

# Planning for Life's Big Financial Challenges



## What You Need to Know About Investing for College and Retirement

Featuring excerpts from these full-length booklets, available at [investorprotection.org](https://investorprotection.org):

- Maximize Your Retirement Investments
- 5 Keys to Investing Success
- Where to Invest Your College Money
- Getting Help With Your Investments

WHEN I'M

65



Investor  
Protection  
Trust



Investor  
Protection  
Institute

Written by the Editors of *Kiplinger's Personal Finance*



## Introducing **WHEN I'M 65**

**When I'm 65** is a national public television documentary, produced by Detroit Public Television, and engagement program exploring how our financial and lifestyle choices today will affect our quality of life in retirement. **When I'm 65** was created with the generous support of the Investor Protection Trust and the Investor Protection Institute.

Using case studies, engaging animations, and lively expert interviews, **When I'm 65** looks at how aspirations and financial planning for retirement have changed. The program's multi-generational approach examines how each generational cohort is looking at and planning for retirement.

**When I'm 65** addresses:

- How long life expectancies are changing how we define "retirement"
- Practical, hopeful planning tips for the new "DIY" retirement market
- Different priorities for Millennials, Gen Xers and Baby Boomers
- Planning financially for 20 or more years of life after a full-time career
- Alternative housing and support services
- Bipartisan support of retirement policy changes

***"When I'm 65 offers jargon-free explanations and can-do action plans for all ages — Millennials, Gen Xers and Baby Boomers alike."***

— Don Blandin, CEO and President of Investor Protection Trust

Look for **When I'm 65** to air in key markets across the PBS system, and at workshops and conferences across the country. The full documentary and engagement videos are available at [www.WI65.org](http://www.WI65.org), where you can also register for updates and learn more about the program.



## Life's Big Financial Challenges

**D**uring your lifetime, you're bound to encounter several major financial challenges, both expected and unexpected. But two of the main challenges you will likely face are saving enough to 1) secure a comfortable retirement and 2) pay for your or your children's college education. Separately, each one is daunting — together they can be overwhelming.

Fortunately, you can alleviate some of the stress through advance planning and dedication. Of course, the sooner you get started, the better. For most people, that means beginning to invest funds for retirement soon after entering the workforce and setting aside money for college while the kids are still in diapers. It may be possible to make up for lost ground later in life, but it's definitely harder.

This booklet points you in the right direction. It will show you how to maximize investment returns without exposing your retirement savings to undue risk or incurring penalties on withdrawals. In addition, you'll learn the best ways to accumulate funds for college by taking full advantage of current tax breaks. We will also unlock the five keys needed for investment success no matter which goal you pursue. Finally, the booklet shows you how to obtain valuable investment assistance from knowledgeable professionals. Turn the page and start working toward your big financial challenges today.



## Maximize Your Retirement Investments

**W**hen it comes to planning for a financially secure retirement, saving enough money is only half the battle. The other half is investing it wisely. Typically, that means finding the best mix among various investment vehicles — including stocks, bonds, mutual funds and exchange-traded funds (ETFs), and cash equivalents — for your personal situation. Here's a basic introduction to the choices you face.

### CREATING THE RIGHT INVESTMENT MIX

Beyond cash equivalents (such as savings accounts, money-market funds and other low- or no-risk, easy-to-access investments), most people will opt to invest their retirement savings in either stocks or bonds. To do so, they can buy individual securities or purchase shares in a mutual fund.

When you buy a stock, you are purchasing an ownership share in the company that issues it. If the company performs well, you reap the rewards as share prices increase. If the company performs poorly, the value of the stock declines. Some stocks pay dividends, which are profits the company distributes to its shareholders.

A bond is an IOU issued by a corporation or a government. When you buy a bond, you are making a loan to the issuer. In return, the company or government agrees to pay you a fixed amount of interest, usually twice a year, until the bond matures, which is the date when the bond must be paid in full. At that point, you will receive the bond's face value. Note that you can sell the bond to another investor before it matures.

Over the long term, the performance of both corporate and government bonds has lagged the stock market. But if stocks are too unsettling for you, or if you have fewer than 10 years until retirement, you may want to add modest amounts of bonds or other fixed-income vehicles

to reduce the overall risk level of your portfolio. The additional diversification will make for a smoother ride toward retirement.

