Your
RETIREMENT
Matters

Fall 2008

Build It Back Up

When you're investing for retirement, there will almost certainly be times when the markets take a beating. And that can be rough. Seeing investment values drop is difficult, even for professional investors. However, as a long-term investor, your focus should be on continuing to contribute to your plan account. If history is a guide, there should be enough time for you to build your account balance back up — and more.

Put More into It

While it may not be easy to set aside more for retirement, even a small increase in the amount you are contributing each pay period can make a big difference in how much you'll accumulate by retirement. Plus, by putting more into your account when the market is relatively low, you'll be in a better position to benefit when the market recovers.

Use the Right Tools

Another way to build up your account balance is to choose investments that have the greatest potential for long-term growth. Historically, stocks have produced higher long-term returns than bonds and cash equivalent investments. (Past performance is no guarantee of future results.) So including stock investments in a portfolio is generally considered to be a wise strategy for long-term investing.

Having a well-diversified* portfolio of stock, bond, and cash equivalent investments can help in a very important way. Different investment types typically do not perform the same way at the same time. If one investment type is performing poorly, losses in that asset class may be offset by steady performance or gains in the others.

Make Sure Your Portfolio Is Balanced

After a market decline, you may find that your portfolio has become "unbalanced." For example, if stock prices have fallen, the percentage of your portfolio that is invested in stocks may be smaller than you originally intended. To rebalance, you would sell investments in other asset classes and purchase additional stock investments or direct a greater share of new contributions to stock investments until your account's allocation is back in balance.

Remember, building up your savings can help you have the retirement of your dreams.

** Diversification does not ensure a profit or protect against losses in a declining market.*

Go for Your Goals

The whistle blows and the game begins. What will it take to win? A strategy, teamwork, and endurance. Those same three things can help you reach the goal of a financially secure retirement.

Set Up Your Strategy

Start your game with an investment strategy that is based on your time frame and how comfortable you are with risk. Then support your strategy by choosing a well-diversified* mix of investments for your plan portfolio.

If retirement is a long way off, consider emphasizing stock investments in your portfolio's asset allocation. While stock prices can be volatile, stocks typically provide a higher potential for long-term growth than other investment types. As you get closer to retiring, however, you may want to shift more of your portfolio into less volatile choices, such as fixed-income investments.

Know the Players

Your plan has a number of features that, working together, give you a real advantage. On your savings team, you have pretax contributions and automatic saving through payroll deductions. On your investment team, you have a lineup of professionally managed investment choices and tax deferral on earnings. By taking the time to understand how these plan features function, you'll be in a better position to benefit from them.

Shoot for Your Goals

Here are several different retirement savings goals and the amounts you might need to save to achieve them.

Goal	Number of Years Until Retirement	Average Annual Total Return	Weekly Savings
$400,000	30	7%	$75.66
$600,000	30	7%	$113.50
$800,000	30	7%	$151.33

This is a hypothetical example used for illustrative purposes only, does not represent any specific investment product, and does not include any investment fees and expenses. It assumes monthly deposits to the plan and monthly compounding. A single compounded rate of return is unlikely, as rates will vary over time, particularly for long-term investments. Withdrawals of tax-deferred accumulations are subject to ordinary income tax, and withdrawals prior to age 59½ may be subject to an additional 10% federal penalty. *Source: NPI*

