

# Your RETIREMENT Matters



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If it seems like many of the things you buy every day are getting more expensive, it's not your imagination. Inflation is a very real situation that you need to consider in your retirement planning. Inflation gradually increases the prices of consumer

## Inflation Situation

goods and services. Over time, those price increases can make a big difference in your budget. The purchasing power of the money you're saving for retirement will go down as prices go up.



### Reality Check

Even a relatively low rate of inflation during your working years could have a significant impact on the amount of money you'll need to maintain your desired standard of living once you retire. For example, let's assume your current salary is \$40,000 and you receive cost-of-living raises each year for the next 25 years until you retire. If inflation is 4% a year, your salary would be \$106,633 in 25 years. Even if you anticipate needing only 80% of your preretirement income to live on, that's still over \$85,000 for just your first year of retirement. And, don't forget, any inflation that occurs during your retirement will continue to increase the amount of income you'll need.

### Taking Action

To help your retirement nest egg stay ahead of inflation, consider including investments in your portfolio that have the potential to earn returns that are higher than the rate of inflation. Of the three major asset classes — stocks, bonds, and cash equivalents — stocks\* have the greatest potential based on historical performance to grow significantly faster than the inflation rate. Another way to plan for inflation is to increase the amount you're contributing to your retirement account.

\* Stock investing involves a high degree of risk. Stock prices fluctuate and investors may lose money.





# Who Are You?

**H**ow would you describe yourself as an investor? Like many people, you may not have thought much about it. But it's important to understand your objectives and risk tolerance so you can choose a mix of investments for your retirement account that's right for your personal situation.

Although you may have taken a quiz to help you determine your risk tolerance when you enrolled in your employer's plan, it's a good idea to reassess your risk tolerance from time to time. Your attitude toward risk may have changed over the years.

Read the following statements and circle a number from 1 to 5 according to how strongly you agree or disagree with each statement.

1 = strongly disagree   2 = moderately disagree   3 = neutral   4 = moderately agree   5 = strongly agree

|   |   |   |   |   |   |
|---|---|---|---|---|---|
| 1. I would not change my retirement investments if the value of my investments declined by 10%.   | 1 | 2 | 3 | 4 | 5 |
| 2. I am willing to risk losses to my retirement investments.  | 1 | 2 | 3 | 4 | 5 |
| 3. As a rule, I wouldn't use CDs or other "very safe" investments in my retirement planning.  | 1 | 2 | 3 | 4 | 5 |
| 4. I don't consider myself a conservative investor.   | 1 | 2 | 3 | 4 | 5 |
| 5. I might be willing to invest a small part of my retirement money in bonds or money market investments, but I prefer to keep most or all of my investments in stocks. | 1 | 2 | 3 | 4 | 5 |
| 6. I prefer using stock funds for my retirement money, even though bond funds are usually less risky.   | 1 | 2 | 3 | 4 | 5 |
| 7. I prefer using investments that are likely to produce higher returns, even though these investments are riskier.   | 1 | 2 | 3 | 4 | 5 |
| 8. Stock funds are better investments for retirement than bonds, money market investments, or CDs.  | 1 | 2 | 3 | 4 | 5 |
| 9. I seek the highest potential return for the investments in my retirement plan.   | 1 | 2 | 3 | 4 | 5 |
| 10. In choosing retirement investments, the growth of my investments is more important to me than risk.   | 1 | 2 | 3 | 4 | 5 |

Now, add up the numbers you circled and see where your score falls on the Investor Profile. Understanding your approach to investing for retirement may help you choose appropriate investments. Keep in mind that as you near retirement, your investor profile may become more conservative since you'll have less time to make up any investment losses.

# It'll Cost You!

If you change jobs or retire early, what should you do with the money in your retirement plan account? If you're considering cashing out your account to pay down debt or pay other expenses, you may want to reconsider. Cashing out your account has significant drawbacks.

## Think About Taxes

Taking a distribution from your retirement savings plan generally means paying taxes on the distribution at your ordinary income-tax rate.\* Before you get the money, your employer is required to withhold 20% of your distribution and send it to the IRS as a prepayment of your income-tax liability for the year.\*\* In addition to regular taxes, you also may have to pay a 10% early withdrawal penalty on the distribution if you haven't reached age 59½. (Exceptions apply.) Added together, taxes and the penalty could result in your receiving a lot less money than you had anticipated.

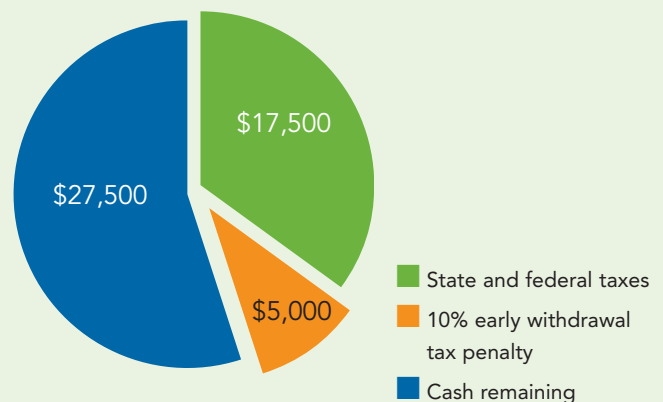
You can avoid a current tax bill by leaving the money in your retirement savings plan account (if allowed) or having the plan transfer the distribution directly into an individual retirement account (IRA) or other qualified retirement plan that accepts rollovers. Either strategy will allow your savings to continue to grow tax deferred.

