America's Premier Full Service Retirement Plan Provider Since 1969

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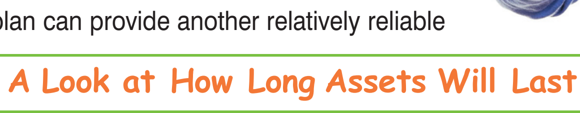
Bad Time for SURPRISES

Life, as the saying goes, is full of surprises. Some are pleasant. Like getting a present when you weren't expecting one. Others are not. Like running out of money in retirement. Fortunately, with some planning, that's one surprise you can take steps to avoid.

Anticipate Your Income

Unless you keep working, your paychecks will stop when retirement starts. Where will your income come from then? One source of retirement income is Social Security. The way the system currently works, Social Security retirement benefits continue, regardless of how long your retirement lasts. However, the payments provide only a portion of the income most retirees need.

Monthly benefits from an employer's pension plan can provide another relatively reliable income source, but fewer employers offer pension plans. Even if you get pension benefits, the rest of the money you'll need will have to come from your own savings and your other personal assets.



Predict Your Expenses

How long your retirement savings will last depends in large part on your retirement lifestyle. If you plan to do a lot of traveling, for example, it may cost quite a bit. The more income you're going to need, the more you need to save.

Check Your Time Frame

The best way to avoid running out of money in retirement is to start saving as early as you can and contribute as much as you can. If your career is just beginning, you should have time to build a healthy nest egg if you stick with it.

If you don't have decades left to save, increase the amount you're contributing to your plan as often as possible during the time you have left. If retirement is very close, you might want to consider working a few extra years so you have more time to build up your savings.

No Surprise Here

Wherever you are in your career, contributing as much as you can to your plan *now* can help ensure that you don't outlive your savings *later*.

A Look at How Long Assets Will Last

Percentage withdrawn annually	*Number of years before assets are gone*				
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
	4%	5%	6%	7%	8%

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

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CASH for Today? Or SAVINGS for Tomorrow?

Your paycheck can only stretch so far. So you should feel very good about your decision to have some money taken right off the top and put into your retirement savings account. When retirement rolls around, you'll be glad that you kept contributing over the years.

Cash Conflicts

It all sounds so easy. But, in reality, saving for retirement isn't always easy. Things come up that make it tough to keep saving. What happens if you need to replace a car? Or you'd like to buy a house and start a family? Or one of your kids is starting college? There are any number of reasons why you might be tempted to stop contributing to your plan so you can free up some cash. Just for a few years, you say. After all, how much difference could it make?

The answer may surprise you. Taking even a short break from saving could significantly affect the amount of savings you'll have when it comes time to retire.

