OnTrack

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Good QUESTIONS

How much should you be contributing to your retirement plan? That's a good question. Since the answer depends on a number of variables, you'll have to ponder a few other questions first.

What's your vision of retirement?

If a retirement filled with travel and other costly activities appeals to you, you'll need more savings than if you picture spending your time gardening and babysitting the grandkids. Your savings target should reflect the lifestyle you hope to have.

Where else will your money come from?

Monthly Social Security payments will be part of your income picture. However, they won't provide all the money you'll need.

Working after you retire is a possible way to supplement your income. However, you'll want to have enough saved to cover your cash flow needs, just in case you aren't able to work.

What is your savings goal?

Once you have a general idea of how much retirement income you'll need and how much of it will come from other sources, you'll be ready to figure the amount you should have in your plan account when you retire.

To set a savings goal, you'll need to make assumptions about certain things:

- Investment returns
- Inflation rates
- Length of retirement

You may have access to tools and calculators through your plan that can help you calculate a savings goal. A professional advisor can also help. Once you come up with a targeted savings amount, you can calculate how much you should be contributing to your plan each payday.

No Question!

Saving enough money for retirement is probably the biggest financial goal you have. You can help yourself reach that goal by making it a top priority. And let your employer's retirement plan help you achieve it.

How Much Will You Need?

Annual income needed in retirement	Nest egg needed at retirement if investments earn an average annual return of	
	5%	7%
$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
$100,000	$1,409,394	$1,165,358

Assumes a 25-year retirement that uses up all retirement assets. Future inflation may increase your income needs during retirement. Your investment returns and balances will vary. Hypothetical returns do not represent the performance of any specific investments. Source: NPI

Keepin' It REAL

We all indulge in daydreams now and then. A shiny new sports car, a luxury cruise, an addition to the house — everybody likes to imagine what they'd do if they came into some serious money. When it comes to planning your retirement, though, it's best to keep things real.

Investment Reality Check

Start with how much you expect your investments to earn. History shows that, over long periods, stocks have provided higher returns than bonds or cash equivalents. So including stock funds or portfolios in your retirement account has the potential to help your nest egg grow.

A Look at Stock Performance

Large-cap stock performance 1985 – 2009

Average annual return	10.54%
25-year high	37.43% (1995)
25-year low	-36.99% (2008)

As measured by the S&P 500, an index of the stocks of 500 major U.S. corporations. You cannot invest directly in an index. Source: NPI

But by how much? Stocks have posted very strong returns in some years. But it would be a mistake to expect that stocks will provide strong earnings *every* year. There have also been years of poor performance and steep losses.

Keep your expectations of potential investment returns real. Diversify your investments and choose an asset allocation that's appropriate for you. And remember, to help your account balance grow, continue contributing to your plan — regardless of what the investment markets are doing.

Inflation Reality Check

You may not notice prices going up that much from one day to the next, so you might forget to plan for inflation. But over time, even a relatively low annual rate of inflation can reduce the buying power of your savings. If you don't plan for inflation, you may be in for a surprise when you retire. You could discover that your nest egg won't stretch as far as you thought it would, and you might have to scale back on your plans or go back to work.

The Effects of Inflation

	Cost today	Cost in 20 years
Pizza for 4	$20.00	$43.82
Car	$18,000	$39,440
New home	$198,000	$433,842

Assumed average annual inflation rate: 4% (actual inflation rate may vary)

Costs are hypothetical and used for illustrative purposes only. Source: NPI

Retirement Date Reality Check

Have you thought about when you want to retire? If you expect to retire early, then you'll want to adjust your planning accordingly. You'll have to squeeze more saving into fewer working years. And you'll need to accumulate a bigger balance, since your savings will have to provide retirement income over a longer period.

These days, an increasing number of workers say they expect to retire *after* age 65.* If you continue to work for pay, you'll have more years to contribute to your plan and your retirement will be shorter. You'll be able to continue saving money and avoid tapping into your nest egg. However, your intentions to continue working could be derailed by health issues (your own or a family member's), limited employment opportunities, or other factors.

