OnTrack

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Things That GO BUMP in ~~the Night~~ Retirement

Are you a glass-half-full kind of person? There's something to be said for being an optimist. However, it's important to also be a realist, especially when it comes to your retirement. Regardless of how long it will be until you retire, if you simply assume that you'll have enough money when the time comes instead of planning ahead, you could be in for a big surprise.

A Scary Thought

Running out of money in retirement is a big concern. But it happens. One reason is longer life expectancies. Your retirement could last 20 or 30 years or longer. If you haven't planned for that possibility, you could outlive your savings.

Lifestyle also plays a role. Some people are satisfied living a simple, financially conservative retirement. But if you hope to spend freely on travel and other expenses, you'll need a bigger pot of savings. And don't forget to include health care expenses in your retirement spending estimates.

A Proactive Plan

To avoid outliving your retirement assets, start as early as you can to save as much as you can in your retirement plan account. If you have decades to go before you start tapping into your savings, time is on your side. Steady saving over a long period should allow you to build a healthy nest egg.

If you have years instead of decades to beef up your savings, you can help your cause by increasing the amount you're contributing to your plan. And if you're very close to retirement age, you might want to consider working for a few more years so you can continue building up your savings and delay taking distributions.

Wherever you are in your career, contributing as much as you can to your plan now may help you avoid outliving your savings later.

Are You Saving Enough?

Annual retirement income needed	Amount of savings needed to produce annual income based on	
	5% average annual investment return	*7% average annual investment return*
$20,000	$281,879	$233,072
$40,000	$563,758	$466,143
$60,000	$845,637	$699,215
$80,000	$1,127,516	$932,287

Assumes a 25-year retirement and that all the retirement savings amounts shown are depleted after 25 years. Future inflation will likely increase your income needs during retirement. Your investment returns and balances will vary. Source: DST

Finding Your COMFORT ZONE

Would you have wanted to be the first person to land on the moon? That's not a risk many people would take. But the early astronauts were willing to take it because they knew that if they were successful, their efforts would reap great rewards.

Investing isn't nearly as risky as going to the moon. But you do have to think about how much risk you're comfortable with when choosing your investments. Some people panic when investment values drop even a small amount. Others are relatively unconcerned about volatility and are willing to ride out a short-term decline in their portfolio's value in exchange for the potential to earn higher returns over the long term.

Your Risk Profile

Your ability to accept investment risk and remain calm during market ups and downs is called your "risk tolerance." Knowing your risk tolerance will help you determine the mix of stock, bond, and cash alternative investments* that is right for your retirement account. (Cash alternatives are short-term securities that can be readily converted to cash, such as U.S. Treasury bills.)

Different Risk Profiles

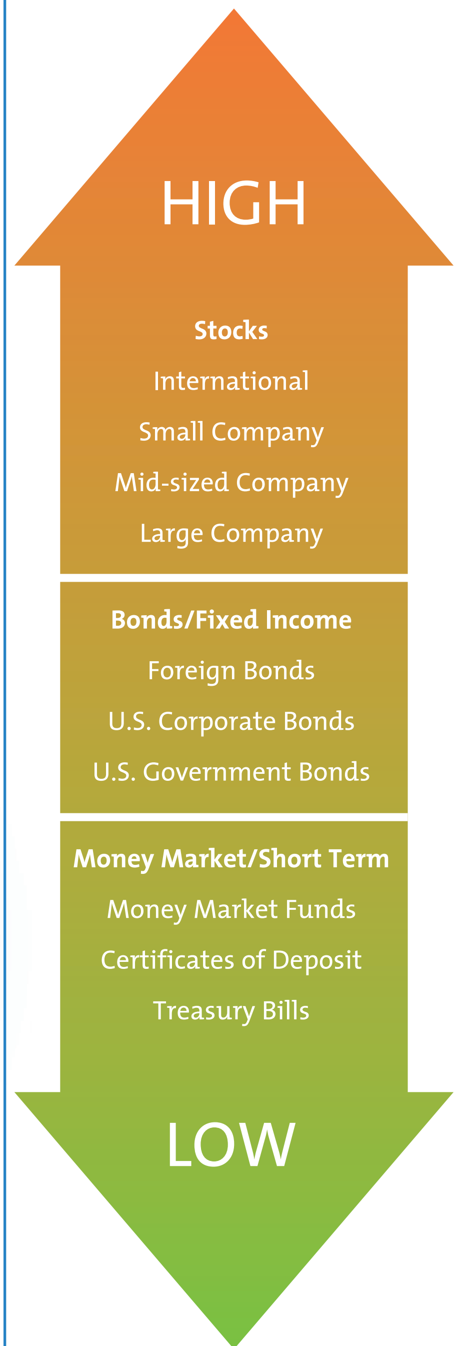
Not everyone is comfortable with the same amount of risk. Investors typically fall into one of these three broad categories.