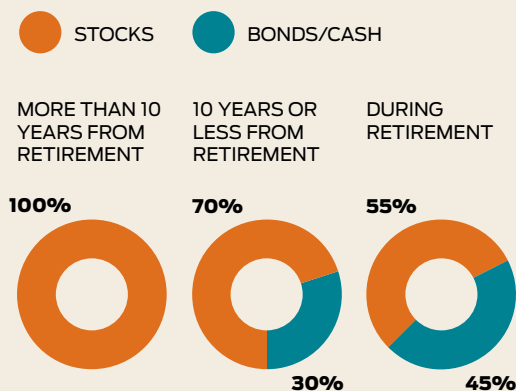
### MUTUAL FUNDS AND ETFs

A mutual fund pools money from many investors and buys a portfolio of stocks, bonds or a mix of both designed to achieve a specific investment goal.

Mutual funds offer a combination of services that are ideal for retirement investors. This brand of professional management is especially well suited for beginning

## SAVINGS STRATEGIES FOR YOUR LIFE STAGES

As you approach retirement, consider reducing your investments in stocks and increasing your holdings in domestic bonds and cash equivalents.



investors who worry about their ability to select appropriate stocks or bonds. But even experienced investors and those with large portfolios can benefit from what mutual funds have to offer: instant diversification, automatic reinvestment of earnings and easy-to-monitor performance.



## TAX-DEFERRED SAVINGS BENEFIT

A yearly \$5,500 contribution earning 8% per year over 20 years will grow to almost:

**\$197,000**

IN A TAXABLE ACCOUNT (ASSUMING A 25% TAX BRACKET)

**\$272,000**

IN AN IRA OR OTHER TAX-DEFERRED ACCOUNT

### BEST PLACES TO SAVE

The key to a successful retirement-investment plan lies not only in choosing the right investments but also in choosing the right places to keep them. Over the years, Congress has created numerous ways for retirement investors to shelter their dollars during their working years, allowing their savings to grow unfettered by taxes until withdrawn in retirement.

In addition to individual retirement accounts (**IRAs**) for individual investors, there are a variety of workplace-based accounts: **401(k) plans**, used by private

employers; **403(b) plans**, used by schools, hospitals and other nonprofit organizations; **457 plans**, used by state and local governments; and the **Thrift Savings Plan**, for federal workers. Self-employed individuals can put away more than twice as much as the average employee each year using special retirement accounts, including **SEPs** and **solo 401(k) plans**.

In recent years, this save-now-tax-later model has been turned on its head with **Roth IRAs** and **Roth 401(k)** options, which offer no upfront tax break but provide tax-free income in retirement. Now you can choose which account or combination of accounts best suits your retirement goals.

### GETTING THE MONEY OUT OF 401(K)s

Because the aim of 401(k) plans is to encourage retirement saving, the IRS puts restrictions on taking the money out too soon. You generally can't have it back until you leave a

company — or reach age 59½.

When you leave a job, how the money is treated depends on your age and what you do with it. You have four choices: Leave it with your former employer's plan; transfer it to your new employer's plan, if allowed; roll it over to an IRA; or cash it out. The first three choices have no immediate tax consequences. The last one does and it can be costly, both immediately and in the long run. You'll owe taxes on your distribution, plus a 10% penalty if you are younger than 55 in the year you leave your job. What's more, you won't have those funds growing for your retirement.



**For more information, see the full-length booklet, *Maximize Your Retirement Investments*, available at [www.investorprotection.org](http://www.investorprotection.org).**



# 5 Keys



For more information, see the full-length booklet, *5 Keys to Investing Success*, available at [www.investorprotection.org](http://www.investorprotection.org).

## to Investing Success

It's well known that there are no guarantees in the investment world. But that doesn't mean you can't tip the odds in your favor. By following these five tried-and-true principles, you stand a much better chance of surviving the inevitable ups and downs of the markets and realizing your main goals.

1

### MAKE INVESTING A HABIT

The best chance to acquire measurable wealth lies in developing the habit of adding to your investments regularly and putting the money where it can do the most for you.

Here's why: Imagine that you put \$5,000 in a savings account where it earns a safe 2% rate of interest, compounded annually. Twenty years later, you'll have only \$7,430.

