

# Your RETIREMENT Matters



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**S**oaring high in the air, an eagle can spot a small animal far below. An eagle's ability to pick out small objects from up above helps it survive. Like an eagle, you can keep a close watch on your retirement savings by regularly reviewing your plan statements.



## An Eagle Eye

### *Focus on the Details*

It's tempting to avoid looking at your plan statement during rough economic times. While your investments may have experienced losses, it's still a good idea to go over your statement carefully. Double-check that contributions to your account have been accurately recorded and that they are going into the correct investments.

### *Look to the Horizon*

You can see how much your account has grown or lost over the reporting period by comparing your beginning account balance to your current balance. If your investments have lost some ground, keep in mind that you're a long-term investor. A market downturn could be an opportunity to accumulate more shares at a lower average price. Another good way to help your account recover is to increase your contribution level.

### *Study Your Investments*

As you review your statement, compare each investment's return to the return of its benchmark index. This will show you if an investment has performed better or worse than comparable securities. If an investment has underperformed for a significant period, you may want to consider switching out of that investment and into one whose performance has been more in line with its benchmark.

This is also a good time to check your asset allocation. The way your account is divided among stocks, bonds, and cash equivalents may have shifted significantly as a result of market volatility. If one asset class now represents a larger or smaller percentage of your portfolio than your asset allocation strategy calls for, consider rebalancing your investments.





# Recognizing Risk



**H**ave you become familiar with investment risk recently? Too familiar, probably. The potential to *lose* money that was invested to *make* money has become a reality for many retirement investors. Even though you can't avoid risk altogether when you're investing, recognizing the different types of investment-related risks will help you understand how to manage your overall risk exposure.

### Market Risk

If the stock or bond market declines, your stock or bond investments generally also will lose value. A good way to manage market risk is to diversify\* your investments. When you invest in just one investment type (or asset class), you risk losing money if that investment type falters. But when you divide your money among a variety of investment types —

stocks, bonds, cash equivalents, and possibly other asset classes — a drop in one asset class may be cushioned by your other investments (see chart).

You can diversify further by choosing a variety of investments from within each asset class. For example, you may want to choose stock investments that invest in different industries. Or you might want to invest in both large- and small-cap stocks. Investing in value and growth stocks is another way to diversify your investments.

### Interest-rate Risk

Bond values are affected by rising and falling interest rates. When interest rates rise, the values of existing bonds generally decline because newly issued bonds pay higher rates and are more attractive investments. Although they typically offer higher returns, long-term bonds are

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

## The Diversification Cushion

	Investment Mix		
	100% Stocks	60% Stocks 40% Bonds	50% Stocks 30% Bonds 20% Cash Equivalents
Amount Invested	\$1,000	\$1,000	\$1,000
Value If Stock Prices Fall 15% and Bond Prices Don't Change	\$850	\$910	\$925
Value If Bond Prices Fall 15% and Stock Prices Don't Change	\$1,000	\$940	\$955

This is a hypothetical example used for illustrative purposes only. The example assumes that cash equivalent prices remain constant. The example does not represent any specific investments in any plan. Your investment results will be different. Source: NPI

# Make It Last

Retirees are living longer, healthier, more active lives. Your retirement could last well over 20 years. The possibility of a long retirement means you'll probably need a significant amount of savings to guard against the risk of outliving your assets.

The future of Social Security is uncertain. Even if you do receive Social Security retirement benefits, it's likely that they'll only provide a portion of your income. The balance of your retirement income probably will come from your retirement savings plan and, possibly, other assets.

Your lifestyle during retirement will affect how long your assets last. If you live a simple, frugal life, you may be able to stretch out your savings. But, if your dream is to live the "good life" during retirement,



consider taking additional steps now to build your savings. Saving as much as possible as soon as possible in your plan can help you accumulate the funds you'll need in the future.

## How Long Will Assets Last?

		Number of Years Before Assets Are Depleted						
Percentage Withdrawn Annually	5%	42	*	*	*	*	*	
	6%	29	37	*	*	*	*	
	7%	22	26	34	*	*	*	
	8%	18	21	24	31	*	*	
	9%	15	17	19	23	29	*	
	10%	14	15	16	18	21	27	
	11%	12	13	14	15	17	20	
	12%	11	12	12	13	15	17	
	13%	10	10	11	12	13	14	
		4%	5%	6%	7%	8%	9%	
		Average Annual Return on Remaining Assets						

\* Indicates that assets will not be depleted based on withdrawal percentage and annual return.

This chart is for illustrative purposes only. Actual earnings would vary from year to year. Your investment results will be different. Source: NPI

more sensitive to changing interest rates than short-term bonds. You can manage interest-rate risk by investing in bonds that have different maturities.

### Inflation Risk

Over time, the prices of items you buy generally will increase due to inflation. So you'll need more money just to

maintain your standard of living. If you invest only in conservative investments that don't produce returns higher than the inflation rate, your retirement savings may not grow enough to keep pace with rising costs. Including investments, such as stocks, that have the potential to earn returns that will outpace inflation can help you manage inflation risk.

Position your portfolio so that it's prepared to handle various investment risks.



# Talking Taxes

**W**hen you talk about the advantages of your retirement savings plan, you have to talk about taxes. Your plan provides you with pretax savings, tax-deferred compounding, and, potentially, the opportunity to claim the Saver's Credit. (Income limits apply.) The special tax treatment you receive when you participate in your plan truly is something to talk about.



### Built-in Benefits

Your retirement savings plan lets you contribute on a pretax basis.\* This means the money is deducted from your

pay before federal (and, perhaps state and local) income taxes are taken out. You save by paying less in current taxes on your earnings. To increase your tax savings, consider increasing the amount you contribute to your plan (see chart).

### Compounding Conversation

Your pretax contributions and any earnings on your plan investments aren't taxed until you receive distributions from your plan.\* Over time, tax-deferred compounding can help your account balance grow.

### Tax Credit Topic

If you qualify, you can claim a credit on your federal income-tax return for contributions to your retirement plan. The Saver's Credit is 10%, 20%, or 50% of a maximum of \$2,000 in qualified retirement savings contributions for the year. Eligibility and the applicable credit rate depend on your income and filing status.

*\* Some retirement plans also offer a Roth contribution option. Unlike pretax contributions, Roth contributions do not offer immediate tax savings. However, qualified Roth distributions are not subject to federal income taxes when all requirements are met.*

## Tax Savings Worth Saying Something About

You can increase your tax savings by increasing your pretax plan contribution.

Weekly Contribution	\$30	\$60	\$120
Annual Amount Saved in Plan	\$1,560	\$3,120	\$6,240
Federal Income-tax Rate	25%	25%	25%
Annual Tax Savings*	\$390	\$780	\$1,560

\* Does not take the Saver's Credit into account. Your tax savings would be greater if you qualify for the credit.

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

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