Inflation's Impact

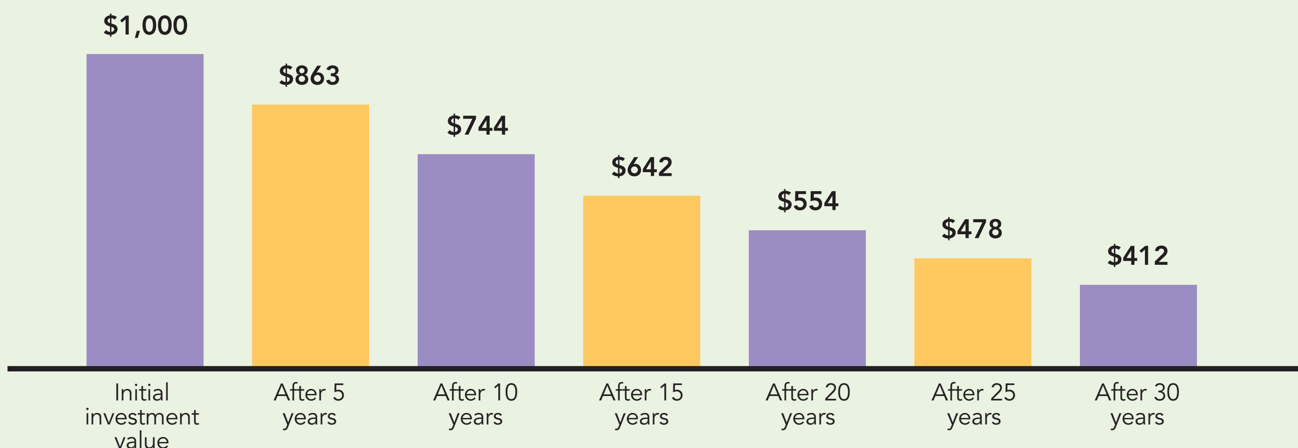
A few cents more for this, a few dollars more for that. Over time, price increases can have a big impact on the future purchasing power of your retirement savings.

Inflation is the increase in the cost of consumer goods and services over time. Even a relatively low rate of inflation during your working years can significantly reduce how far your retirement savings will go once you retire. You'll need more money in the future just to maintain your current standard of living during retirement.

One strategy you can use to help fight inflation's impact is to increase the amount you're saving each pay period. The more you can set aside now, the more you are likely to have to spend later. Another strategy is to choose investments that have the potential to earn a rate of return greater than the inflation rate. Historically, stocks have out-performed inflation by a greater margin than any other asset class. (Past performance is no guarantee of future results.) So you may want to include stock investments in your portfolio at a level in keeping with your risk profile.

Inflation's Impact on Your Money

Take a look at what an annual inflation rate of 3% can do to the purchasing power of $1,000 of retirement savings over time.



This chart is for illustrative purposes only. Actual inflation will vary.

Source: NPI

Build Up Your Endurance

Saving for retirement is more than a quick sprint up the field. You need endurance to play the entire game. Keep in mind that you may fall behind temporarily if your investments perform poorly at times. But retirement investors who stick with their long-term game plan may have the best chance of achieving their goals and "winning the big game."

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You'll have a better shot at scoring your retirement goals when you save more during your working years.

Save More than Leftovers

Every month you have bills to pay — and plenty of them. How much is left over for savings? If you're like a lot of people, not much. Fortunately, you don't have to wait to see if there's any money left at the end of the month to save for retirement. When you participate in your employer's plan, you put money aside first — before you even see your pay.

Saving Made Easier

Your plan makes saving for retirement automatic. Your contribution is taken out of your pay before you get the balance of your paycheck. Because you don't see the money, you aren't tempted to spend it on something else.

Tax Advantages

Your plan also provides tax benefits. Your paycheck contributions can be put aside *before* federal income taxes are taken out. That means each dollar you contribute actually costs you less than a dollar in spendable pay because of the tax savings. You pay no income tax on your pretax contributions until you withdraw money from the plan. As an additional benefit, the earnings your plan investments generate are also tax deferred.

More for Your Money

Because of these tax benefits, saving through your employer's plan is easier on your wallet than saving the same amount in a regular bank or investment account would be. When you're trying to stretch your budget *and* save for the future, it's a bargain that's hard to beat.

Save Taxes While Saving for Retirement

When you make pretax contributions to your plan, the amount of current federal income tax you have to pay is reduced.

	Plan Participant	Nonparticipant
Taxable income before contribution	$40,000	$40,000
Amount saved in plan before taxes	$4,000	0
Taxable income after contribution	$36,000	$40,000
Federal income taxes	$5,344	$6,344
Annual tax savings	**$1,000**	**0**

This is a hypothetical example used for illustrative purposes only. It assumes the taxpayer files as a single individual in 2008. Your income, tax liability, contribution amount, and annual tax savings will be different.
Source: NPI

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