Your
RETIREMENT
Matters

Winter 2009

Are You in the Know?

When it comes to investing for retirement, are you "in the know"? If you sometimes feel a little lost, you may find it helpful to keep the following pointers in mind.

Risk and Return Go Together

In general, the higher the risk of losing money in an investment, the higher the investment's potential returns. If the risk of losing principal (the amount of your original investment) is low, you should expect relatively low returns. When you're investing for long-term goals, such as retirement, you may want to include some riskier investments in your portfolio to increase your chance of earning returns that will help you reach your financial target.

Stocks Move Up and Down

As we've seen recently, stock investments will have times when their prices are down and they lose value. But stocks also have historically produced higher long-term returns than other investment types, such as bonds and cash equivalents. (Past performance is no guarantee of future results.) So, instead of turning your back on stock investments when they perform poorly, you may want to wait out the rough periods so that you'll be in a position to benefit if they rebound.

Bonds March to Their Own Drummer

Bond investments tend to be less volatile than stocks. There are times when they'll even move in the opposite direction of stocks. So, if stocks are performing poorly, bonds may be doing well. To take advantage of their differences, you may want to include both stock and bond investments in your portfolio.

What's Hot Can Go Cold

If you hear through the grapevine that a certain investment is suddenly "hot," you may be tempted to join the crowd and buy in. But that might not be smart. By the time you hear about a hot investment tip, it may be too late to benefit from it. Or the crowd may have gotten it wrong to begin with. Instead of following fads, you'll probably be better off sticking with a well-thought-out and diversified investment strategy that is based on your goals and risk tolerance.

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

No More Excuses!

"The dog ate it" may have been an excuse that worked when you didn't do your elementary school homework, but you shouldn't look for reasons to not save more for retirement. After all, the consequences could be a lot worse than being sent to the principal's office. When your goal is a financially secure retirement, you should try to save as much as possible, as soon as possible.

The "I Have Plenty of Time" Excuse

Even when retirement is a long way off, it's important to save as much as you can afford. The more you can contribute now, the more your savings will benefit from compounding. Over time, compounded interest and investment earnings can make a big difference in the value of your retirement account.

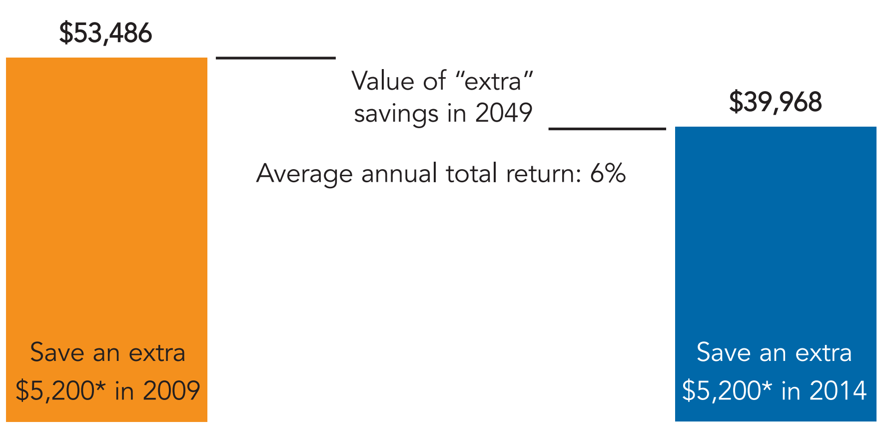
The "I Have Other Expenses" Excuse

There may be times in your life when other financial goals compete with your retirement savings goal. Buying a house and paying for your children's college costs, for example, are important and expensive goals. Yet, if you put all your other expenses ahead of retirement, you risk not having enough to live on when you retire.

The "I'll Sell My House" Excuse

If you don't save more for retirement because you assume you'll make money when you sell your home, you could be making a mistake. The real estate market tends to be cyclical, and prices may be in a downturn when you're ready to sell. And you'll still need to live somewhere after you retire. You

Good Reason for Saving More Now



* Assumes a one-time investment for the entire year.

This is a hypothetical example used for illustrative purposes only and does not represent any specific investment product. Your investment performance will be different.