You've Got a Good Thing Going

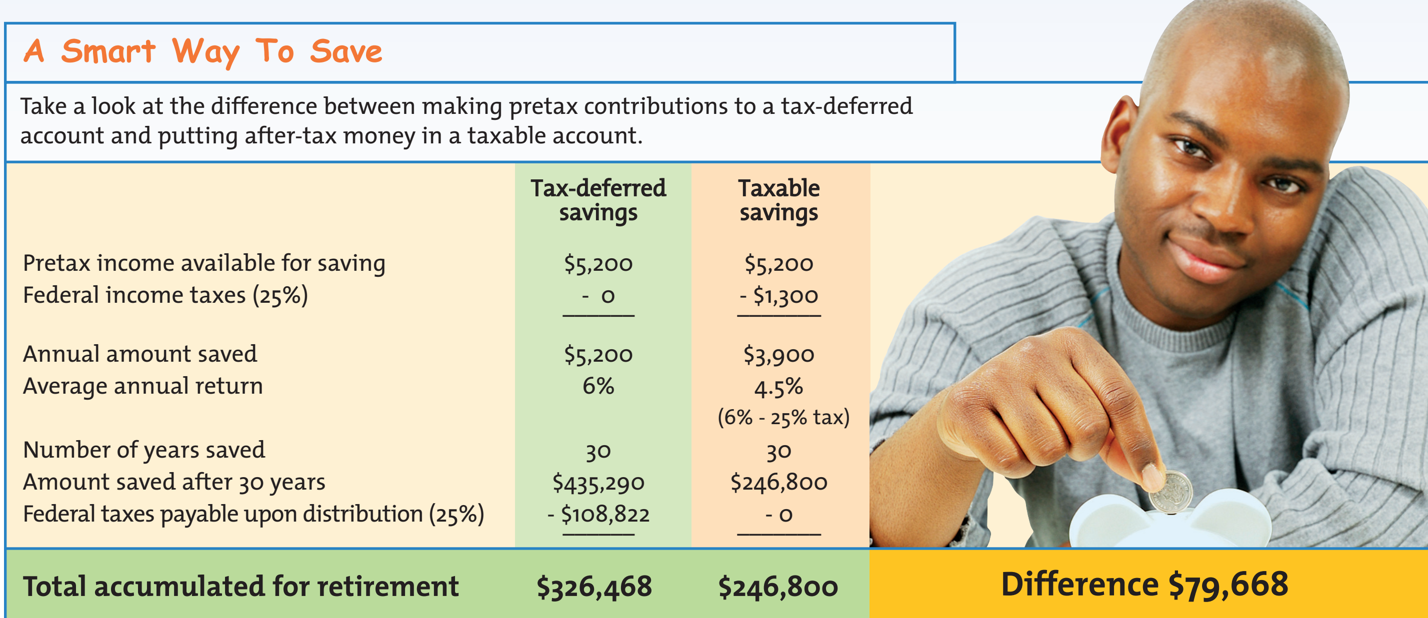
No matter how disciplined you are, a short break can very easily turn into a longer one. And even though it might *seem* like it'll be easy to start saving again in a few years, there's no way of knowing what will happen. It's very possible you'll be facing some pressing financial demands then, too. The thing is, you're already *in the habit* of contributing to your plan. And it's automatic.

Taking a Break Takes a Toll

Taking a break from saving for retirement could put your future financial security during retirement at risk. Take a look at the toll a five-year and a 15-year break could take.

Annual contribution	No break	5-year break	15-year break
Years 1 – 5	$2,000	$2,000	$2,000
Years 6 – 10	$2,000	0	0
Years 11 – 20	$2,000	$2,000	0
Years 21 – 40	$2,000	$2,000	$2,000
Account value after 40 years	**$331,915**	**$261,883**	**$171,470**

This is a hypothetical example used for illustrative purposes. It does not represent the results of any particular investment vehicle. A 6% annual return (compounded monthly) is assumed. Your investment results will be different. Tax-deferred amounts accumulated in the plan are taxable upon withdrawal. Source: NPI



A Smart Way To Save

Take a look at the difference between making pretax contributions to a tax-deferred account and putting after-tax money in a taxable account.

	Tax-deferred savings	Taxable savings
Pretax income available for saving	$5,200	$5,200
Federal income taxes (25%)	- 0	- $1,300
Annual amount saved	$5,200	$3,900
Average annual return	6%	4.5% (6% - 25% tax)
Number of years saved	30	30
Amount saved after 30 years	$435,290	$246,800
Federal taxes payable upon distribution (25%)	- $108,822	- 0
Total accumulated for retirement	**$326,468**	**$246,800**

Difference $79,668

This is a hypothetical example used for illustrative purposes only. It is not representative of any investment vehicle. Monthly compounding is assumed. Your savings amount, investment performance, and tax rate may be different. Source: NPI

And Uncle Sam Is Helping

If you take a break from contributing, you're also taking a break from some important tax benefits that are built into your employer's plan. The contributions you make to the plan are tax deferred.*

You don't have to pay federal income tax on the money you contribute to your plan account until later, when you withdraw it. Earnings on your plan investments are also tax deferred until you withdraw them. These tax breaks can help your balance grow.

