ESSENTIALS OF A MORE SECURE RETIREMENT

CFA Institute is a champion for ethical behavior in investment markets and a respected source of knowledge in the global financial community. Our goal is to create an environment where investors' interests come first, markets function at their best, and economies grow. We have created the "Essentials of a More Secure Retirement" to highlight key principles and practices that will help individual investors successfully reach their retirement goals. Using the tools, planning insights, and suggestions in the document will help you to Get Started, to Keep It Going, to Invest Wisely, and to eventually Retire Well.

GET STARTED
KEEP IT GOING
INVEST WISELY
RETIRE WELL

GET STARTED

If you've not yet initiated a savings program, start today—the hardest step is getting started. So, how to begin?

Spend 50% on necessities, 30% on enjoying the present, and save 20% for the future.

Have at least double the largest surprise expense you've recently encountered in cash, and work toward having six months' expenses.

If your employer offers a match on your contributions, contribute at least enough to receive it. The match is essentially an investment with a guaranteed rate of return, so be sure not to miss it!

Just $100 each month for 30 years could grow to $141,000 at 8%; in 20 years that grows to less than half that amount—only $57,000!

- Review your finances, and ensure that you can spend less than you earn.
- Create a budget that includes regular savings, and stick to it.
- Open a savings account at your bank or building society. This is the easiest way to start saving. Find out why it is important to save.[1]
- Work toward having an emergency fund so that you can insulate yourself from having to tap into your retirement savings during an emergency.
- Learn about the savings programs available to you, and take advantage of them.
    i. Enroll in your employer's savings program if available, or don't opt out if you are automatically enrolled. If your employer offers matching programs, be sure to take advantage of them. A matching contribution is a benefit from your employer, so don't miss out on this great opportunity!
    ii. Open a tax-advantaged account where available. Look for more information on individual or private retirement accounts in your local area—for example, an IRA or Roth IRA in the United States, an ISA in the United Kingdom, a RRSP or TFSA in Canada. Get more information on the benefits of tax-advantaged savings accounts.[2]
    iii. Look for more information on employer-supported pension plans in your local area—for example, a 401(k) plan in the United States, NEST in the United Kingdom, betriebliche Altersvorsorge in Germany, superannuation in Australia, or fondi pensione negoziali in Italy.
    iv. Avoid borrowing from your retirement savings in order to consume or to cover short-term financial problems.
    v. When changing jobs, make sure not to cash out your employer-supported retirement program; roll it over to your current employer or into a private pension plan.
- For more information and additional resources about investing, visit the Forbes/CFA Institute Investment Course website.[3]
- Set an automatic deduction for each paycheck to start building your savings. Even seemingly small contributions can be a great start because time works for you. Find out ways to get more from your paycheck.[4]

1 forbes.com/sites/cfainstitute/2012/02/24/why-should-you-save
2 cfapubs.org/doi/abs/10.2470/rf.v2005.n2.3931
3 cfainstitute.org/learning/investor/forbes
4 forbes.com/sites/cfainstitute/2011/11/11/four-ways-to-save-more-of-your-paycheck

KEEP IT GOING

The key to long-term success is establishing and then sticking to your savings plan. This is important for a more secure retirement. So, be disciplined and remember that your savings program is for your future!

- Each contribution will add up over time, so get started! There are important benefits to starting early and continuing to invest consistently.
- Seek financial advice from a trusted financial adviser[5] where available. Financial professionals can help you understand your savings needs and design a savings plan appropriate for you. Understand your rights as a consumer of financial services by reviewing The Statement of Investor Rights.[6]
- Save as much extra money as you can. When you have some money left at the end of the month or receive money you didn't expect—perhaps a bonus or an inheritance—do something nice for yourself, but try to save the rest.
- Save regularly and strive to increase the amount you set aside each year.
  i. Try to invest the same amount in the market every month. It has been shown that doing this — commonly referred to as "dollar-cost averaging"—is vastly preferable to trying to time your contributions or investing in lump sums at the end of the year.
  ii. Research shows that ramping up the amount you save over time is the most effective way to a more secure retirement. So, consider making a promise to your future by saving 50% of your annual raise. To help make this a reality, enroll for auto-increase or escalation if available or schedule a date to make the adjustment yourself each year.
- Understand more about the rules on how much to save and how to invest.[7]
- Look at the balance between saving and reducing debt.
  i. Most consumer loans come with rates that are much higher than what you can earn on savings or even in a moderately risky investment program, so these loans are harmful to your long-term success. Channeling a portion of your savings budget to debt reduction can be a highly rewarding "investment," especially if it's high-interest credit card debt.
  ii. Whenever possible, do not use debt to buy things. With the exception of homes, cars (that are reasonably priced and truly necessary), and education, using debt is almost always a bad investment.

