

# Retiring Right

A Publication of the Uniform Retirement System for Justices & Judges

Judicial Edition



## Summer 2008

### 2008 LEGISLATIVE SESSION SUMMARY

#### *COLA passed in 2008 Legislative Session*

The 2008 Regular Session of the Oklahoma Legislature passed one bill that directly impacts members of URSJJ - HB 3112. The major provisions of this bill include a cost of living adjustment (COLA) for retirees. Members who were retired as of June 30, 2007, and are still receiving a benefit as of July 1, 2008 became eligible for the COLA. Retirees saw this increase in their monthly benefits paid in July.

# 4%

### The “Powerful Force” of Compound Interest

Experts estimate you will need somewhere between 60%-80% of your pre-retirement income to live comfortably in retirement. Research shows that many of us are aware of those percentages, but most have no idea what that means in terms of actual dollars. The “four-legged chair” is a planning tool to help you in determining how much is needed for retirement.

The four-legged chair represents four sources of income that will support us in our retirement years. These four legs are:

- Social Security;
- Employer-sponsored retirement plans;
- Personal savings and investments; and
- Post-retirement employment.

In this issue we want to focus on an important topic related to the personal savings and investments leg - **the power of compound interest.**

Albert Einstein has been credited with saying, “The most powerful force in the universe is compound interest.” While many question whether he ever made that statement - since it came to be known well after his death in 1955 - the truth behind it remains.

*(Continued on page 2)*

### *The Director's Corner* **Energy Independence** *Tom Spencer, Executive Director*

I am writing this column a short time after I paid the highest amount per gallon of gas in my lifetime. I’m sure in a week I will break this record again. I am not in a good mood, and I’m sure all of you feel the same way I do.

I have never disclosed this in a column before but I was born and raised in California. Southern California. Please don’t call me a prune picker or refer to my home state as the “land of fruits and nuts.” Besides, I’ve lived here since 1974. I still remember vividly the OPEC oil embargo in 1973 when the price of gas almost doubled overnight from 29¢ a gallon to nearly 60¢. Worse than that were the shortages of gas that resulted. My brother and I used to drive the two family cars down to the gas station an hour before it opened to be the first in line. We’d grab breakfast and come back to see dozens of cars lined up behind ours. Many times, we could only purchase 10 gallons at a time. I was only 17 years old, but I felt confident that by the time I reached middle age, we would certainly be running our cars on something other

*(Continued on page 3)*

(Compound Interest continued from page 1)

Compound interest is one of the simplest and most time-tested savings strategies for gaining some level of financial security and is available to anyone who wants to take advantage of it – regardless of their age or income.

The two most important aspects of compound interest are getting an early start and saving on a fixed schedule. You don't have to make a lot of money to put the power of compounding to work for you, but you do have to make saving a regular part of your personal budget. In other words, you have to pay yourself the same way you pay your bills. Setting aside even a small amount of money every month, then investing it over a long period of time, is a powerful tool in reaching financial success.

Jim and Sandy are going to show us how the power of compounding works.

Jim is 20 years old and has decided to open a Roth IRA to begin saving for retirement. He opens the account with a one-time \$5,000 contribution that earns an average of 7.5% each year. If Jim never touches that money, that \$5,000 will grow to become \$129,525 when he plans to retire at age 65. Now, let's imagine Jim waited 15 years until he was age 35 to make that same \$5,000 contribution. With 15 fewer years to invest, his \$5,000 has grown to \$43,775 – a strong return on his investment, but his delay has cost him more than \$85,000 at retirement!

Sandy, on the other hand, has decided to make the same \$5,000 initial contribution at age 20, but will also contribute an additional \$1,000 per year to her Roth IRA

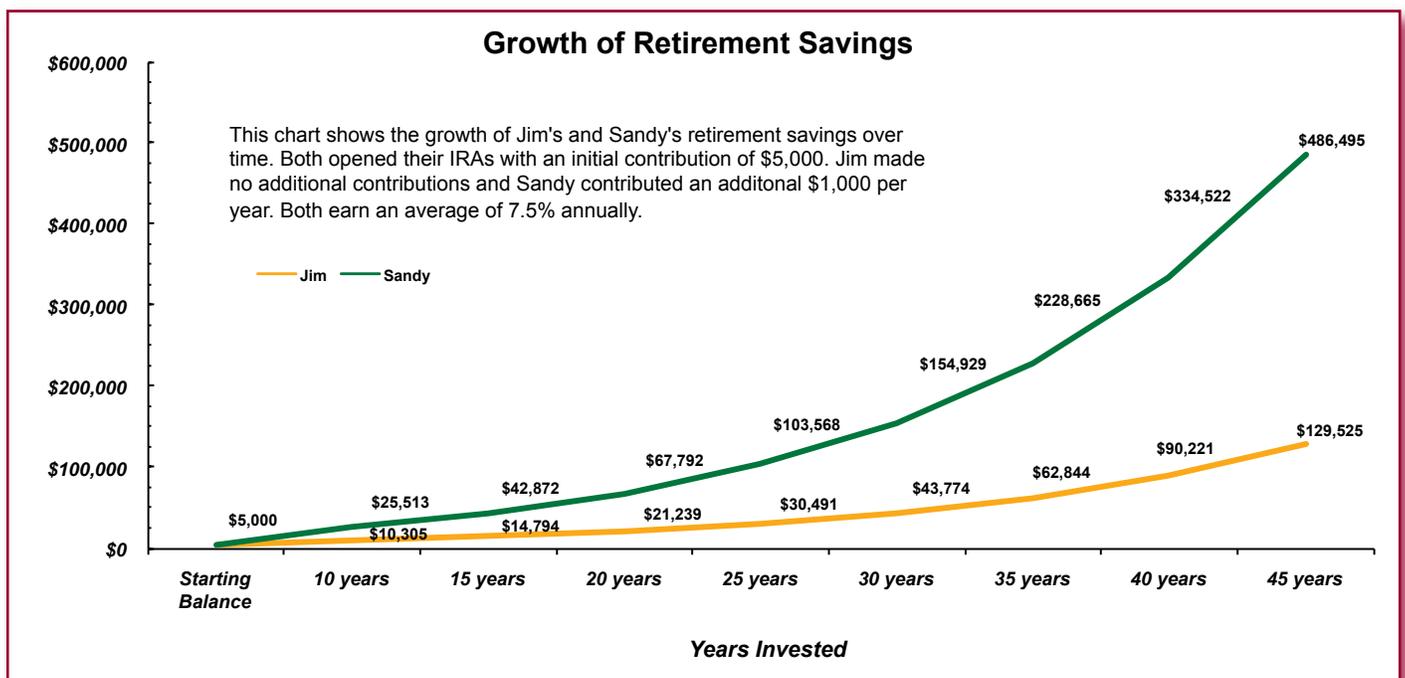
until she retires. At age 65, her retirement account has grown to \$486,495. If she waits until age 35 before starting her investment plan, her account would grow to \$154,930. Sandy's delay has also been expensive, but due to regular contributions she is much better prepared for retirement.