\* Qualified distributions from a designated Roth account are not taxable.  
\*\* If your total tax payments (withholding and estimated tax) are more than your tax liability, you may request a refund. If your tax liability is more than your tax payments, you'll owe the difference.



## Taxes Take Their Toll

If you cash out a \$50,000 retirement savings plan account when you switch jobs, you'll receive a lot less than \$50,000 after taxes take their toll.



This is a hypothetical example used for illustrative purposes only. It assumes a combined federal and state income-tax rate of 35%. Your tax rate may be different, and you may be eligible for an exception to the 10% penalty.

Source: NPI

## Investor Profile

**10 – 20 Conservative.** If you are a conservative investor, you want to preserve your account balance and avoid short-term losses. The investments you've chosen for your retirement account might consist mostly of bonds and cash equivalent funds or portfolios with only a small portion of stock investments.

**21 – 39 Moderate.** If you are a moderate investor, you are willing to risk some short-term losses for the potential to earn higher returns. Your plan account may include a more evenly balanced mix of stocks, bonds, and cash equivalent investments than a conservative investor's account.

**40 – 50 Aggressive.** If you are an aggressive investor, you are willing to take on greater risk of losses than a moderate investor. The increased risk provides you with the potential for higher returns. Your retirement account may be heavily weighted in stock investments with only a small share in bonds and cash equivalent investments.



# Dare To Dream

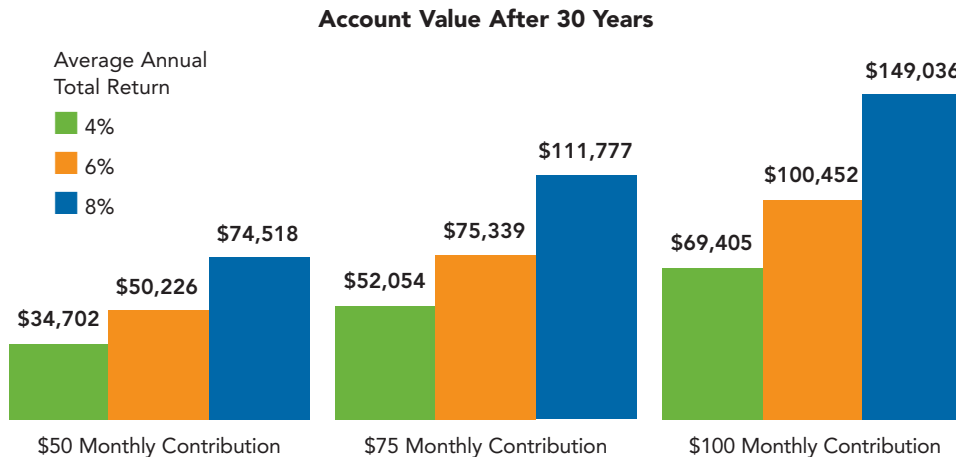
**W**ith all the uncertainties surrounding the economy, maybe you wonder if you'll be able to have the retirement of your dreams. Will you need to scale back your plans or work longer than you want? Unless retirement is right around the corner, there are steps you can take right now to help your retirement dreams come true.

### Don't Hit the Snooze Button

You're already on the right track because you participate in your employer's retirement savings plan. The longer you save and invest, the more money you are likely to have when you retire.

### Bring Dreams to Life

Saving more money in your plan and choosing a mix of investments that is suitable for your goals, time horizon, and risk tolerance can put you on course toward a brighter financial future.



This is a hypothetical example used for illustrative purposes only. It is not representative of any particular investment vehicle. Monthly compounding for 30 years is assumed. Your investment results will be different. *Source: NPI*

Have you increased your contribution level since you joined your plan? Many employees forget about their plans after they join. Others put off increasing their contributions until they purchase a house, pay down debt, or help a child with college expenses.

### Wake Up and Smell the Savings

Contributing more to your plan can help you reach your retirement goals. Even a small increase now can add up over the years. And setting aside more in your plan will help your savings stay ahead of inflation. Since over time inflation could reduce the amount of goods and services your retirement dollars will buy, make it a priority to increase the amount you save.

### Invigorate Your Investments

Consider including investments in your portfolio that have the potential to earn solid long-term returns. While stock investments\* have experienced increased volatility recently, historically they have produced higher returns than bonds or cash equivalent investments and have outpaced inflation. (Past performance is no guarantee of future results.) Keeping a portion of your portfolio invested in stocks may help you achieve your retirement dreams.

*\* Stock investing involves a high degree of risk. Stock prices fluctuate and investors may lose money.*

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