



## SAVING OR SPENDING...THE CHOICE IS YOURS

If you're tired of hearing about ways to save money, such as packing your lunch, cutting out the lattes, or renting a DVD instead of going to the movies, you're not alone. But the truth of the matter is saving small amounts of money is good advice for everyone. Finding ways to save just \$10 per day can have big rewards later in life.

If you are living below your means, go ahead and enjoy that \$5 latte; but if you're living paycheck to paycheck and barely making ends meet, saving a small amount can mean the difference between catastrophic debt and a comfortable retirement, according to financial expert Jeffrey Strain. "When you're faced with a budget that isn't balancing, you have two main choices: earn more money or cut more expenses," he says. "Unfortunately, many turn to a third alternative...they place the difference on a credit card." As a wake-up call, Strain suggests comparing the difference between saving or spending \$10 a day.

There is a false notion saving \$10 and spending \$10 are relatively the same. For example, someone who saves \$10 per day will have \$300 at the end of the month, and the person who spends \$10 per day over what he/she actually has and puts it on a credit card will incur \$300 in debt. Seems to make sense at first glance; however, these numbers fail to account for the interest that can be gained or charged on the money. "The failure to understand the concept of compound interest and the dramatic effect it can have greatly changes the results," Strain notes.

### Example

Saving \$300 a month and investing it to get a 5% annual return, would result in \$20,402 after 5 years. Whereas someone who puts \$300 a month on his/her credit card and doesn't pay off the balance in that same 5 years, will still owe \$36,259, assuming a 26% credit card interest rate. After 5 years, the difference between saving \$10 and spending \$10 each day results in a \$56,661 gap in net worth.

Naturally, other factors can alter the calculations (the interest earned and the credit card interest rate will probably vary from the example). The point is, saving a small amount over time can build future security and charging even small amounts over time can result in more debt than most people realize.

### Saving For Your Retirement

PERSI encourages members to save for their retirement over and above their Base Plan and beyond Social Security. To make saving easier, PERSI offers members the opportunity to contribute to a Choice 401(k) Plan account. This is a great supplemental option to help PERSI members reach their long-term retirement goals.

If you decide to participate in the Choice Plan, you don't have to contribute \$10 per day as shown in the example; you can choose to contribute a percentage of your salary (as little as 1 percent), or a whole dollar amount in some cases (check with your employer). The choice is yours. The major advantage of participation is that contributions are deducted from your paycheck before it is received and before taxes are calculated. This means you can't spend what you don't receive, your taxable income is lowered, and you don't pay taxes on the money you save until you withdraw it. Because of compounding (past interest paid earns interest going forward) the balance grows more quickly.

To learn more about the advantages of participating in the Choice 401(k) Plan, take the Web Tour online at [www.persi.idaho.gov/choice](http://www.persi.idaho.gov/choice). Make a smart decision — and the right choice — by contributing to your own Choice Plan account today to secure your retirement for tomorrow.

#### Inside this issue:

Be Smart About Holiday Shopping.....	2
Your Credit Score.....	3
Retirement Questions.....	4
Investment News.....	4

# Insights

## BE SMART ABOUT HOLIDAY SHOPPING

Talking about holiday shopping may seem premature; but it's never too early to think about how you'll spend your hard-earned money. If you overspend during the holidays, you could end up with a holiday "hangover" in January when the bills start arriving.

With the present economy, many families are worrying about how they will make it through the holiday season. After all, children don't understand the complexities of a down economy or the wisdom of shopping wisely. No one has to be the "Grinch"; but nowadays, it's especially important to plan expenditures to get the most bang for your buck.

- Budget isn't a bad word. Making a budget is the first step to avoid overspending. Start by reviewing last year's spending to determine where cuts can be made. Establish this year's plan based on what you can afford without going into debt. Disposable income can be a gauge for setting a realistic budget.

- List all the people you would like to give gifts to and determine a dollar limit for each person. A budget should also include what will be spent on wrapping paper, entertaining, cards, stamps, and shipping costs. In many families, especially large ones, adults draw names rather than buying something for everyone. Consider pooling resources with siblings to get one quality gift for Mom and Dad rather than individual ones. Setting a price limit and sticking to it will pay off in the long run.

