

Start a college
or house fund?

Save for
retirement?

Build an
emergency
reserve?

Pay off
debt?

Where Should My Money Go First?

Here's advice from the
financial professionals
at Schwab.

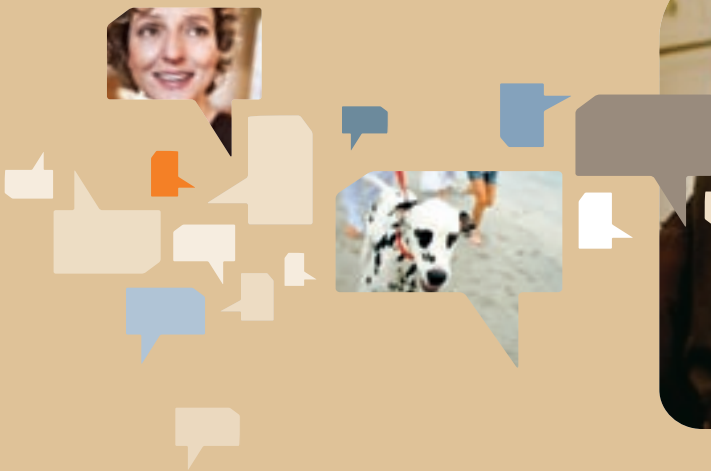


Start with the basics.

In an ideal world, you'd have enough money to pay all your bills *and* save for retirement *and* save for emergencies *and* save for other priorities like college tuition or a down payment on a house. But in the real world, you may not have enough money to save for everything all at once.

To help you prioritize, Schwab recommends eight Savings Fundamentals that will help you take maximum advantage of company benefits, tax breaks and interest rates.

Just take it at a pace that's right for you.



Fundamentals of Saving

Prioritizing your savings goals can make them feel less daunting. We recommend that you start with the first four Savings Fundamentals and complete them in order. Then, move on to the last four Fundamentals and complete them according to your personal financial priorities.

- 1** Contribute to your company's retirement plan up to the maximum match.
- 2** Pay off nondeductible, high-interest-rate debt—like credit cards.
- 3** Create an emergency fund to cover at least three months of essential living expenses.
- 4** Contribute the maximum allowed to tax-advantaged retirement accounts.
- 5** Save for a child's education.
- 6** Save for the down payment on a home.
- 7** Pay down tax-deductible, high-interest-rate debt—like mortgages.
- 8** Keep investing.



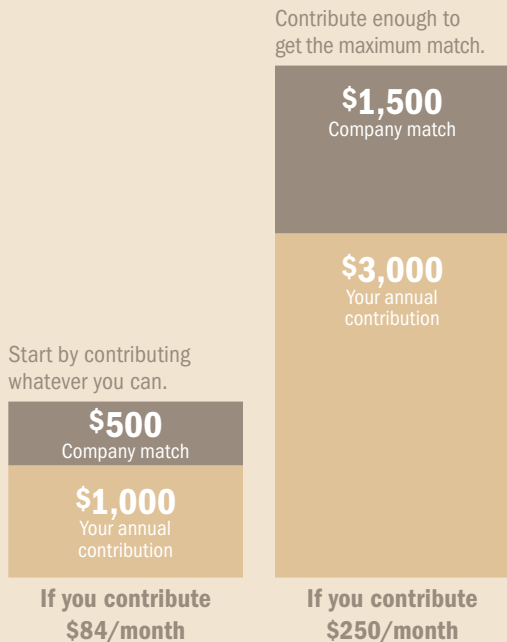
[Read more about each Fundamental](#) ▶

1

Contribute to your company's retirement plan up to the maximum match.

If your company offers to match a portion of your contributions to a 401(k) or similar plan, go for it! Even if money is tight and you have multiple priorities, make it your first goal to contribute at least enough money to get all the matching funds your company offers.

How to save for retirement with limited dollars



Why go for the match?

- ▶ You're getting paid to save. In fact, if you're not contributing up to your company's maximum match, you're leaving money on the table.
- ▶ Most 401(k) contributions are deducted from your income before it's taxed, which means that you keep more of your earnings. What's more, your savings grow tax-deferred until you take them out.
- ◀ Here's an example of how you might start saving for retirement if your company offers to pay 50 cents for every dollar you contribute up to a maximum of \$1,500.

How Schwab can help.

To see how your contributions might affect your take-home pay, go to schwabplan.com and click on "Paycheck Calculator." Then, log in to change your deferral rate to save more each month.



Pay off nondeductible, high-interest-rate debt—like credit cards.

Paying off your debt will make it much easier to reach your savings goals. Just think—if you no longer have to pay 13% interest or whatever high rate you owe on debt, it's like being able to keep 13% for other things. This advice goes for any nondeductible, high-interest-rate debt like credit cards, where interest payments can't be deducted from your income before taxes.