Einstein is rumored to have called compound interest the "most powerful force in the universe."

Keep your lifestyle constant so that your raises accrue to your retirement savings, not your expenses.

5 cfainstitute.org/learning/investor/adviser
6 cfainstitute.org/learning/future/about/Pages/statement_of_investor_rights.aspx
7 cfapubs.org/doi/abs/10.2469/faj.v69.n6.4

INVEST WISELY

Diversification allows you to spread your investments among many different (or uncorrelated) securities, which significantly reduces risk.

Establish a low-cost, globally diversified portfolio that's appropriate for your long-term goals

- A credentialed financial adviser[8] can help you with this undertaking. Make sure that you and your adviser review your retirement needs and your investments regularly. One way to determine your future retirement needs is to find a retirement calculator that takes into account pension and retirement opportunities in your local area.
- Think long term. Understand that you're planning for the rest of your life. Don't focus on the short-term performance of your investments. Instead, stick to your long-term plan and review your portfolio periodically to stay on track.
- Use a broadly diversified portfolio of global stocks and bonds. The mix of the amount of stocks versus bonds depends, in part, on your age (time to retirement) and your ability to tolerate market turbulence or risk.
    i. How do I get a diversified portfolio? A simple way is to invest in an "all-in-one fund," which is a diversified portfolio in a single fund. Examples are target date funds (those that use the fund date that most closely matches your retirement date) and target risk funds (those that most closely match your risk tolerance). These funds offer an efficient and effective way to achieve a diversified portfolio managed to your specific needs and goals.
    ii. Learn more about diversification and its risk reduction benefits.[9]
- Seek low-expense products. Returns are only expected, but expenses are certain. Transaction costs and fees are your enemy because they reduce the amount you save. Be sure to implement your plan with low-cost funds, and be mindful of commissions, front-end loads, and other expenses. Learn more about the impact of fees[10] on retirement savings.
- Consider the need for insurance, including health insurance, inexpensive life insurance, disability insurance, umbrella liability insurance, and low-cost annuities[11] where appropriate. A qualified adviser can assist with a plan designed for your needs.

8 cfainstitute.org/learning/investor/adviser
9 fischerfinancialservices.com/wp-content/uploads/2012/12/diversification.pdf
10 cfainstitute.org/learning/products/publications/faj/Pages/faj.v61.n6.2769.aspx
11 cfainstitute.org/learning/investor/Documents/variable_annuities.pdf

RETIRE WELL

Your ability to achieve a secure retirement and live comfortably after your working years depends on Getting Started, Keeping It Going, and Investing Wisely.

- Why? Because a more secure retirement depends on:
  i. how long you are retired,
  ii. how much you spend before and after retirement,
  iii. how much you have saved, and
  iv. how well you invest.
- Read more about the hard choices[12] investors must make to achieve a more secure retirement.
- Finally, beware of the 12 Common Mistakes[13] investors make.

The Future of Finance initiative is a long-term global effort to shape a trustworthy, forward-thinking financial industry that better serves society. It provides the tools to motivate and empower the world of finance to promote fairness, improved understanding, and personal integrity. Its success is driven by ongoing input from an advisory council of prominent global leaders and others in the financial community.

We invite you to learn more about current and upcoming Future of Finance initiatives, impact stories, and ways you can get involved.

THE FUTURE OF FINANCE STARTS WITH YOU

www.cfainstitute.org/futurefinance

12 cfainstitute.org/learning/products/publications/faj/Pages/faj.v70.n2.4.aspx
13 bedrockcapital.com/wp-content/uploads/2013/04/12CommonMistakesInvestorsMake.pdf