Unless you're close enough to retiring that you've already set a date, it may be difficult to say *exactly* when you expect to stop working. The wisest course of action may be to continue contributing as much as you can to your retirement account.

* The 2010 Retirement Confidence Survey, Employee Benefit Research Institute, *Issue Brief*, March 2010, No. 340

Spending Reality Check

Finally, how much income will you need after you retire? If you expect to spend a lot less, you may be in for a surprise. Certainly some expenses will no longer be necessary, particularly those related to your job. Having children graduate and leave home would give your cash flow a shot in the arm. And paying off any loans you have (such as a mortgage, car loan, credit card balance, etc.) before you retire can reduce your income needs.

Now consider some possible added costs. Think about what you want to do when you're retired. Some popular activities for retirees — travel in particular — can be quite expensive. Health care costs can also add up quickly.

No matter how far away you are from retiring, thinking about your future income needs now will help you set a realistic savings goal.

Retirement Cash Flow

You may be able to SUBTRACT:

- Work-related expenses
- Child/family expenses
- College education expenses
- Loans and credit card payments
- Retirement savings contributions

You may have to ADD:

- Travel costs
- Hobby/leisure activity expenses
- Health care expenses

Go Ahead, Daydream

Enough about retirement reality checks, go ahead and daydream about being retired. Unlike your chances of winning the lottery or having a long lost uncle leave you $1 million, your chances of retiring are excellent! Dreaming about it may be just the motivation you need to make your commitment to saving a reality.

BONDS in the Lineup

It's fall and football season is in full swing. Have you noticed that certain players — most notably quarterbacks and star running backs — are always the center of attention? You rarely see a center or offensive tackle give a post-game interview or make a guest appearance on a talk show. Nonetheless, the less flashy players are an important part of the game.

It's like that in investing, too. Stocks are routinely in the spotlight, while less attention is paid to bonds. Nonetheless, bonds may have a role to play in helping you reach your retirement goal line.

A Sound Strategy

Including bonds in your mix of investments provides diversification. Stocks and bonds tend to perform differently under various market conditions, with bonds often increasing in value when stock values drop. In some years, bonds have delivered higher returns than stocks.

Roster Choices

Bonds come in several varieties. Some are issued by corporations, others by federal and state governments and their agencies. While a bond is outstanding, the issuer makes interest payments to the investors. When the bond matures, the bond's face value is repaid.

Retirement plans generally offer one or more bond funds or portfolios, each of which holds many different individual bonds. Some funds buy and hold corporate bonds. Others focus on government bonds. Still others select bonds based on their maturity, holding only short-, mid-, or long-term bonds.

A Risk Playbook

All investments carry risk, and bonds are no exception. Changes in interest rates — *interest rate risk* — can cause bond prices to change. When interest rates go up, newly issued bonds generally pay a higher rate of return than similar, older bonds. As a result, the market prices of existing bonds go down because there is less demand for them. When interest rates fall, the opposite generally happens.

Maturity risk is another concern. Since it's impossible to predict how the financial markets will perform in the future, it's riskier to own long-term bonds than short-term bonds. Long-term bonds generally offer higher yields to compensate investors for the added risk.

And, if a bond issuer is struggling financially, the issuer may not be able to pay the interest due to investors or repay the principal when the bonds mature. This risk is called *credit* or *default risk*.

First and Goal

One of the keys to having a winning football season is fielding a team of stars and supporting players who work well together and complement each other's skills. Are bonds playing a supporting role on your team of retirement investments?

Annual Total Returns

	Stocks[1]	Bonds[2]
2009	26.45%	5.93%
2008	-36.99%	5.25%
2007	5.49%	6.97%
2006	15.78%	4.33%
2005	4.93%	2.43%
2004	10.86%	4.34%
2003	28.68%	4.10%
2002	-22.10%	10.25%
2001	-11.87%	8.44%
2000	-9.11%	11.63%

[1] Stocks are measured by the Standard & Poor's 500 Index, an unmanaged index of the stocks of 500 major corporations.

[2] Bonds are measured by the Barclays Capital U.S. Aggregate Bond Index, an unmanaged index of U.S. government, corporate, and mortgage-backed securities.