, you most likely are still investing for the long term. A healthy person in their sixties today has a reasonably good chance of living for another 15 to 20 years. Plan your spending and investing accordingly.
5. Consider long-term care insurance carefully. Medicare does not pay for long-term care. While it is true that Medicaid pays for the majority of long-term care for the elderly in nursing homes, to become eligible, you first need to spend all of your assets until you are impoverished. When considering long-term care insurance, remember the Rule of Thirds. This divides potential candidates into three groups. The top group includes those who have such significant assets that they can likely pay for their care for several years and have a good deal left over. The bottom group includes those with so few assets that the cost of insurance to protect them outweighs the benefits of what they are trying to protect (remember that the majority of long-term care policies are canceled because of an inability to keep up with the premiums). The middle group includes those who have assets significant enough to warrant the cost of the insurance, but not so large that they can comfortably self-insure. If you are in

this group, consider purchasing long-term care insurance while you are healthy and in your middle years when the premiums are more reasonable. Read the fine print, and avoid policies that exclude illnesses like dementia, the primary reason long-term care is needed.

6. Carry the right amount and types of insurance. Make sure you have adequate health, disability and life insurance to maintain your family's standard of living should you die or become disabled.
7. Only insure against those catastrophes you cannot afford to endure financially. Go for the higher deductibles on your auto-collision insurance, for example, but carry adequate liability insurance on your car and home. Avoid insuring against a particular disease or catastrophe, like cancer or a commercial airline crash. Life insurance is a bet between you and the company about whether you will die sooner rather than later. One of you will end up being right, but no one can predict exactly how or when you will die.

Resources

- Financial Literacy Education Commission: www.mymoney.gov

Here when you need us.

Call: 844-207-LINK

Online: guidanceresources.com

App: GuidanceNow SM

Web ID: LivingME