- Comparison shop. Check prices for the same or similar items in stores, online, and in catalogs to get the best price. Try shopping at discount, outlet, and thrift stores...and hit the sales. If you have people on your list with similar tastes, look for BOGO sales (buy one, get one). Look for online discount codes and use them. (If a purchase is large enough, shipping fees may be waived.)

- Avoid using credit cards. The bills will roll in eventually and the joy of giving could quickly turn to worry if you've overspent. Rather than charging gifts on your credit card, try making some. Self-made gifts

are perfect for many people. Homemade preserves, a knitted scarf, a centerpiece, or a coupon redeemable for a service such as babysitting are appreciated. Because these types of gifts are personal, they may have greater value than something store bought.

- Black Friday (day after Thanksgiving) can be one of the best days to get a good deal, even if the sales start before the crack of dawn. This is often the best day of the year to shop for electronics. Many people even make Black Friday shopping part of their holiday tradition.

- If you hate long lines and want to save on gas, shop online. Many Web sites such as [overstock.com](http://overstock.com) and [ebay.com](http://ebay.com) offer items rarely found in local stores. Without aisles of "bargains" to contend with like in department stores, online shopping can be more focused and ultimately may be less costly. Be sure to factor shipping charges into the cost of the gift being purchased. And remember to bookmark your favorite sites for future use.

- Plan now for next year. The after-holiday sales are often the best of the year, so capitalize on them. But remember other sale opportunities occur throughout the year (Labor Day, Presidents' Day, Memorial Day) where you can save money. Spreading your shopping over the year is easier on the pocketbook and leaves more time at the holidays for you to enjoy family and friends, make special treats, or simply relax.

So make a list, check it twice...this can be a memorable holiday season even on a budget.

*On a personal note, years ago when I had little money for Christmas I went to the local grocery store and asked the manager for the Keebler Elf treehouse display. He was kind enough to give it to me. My two children, who are now grown, still remember that Christmas as one of the best...and they still talk about their "clubhouse" with fond memories. I was resourceful and learned gifts from the heart leave the most lasting impression.*

*Patrice Perow, Editor*

# IMPROVING YOUR CREDIT SCORE

*This is the second article in a series about credit scores.*

In today's economy, maintaining a good credit score is more important than ever. Just 18 months ago, a score between 680 and 720 would probably have qualified you for a lender's best rate. Today that's changed. According to many credit experts, it now takes a score of at least 750 to get a preferred rate. Since credit scores are recalculated monthly, steps you take today can improve your score rather quickly.

## Steps to Improve Your Credit Score

**Step 1:** Order a free copy of your credit report online at [www.annualcreditreport.com](http://www.annualcreditreport.com) or by calling 1-877-322-8228. A free credit file disclosure can be requested once every 12 months from each of the nationwide consumer credit reporting agencies (Equifax, Experian and TransUnion) through this site. It is the *only* site authorized by the federal government for obtaining a free credit report each year. Don't fall for deceptive "free credit report" offers, which often require signing up and paying for a service.

Once you have your report, review it carefully. Look for mistakes that could reduce your score such as accounts that aren't yours and paid-off debts still showing as outstanding. Scrutinize your payment record for each account, making sure on-time payments are not showing as late. Look for delinquencies that have been remedied and collection actions that have been paid but still show as overdue.

According to experts, approximately 80 percent of credit reports contain inaccuracies. The errors can range from simply misspelling your name to showing you're deceased when you're still living. Most errors fall in the category of late payments, which show up as 30, 60, or 90 days past due. If you find an error, notify the credit reporting agencies immediately.\*

**Step 2:** Pay your bills on time. The more often you pay your obligations on time, the better your credit score; the more delinquencies you have, the lower your score will be. Paying bills on time can improve your score, even if you're only able to pay the minimum amount due. If your credit score is around 700, you could raise it by as much as 20 points by simply making on-time payments for one month.

