FINAN¢IAL FRIDAYS nymeo Federal Credit Union

Cash Savings vs. Retirement Investing

Solid financial planning requires a balance of cash savings and retirement investing. You need a mix of savings and investments to provide for your future one year from now and 40 years from now. Factors like your age, your level of debt, current and potential income, the economy, and if you have a family to support will all affect your unique answer.

Below is a general outline of how to approach cash savings and retirement investing for financial success throughout your life. For more detailed answers, consider speaking with your financial advisor.

Cash Savings
Cash savings is money you've already paid taxes on and keep in a checking or savings account or certificate of deposit at your credit union. It is highly liquid, meaning you can access it quickly, easily, and with little to no penalty when you need it. This is important for both an emergency fund (which you won't know when you'll need!) and for short-term savings goals that aren't more than a few years away (vacation, wedding, new car).

For most people, building up an emergency fund of cash savings will be a first financial priority. How big that fund is will vary from person to person, but an excellent place to start is $1,000 with a goal to work up to between three- and six-months' worth of living expenses.

Why saving is safe: Money saved is considered "safe" because the dollar amount in your account won't decrease unless you withdraw funds, and you have easy access to it.

Why saving is risky: Because interest rates on most saving accounts doesn't keep up with the rate of inflation, the money in these accounts will eventually lose purchasing power over time.

Retirement Investment
While cash savings can be seen as immediately adding your net worth, retirement investments should be seen as adding to your future net worth.

The different retirement investment products, or "vehicles", include 401(k)s, 403(b)s, traditional and simple IRAs, Roth IRAs, and SEP IRAs, among a few others. With any of these, the goal should be to use their tax advantages to your advantage, to contribute enough money to receive any free matching funds from your employer, to pay as few portfolios management fees as possible, and to reach the contribution limit while remaining financially stable.

Getting Started
If at first you concentrate your extra income to building up a cash savings fund, consider putting funds into retirement investments as soon as your risk tolerance allows—say after you've saved one months' living expenses if single and three months' if you have a family.

As your savings needs change throughout life, you can slide this scale as needed, keeping in mind that money you contribute earlier into retirement investments will work harder for you than money contributed later.

Schedule a Complimentary Consultation with Anna & Irene

Anna A. Behnam
Financial Advisor

Irene Tata
Financial Advisor

How much does a financial advisor cost?

Your initial meeting with Anna or Irene is complimentary! Depending on your specific need, as well as the complexity of your situation, you may choose to pay for additional options. Schedule a time to speak with them at your convenience.

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