The Best Choice

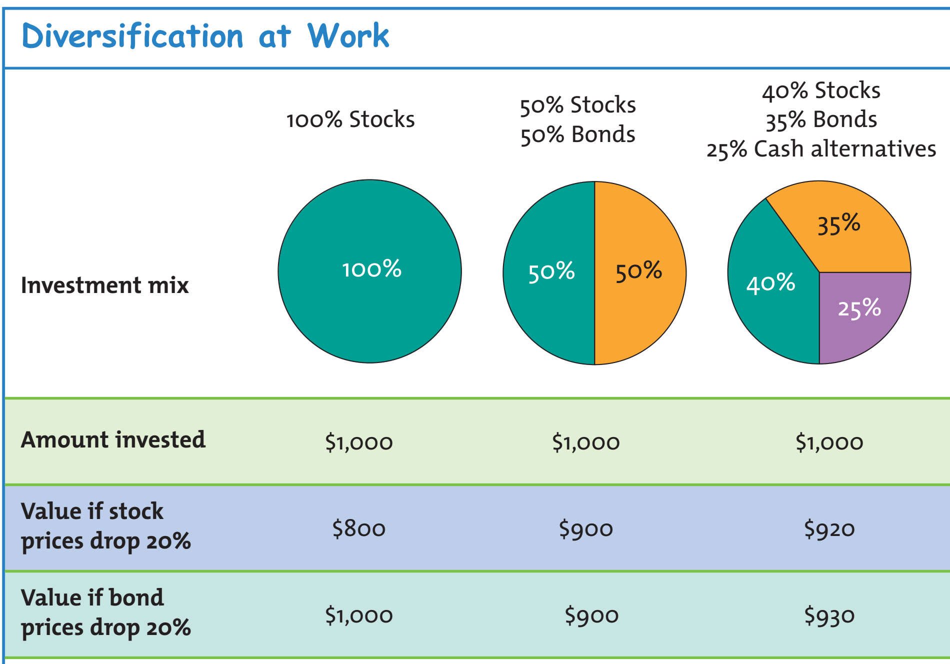
Choosing between having more cash now and having more savings when you retire isn't easy. But the long-term costs of taking a break could be steep. You might have to postpone retirement, retire and keep working, or scale back your retirement dreams. Whenever possible, make saving for retirement a financial priority. You stand a much better chance of accumulating enough money to afford a comfortable future if you keep on saving.

** 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.*

V Is for VOLATILITY

Every trading day, billions of dollars worth of securities are bought and sold. And every trading day, prices go up and down in response to factors such as supply and demand, economic news, and even political events. The up and down movement in security prices is known as volatility.

When a security's price changes sharply within short time periods, that security is considered very volatile. When price changes are smaller and less frequent, the security is considered less volatile.



Diversification at Work

	100% Stocks	50% Stocks 50% Bonds	40% Stocks 35% Bonds 25% Cash alternatives
Investment mix	100%	50% / 50%	40% / 35% / 25%
Amount invested	$1,000	$1,000	$1,000
Value if stock prices drop 20%	$800	$900	$920
Value if bond prices drop 20%	$1,000	$900	$930

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

A Measure of Risk

Volatility is important to a retirement investor because it's a measure of investment risk. The more volatile an investment, the greater the risk of short-term losses. On the flip side, riskier investments generally have higher potential returns. Of the three major asset classes — stocks, bonds, and cash alternatives — stocks are the most volatile. Bonds are less volatile than stocks, and cash alternatives are the least volatile asset class.*

There are also volatility differences within each asset class. For example, small company stocks are usually more volatile than the stocks of larger, more established companies. In the bond asset class, long-term bonds are generally more volatile than short-term bonds.

A Reason To Diversify**

Different types of investments may react differently to economic and political events. For example, there will be times when bonds outperform stocks or large company stocks do better than stocks of small companies. So spreading your investments among the various asset classes is a good strategy for managing risk.

Imagine a hypothetical retirement account that is 100% invested in a stock fund that generally tracks the overall stock market. If the stock market goes down, the value of the investment will probably fall. Now imagine an account that is 50% invested in a stock fund and 50% invested in a bond fund. If the stock market goes down, the bond investment may provide a cushion and limit the investor's overall loss. Of course, bond prices also fluctuate, so an investment in a bond fund is not risk free and investors may lose money.

What Volatility Means to You

Often, volatility is relatively short-lived. Past performance is certainly no guarantee of future results. However, looking beyond short-term volatility and including investments with strong growth potential in your portfolio may give you a better chance of reaching your long-term retirement savings goals.

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

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

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.

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