How to pay down your debt.

- ▶ Create a budget to identify nonessential expenses that you can cut back on. Maybe skip a movie. Eat in more.
- ▶ Use every penny you save to make more than the minimum payment on your balance. Start with the card or loan that charges the highest interest rate.
- ▶ In the meantime, try negotiating with credit card companies for a lower interest rate.
- ▶ Consider paying off your debt with a home equity loan. The interest rate is effectively lower because interest payments could be deducted from your income and the loan is secured.†

Increasing payments makes a big difference.

Monthly payment	Card paid off in	Interest you pay
\$120	6 years	\$2,689
\$300	2 years	\$800
YOU SAVE		\$1,889

Here's what you can save by increasing your monthly payment on a credit card with a \$6,000 balance charging 13% interest (if you don't incur any more charges). In two years, you're all paid off and the money that's been going to pay your debt can start going to your savings.*

*Source: "Digging Yourself Out of the Hole" by Carrie Schwab Pomerantz, Chief Strategist, Consumer Education, Charles Schwab & Co., Inc. and President, Charles Schwab Foundation, September 21, 2006.

† With home equity loans and lines of credit, the financial institution will take a deed of trust to secure the debt. You could lose your home if you do not meet the obligations in your agreement with the financial institution. Shop for the credit terms that best meet your borrowing needs without hidden fees and prepay penalties. Interest rates may be tax-deductible. Consult your tax advisor.

How Schwab can help.

Find out how much debt is costing you with the Cost-of-Debt Calculator. Then, create a budget to help you save more each month with our Monthly Budget Planner. Go to [SchwabMoneyWise.com](https://www.schwabmoneywise.com) and click on "Activities and Tools."

Create an emergency fund to cover at least three months of essential living expenses.

To keep from dipping into long-term investments or borrowing at unattractive rates when you need cash in a hurry, create an emergency fund that can cover at least three months of essential living expenses like rent or mortgage, utilities, food and transportation.

An emergency fund helps you avoid these expensive alternatives.

Withdraw 401(k) money before you're eligible	→	Pay early withdrawal penalties (10% or more)
Live off credit cards	→	Pay 13% interest or more
Postpone monthly payments	→	Pay late penalties, damage credit rating
Sell stock or mutual funds	→	Lose money if it's a bad time in the market

How Schwab can help.

- To determine your essential living expenses, visit [SchwabMoneyWise.com](https://www.schwabmoneywise.com) and click on "Activities and Tools."
- To learn more about checking accounts from Charles Schwab Bank, [call 1-800-355-2942](tel:1-800-355-2942).

Brokerage Products: Not FDIC-Insured • No Bank Guarantee • May Lose Value

Keep emergency money in an account that is easy to access.

- ▶ **Checking or savings account.** Your money is immediately available and insured by the FDIC for up to \$100,000. Seek out high-yield accounts to make the most of your cash.
 - ▶ **Money market funds.** These funds typically pay more than bank accounts. While money market funds are considered to be a relatively stable investment, they are not FDIC-insured and it's possible to lose money invested in a fund.
- How to access emergency money if you can't free up necessary cash.**
- ▶ **A home equity line of credit.** If you've built enough equity in your home, and depending on your credit history, you can establish a home equity line of credit and borrow against it when you need it. And you may be able to deduct your interest payments from your taxable income.*

Contribute the maximum allowed to tax-advantaged retirement accounts.

Now more than ever, you're responsible for your own retirement, so securing your financial future is a major priority. The more you set aside, the more secure your retirement may be. Contribute the maximum allowed to your company plan, and, if you're eligible, contribute to an Individual Retirement Account (IRA) as well. Money in these accounts can grow tax-deferred until retirement.

How much can you contribute?

- ▶ **Workplace retirement plans such as a 401(k).** Contribute up to \$15,500 a year in 2008, plus an extra \$5,000 if you're 50 or older.*
- ▶ **Traditional IRA.** Contribute up to \$5,000 a year in 2008, plus an extra \$1,000 if you're 50 or older.*
- ▶ **Roth IRA.** Contribute up to \$5,000 a year in 2008, plus an extra \$1,000 if you're 50 or older.*

To Roth or not to Roth? Here are the basic differences between traditional and Roth IRAs. As you're deciding which may be best for you, be sure to review all the differences and find out if you're eligible to contribute by visiting schwab.com/ira.

Traditional IRA Account	Roth IRA Account (if eligible)
Tax-deductible [†] contributions, if eligible	Contributions not tax-deductible
<ul style="list-style-type: none"> • Taxable withdrawals • Required minimum distribution beginning at age 70½ 	<ul style="list-style-type: none"> • Tax-free withdrawals • No required minimum distribution allows for greater withdrawal flexibility
Consider if you'll be retiring soon or if you think you'll be in a lower tax bracket in retirement and you'd rather take the tax break now, hoping that rates will be lower when you have to start paying taxes on your withdrawals later.	Consider if it will be a long time until you retire or if you think you'll be in a higher tax bracket in retirement, and you'd rather skip the tax break now and enjoy tax-free withdrawals later.

