

## Budgeting Your Money: Taking Control

Tomorrow. That's when a lot of people say they're going to get serious and really save for retirement. Yet, they think they don't have the money to spare in the short term to get started now. But it may be that all they really need is motivation — and few motivators are as effective as the power of compounding.

There can be a snowball effect when you put your money in an investment and then automatically reinvest the earnings over time. Compound interest can have a dramatic impact on building your nest egg. Here are some budget-conscious activities you can put in to action now in order to start saving more for your retirement *today*.

**Get out of debt.** Two key components to reining in your credit card debt are to reduce your interest rates and pay more than the minimum-payment amount. If you have a \$5,000 credit card balance at an annual percentage rate (APR) of 13%—and make only the minimum payment each month (typically the greater of 2.5% of the balance or \$10), it will take you 19 years to pay off that debt, and you'll have paid a total of \$3,645 in interest — money that's just thrown away. Pay off your debt more quickly to free-up cash to put toward your retirement.

In addition, consider refinancing your mortgage. Lowering your annual percentage rate (APR) can reduce your monthly payments and free up money to contribute toward your pre-tax retirement savings account. Of course, be sure to consider the costs of refinancing, including such expenses as closing costs; real-estate attorney fees; appraisal, survey and title-search charges; and possibly points (a point equals 1% of the amount borrowed), which are added to cover the lender's cost of making the loan or to lower the interest rate.

**Cut down your phone bill.** Re-evaluate your local, long-distance and international calling plans. Shop around for the plan that gives you greater savings for the places you call most often. The same goes for cell phone plans — make sure you have the least expensive one available that fits your needs.

**Pay your bills online.** Many credit card and utility companies offer free electronic payment options. Make instant payments online or have the money automatically deducted from your bank account each month. You'll avoid incurring hefty penalties on late payments — and late fees on credit cards typically range from \$15 to \$35, depending on the size of your balance.

**Save a little every day.** Food is expensive, especially when you're buying lunch five times a week. How about bringing lunch from home every now and then? Start with once or twice a week and build up to three to four days a week. Or buy one fewer latte each week. Dry cleaning is expensive, too, especially if it costs you more than \$25 a week. Try doing some of that laundry at home. Movie and music lovers: Cut back on the movies and music you buy every month. A few bucks here and there each week add up.

**Put your money to work for you.** Employees at most firms have periodic opportunities to enroll in their company's retirement savings plan or boost their deferral rates. If your financial situation allows, ramp up your pre-tax contributions. Sure, it takes a bigger bite out of your paycheck, but depending on your tax bracket, for every 75¢ you would have taken home in your paycheck (based on a 25% tax rate), you'd save \$1 tax-free in your plan. Another good time to increase your deferral rate is when you receive a pay increase. The impact of changing your deferral rate is offset by your increase in salary.

### **The Power of \$20**

When you see opportunities to save, why not make it your goal to take advantage of them? If you think it's not worth the effort, consider the payoff of investing just an extra \$20 a week. Over the course of 20 years, that weekly \$20 could turn into \$36,963 at a hypothetical 6% annual return.

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