But suppose your goal is to build a substantial retirement nest egg? If you add \$100 a month to your original \$5,000 investment and earn an average return of 4% per year, after 20 years, you'll end up with almost \$50,000. But if you add \$250 per month and earn 8%, you'll accumulate almost \$175,000.

2

### SET EXCITING GOALS

Vaguely defined investment goals can lead to half-hearted efforts to achieve them. Better to set goals you can grab onto, goals that excite you. Instead of working toward "financial security," why not aim for "\$500,000 net worth by age 60?" Instead of securing a "comfortable retirement," consider building "an investment portfolio that will yield \$2,000 a month to supplement my Social Security."

3

### DON'T TAKE UNNECESSARY RISKS

A key question for investors is: What is a prudent risk? The answer depends on your goals, your age, your income and other resources, and your current and future financial obligations. A young single person who expects his or her pay to rise steadily over the years and who has few family responsibilities can afford to take more chances than, say, a couple approaching retirement age. The young person has time to recover from market reversals; the older couple may not.

4

### KEEP TIME ON YOUR SIDE

Understanding the time value of money is central to making solid investment decisions. To understand this concept, consider the question: Would you rather have \$10,000 today or \$10,000 a year from today?

Of course, you'd choose to take the money now. Not only is a bird in the hand worth two in the bush, but \$10,000 you have to wait a year for could be worth less due to the effects of a year's worth of inflation. And you will have lost a year's worth of earnings you could otherwise have captured.

5

### DIVERSIFY TO LOWER RISK

Simply put, diversifying means not putting all your investment eggs in one basket. No investment performs well all the time; when one thing is down, another thing tends to be up. By spreading your investments around, you're likely to increase your overall return and reduce your risk at the same time.

## Where to Invest Your College Money

**W**e've all heard horror stories about the skyrocketing cost of college. Don't get discouraged. Starting early, so you can let your money grow, is the key to meeting this particular financial challenge.

What if you start late or have more than one child or can't afford to save the same amount every year? Save what you can. Having some college money, even if it's not the full amount, gives you a foundation on which you can build during the college years.

Whenever you get started and whatever you can afford to save, it's extremely helpful to take advantage of the tax-favored saving accounts introduced below. You might even use a retirement account for college savings.

### INVESTING IN A 529 SAVINGS PLAN

These state-sponsored investment accounts, named after the section of the tax code that gives them tax-favored status, let you shelter your college savings from federal (and usually state) income tax. You don't get a federal tax deduction for your contributions to the account, but your investments grow tax-free, and the earnings escape tax altogether if you use the withdrawals to pay for qualified education expenses — such as tuition, fees, room and board, and textbooks.

You may also get a state tax deduction or tax credit

as a reward for your contribution to these qualified tuition programs. About two-thirds of the states and the District of Columbia allow you a state tax deduction or other tax benefit as an incentive to save for college.

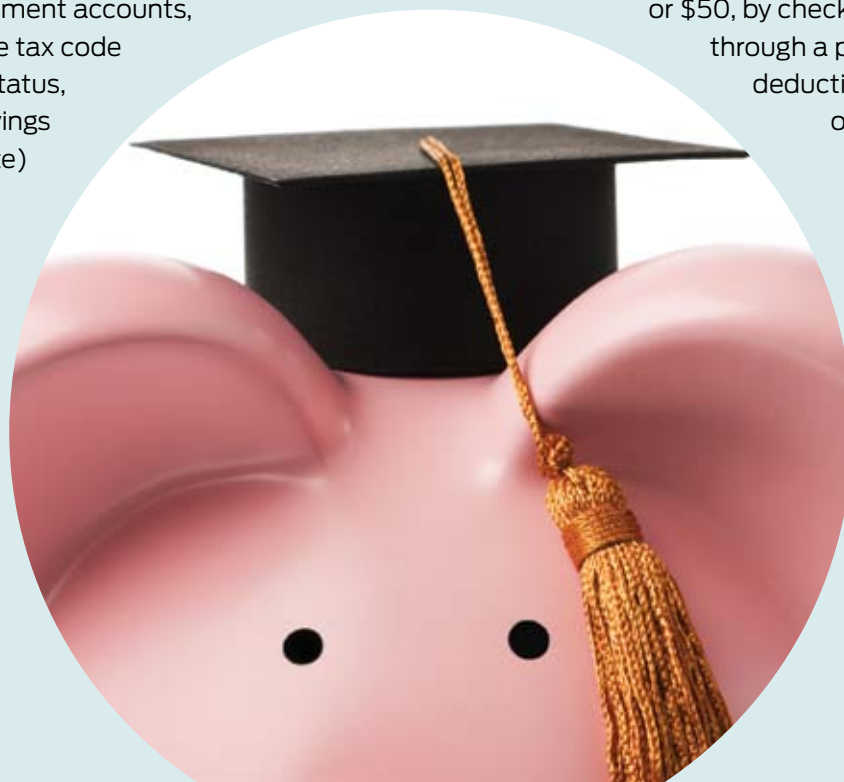
Unlike other education savings programs, 529s let you participate no matter how much you earn, and the states set generous limits on total, lifetime contributions — in many cases more than \$300,000.