The graph below shows the growth of Jim's and Sandy's retirement savings based on when they start their personal savings and investment plan. As you will see, getting started early and making regularly scheduled contributions to your savings are the keys to harnessing the power of compounding.

In each case, Jim and Sandy have taken the initiative and done great things to help provide for a more successful financial future. Compound interest is a "get rich slowly" scheme that takes patience and discipline, but the rewards can be tremendous. The young person who starts saving now, and earns even a modest rate of return, in 30 or 40 years is going to have a lot to show for it.

Carefully consider your risk tolerance and time horizon when making investment decisions. The longer you have to invest, the better able you are to weather the ups and downs of riskier investments. When you have less time to invest, you may be resigned to more conservative investments that have a lower rate of return.

There are many great articles and online resources available regarding compound interest and how it can work for you. One example is [www.moneychimp.com/calculator](http://www.moneychimp.com/calculator) which has a free online compound interest calculator.



## Video Games – No Longer just for Kids?

Kick the grandkids off the couch and get ready to give your brain a workout. A new study is out to prove that video games can improve the brain power of older adults.

University of Florida researchers have received a \$100,000 grant from the Robert Wood Johnson Foundation to explore whether video games can be used to improve the mental abilities of older adults. UF joins 11 other research

For years, the general wisdom has been that the elderly could keep their minds from declining by doing things like crossword puzzles, but in fact there is no evidence crossword puzzles help maintain cognitive abilities. Experts say it is important to do things that challenge us mentally as we get older. Video games are new and something we may not be particularly good at, but can help to strengthen our mental capacity.

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teams supported in this first round of funding from Health Games Research, an RWJF national program established to strengthen the evidence base related to the development and use of games to improve health.

Scientists in UF's College of Public Health and Health Professions will study off-the-shelf video games to see whether older adults who play them can improve their mental functioning. The study will examine the effects of a popular action-adventure driving game on older adults' ability to process visual information.

There have now been several decades of positive findings regarding cognitive training in later life. The laboratory-based training studies have shown large improvements for older adults, with positive effects lasting as long as five years.

With this study, the UF team hopes to evaluate whether home-based video games might be one mental exercise strategy that could benefit older adults. The study will track changes in video game skill among players, and will investigate whether extended game play leads to improvement in visual attention and functional activities of daily life, including simulated driving.

Dr. Patrícia Belchior, the study's lead investigator states, "In contrast to other training approaches, our preliminary work told us that older participants simply enjoyed playing these games more than laboratory-based mental training, and this enjoyment may help keep participants motivated to continue exercising mentally."

Maybe our teens who are obsessed with PlayStation and Xbox are on to something...we shall see.

*(Director's Corner continued from page 1)*

than gasoline. We had just sent 12 men successfully to the moon and back between 1969 and 1972. Certainly the good old U.S. of A. could figure this one out, right?

A few things have been done in an attempt to cut consumption. In 1974, Congress set the maximum speed limit at 55 m.p.h. That was gone by 1995. In 1975, Congress enacted "CAFE" standards mandating higher fuel efficiency for passenger cars. Attempts at increasing these standards have been controversial. I'm not passing judgment on either of these measures. However, what has this nation done since 1973 to find alternative fuels to run our automobiles? Not a whole heck of a lot. We've dabbled in burning ethanol and a little on electric or hybrid cars, but it appears that we are a long way off in getting off our oil addiction. How different our country and world might be today if our government could have created an "Apollo" project for true energy independence back in the 1970s. Many say that we have enough oil and natural gas to get us through the next 100 years, but is that the extent of our vision? What do we do then? Our continued reliance on imported oil is a current economic problem and has dominated much of our foreign policy for too long. I hope that our national leaders will have the vision and courage to make true energy independence a priority.

# Annual Statements are Coming

Fiscal Year 2008 is officially over and we will be sending annual statements in the mail in the coming weeks to our active members. These statements provide individual information about your retirement contributions, beneficiaries, and plan details for both URSJJ and SoonerSave. Statements will be mailed to the address listed in our current records.

**Remember to keep your address and beneficiaries current with URSJJ.**

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