How Schwab can help.

- Increase your contributions to your workplace retirement plan by logging in to schwabplan.com. Then, activate automatic savings increases to set aside extra money—without having to think about it.
- In addition to your workplace retirement plan, contributing to an IRA is a great way to max out tax-deferred contributions. To see if you're eligible to contribute, get updates on contribution limits and learn about IRA restrictions, go to schwab.com/ira or call **1-800-355-2942**.

Save for a child's education.

If you have children in the family, one of your goals is probably to set aside funds for their education. While Schwab recommends saving for retirement before saving for college, your personal priorities should be your guide. But remember—while your child may be able to get a loan for college, you can't get one for retirement.

Projected cost of college in 15 years: \$181,751

Start saving now and pay less later.



The examples assume an 8% annual return, composed of 2% interest income and 6% long-term capital gains. Interest income is taxed at a 35% ordinary income tax rate, while capital gains are taxed at 15% throughout the 15-year period. This represents a hypothetical investment and is for illustrative purposes only; the actual rate of return will fluctuate with market conditions, and is subject to changes in tax law.

Source: Schwab Center for Financial Research.

Tax-advantaged savings plans.

- ▶ **529 college savings plans.*** Money can be withdrawn tax-free to pay for college expenses like tuition, books, supplies and, in some cases, room and board and computers.
- ▶ **Coverdell Education Savings Accounts.** These accounts may be used for qualified elementary, secondary and college education expenses. You can put away \$2,000[†] each year per child (if eligible); potential earnings grow tax-free, and distributions for qualified expenses are free of federal income taxes. Income limits apply.

- ◀ This chart shows out-of-pocket college costs for three different scenarios: (1) Don't save—just pay for college when it's time. The nominal cost of four years of college in 15 years will be \$181,751, based on a current one-year cost of \$17,366 with 6% annual inflation. (2) Save and invest in a taxable account. (3) Save and invest in a 529 plan.

How Schwab can help.

- Estimate the cost of your child's education with the College Calculator at schwab.com/collegecalculator.
- To learn more about college savings options, go to schwab.com/college.

*As with any investment, it's possible to lose money by investing in a 529 plan. Additionally, by investing in a 529 plan outside of your state, you may lose tax benefits offered by your own state's plan.

[†] The contribution limit (and provision to use funds for K-12 education) for Coverdell accounts expires at the end of 2010, so the limit will drop to \$500 in 2011.

Save for the down payment on a home.

Owning a home is a compelling goal, and saving for a down payment may be a priority. If you've mastered Savings Fundamentals one through four, or if you feel that your personal circumstances are right for buying a home, here are some things to consider.

Tips for saving.

- ▶ To estimate what you'll need for a down payment, get an idea of the purchase price and monthly mortgage payments you can afford. The general rule of thumb is to pay no more than 28% of your gross income on principal, interest, property taxes and insurance.
- ▶ To start saving, choose investments and accounts that are appropriate for your risk tolerance and timing needs.
- ▶ Avoid tapping tax-deferred retirement accounts. Use taxable accounts to put savings toward your major purchase goals.

How Schwab can help.

To learn more about saving for a down payment, go to [schwab.com/downpayment](https://www.schwab.com/downpayment) and click on "Need Some Help?"

Choices to consider for down payment savings

Short-term CDs

Choose a CD that matures when you plan to buy your house. CDs are FDIC-insured.

Money market funds

Choose these when you start shopping for a house and want quick access to your money. While relatively stable, funds are not FDIC-insured and could potentially lose money.

Checking or savings

Look for higher-yielding accounts. Money is immediately available and FDIC-insured.

Short-term bonds and bond funds

Choose bonds that come due when you're ready to buy or funds containing high-quality bonds ("A" or better credit rating). Values fluctuate.

Treasury bills

Choose a maturity that matches your plans. Values fluctuate prior to maturity. T-bills are backed by the U.S. Treasury.

