Your RETIREMENT Matters

Fall 2006

An Amazing Race

On your mark, get set, go! Participating in your employer's plan is like being in a race. It lasts the duration of your career, and the prize for finishing may be a financially secure retirement. To win this race, you need to have a sound strategy, make steady progress toward your goal, and stay focused on the finish line.

Plan Out Each Leg

Having a well-thought-out investment plan will help you get going in the right direction. Take a look at your time frame, risk tolerance, and future financial needs, and then make sure the investments you've chosen are the right fit for you. Along the way, events in your life may change your tolerance for investment risk. Be sure to watch for signals that it's time to adjust your retirement investments.

Stay Focused on Progress

The contribution amount you chose when you joined your plan may have been the most you could afford at the time. But, as your income increases over the years, plan to increase the amount you contribute. Over time, even a small increase in the amount you contribute can have a big impact on the amount that's waiting for you at the finish line.

Keep Your Balance

Along the way, your investments may become unbalanced if one type of asset performs very well — or very poorly. You may find that more of your portfolio is invested in one asset class than you intended. As a result, your portfolio may be more aggressive or conservative than you would like. Adjusting your investments to correct the imbalance will get your portfolio back in shape — and put you on track for a strong finish in your amazing race to retirement.

Road Rules

You won't run across any stop signs or speed limits when you're investing. But there are a few rules of the road you should know about to help you steer your retirement plan investments more effectively.

Risk and Return Ride Together

Basically, the more risk involved with an investment, the greater its potential return. So, even if the risk of losing money makes you uneasy, you may decide that you want to include some riskier investments in your portfolio.

Stocks Frequent the Fast Lane

Your plan probably offers stocks or stock funds as an investment choice. While stocks may experience periods of price volatility and lose value, historically, stocks also have produced higher long-term returns than bonds or cash equivalent investments. (Past performance is no guarantee of future results.) When you're investing for retirement, including stock investments in your portfolio may give you a better chance of reaching your long-term goals.

Bonds Travel in the Slower Lane

Bonds typically are less volatile investments than stocks. Sometimes, they move in the opposite direction of stocks. In years when stocks perform poorly, bonds may perform well. You may want to take advantage of this difference by including both stock and bond investments in your portfolio.

Take a Road Test

Test your knowledge of the investment rules of the road. The answers are below — no peeking!

(1) The greater an investment's risk, the lower its potential return.	T or F
(2) Stock returns typically outpace those of bonds and cash equivalents over time.	T or F
(3) Stocks and bonds sometimes move in opposite directions.	T or F
(4) Diversifying is investing in just one asset type.	T or F
(5) A fund does not provide automatic diversification.	T or F

Answers: 1: F; 2: T; 3: T; 4: F; 5: F

Source: NPI

Days Late and Dollars Short

It's tough to make saving for your retirement a top priority, especially if it's a long way off. After all, there are plenty of day-to-day demands on your income, and you probably have other financial goals (a house, college for your children, a new car, a dream vacation, etc.). Saving more for retirement can wait, right?

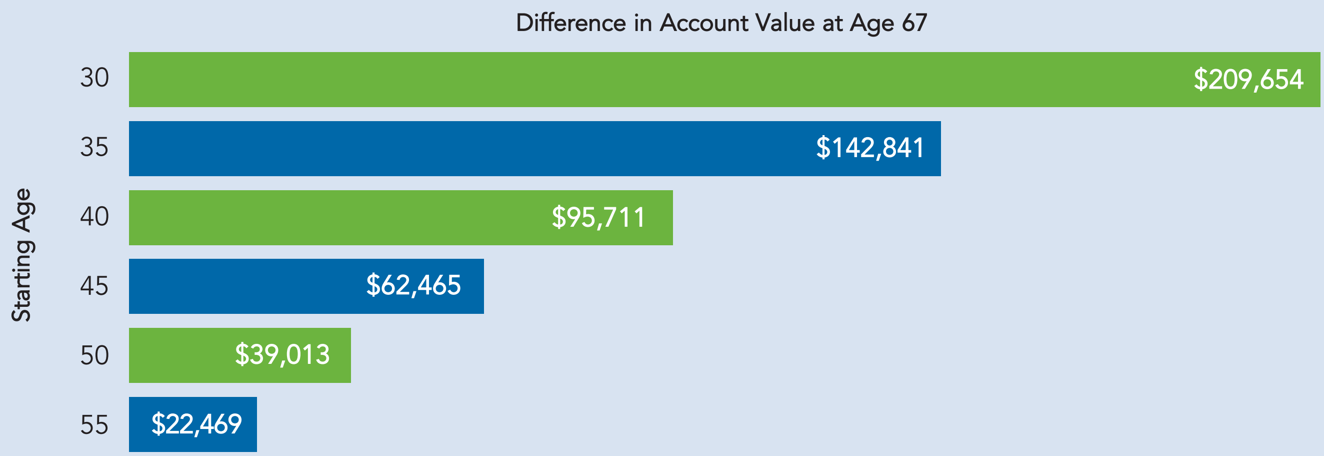
Wrong. If you don't put saving for retirement on your financial priority list now, you may come up short when you want to stop working.

