OnTrack

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An EXTRA BOOST from Compounding

Have you checked your retirement account lately? The balance in your account is made up of contributions and investment earnings on those contributions. But there's also something else going on. Your balance may be getting an extra boost from compounding.

Your Money at Work

Here's how compounding works:

- The money you contribute to your plan is invested.
- When your plan investments generate earnings, those earnings are added to your account and reinvested.
- Now you have a larger pool of invested money — your contributions *plus* your earnings — and the opportunity to generate even more earnings on those invested funds.

Increasing the amount you are contributing to your plan increases the potential benefit you may realize from compounding. Of course investment returns are not guaranteed. However, a program of steady investing gives your retirement plan savings the potential to grow through compounding.

Time and Compounding

The longer your money is invested, the more you may benefit from the power of compounding. Years of regular plan contributions, investment earnings, and compounding can help you build the balance you'll need to see you through your retirement years.

Keep It Going

Remember, compounding only works if you give it time. Stopping your contributions for a period of time or borrowing from your plan* can slow things down. If you missed starting early, you can still put the power of compounding to work by not waiting any longer to start saving more for your future.

** Not all employer plans permit loans.*

You Can Help by Boosting Contributions

Monthly pretax contribution	Account balance after 20 years*	Account balance after 40 years*
$100	$46,204	$199,149
$200	$92,408	$398,298
$300	$138,612	$597,447

* Amounts shown are before taxes. Distributions of pretax contributions and earnings on those contributions will be subject to income tax.

These are hypothetical results involving a retirement plan participant making the monthly pretax contribution indicated for the specified time periods and earning a 6% average annual total return, compounded monthly. These results are not representative of any specific investment. Your investment returns will differ, and your contribution amount is not likely to remain the same over an extended period.

Source: NPI

It's Not a Windfall, It's Your SAVINGS

What happens to the money in your retirement plan account when you switch jobs? That's up to you. Typically, one of your options may be to take your savings in a single sum. Sounds like a windfall, right? Wrong. Here's why you should think long and hard about cashing out your retirement savings.

Less Money Now

Before you drain your account, make sure you understand how a cash-out works. You may be in for some surprises. The first one is that you won't get to keep the full amount. Since the money in your retirement savings account generally has not been taxed,* you'll have to include the distribution in your income on your federal (and possibly state) income-tax return.

Additional income means you'll owe additional federal (and possibly state) income tax. The retirement plan is required to withhold 20% to send to the IRS as a "down payment" of sorts on your overall federal income-tax liability for the year. And the final surprise: You may also owe a 10% early withdrawal penalty.**

Less Money Later, Too

Not only will you get less when you cash out, but taking a distribution and not reinvesting the money for retirement could also mean you'll end up with less in the future. Spending your savings now could shortchange your future. Will you be able to rebuild your account balance? Even if it's still early in your career, taking a distribution, paying the taxes and any penalty that applies, and spending what's left could make it harder to reach your retirement savings goals.

Keep It Growing

Instead of cashing out, consider keeping your savings in a tax-deferred account. Here are the possible options:

- Leave your savings in your old employer's plan (if permitted)
- Roll over your money into your new employer's plan (assuming rollovers are accepted)
- Roll over your money into an individual retirement account (IRA)

Rollover Rules

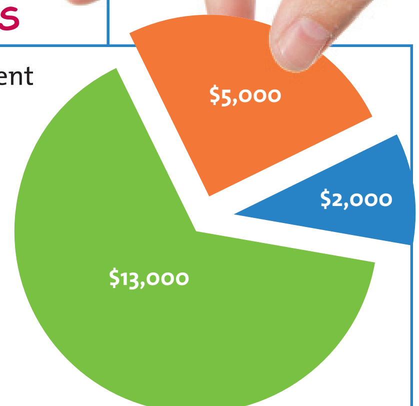
Generally, the best way to handle a rollover is to have your savings transferred directly from your plan to the new tax-deferred account with a trustee-to-trustee transfer. Since the distribution isn't paid to you, no income taxes are due and no penalty applies.