It may be helpful to set aside a special place to put your bills when they arrive (a desk cubby, a special drawer,

or a bill basket). As soon as you receive bills, put them in this special place so they won't get overlooked. Twice a month pay your bills; the first and the middle of the month are times that work for a lot of people. If necessary, contact your creditors to revise your payment due dates to correspond with the times you plan to pay your bills each month. To stay on schedule, mark your calendar to remind you of bill-paying dates. Even easier, you can set up recurring online bill pay service with your bank so money will automatically be transferred from your account and paid to your creditors each month.

**Step 3:** Keep credit card balances low. Simply because you've been extended credit doesn't mean you have to use it. Target your credit use to 50 percent or less than your available limit. And avoid maxing out your cards, which can reduce your credit score by as much as 70 points.

*Together, outstanding debt and payment history account for 65 percent of your credit score.*

**Step 4:** Don't open or maintain credit accounts you don't need or don't use. A marketing tool widely used by department stores is to offer a discount on your first purchase if you open and use their credit card. New accounts can actually lower your credit score by 10 points for every account opened.

**Step 5:** Leave accounts with a zero balance open. Closing credit card accounts that have been paid off can shorten your credit history and make it appear as though you're not creditworthy. Leave accounts open even if they are unused or inactive.

**Step 6:** Move quickly when loan shopping. If you're in the market for an auto loan or mortgage, do your comparisons within 30 days so your inquiries don't lower your credit score. While credit inquiries stay on your credit report for 2 years, they are only used in credit scoring for the first 12 months. So any loan shopping you did in September won't influence your credit score come next October.

Remember the three keys to a great credit score: pay your bills on time, keep account balances low, and take out new credit only when you need it. *\*The next newsletter will focus on how to correct errors on your credit report.*

Sources: Bankrate.com; creditreport.com; e-How.com; Fair Isaac Corporation; Mainstreet.com; and the Motley Fool.

# NON-FINANCIAL QUESTIONS TO CONSIDER BEFORE RETIRING

If you're among the millions of baby boomers who will soon retire, it's important to consider the non-financial aspects of retirement. People who fail to plan the non-monetary elements of retirement often report feeling bored, unfulfilled, and unhappy according to a Rutgers University study.

## 1) Are you emotionally ready to retire?

Some people feel a sense of guilt when they are no longer working. Many retirees lose their self-esteem because they've always linked their identity to their job, and others experience difficulty if they no longer feel needed. Those folks who've always had coworkers as their primary friendships may find it challenging to make new friends away from the job.

## 2) What will I do with my time?

Retirement may not be all golf, fishing, and travel. To be active and fulfilled in retirement, some retirees work part-time. Many retirees find satisfaction in volunteer work, and others return

to school. Joining clubs and civic organizations can fill time and meet community needs. Some retirees find it fulfilling to turn a hobby into a business or to build a second career as a consultant.

## 3) Should my spouse and I retire at the same time?

Many couples decide to retire separately so they can adjust to the change. On the other hand, retiring at the same time means couples are free to travel or do many of the things they want to do together. Either way, it's important to communicate personal needs and expectations to your spouse.

## 4) Will others impact my retirement years?

A lot of retirees consider family members such as children, elderly parents, or grandchildren when making retirement decisions. Relocating to be near family could create financial challenges; and moving to become a caregiver might create emotional challenges. Are you ready for either scenario?

## 5) Where will I live?

Many retirees must decide if they want to remain living in their current home or if it's better to relocate. Retirees who move have to determine if it's better to purchase or rent a place. And which is better for you, a house or a condo? Depending on your situation, you may want to consider the benefits and drawbacks of 55+ subdivisions, retirement communities, and assisted living arrangements.

Before making final retirement decisions, consider these questions to determine your retirement readiness from a non-financial perspective.



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## PERSI INVESTMENT NEWS

*as of September 20, 2009*

**Value of the Fund:**  
\$10,224,344,033

**Fiscal Year Change in Market Value:**  
\$1,149,294,680

**Fiscal Year-to-Date Returns:**  
12.6 %

**Month-to-Date Returns:**  
4.2%

\*Posted monthly on PERSI Web site: [www.persi.idaho.gov](http://www.persi.idaho.gov)

I D A H O

## PERSpectives

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