You make your contributions, starting with as little as \$25 or \$50, by check, through a payroll deduction or via

automatic withdrawal from your bank account.

The flexibility of the accounts are big selling points as well. Parents can use the funds for qualified expenses such as tuition, fees, room and board, books and even equipment in some cases. They can also use them at just about any kind of secondary education institution imaginable, including trade schools, private or public institutions, 2-year and 4-year programs, community colleges, and some international schools. And if your child chooses to skip college, you can easily change the designation on the account to another qualified family member. You can also just withdraw the money in the account. Because you're not using it for qualified expenses, you'll pay income tax and a 10% penalty, but only on any earnings in the account.

Which plan is best? If you live in one of the states that offer a deduction or a tax credit, there's probably no need to look further. But if you don't get a tax benefit from your state, shop around; many state plans are open to residents and nonresidents alike.



### LOCK IN TUITION WITH A PREPAID PLAN

Prepaid tuition plans let you buy tuition at a state college or university years before your child is ready to attend. That can be an attractive idea when tuition is going up faster than the rate of return you're likely to make on your investments.

In most prepaid plans, only state residents are eligible to participate. Typically, you pay a lump sum upfront or pay over time in installments. You must usually buy into a prepaid plan at least three years before your student will be ready to enroll.

If your child ends up going to school beyond state borders or to a private school, the plans let you apply the value of your account (usually a weighted average of the costs at in-state public universities) to that school. You can also take a refund, which may include a small amount of interest. Check with the plan for details.

### OTHER TAX-FAVORED WAYS TO SAVE

You have a few other options for your college savings, depending on how high your income is. **Coverdell Education Savings Accounts** give you both more and less flexibility than a 529 savings plan. You can set them up for your child or children

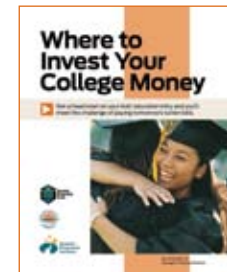
under 18 at any participating bank, mutual fund company or brokerage firm. Total contributions for each child, however, cannot exceed \$2,000 a year. Yet your money does grow tax-free, and you avoid tax on the earnings if you withdraw the money for qualified educational expenses.

With a **Roth IRA** retirement savings account, your contributions can serve a double purpose. The Roth allows you to take out your contributions at any time, tax- and penalty-free, so you could tap those contributions for college expenses.

Don't overlook tax breaks for college expenses. Again, income limits apply, and you have to choose which benefit to claim because you cannot use the same expenses to claim more than one benefit.

Among the most generous is the **American Opportunity Credit**, available at least through 2017 for expenses

incurred by students who attend college at least half-time during their first four years of undergraduate education. A parent, spouse or student who is not claimed as a dependent can take a federal income-tax credit equal to 100% of the first \$2,000 spent on qualified education expenses — tuition, fees and textbooks — and 25% of the next \$2,000, for a total credit of \$2,500 for each qualifying student.



**For more information, see the full-length booklet, *Where to Invest Your College Money*, available at [www.investorprotection.org](http://www.investorprotection.org).**



# Getting Help With Your Investments

The road to financial success may be “paved with potholes,” but you don’t have to dodge them alone. By enlisting the services of competent professionals, you increase the likelihood you’ll achieve the desired results. The information below can help you understand how to choose advisers and what to do if you encounter any problems.



## UNDERSTANDING YOUR CHOICES

Your first step in getting the help you need is to find an adviser whose specialties match your particular situation. Here are some of your options:

### • Registered Representatives

are people who are familiarly but no longer widely known as stockbrokers. They are your first point of contact if you simply want to buy and sell stocks.

