

### 11.5.3.4: Saving and Investing

Find popular topics about saving and investing.

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#### Manage Finances and Save Money

To help you manage your money and reach your saving goals:

##### Create a Budget

A budget is your plan for how you will spend money over a set period of time. It shows how much money you make and how you spend your money. Creating a budget can help you:

- Pay your bills on time.
- Save for unplanned expenses in the future.
- Prepare for retirement.

[Download a budget spreadsheet](#) that you can use to create your own to manage your monthly income and expenses.

##### Consider Ways to Save

Saving money involves looking for deals and buying the quality items you need at the best price. You can save money by [comparison shopping](#), comparing the prices and quality of products you plan to buy. MyMoney.gov offers ways to manage your spending and build your savings accounts to achieve your saving goals.

##### Invest in Long Term Goals

Investing is a way to make money grow, by buying shares of stocks, mutual funds, bonds, or real estate. When you invest, there is risk that you could lose the money you invest; in general the greater the earnings you can make, the greater the risk. You can save for long term goals, such as retirement (PDF, [Download Adobe Reader](#)) and college education, by investing. Learn how to save for emergencies, short term and long term goals, and become an informed investor.

#### Steps to Make a Budget

See this video to learn how to make a budget and plan your finances.

A link to an interactive elements can be found at the bottom of this page.

#### Saving for Retirement

As you approach retirement, there are many things to think about. Experts advise that you will need about 80 percent of your pre-retirement income to continue your current quality of life. The exact amount depends on your individual needs. Some important factors to consider include:

- At what age do you plan to retire?
- Can you participate in an employer's retirement savings plan, such as a 401(k) plan, or a traditional pension plan?
- Will your spouse or partner retire when you do?
- Where do you plan to live when you retire? Will you downsize, rent, or own your home?
- Do you expect to work part-time?

- Will you have the same medical insurance you had while working? Will your coverage change?
- Do you want to travel or pursue a new hobby that might be costly?

## Resources to Help You Prepare for Retirement

To help you plan for retirement:

- Find practical tips for building retirement savings in the Top 10 Ways to Prepare for Retirement(PDF, [Download Adobe Reader](#)).
- Use a [retirement calculator](#) to find out the best age to claim your Social Security benefits.
- myRA can help you start saving for retirement when you don't have access to an employer-sponsored plan or lack other options to save.
- Find out the [trade-offs between taking your pension in a monthly payment or in a lump sum](#)(PDF, [Download Adobe Reader](#)).
- Social Security pays benefits that are on average equal to about 40 percent of your pre-retirement earnings. You may be able to [estimate your benefits](#).
- Learn how you can boost your retirement savings at Investor.gov.
- If you have a financial advisor, talk to him or her about your plans.

## Savings Bonds

U.S. savings bonds are one of the safest types of investments because they are endorsed by the federal government and, therefore, are virtually risk free.

Visit TreasuryDirect, a website from the U.S. Department of the Treasury, to learn about [savings bonds](#), [treasury bonds](#), and [securities](#): how to buy and redeem your investments, what to do in the event of the death of an owner, and much more. TreasuryDirect is your one-stop shopping site for government securities where you can find information about the wide range of savings options, including [EE/E](#), [HH/H](#), and [I savings bonds](#).

Manage and determine the value of savings bonds using these tools:

- [Savings Bond Calculator](#)
- [Savings Bond Wizard](#)
- [Redemption Tables](#)

You can give savings bonds for many occasions, such as birthdays, weddings, and graduations. Learn how to give [savings bonds as gifts](#).

## Treasury Securities

Treasury securities are debts issued by the federal government's Bureau of Fiscal Service. When you buy a treasury security, you are lending money to the federal government for a set amount of time. In return the government promises to pay you back the entire amount, also known as the face value, when the security matures.

There are several types of treasury securities:

- [Treasury Bills](#)—Short term securities that mature between a few days and 52 weeks.
- [Treasury Notes](#)—Medium term securities that mature between one and 10 years.
- [Treasury Bonds](#)—Long term securities, with a 30 year term that pays interest every six months, until the bond matures.
- [Treasury Inflation-Protected Securities \(TIPS\)](#)—Securities with principle values that adjust based on inflation, but with fixed interest rates for five, 10, or 30 year maturities.
- [Savings Bonds](#)—Securities that offer a fixed interest rate over a fixed period of time.
- Floating Rate Notes (FRNs)—Securities with variable interest rates, so that as bank interest rates increase or decrease, the interest rates on the FRNs change in the same direction.

