

The 50/50 Savings Strategy



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You have probably heard in the news recently (or even received notice from the IRS) that an estimated 130 million Americans will receive an economic stimulus rebate in 2008. In fact, rebate checks are scheduled to begin mailing in May for taxpayers who have filed their 2007 tax return. In addition, did you also know that in 2007 it is estimated that more than a third of Americans will receive a federal income tax refund, and the average refund per family is around \$2,200.

Let us encourage you to think carefully about how you will spend any tax refund or economic stimulus rebate check. In fact, consider a recent strategy described in a recent American Funds "Investor" newsletter. The strategy is called "**The 50% Solution**" and helps answer the question many are asking: "*What will I spend the money on?*". Vacation, debt elimination, and big ticket items are just a few initial thoughts that will surface. But the 50% solution encourages you to save a little with a strategy that allows you a "*simple way to have the best of both worlds.*" What you do is simply take any tax refund (or rebate check) and earmark 50% towards savings and then use the remaining 50% for enjoyment.

Initially 50% may seem like a lot to save. But consider this: an \$1,100 investment today earning 7% annually could be worth \$4,256 in 20 years. Moreover, a continued investment of an additional \$1,100 invested every year could be worth \$49,351 in 20 years. This could have an impact on a child's college education, long-term savings goal, or even your retirement. All returns are for illustrative purposes only and not indicative of any particular investment. Investment value will fluctuate with market conditions.

As Terri Cullen described in her recent WSJ article "*The Splurge Urge*", many won't discipline themselves to save. She says there is an elemental reason for this called the "found money" principal. Further described, "*Found money is a concept familiar to most people who've struggled with finances. Whether it's an unexpected bonus, unclaimed property or a one-time tax credit, found money is small, unexpected windfall that isn't already accounted for in the monthly budget and therefore, free for the spending.*" She further explains that, "*spending this cash isn't just an inclination, it's an obligation.*" For these individuals it's an attitude that says, "*Spend it now while I have it... What are the chances of it ever happening again?*"

This falls in the same category as the "checking account" principal, and is a part of the reason we often encourage our clients to set up automatic monthly investment drafts. Otherwise, once the money hits the checking account, it finds a way to be spent every month and is gone before you know it. So, please stop briefly and think about your future and be sure to save some of your "bonus" every year. It's prudent and makes sound financial sense, and also could help you down the road.

Please don't hesitate to call if we can help you, your children, or a friend start a new savings strategy. Also, you may want to see if you qualify for a tax rebate check this year by visiting the IRS calculator at <http://www.irs.gov/app/espc/>. As always, it is a pleasure for us to have the opportunity to serve you.

Referenced Sources: **The 50% Solution**, American Funds Investor, Spring-Summer 2008; page 5. **The Splurge Urge** by Terri Cullen; The Wall Street Journal, 4/24/08.

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