### • Certified Financial Planners

(CFP®) have met experience requirements and taken qualifying examinations to prepare them to take on a variety of assignments, from analyzing your retirement funds to setting up a schedule of cash distributions when you get a lump sum of money at retirement.

### • Accredited Financial

**Counselors** (AFC®) also have met experience requirements. The AFC certification, however,

emphasizes communication skills that help advisers provide financial behavior guidance.

### • Registered Investment Advisers

(RIA) actively manage or invest money on your behalf for a fee. You may elect to give RIAs the authorization to make trades in your accounts and determine your investment strategy.

Note that you can find more detailed explanations for how these and other professionals can help you in the full-length booklet, *Getting Help With Your Investments*, mentioned on the next page.



## MAKING A SELECTION

In every metropolitan area, there are thousands of men and women who are eager to give you advice and handle your money. Even in smaller cities and towns, you’re likely to have multiple options. With so many choices available to you, how can you make an informed decision?

A good strategy is to ask for referrals from friends, colleagues and professional acquaintances. Next, review each potential adviser’s website carefully. You’ll also want to conduct a Google search on each candidate and verify each candidate with your state securities regulator (see more about regulators below).

Now you’re ready to schedule introductory meetings with a few top candidates! Here are five important questions to ask during those interviews: What is your training and experience? What is your investment philosophy and record? Can I have a copy of your regulatory disclosure forms? How will our relationship work? How much do you charge?

## DEALING WITH PROBLEMS



Working with an adviser, it is important to be on the lookout for unethical or illegal activity such as unsuitable recommendations, misrepresentation of risk, unauthorized trading, outright fraud or theft, and overinvestment in one asset type (contrary to your instructions).

If you do encounter these kinds of problems, you can receive help from

a number of regulatory organizations. These include the Securities and Exchange Commission ([www.sec.gov/complaint.shtml](http://www.sec.gov/complaint.shtml)) and the Financial Industry Regulatory Authority ([www.finra.org](http://www.finra.org)).

## State Securities Regulators

are another helpful resource. For more than 100 years, these regulators have worked within state governments to protect investors and maintain the integrity of the securities industry. Your regulator can provide the following:

- Verification that a broker-dealer or investment adviser is licensed
- Notice of any prior complaints and disciplinary or enforcement actions
- Listings of educational background and previous work history
- Websites, phone numbers or addresses where you can file a complaint
- Noncommercial investor education and protection materials.

**Find your State Securities Regulator on the North American Securities Administrators Association (NASAA) website. Visit [www.nasaa.org](http://www.nasaa.org) and click on “Contact Your Regulator.”**

For more information, see the full-length booklet, *Getting Help With Your Investments*, available at [www.investorprotection.org](http://www.investorprotection.org).





# WHEN I'M

The retirement landscape in the 21st century is changing dramatically. ***When I'm 65*** is a groundbreaking public television documentary produced by Detroit Public Television with a community engagement program that examines the choices all Americans must make today to plan for a financially secure future.

Look for ***When I'm 65*** to air in key markets across the PBS system, and at workshops and conferences across the country. The full documentary and engagement videos are available at [www.WI65.org](http://www.WI65.org), where you can also register for updates and learn more about the program.



**The Investor Protection Trust (IPT)** is a nonprofit organization devoted to investor education. More than half of all Americans are now invested in the securities markets, making investor education and protection vitally important. Since 1993 the Investor Protection Trust has worked with the States and at the national level to provide independent, objective investor education. [www.investorprotection.org](http://www.investorprotection.org).



**The Investor Protection Institute (IPI)** is an independent nonprofit organization that advances investor protection by conducting and supporting unbiased research and groundbreaking education programs. IPI carries out its mission through investor education, protection and research programs delivered at the national and grassroots level in collaboration with state securities regulators and other strategic partners. [www.ilinvest.org](http://www.ilinvest.org).



**Department  
of Commerce**

Division of Securities

**The Ohio Department of Commerce — Division of Securities** protects Ohioans by licensing securities salespersons, dealers, investment advisers and investment adviser representatives,

as well as securities offered for sale to Ohioans. The Division also investigates alleged violations of the Ohio Securities Act. For additional information, visit [www.com.ohio.gov/secu/default.aspx](http://www.com.ohio.gov/secu/default.aspx).