You can purchase treasury securities for yourself or as gifts. You can purchase them in several ways:

- Banks, brokers, and other financial institutions through the Commercial Book-Entry System.
- Online through [Treasury Direct](#)
- Payroll savings plans
- [Public auctions](#)

## Trusts

A trust (or trust fund) is a legal entity that allows a person (the grantor, donor, or settlor) to transfer assets to another person or organization (the trustee). Once the grantor establishes the trust, the trustee controls and manages the assets for the grantor or for another beneficiary—someone who will ultimately benefit from the trust. To help you decide if a trust is right for you, first consult a licensed attorney experienced with estate planning and trust matters.

### Reasons to Set Up a Trust

Some common reasons for setting up a trust include:

- Providing for minor children or family members who are inexperienced or unable to handle financial matters
- Arranging for management of personal assets, if you become unable to handle them yourself
- Avoiding probate and immediately transferring assets to beneficiaries upon death
- Reducing estate taxes and providing liquid assets to help pay for them
- The terms of a will are public while the terms of a trust are not, so privacy makes a trust an appealing option.

### Types of Trusts

Trusts can be living (inter vivos) or after-death (testamentary). A living trust is one that a grantor sets up while still alive and an after-death trust is usually established by a will after one's death. Living trusts can be irrevocable (can't be changed) or revocable (can be changed), although revocable trusts don't get the same tax shelter benefits as irrevocable ones do.

The most common type of trust is the revocable living trust. If there's a specific purpose in mind for the trust, dozens of different options exist (charitable trusts, bypass trusts, spendthrift trusts, and life insurance trusts). Two types of trusts can help pay for long-term care services:

- **Charitable Remainder Trusts** – This trust allows you to use your own assets to pay for long-term care services while contributing to a charity of your choice and reducing your tax burden at the same time. You can set up the trust so that you receive payments from the trust to pay for long-term care services while you are alive.
- **Medicaid Disability Trusts** – These trusts are limited to persons with disabilities who are under age 65 and qualify for public benefits. Parents, grandparents, and legal guardians often set up these trusts to benefit people with disabilities and a non-profit organization manages the assets. This is the only kind of trust that is exempt from rules regarding trusts and Medicaid eligibility.

### Trust Scams and Fraud

If someone approaches you to set up a trust, be careful. Before signing any papers to create a living trust, will, or other kind of trust, make sure to explore all options and shop around to compare services. Some other tips to avoid trust scams and fraud include:

- Avoid high-pressure sales tactics and high-speed sales pitches.
- Stay away from salespeople who give the impression that specific organizations and recognized brands back or sell the trust.
- Research and get information about local probate laws from the Clerk or Register of Wills.
- If someone tries to sell a living trust to you, ask if they are an attorney. Some states restrict the sale of living trusts to licensed attorneys.
- If you buy a trust in your home or in another location that is not the seller's permanent place of business, remember you have the right to take advantage of the Cooling Off Rule and cancel the transaction within three business days.

### Things to Consider Before You Invest

Do you have a financial goal in mind, such as saving for retirement, paying for college, or buying a new house? If so, then you may decide to invest your money to earn enough to fund your goals. Before you invest, make sure you have answers to all of these questions:

- **How quickly can you get your money back?** Stocks, bonds, and shares in mutual funds usually can be sold at any time, but there is no guarantee that you will get back all the money you invested. Other investments, such as limited partnerships, certificates of deposit (CDs), or IRAs, often restrict your ability to cash out your holdings.
- **What can you expect to earn on your money?** While bonds generally promise a fixed return, earnings on most other securities go up and down with market changes. Keep in mind, just because an investment has done well in the past, there is no guarantee it will do well in the future.

- **What type of earnings can you expect?** Will you get income in the form of interest, dividends, or rent? Some investments, such as stocks and real estate, have the potential for earnings and growth in value. What is the potential for earnings over time?
- **How much risk is involved?** With any investment, there is always the risk that you will not get your money back or the earnings promised. There is usually a trade-off between risk and reward—the higher the potential return, the greater the risk. While the U.S. government backs [U.S. Treasury securities](#), it does not protect against loss on any other investments.
- **Are your investments diversified?** Some investments perform better than others in certain situations. For example, when interest rates go up, bond prices tend to go down. One industry may struggle while another prospers. Putting your money in a variety of investment options can reduce your risk.
- **Are there any tax advantages to a particular investment?** U.S. savings bonds are exempt from state and local taxes. Municipal bonds are exempt from federal income tax and, sometimes, state income tax as well. Tax-deferred investments for special goals, such as paying for college and retirement, are available that let you postpone or even avoid paying income taxes.