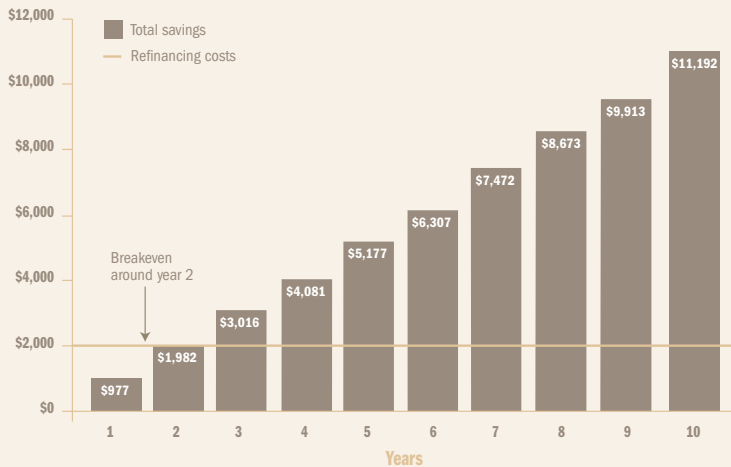
An investment in a money fund is neither insured nor guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. Although money funds seek to preserve the value of your investment at \$1 per share, it is possible to lose money by investing in a money fund.

Investors should consider carefully information contained in the prospectus, including investment objectives, risks, charges and expenses. You can request a prospectus by calling 1-800-435-4000. Please read the prospectus carefully before investing.

Pay down tax-deductible, high-interest-rate debt—like mortgages.

Reducing high-interest-rate debt—even if it’s a tax-deductible mortgage, home equity line of credit or student loan—can enhance your ability to save. For long-term financial stability, we recommend that you start paying down your high-interest-rate debt once you’ve taken care of your other savings priorities.

Reducing your mortgage rate from 7% to 6%



Accumulated savings from refinancing a 30-year fixed-rate mortgage on a \$250,000 home

Refinancing considerations.

- ▶ If interest rates have fallen since you took out your mortgage, refinancing could lower monthly payments in the near term and save you money over time.
- ▶ Be sure to factor in any transaction and closing costs that may be included in refinancing.

Source: Schwab Center for Financial Research. Assumes a new 6% APR 30-year fixed-rate mortgage, and refinancing costs of \$2,000. Home value assumed at the national median sale price of \$250,000 and homeowner equity at 20%. Old loan rate was 7% APR with 30 years remaining and the same loan size. The refinancing cost is added to the new loan amount. The income tax rate is assumed to be 25%, and the monthly mortgage savings and tax savings differential earn an annual rate of 4% before tax. The accumulated cash flow savings reflects the monthly mortgage differential offset by the difference in tax deductibility of the mortgage interest. This chart represents a hypothetical situation and is for illustrative purposes only.

How Schwab can help.



To learn how Schwab can help, call **1-800-355-2942**.

Keep investing.

All too often, people start putting money away, but fail to invest it. To stay ahead of inflation, your money needs to earn more than many traditional savings accounts pay. What's your best strategy? Our research indicates that the best action a long-term investor can take is to invest at the first possible moment—regardless of what the market's doing.

How to start—three important steps.

1. Create a plan

- ▶ Have an investment plan that is realistic and actionable.
- ▶ Understand your plan, follow it and adjust it when things change in your life.

2. Put your plan into action

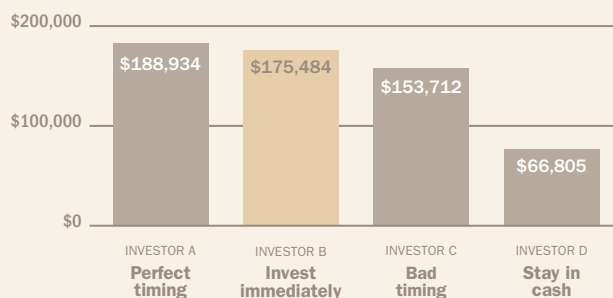
- ▶ Keep your portfolio diversified with an asset allocation that's right for your risk tolerance—and stick with it.
- ▶ Don't wait. If you invest now, you'll start earning sooner.

3. Stay on track

- ▶ Do periodic checkups to keep your portfolio healthy.
- ▶ Keep in mind that long-term goals are more important than short-term performance.

The costs of waiting

Average ending wealth for four investors over all 20-year periods (1926–2007)*

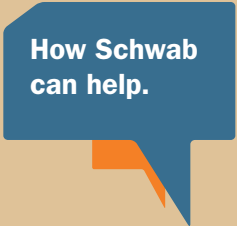


When we compared four hypothetical clients who invested \$2,000 a year for 20 years (going back to 1926), we found that investing immediately over all 20-year periods on the same day each year, regardless of market conditions, almost always led to better outcomes. Only an investor with impossibly perfect timing—investing on the best day of each year for 20 years—did slightly better. And waiting—keeping money in cash—had the worst results.

*Source: Schwab Center for Financial Research, "What Is the Right Time to Invest?" by Mark W. Riepe at schwab.com/marketinsight. Average results remained unchanged when the study was extended to 12-month periods that begin with a month other than January. In the case of the 12-month period that goes from February to January, Investor B invested immediately on the first day of February in each 12-month period for 20 years. Past performance is no guarantee of future results.

How Schwab
can help.

If you'd like to discuss investing options like professionally managed solutions or open an account, call **1-800-355-2942**.



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