OnTrack

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No Matter HOW You Slice It . . .

Your paycheck is like a pie that "serves" your financial needs. One slice covers your housing expenses, another buys food, another goes toward clothing, etc. Before you know it, your paycheck is gone. But wait — are you putting a slice away for retirement? If you aren't, you should be. And if you are, maybe you could make that slice bigger.

Serve Yourself

You're going to need a pretty big pie to serve your financial needs when you retire. If you don't make saving for retirement a priority now, you might not be able to retire when you want. One way to make sure you're building up your savings is to have your employer contribute a healthy slice of each paycheck to your retirement plan account.

Put It on Autopilot

Making paycheck contributions to your retirement plan helps simplify your financial life. You can't spend money you don't have, and you don't have to go to the trouble of writing a check or transferring funds. You also don't have to make investment decisions every time. Your plan contributions are automatically invested in the selections you've chosen according to your instructions.

Make It a Habit

Seeing your retirement savings accumulate over time can motivate you to save even more for your future. Before you know it, you'll be cutting back on discretionary spending and looking for other ways to carve out additional savings. And when you get a raise or a bonus, you'll automatically think about saving a portion of it.

More for Later

Putting your future first might mean you'll have to put off some big purchases or scale back on some of your plans. But saving for your retirement is a big, important goal. Waiting a little longer to take a cruise or buy a new television isn't a problem. Not having enough saved for a comfortable retirement very well might be.

Fill Your Retirement Pie

If you increase plan contributions by	You could have this much more saved after 5 years	10 years	20 years	40 years
$10/week	$3,023	$7,101	$20,020	$86,291
$15/week	$4,535	$10,652	$30,033	$129,447

This is a hypothetical example used for illustrative purposes only. It assumes amounts are invested monthly, an average total annual return of 6%, and monthly compounding. It does not represent the result of any particular investment. Your results will be different. Amounts are rounded to the nearest dollar. Source: NPI

FORECAST: Sunny with Breaks of Reality

There's no denying the power of positive thinking. However, simply believing things will turn out well can actually cloud your thinking, especially when it comes to planning and saving for retirement. You wouldn't want to make important decisions based only on a sunny, unrealistic view of the future.

Investment Expectations

As a retirement investor, you're counting on your plan investments to help you reach your savings goal. But don't let overly optimistic expectations about investment performance keep you from contributing enough to your plan.

For example, stocks have posted very strong returns in some years. And 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 account balance grow.

But also think about the years when the stock market experienced steep losses. It's shortsighted to expect that stocks will always provide strong returns year after year.

If your performance assumptions are overly optimistic, you may underestimate how much you should be contributing to your retirement account to reach your savings target. Instead of counting on big stock gains, take a more realistic approach by diversifying* your investments, choosing an appropriate asset allocation, and continuing to contribute an adequate amount to your plan, regardless of how the investment markets are performing.

Inflation Facts

Inflation is another thing that requires a reality check. It may not be that obvious from one shopping trip to the next, but inflation takes a steady toll. Over time, even a relatively low annual rate of inflation will reduce the buying power of your savings. If you don't plan for the long-term effects of inflation, you may be in for a rude awakening. You could discover that your savings won't stretch as far as you had expected, leaving you with the less-than-sunny options of postponing retirement, scaling back on your plans, or going back to work if you're already retired.

Stock Performance Reality Check

Large-cap stock performance, 1992 – 2011*	
20-year high	37.43% (1995)
20-year low	-36.99% (2008)
Average annual return	7.81%

* 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

Inflation Reality Check

	Cost today	Cost in 20 years
Pizza for four	$24.00	$52.59
Car	$19,500	$42,727
New home	$224,200	$491,250

Costs are hypothetical and used for illustrative purposes only. Assumed average annual inflation rate: 4% (actual inflation rate may vary). Source: NPI

Retirement Goals

If you hope to retire early, don't let your enthusiasm take the place of careful planning. Early retirement presents a double challenge: You'll need enough savings to provide an income for a longer retirement, and you'll have fewer working years to meet your savings goal. If you haven't planned accordingly, you may end up back in the work force or severely scaling back your retirement lifestyle.

These days, delaying retirement is more common than retiring early. In 2012, 37% of workers said they expect to wait until after age 65 to retire, compared to only 24% who expect to retire before they reach 65.** From a retirement income standpoint, waiting has its advantages: You can keep contributing to — and delay tapping into — your retirement savings. However, you can't absolutely count on being able to continue working. Health issues (your own or a family member's), limited employment opportunities, or other factors could derail your intentions.