### More Information on Investing

To learn more about investing, refer to these resources:

- You can find useful tips on investing at Investor.gov, a website from the Securities and Exchange Commission (SEC).
- For all of your investment-related questions, [contact the SEC's Office of Investor Education and Advocacy](#).
- To get help preparing to invest, consult the Financial Industry Regulatory Authority (FINRA).

### Tools to Research Investments

To help you make informed decisions when investing and avoid investment fraud, there are a variety of research tools available:

- Find investor news and alerts and a guide to investment products at Investor.gov, a website from the Securities and Exchange Commission (SEC).
- The SEC requires public companies to disclose financial and other information to help you make sound decisions. You can view the text of these files on [EDGAR](#).
- The Financial Industry Regulatory Authority (FINRA) has up-to-date [market data and information](#) for a wide range of stocks, bonds, mutual funds, and other securities.
- If you are considering investing in collectible coins, refer to the [U.S. Mint](#). Before you purchase coins or coin-related products, research the seller with a government agency, such as your [state consumer protection office](#) or the [Federal Trade Commission \(FTC\)](#).

### Choose a Financial Professional

A financial professional can have multiple titles and be authorized to provide various services, including investment, financial planning, and insurance products. When researching a financial professional, find out what the titles and licenses mean, as well as the educational, work experience, and ethical requirements. Keep in mind that a professional title is not the same as a license. The Securities and Exchange Commission (SEC), the Financial Industry Regulatory Authority (FINRA), and state regulators do not grant or endorse any professional titles.

When choosing a broker or investment adviser, research the person's education and professional history as well as the firm the person works for. Make sure you have answers to all of these questions:

- **Has the person worked with others who have circumstances similar to yours?**
- **Is the person licensed in your state?** Your state securities regulator lists individuals and firms that are registered in your state. Ask whether the regulatory office has any other background information. To find out how to [contact your state securities regulator](#), consult the North American Securities Administrators Association (NASAA).
- **Has the person had any run-ins with regulators or received serious complaints from investors?** Contact your state securities regulator or the [SEC](#). To review licensing, employment, and disciplinary information, use FINRA's [BrokerCheck](#) tool.
- **How is the person paid?** Is it an hourly rate, a flat fee, or a commission that depends on the investments you make? Does the person get a bonus from their firm for selling you a particular product?
- **What are the fees for setting up and servicing your account?**

### Resources to Help You Choose a Financial Professional

For more information on choosing a financial professional, refer to these resources:

- The Commodity Futures Trading Commission's (CFTC's) SmartCheck allows you to check the background of financial professionals and stay informed on the latest fraud schemes.
  - To ask a question, report information, or file a complaint, [contact the CFTC](#).
- The Financial Industry Regulatory Authority (FINRA) has information on the [professional designations](#) of financial professionals and the organizations that offer them.
- Both the [North American Securities Administrators Association \(NASAA\)](#) and the [National Futures Association](#) can offer helpful information on saving and investing.

## Pyramid Schemes

A pyramid scheme, also known as Ponzi scheme, is an illegal form of multilevel marketing. In these scams, your ability to earn profits is based on the number of new participants you recruit, instead of the amount of products or services you sell. Sometimes there actually aren't any real products that are being sold. These types of schemes are common with [investment and independent direct selling opportunities](#).

These schemes rely on the income from new participants in order to pay fake "profits" to people that have been part of the scheme for longer amounts of time. However, the scheme falls apart when there aren't enough new recruits to pay into the system, so the earlier participants no longer receive earnings.

### Tips to Avoid Being a Victim

Take steps to protect yourself from being a victim of a pyramid scheme:

- Be wary of "opportunities" to invest your money in franchises or investments that require you to bring in more investors to increase your profit, or recoup your initial investment.
- Be wary if the company sells non-tangible products or technical services, rather than physical items.
- Independently verify the legitimacy of any franchise or investment with the Better Business Bureau, your [state Attorney General](#), or any licensing agencies.
- Be skeptical of success stories and testimonials of fantastic earnings.

### File a Complaint

If you are aware of a pyramid scheme or have been the victim of one, file a complaint with your [state consumer protection office](#), [state Attorney General](#), or the Better Business Bureau (BBB). If the pyramid scheme involved securities, you should also file a complaint with your [state's securities administrator](#), or the [Securities and Exchange Commission](#).

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