- If you're a **conservative investor**, your goal is to preserve your retirement savings and avoid even short-term losses. You can accept earning lower returns as long as they stay ahead of inflation.
- If you're a **moderate investor**, you're willing to risk some short-term losses in exchange for the potential for earning higher long-term returns.
- If you're an **aggressive investor**, you're willing to accept volatility and risk short-term losses in return for the potential to maximize long-term gains.

** Note that cash alternative investments may not be federally guaranteed or insured and that it is possible to lose money by investing in cash alternatives. Returns on cash alternative investments may not keep pace with inflation, so you could lose purchasing power.*

The Risk/Return Relationship

Generally, the higher an investment's potential risk, the higher its potential return. Here is how the various asset types line up on the risk/return spectrum.



Your Risk Tolerance

If you're not sure how much risk you can tolerate, here's a questionnaire to help. Rank yourself on a scale from one to five based on how strongly you agree or disagree with each statement. There are no right or wrong answers.

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 certificates of deposit (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 usually are 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, total the numbers circled and see where your score falls on the Investor Profile. Remember, this questionnaire is not meant to tell you which investments to choose. Rather, it may help you better understand your feelings about risk and your objectives so you can select investments that are right for you.

Investor Profile

Conservative Moderate Aggressive

10 20 30 40 50

It's All About THE MIX

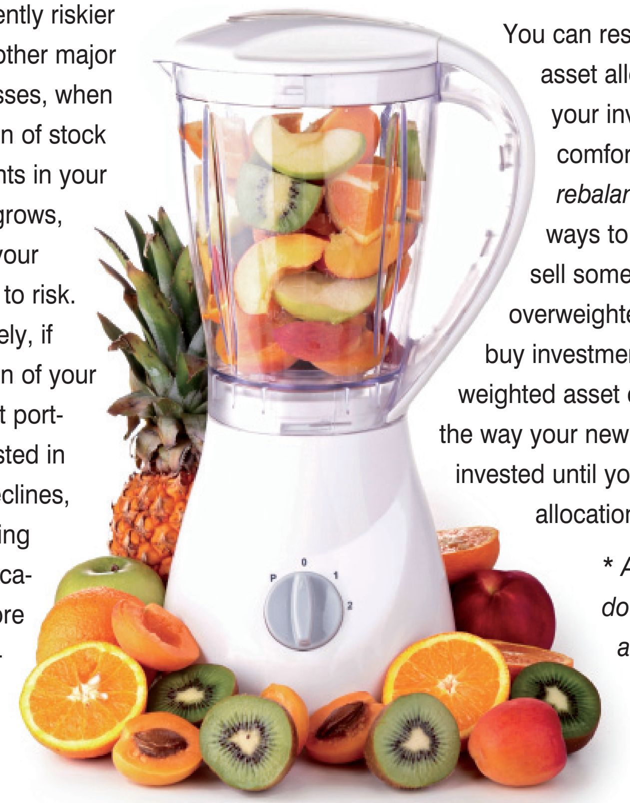
A delicious bowl of soup or yummy batch of cookies doesn't just happen. It takes the right mix of ingredients. Professional chefs and novice cooks all know that too much of this or too little of that can affect the whole dish. The same can be said about your retirement investments.