Don't Play a Waiting Game

If you plan to make up for lost time by increasing your retirement plan contributions once your other financial goals are met, you may want to rethink that strategy. By the time you buy a house, help your kids pay for college, or take that trip, you may not have time to accumulate the amount you'll need to fund your retirement. Instead, work on creating a budget that allows you to steadily build up your retirement savings *while* taking care of your other financial obligations.

What a Difference Time Makes

If you wait to increase the amount you're saving for retirement, you're likely to end up with a lot less in your plan account. But see what happens if you increase your contribution by $100 each year.



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. A 7% annual return (compounded monthly) is assumed. Your investment results will be different. Tax-deferred amounts accumulated in the plan are taxable upon withdrawal. *Source: NPI*

Diversification Smoothes the Ride

Diversifying your portfolio will help you manage investment risk. If you include a mix of investments in your portfolio, gains in one may offset losses in another. Keep in mind that a fund provides automatic diversification since it invests in a number of different holdings. You can diversify further by choosing funds that invest in different industries and different asset types.

Understanding some basic rules and choosing a diversified mix of investments for your retirement account can help you reach your retirement goals.

Save Your Spare Change

A cup of coffee here, a candy bar there. A magazine, a soda, a DVD or video game rental. Have you ever thought about how much you're spending on little things? Paying out a few bucks a day may seem like pocket change — until you start adding it up.

Bean Counting

Let's say you spend $3 a day, five days a week on your morning coffee. That adds up to $15 a week, an average of $65 a month, and $780 a year! If you put that money into your retirement savings account instead, it could make a big difference in the amount of money you'll have available at retirement (see chart). And that difference would be just from changing your coffee routine.

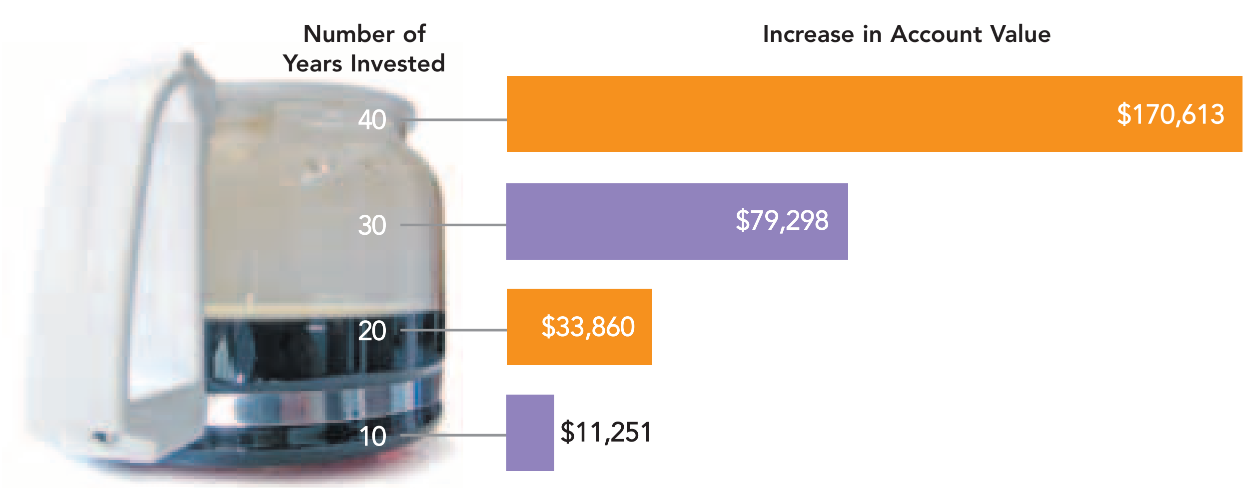
To find even more money to save for retirement, take a look at some of your other spending habits. Fast-food lunches, vending machine snacks, and take-out dinners can do a number on your bottom line if you indulge too often.

Changing Ways

Consider setting up a budget that limits weekly out-of-pocket spending to a set amount. When you reach the limit, don't pull out the plastic — just stop spending. Do this consistently and you may be surprised at how much spare change you'll have to save for retirement.

Brew Up Big Savings

If you cut your spending by just $15 a week ($65 a month) and add the money to your retirement plan account instead, you could brew up some big savings over time.



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. It assumes a $65 monthly contribution and a 7% average annual total return. Monthly compounding is assumed. Your investment results will be different.

Source: NPI