Unless you're close enough that you've already set a date, it's difficult to say *exactly* when you'll stop working. The most realistic course of action until then is to continue contributing as much as you can to your retirement account.

Spending Forecast

The topic of how much income you'll need for retirement is also one you should address honestly. If you think you'll spend a lot less after you retire, you could be in for a shock. Sure, some expenses will retire when you do, particularly job-related ones. Having your children leave the nest can also give your cash flow a boost, as can paying off your mortgage or any other loans you have.

But take a look at the costs you'll be *adding*. What do you want to do when you're retired? Many popular retiree activities can be quite expensive, especially travel. Health care costs can also add up quickly. So, no matter how close to (or far away from) retiring you are, estimating your future income needs now will help you set a realistic savings goal.

Mostly Sunny

What's the best way to plan and save for a fulfilling and financially secure retirement? Mix a positive outlook with healthy doses of reality.

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

** *The 2012 Retirement Confidence Survey*, Employee Benefit Research Institute and Mathew Greenwald and Associates

The Right YARDSTICK

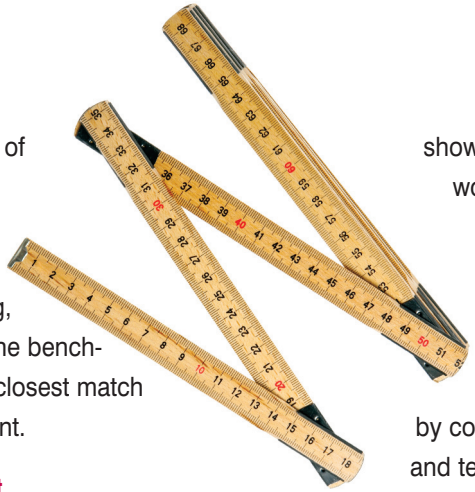
How are your retirement investments doing? Compared to what, you might ask. Your expectations? Your sister-in-law's portfolio? Yardsticks like these won't give you a true picture. The only objective way to see how well your investments are doing is by comparing their returns with the returns of similar investments using a *representative market index* (benchmark).

An Objective Measure

Having a handle on investment performance is important if you're going to reach your goals. But you need an objective way to evaluate performance. Knowing that your investment was up 5% for the year doesn't tell you much until you compare it to its benchmark index. If the benchmark was up 10% for the same period, then your investment's performance is relatively lackluster. But, if the benchmark was up only 2%, your investment's performance looks pretty good in comparison.

What's a Benchmark?

A benchmark index is a predefined group of securities chosen to represent an investment market or market segment. A benchmark's performance is based on the performance of the individual securities that comprise it. When comparing, always choose the benchmark that is the closest match to your investment.



Close, Not Exact

It's unlikely that your fund or portfolio will exactly match its benchmark index. That's because funds and portfolios have fees, while indexes do not. Even passively managed index funds cannot exactly match the index they follow.

The Long-term View

Comparing an investment's performance with a benchmark for a quarter or two will show recent performance, but it won't give you the full picture. As a long-term investor, you'll want to see how your returns stack up against the benchmark over longer periods by comparing one-, three-, five-, and ten-year returns (if possible). A few quarters of low returns may not matter if an investment has performed well over the long term. Of course, past performance cannot predict how well an investment will do in the future.

No matter what the investment markets are doing, using an appropriate benchmark index to measure an investment's performance can help you put things in perspective.

Some Common Benchmarks

Dow Jones Industrial Average® tracks the performance of 30 of the largest U.S. "blue chip" corporations and is considered a leading economic indicator of the market as a whole.

S&P 500 Index® tracks 500 financial, industrial, transportation, and utility company stocks and is an important benchmark for large-cap stocks.

NASDAQ® Composite Index measures more than 3,000 domestic and international stocks traded through its electronic system.

Wilshire 5000 Total Market Index® comprises nearly all stocks traded in the U.S.

S&P Midcap 400 Index® tracks the performance of stocks from 400 medium-sized U.S. companies.

Russell 2000® Index tracks 2,000 small company stocks.

NYSE Composite Index® follows stocks listed on the New York Stock Exchange.

Morgan Stanley Capital International EAFE Index® tracks non-U.S. companies in Europe, Australasia, and the Far East.

Barclays Capital U.S. Aggregate Bond Index® tracks the investment grade, fixed rate taxable bond market.

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