Source: NPI

Roll It Over

If you switch jobs, it may be tempting to cash out your retirement savings plan account and use the money to pay bills or buy that big-ticket item you've been dreaming about. But cashing out can be costly. You may be better off in the long run if you roll the money over to another tax-deferred savings account and keep it there as long as possible.

Don't Shortchange Your Future

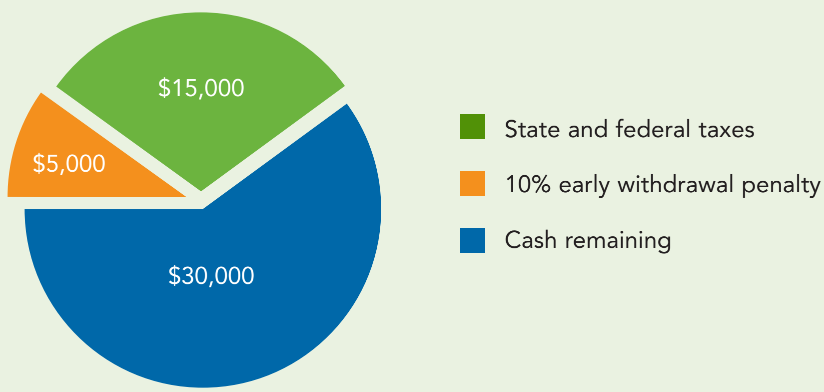
If you cash out your retirement savings account and spend the money, that's money you won't have for retirement. Nor will you have the benefit from the potential returns your savings might earn over the years until you're ready to retire. Taking the money now could make life harder during retirement.

Avoid Paying Taxes and Penalties

If you take a distribution from your retirement plan, you'll owe income taxes on the taxable portion of the distribution. An early withdrawal penalty on the distribution also could apply, depending on your situation. By rolling over the money in your plan to an individual retirement account (IRA) or other employer's plan, you won't have to pay any immediate taxes or penalties. No tax will be withheld from the distribution if it's transferred directly.

Cost of Cashing Out

$50,000 Plan Account*



* This hypothetical example is for illustrative purposes only and assumes a combined federal and state income-tax rate of 30%. Your tax rate may be different, and you may be eligible for an exception to the 10% penalty for early withdrawals. *Source: NPI*

might not be able to find a lower priced place in the location you want.

The "I'll Work During Retirement" Excuse

A number of factors could prevent you from working as long as you'd like. If you become ill or have to stay home to care for a loved one, you might not be able to continue working. It's also possible that you won't be able to find employment in the salary range you expect.

Instead of making excuses for not saving more, look for ways to save more now in your retirement plan.

Living on Less?

When you're planning for retirement, common advice is that you'll need only 70% to 80% of your preretirement income once you stop working. But, before you plug that number into your calculator, stop and consider. Will you be happy living on less?

What Are Your Plans?

How you plan to live during retirement may give you an idea of the income you'll need. If you intend to scale back your lifestyle and eliminate big costs, such as mortgage payments, from your budget, your expenses during retirement may indeed be lower. But, if you want to pursue an expensive hobby, relocate to a high-priced area, or travel extensively, you may actually need *more* income during retirement.

Consider Future Costs

Even if your plans for retirement are relatively simple, keep in mind that inflation will cause the prices of the items you buy regularly to increase over time. So you'll need more money just to maintain your preretirement standard of living. And don't forget that some costs, such as health care, tend to rise faster than the overall rate of inflation.

Save Today for Your Future

Since you don't know exactly how much money you'll need, or for how long, your best bet is to save as much as possible for retirement now. Increasing the amount you contribute to your plan each month by even a small amount could have a big impact on your monthly income during retirement. Then, instead of living on less, you could be living large during your retirement years.

A Little Now, a Lot Later

If you start contributing more to your plan now, you could have a lot more to live on during retirement.

Additional monthly contribution	$60	$120
Average annual total return	7%	7%
Value in 35 years	$108,063	$216,127
Additional monthly income during retirement	$632	$1,263

This is a hypothetical example used for illustrative purposes only. It assumes monthly compounding, a 25-year retirement, 5% return on savings (compounded monthly) during retirement, and that the account will be depleted after 25 years. It is not representative of any particular investment vehicle. Your investment results will be different.

Source: NPI

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