# Get Serious, and Pay Attention to Your Pension.

# What you should know.

Chicks dig a man with an awesome retirement account.

**You've now learned the first lesson of Pacific Coast Propane's Retirement Plan 401k Boot Camp. *Let's learn more . . . . .***

## 1 – What's the difference between a retirement account and investments?

Answer - Think of the retirement account like **luggage** and the investments like **socks and underwear** you put in the luggage. The luggage is a pension or 401k account and the socks and underwear are things like mutual funds, bonds and index funds.

## 2 - What is a "match"?

Answer – ***Free Money. Free Money. Free Money***. If you're lucky enough to work at an employer that does a match, it will work something like this. For every dollar you drop in your luggage, the employer will match a portion.

Example: a 30% match works like this – you put in a hundred dollars and the employer puts in thirty dollars up to a maximum formula set by your employer. Now you have $130 dollars working for you versus just your original $100 dollars.

This "match" makes a ***HUGE*** difference in reaching your retirement goals. Know what the match is and maximize the match!

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## 3 - What is vesting?

Answer – **Your money is your money**. The employer's money match has a vesting schedule to reward service with the employer. Think "golden handcuffs." Typically a match vests 100% after 5 years of employment (20% a year). So if you leave after 3 years, all your money is always yours and 60% of the employer match is yours.

## 4 - What happens if I leave my job?

Answer - Your money is your money. You can cash out and pay taxes or simply roll it over to a new employer's plan or your individual IRA.

## 5 - Do I have to pay taxes on my retirement account?

Answer – Down the road, when you take money out at retirement you'll pay the standard taxes, but you don't pay taxes in the year you contribute. In other words, if your income is $40,000 and you contribute $5,000 this year, your taxable income will be $35,000, not $40,000 today.

## 6 - Is there a limit to how much I can contribute?

Answer – Yes, the IRS is only so generous. For 2015, the limit is $18,000 in annual employee salary deferrals ($346 a week) and if age 50 or older, you can add a $6,000 catch up contribution (extra $115 a week).

## 7 - Why should I start now?

Answer - **Compound Growth!**

There are two types of people in this world when it comes to money. "Those that understand compound interest and ***earn it*** and those that don't understand it and ***pay it***."

With compounding growth, your profits begin to earn profits on the profits. Your money starts having babies and then those babies start having babies.

**Learn the rule of 72**. Simply stated no matter what number you divide into 72, it will equal the time it takes to double your money.

Example: if you earn 10% on your money it will take 7.2 years to double your money. If you earn 12% on your money, 12 divided into 72 equals 6 years to double your money. It's that simple.

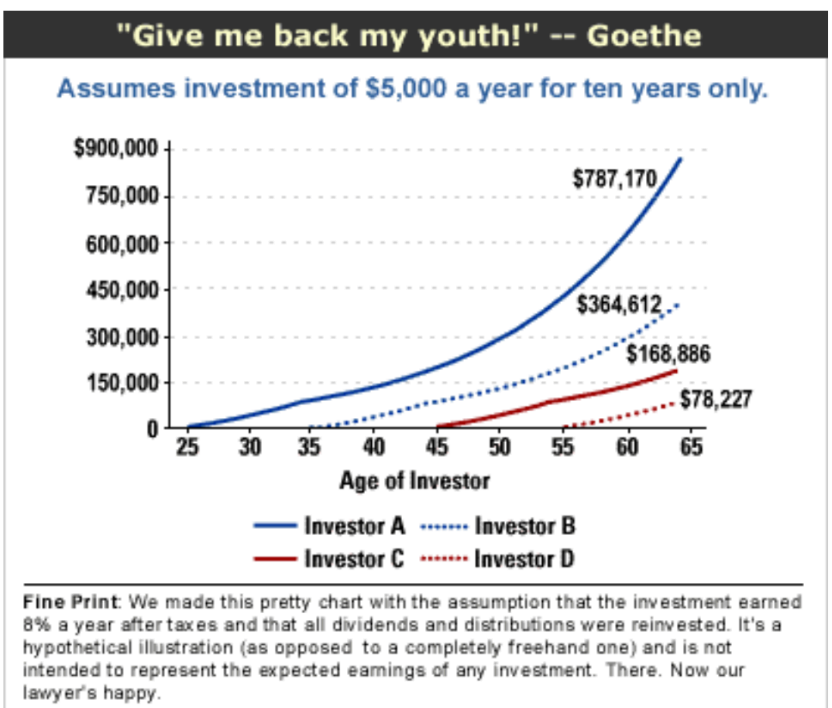
## 8 – What is the cost of waiting?

Answer – **A lot!** Without time working for you, the lifting gets heavy.

Let's look at Groucho, Larry, Moe and Curly – who each save $5,000 for ten years only.

| | |
|---|---|
| Groucho at age **25** saves $5,000 each year until age 35. At 65, his $10,000 is now | **$787,170** |
| Larry at age **35** saves $5,000 each year until age 45. At 65, his $10,000 is now | **$346,612** |
| Moe at age **45** saves $5,000 each year until age 55. At 65, his $10,000 is now | **$168,886** |
| Curly at age **35** saves $5,000 each year until age 65. At 65, his $10,000 is now | **$78,227** |

**Moral of the story – Groucho has 10 times what Curly has because of TIME. Or as Groucho liked to say – "Time flies like an arrow, fruit flies like a banana."**



## 9 – What is the Power of Payroll Deduction?

Answer – **Let's ask the IRS.** They learned a long, long time ago to succeed in collecting taxes owed, they needed to get to your money before you do.

When you elect to have a portion of your paycheck go into the plan, it becomes automatic, habit forming and second nature. The discipline of periodic contributions over time works magic on reaching your goals.

## 10 – The markets have ups and downs. How does Dollar Cost Averaging help me?

Answer – **Yes,** the stock market goes up and down, but history shows that it climbs steadily over time. Dollar cost averaging is a wealth-building strategy that involves investing a fixed amount of money at regular intervals over a long period of time.

Dollar Cost Averaging Example

| Monthly Investment | Share Price | Shares Acquired |
|---|---|---|
| $400 | $14.28 | 28 |
| $400 | $13.33 | 30 |
| $400 | $12.50 | 32 |
| $400 | $12.90 | 31 |
| $400 | $13.79 | 29 |
| $2000 | | 150 |

Buying $2,000 worth of shares in the first month, at $14.28 per share, would have resulted in only 140 shares – whereas in this example, using dollar-cost averaging over the course of the five-month period (during which you purchase shares at varying prices) netted you 150 shares at an average price of $13.36 per share. That's10 additional shares working for you now.

Dollar-cost averaging takes the emotion out of investing because no matter what direction the market is going, you won't waver from your investing plan. Give it a try. Dollar-cost averaging is a great way to build your investments gradually over time.

Said another way – If I call Pacific Coast Propane and order a fill in January, April, July and October, each time I will pay a different price per gallon. Sometimes higher, sometimes lower.