Your Original Recipe

When you initially set up your retirement account, you chose a certain mix of investments — your original asset allocation.* But because investment values are always changing, the way your account is allocated also changes. Over time, variations in the way your investments perform can cause your asset allocation to shift. The investments that have been outperforming the others will grow to represent a greater portion of your account. So even though you haven't initiated any changes, your account is no longer allocated the way you originally intended.

Measures of Risk

Changes in your asset allocation affect the level of risk in your account. Take stocks, for example. Since they are inherently riskier than the other major asset classes, when the portion of stock investments in your account grows, so does your exposure to risk. Alternatively, if the portion of your retirement portfolio invested in stocks declines, the resulting asset allocation is more conservative than you originally planned. Your exposure to risk is lower, but so is your potential for future gains.

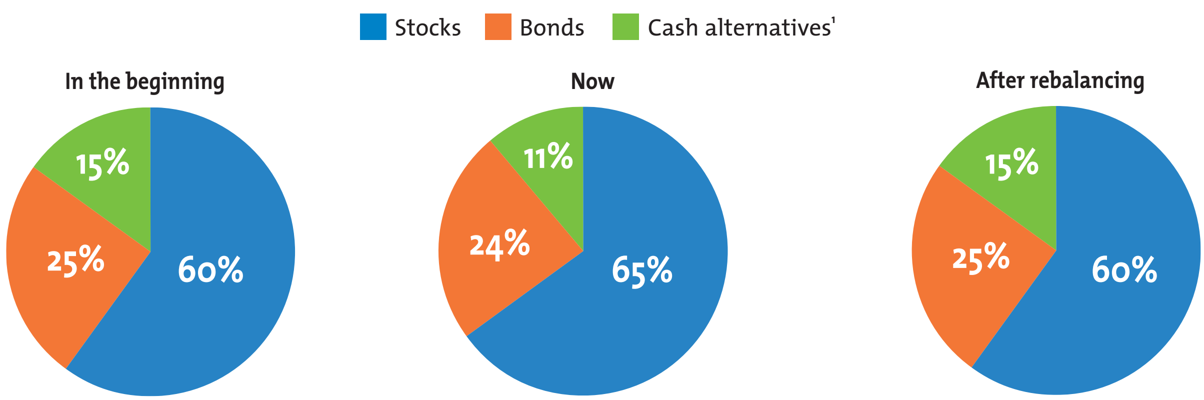


Back in Balance

You can restore your original asset allocation and return your investments to a more comfortable level of risk by *rebalancing*. There are two ways to rebalance: Either sell some investments in the overweighted asset class and buy investments in the underweighted asset classes or change the way your new contributions are invested until your original asset allocation is restored.

** Asset allocation does not guarantee a profit or protect against losses.*

What's in the Mix?



[1] *Cash alternatives are short-term securities that can be readily converted to cash, such as U.S. Treasury bills. They may not be federally guaranteed or insured, and it is possible to lose money by investing in cash alternatives. Returns on cash alternative investments may not keep pace with inflation, so you could lose purchasing power.*

The information in this chart is hypothetical and used for illustrative purposes only. When choosing an asset allocation, you should consider your other assets, income, and investments (for example, your home equity, individual retirement account investments, savings accounts, and other retirement accounts) in addition to the balance in this plan. Source: DST

This newsletter is designed to provide useful information about retirement plans and investing your plan account savings. While the information contained herein was obtained from reliable sources, it cannot be guaranteed as to completeness or accuracy. Before acting on any of the information provided, consult your professional advisor.