

# Your RETIREMENT Matters



Spring 2006

## Spring Cleaning Time

**A**fter the long winter, spring is a good time to wash windows, clean your closets, and generally get your home in order. The same can be said for your retirement investments. An annual spring review can help you make sure the investments you have chosen for your plan account still fit your needs.



### *Dust Off Those Statements*

Locate all your retirement plan statements so you can file them away in a safe place. But before you close the drawer, review the recent and long-term performance of your investments. The total return of a fund is expressed as a percentage and includes the increase or decrease in its share price, plus distributions of dividends, interest, and capital gains. In a retirement plan, distributions are automatically reinvested in additional fund shares.

### *Shine with an Index*

Just looking at an investment's total return, however, won't give you the whole picture. You also want to see how well your investments performed compared to other similar investments. For that you need to look at your investment's benchmark index. If your investment's return is consistently lower than the return of its benchmark over an extended period, you may want to consider making a switch.

### *If It's Not Broken, Don't Fix It*

Just don't be too hasty to get rid of an investment simply because of poor short-term performance. Investments often rebound after brief periods of low returns. If the investment still matches your goals, you may want to take a "wait-and-see" approach before sweeping it out of your plan account. After all, unless you are planning to retire soon, you should have enough time to ride out short-term performance fluctuations.



## In Perfect Harmony

**W**hen you joined your employer's retirement plan, you decided how to invest your contributions. Before making your choices, did you consider any *other* investments you already have? Ideally, all of your (and your spouse's) investments should work together in harmony to accomplish your financial goals.

### *Not a Solo Performance*

It's not uncommon for participants to have an individual retirement account (IRA) or other investments outside of their employer-sponsored retirement plan. And many married participants have spouses who have retirement investments of their own. It's surprisingly easy for a couple's investments to be out of tune, especially if both spouses joined their respective plans and made investment selections before getting married. If your plan account isn't a solo act, you should consider the big picture to make sure everything is in tune.

### *Tone Deaf Investments*

Why is this important? If you don't consider all your assets as a whole, you may be duplicating investments in the same companies or industries without even realizing it. Or you may be "overinvested" in one type of investment or asset class. As a result, you may be exposed to more risk than you realize, or your combined retirement investments may be so conservative that they won't keep pace with inflation.

### *Orchestrating Your Investments*

You want to be sure that, taken together, your investments are divided up — allocated — among stocks, bonds, and cash equivalents in a way that fits your risk tolerance, investing time frame, and goals. Diversifying within each asset class can also be important. So, for example, you might want to have some of the money you've allocated to stocks invested in large-cap stocks and some invested in small caps.



# Save Taxes While Saving for Your Future

You work hard for your money. Naturally, you'd like to keep as much of it as possible. Here's a valuable way for you to reduce the federal income taxes withheld from your pay — put more money into your retirement plan.

## Increasing Savings Reduces Taxes

Even though it may seem illogical, increasing the amount you save in your employer's retirement savings plan really can reduce the amount of federal income tax you owe each year. Here's how: When you make pretax contributions to the plan, the amount you contribute is not considered currently taxable income. So, *increasing* your retirement plan contribution *reduces* your taxable income — and the amount of federal income tax due.

Over time, increasing your retirement plan contributions can result in a significant reduction in your current tax bill — not to mention the added benefit of beefing up your retirement nest egg. (Both pretax contributions and related investment earnings are taxable when you receive distributions from the plan.) And the less you pay in taxes, the more you have of your hard-earned money to use as you see fit.



## The More You Save, the Less Tax You Pay

Weekly Pretax Plan Contribution	\$25	\$50	\$100
Annual Amount Saved in Plan	\$1,300	\$2,600	\$5,200
Federal Income-tax Rate	25%	25%	25%
Annual Tax Savings	\$325	\$650	\$1,300

Amounts saved in the plan are taxable upon withdrawal. Your tax rate and annual tax savings may be different. Source: NPI

If you and your spouse both have retirement plans, put your heads together. Consider the investment options available through both plans. Study the objectives, charges, risks, expenses, and past performance of each one. Then select the best investments to fit your desired

allocation. It may turn out that neither of you will be broadly diversified *within* your plan. But that's okay. You can stock up on stocks in one plan and bonds in another as long as your *overall* retirement portfolio is in harmony.

When all of your retirement investments are in harmony, you'll have a finely tuned investment mix that can help you reach your retirement goals.



# Pick Up the Pace

**L**ike a lot of people, you probably have many demands on your money — a car payment, rent or mortgage payments, saving for your children’s college education. So saving for retirement may not be a very big priority in your life.

But waiting until you have fewer demands on your money to save more for retirement could hurt your ability to maintain your standard of living once you retire. If you make saving for retirement a priority *while* you are working, it could have a significant impact on your quality of life when you *stop* working.



### To Have More, Save More

Participating in your employer’s retirement plan is a great first step. Now think about increasing the amount you are contributing. The sooner you put money into the plan, the longer your savings will be invested for potential compound growth. Saving as much as possible may be the key to reaching your retirement savings goal.

### Perseverance Pays

If you can, increase the amount you contribute each year. And, whenever you receive a pay raise, consider giving your retirement savings a raise, too. Steadily increasing your contribution will help your savings grow. Over time, your efforts could really make a big difference.

## The More You Save, the More You May Have

Saving more money for retirement can have a significant impact on the value of your account when you’re ready to retire.

Paula Saved \$75 Each Month	\$196,861
Joe Saved \$50 Each Month	\$131,241

Assumes 40 years of investing with a 7% average annual total return, compounded monthly. This is a hypothetical example used for illustrative purposes only. It does not represent the results of any investment plan in any fund or portfolio. Your investment results will be different. Source: NPI