Things can get complicated if you decide to take an eligible distribution and roll it over yourself. First, the rollover must be completed within 60 days. And the

Some for You, Some for the IRS

Here's what cashing out a $20,000 retirement plan account might look like.

- 25% federal taxes
- 10% early withdrawal penalty
- Cash remaining



This hypothetical example is for illustrative purposes only and assumes a federal income-tax rate of 25%. Your tax rate may be different, and you may be eligible for an exception to the 10% penalty for early withdrawals.

Source: NPI

mandatory 20% income-tax withholding applies. To complete the rollover, you'll have to replace that 20% with money from another source. If you don't replace it, the 20% is considered a taxable distribution (and the 10% penalty may apply).

Resist the Urge

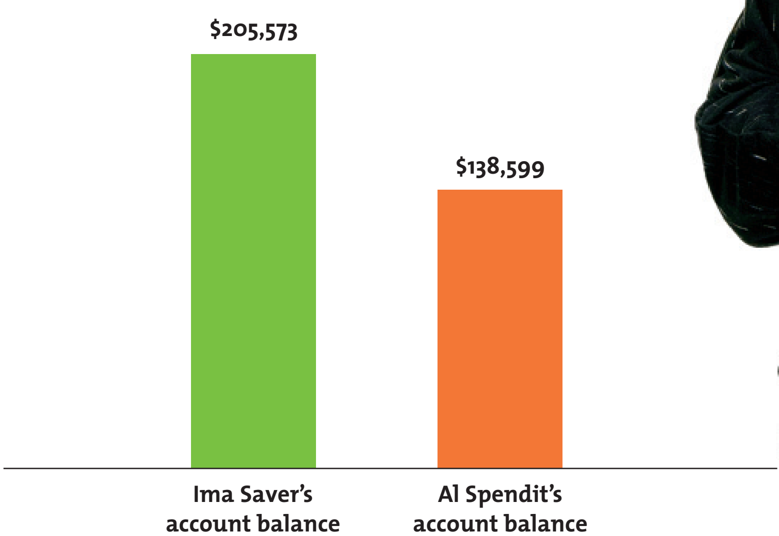
Cashing out your retirement savings may seem like a windfall — until you realize the money is coming out of your own pocket. Is it worth potentially sacrificing your retirement?

** 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.*

*** The penalty is not deducted from the gross amount of the distribution but is payable when you file your tax return, unless you qualify for a penalty exception.*

A Smart Move

Ima Saver and her friend Al Spendit both had $15,000 in their retirement accounts when they changed jobs. Ima rolled over her balance into her new employer's plan and contributed $200 a month for the next 25 years. Al cashed out and started over. He also joined his new employer's plan and, like Ima, contributed $200 a month for 25 years. However, his balance never caught up. Even though they contributed the same amount and had identical earnings, Ima's account balance is significantly more than Al's because she kept her savings going.



This hypothetical example is for illustrative purposes only. It assumes a monthly contribution of $200 and an average annual return of 6% (compounded monthly). It does not represent any specific investment product offered by your plan and does not include any investment fees and expenses. Your investment returns will differ, and it is unlikely that your contribution amount will remain the same over a long period. Pretax contributions and related plan earnings will be subject to ordinary income taxes and a possible early withdrawal penalty upon distribution.

Source: NPI

Is Your PLAN Trying To TELL You Something?

Wouldn't it be nice if your retirement plan could tell you when to change your investments? Unfortunately, that's something you have to discover the old-fashioned way — by reviewing your plan investments and your current situation.

Check Your Risk Tolerance

If there's been a change in your life — you got married or divorced, had a child or lost a spouse, experienced a financial setback, etc. — it may change how you feel about investment risk. To reduce your exposure to risk, sell higher risk investments (such as stock funds) and buy lower risk investments (such as bond funds or cash alternatives*). Do the opposite to increase risk exposure and opportunities for earning higher potential returns.

Check Your Time Frame

If you have a long time left to invest, your investments should have time to recover from market slumps. As you get closer to your goal, however, you may want to reduce risk by trimming the portion of your account invested in higher risk investments and increasing the portion invested in lower risk investments.

