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June 22, 2012

TIMELY TIDBITS

Director's Corner

Compound Interest and You, or "Free Advice ("Yes, I know it's worth what you pay for it...") from Andy"

The UM System's voluntary retirement program will be changing this fall. This is a good supplementary program, although only about 1/6th (~4,000) of eligible UM employees participate. The good news is that it's getting better. Last week, you got a mass-mailing (subject line was "Core Investment Lineup"), and I hope you began reading through it immediately. However... I'm more of a realist than THAT!! So...just in case you didn't read that item, this week, I thought it would be good to give you my personal opinion about taking advantage of this opportunity.

Short version: Any "extra money" you can set aside now will grow over time giving you monetary benefits later-when you retire.

Three items prompted my thinking:

(1) Program administrators suspect that the apparently confusing array of choices has kept the participation percentage so low and, of course, that is one reason the new program is simpler.

(2) With the new program, your long-term investment costs will never be lower, because you benefit directly from the negotiating power of the UM system! These costs of investing are capped at 0.08 percent per year (and...one I looked at had an expense ratio of 0.04 percent!). For comparison purposes, the cost of many more-traditional investments (like mutual funds) will be 1 percent—or much higher. Another comparison: non-discount brokerage firms normally get a commission of 8 percent! You can see, there's no denying the new UM program gives YOU an EXCELLENT expense ratio!! Every penny which doesn't go to expenses goes to—you guessed it—you!

(3) The crazy array of plan choices (code names like: 403(b), 457(b), and 401(a)) may seem like an incredibly complex, jumbled, confusing list—to be avoided at all costs. In my opinion, nothing could be further from the truth. Here's why: Even though the UM System Retirement plan is stable and will be the income "base" for your post-work years, the future of Social Security is "more than a little" cloudy. With this much uncertainty, the more you can invest to save on your own will ****absolutely**** benefit you in the long run.

This whole concept is most useful if you have a long time before you retire; however, even with five or ten years until you reach that decision, the benefit will be yours.

This is obviously a personal decision—based on your own financial situation. I have no way of knowing if you participate or not. The UM System also provides some FAQs and other more-detailed information about the upcoming changes—that's available here: <http://www.umsystem.edu/content/emails/hr/TotalRewards/060612/>. My "news item" has stretched out longer than I intended. If you'd like more information about this program from me, please don't hesitate to ask!



*"A penny saved is
a penny earned."*

Benjamin Franklin