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# PERSPECTIVE

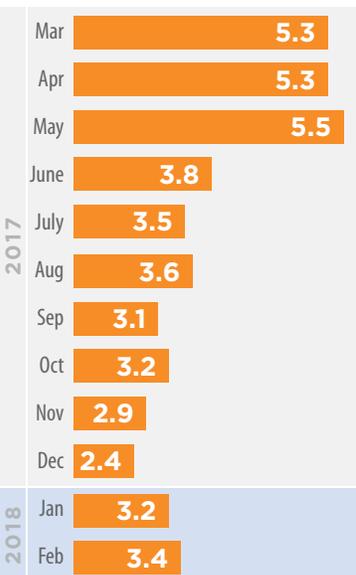
MAY 2018



## Saving for Retirement: Theory vs. Reality

### Household Savings Rate

Saving for retirement is critical, but it's also important to put something aside so you don't have to dip into your retirement savings when you need extra money. Here is a look at the household savings rate (the difference between a household's disposable income and its consumption) for Americans over the past two years. While it has slightly improved over the last six months, it isn't nearly as high as it was in March, April and May 2017.



Source: U.S. Bureau of Economic Analysis

University of Chicago economist and Freakonomics author Steven Levitt once asked readers of his blog, "When it comes to saving, who would you listen to: my wife or Nobel Laureate economist Milton Friedman?"<sup>1</sup>

Friedman's advice urged people not to save much early on.<sup>1</sup> After all, according to many economists, people should borrow when they have too little income and save when they have extra income. Since academic salaries increase over time, in theory, Levitt should have borrowed when his income was low and start saving when it increased.

Regardless of Friedman's economic theory, Levitt's wife insisted on saving—even when their income was low. Friedman was one of the most influential economists of the 20th century, but in reality, there are many reasons to agree with Levitt's wife.

### WHEN SAVING FOR RETIREMENT, THE EARLIER YOU START THE BETTER.

There is a distinct advantage to starting your savings plan as early as possible. It may not take

as much as you think to build wealth, but it does take time for your savings to grow and your earnings to compound. Compounding is the process in which an asset's earnings from interest are reinvested to yield additional earnings over time. For example, each year's gains may produce their own gains. Therefore, compounding is a powerful savings tool that works best the earlier you start.

### BUYING LOW AND SELLING HIGH IS EVERY INVESTOR'S GOAL.

Market volatility, as we have experienced so far in 2018, often creates opportunities. If you save more and invest your savings during market downturns, when the market trends up you may be well positioned to benefit. It may help to compare investing to climbing a mountain. Going up is more difficult and time consuming than coming down.

Of course, if you agreed with Milton Friedman and not Levitt's wife, you have even more reason to start saving now. Give us a call to learn how saving more may benefit you. ◀

<sup>1</sup> [freakonomics.com](http://freakonomics.com), *When it comes to saving, who would you listen to: My wife or Milton Friedman?*

*A plan of regular investing does not assure a profit or protect against loss in a declining market. You should consider your financial ability to continue your purchases over an extended period of time.*

## Celebrate



not consider starting a 529 savings plan? The sooner you start saving the better, and it's never too early to begin. The plan may be opened

With so many Americans unsure of the benefits of 529 plans, Tuesday, May 29—or National 529 Day as it is also known—raises awareness to the purpose of 529 savings plans.

For parents sending the kids to college in 2018, the numbers can be overwhelming. The average out-of-state tuition for a public institution is \$25,620, and that number doesn't factor in room, board and books.<sup>2</sup> It's even more expensive to attend a private university.

The cost of higher education seems to rise every year, so why

by anyone, such as a parent, guardian or grandparent and offers:

- » **Tax-free withdrawals.** The funds are not taxed if the money is taken out to pay for qualified education expenses.
- » **Estate planning benefits.** Anyone looking to reduce his or her estate tax exposure through gifting may benefit from contributing to a 529 plan.
- » **Full control over the money you save.** There are no income, age or contribution limits, and you can withdraw funds tax-free to pay for educational expenses at any time. In some states a 529 plan may also be used to pay for K-12 private school tuition. Check with your state's guidelines prior to withdrawing the funds.

Providing an education for your loved ones offers a lifetime of expanded knowledge, friendships, interests – and can help make dreams a reality. Ask us how to get started today. ◀

<sup>2</sup> [www.collegedata.com](http://www.collegedata.com), *What's the price tag for a college education?*

*Participation in a 529 Savings Plan does not guarantee that contributions and investment return on contributions, if any, will be adequate to cover future tuition and other education expenses or that a beneficiary will be admitted to or permitted to continue to attend an educational institution. Contributors to the program assume all investment risk, including potential loss of principal and liability for penalties such as those levied for non-educational withdrawals.*

*An investor should consider, before investing, whether the investor's or designated beneficiary's home state offers any favorable state tax treatment or other state benefits such as financial aid, scholarship funds, and protection from creditors that are only available for investments in such state's qualified tuition program. Consult with your financial, tax or other adviser to learn more about how state-based benefits (including any limitations) would apply to your specific circumstances. You may also wish to contact your home state or any other 529 savings plan to learn more about the features, benefits and limitations of that state's 529 savings plan. For more complete information, including a description of fees, expenses and risks, see the offering statement or program description.*

*The information contained in this newsletter is derived from sources believed to be accurate. You should discuss any legal, tax or financial matters with the appropriate professional. Neither the information presented nor any opinion expressed constitutes a solicitation for the purchase or sale of any security.*