Check Your Asset Allocation

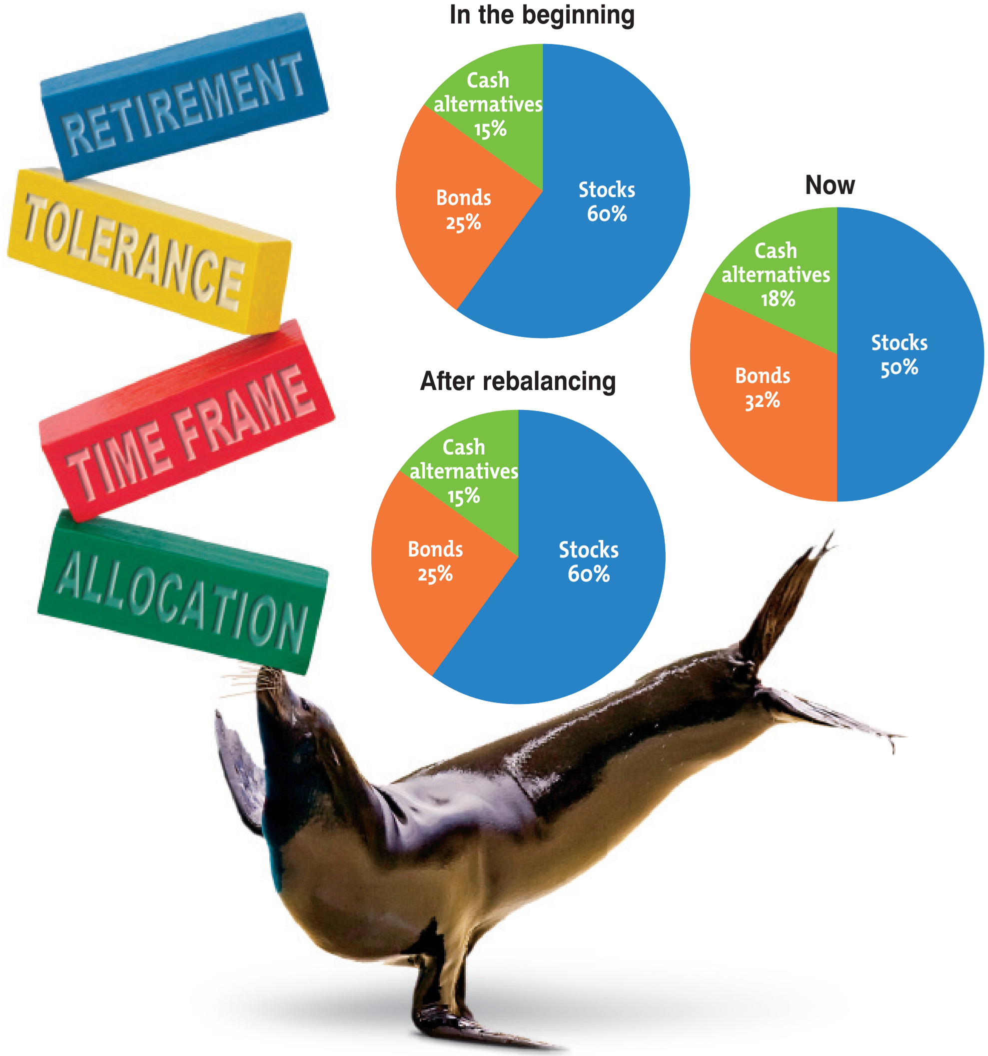
Asset allocation** is the way you divide your investments among the different asset classes. Over time, investment performance can alter your account's actual allocation. As a result, you may be exposed to more — or less — investment risk than you intended.

If your current allocation has changed more than you'd like, you can rebalance by selling investments in the overweighted asset classes and buying investments in the underweighted classes. Or you can direct new plan contributions into underweighted asset classes until your original allocation percentages are back in line.

** 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.*

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

Keeping Your Balance



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

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.