Focusing Your Future

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Summer 2015

Get a Grip!

Are your investment decisions based on careful research and common sense? Or do you let your emotions determine when you change investments? If your emotions are affecting your decision-making process, it's time to get a grip. When you're investing for a long-term goal like your retirement, it's important to get the facts and be objective instead of letting emotions guide your investing.

Losing It Over Losses

When an investment loses value, your gut reaction may be to get rid of that investment right away. But short-term losses aren't necessarily cause for concern. In fact, stock investments can be quite volatile over shorter periods. Keep in mind that unless you sell the investment, it's only a loss on paper. If that investment later recovers, you could miss out on significant gains. However, you may want to consider moving out of an investment if it has underperformed its benchmark index for an extended period.

Chasing After Returns

When an investment or asset class has been performing well, you might be tempted to direct more of your money into that investment or asset class. However, that may not be a smart move. It could expose your retirement portfolio to more risk than you can handle. Instead of chasing returns, you should focus on maintaining your desired asset allocation.

Going Too Conservative

As you progress in your career, you may become more worried about investment losses. While it makes sense to shift more of your assets into less risky investments as you near retirement, be cautious about becoming so conservative that you're at risk of not meeting your retirement goals. You may want to keep some money in stock investments before *and* after you retire. Stocks provide the potential for growth and can help your investments stay ahead of inflation.

Pick Up the Pace

Are you worried you aren't saving enough for retirement? Do you want to reach your retirement savings goal more quickly? Try picking up the pace. Increasing your plan contribution rate, by even a small amount, can make a big difference. Here's why.

Compounding Acceleration

The sooner you increase your contribution rate, the more time your money can potentially benefit from compounding. When the money you contribute generates investment earnings, those earnings are added to your account and reinvested. With compounding, you have the potential to earn a return on both your contributions and your earnings. Over time, this process keeps repeating itself, and you potentially have larger and larger amounts of money invested.

Built-in Boost

Your plan also provides the built-in benefit of *tax-deferred* compounding. Your pretax contributions and investment earnings aren't taxed while the money remains in the plan. All your savings can stay invested, boosting the power of compounding.

Perseverance Pays

If possible, increase the amount you contribute each year. And, whenever you receive a pay raise, consider giving your retirement savings a raise, too. Over time, steady increases in your contributions can help you reach your savings goal.

Stepping It Up

Increasing contributions now may mean more money at retirement.

	Saving at Same Rate	Increased Saving Rate
Account Value at Age 40	$40,000	$40,000
Average Annual Total Return	6%	6%
Monthly Amount Contributed from Age 40 to 65	$100	$250
Account Value at Age 65	$247,898	$351,847

This is a hypothetical example used for illustrative purposes only. It is not representative of any investment vehicle. It assumes monthly compounding. Your investment results will be different.

Source: DST

Any Questions?

Q. *I know some people retire in their fifties and others wait until much later. What financial factors should I consider when I'm thinking about a retirement age?*

A. You're smart to think ahead. There are advantages and disadvantages no matter what age you retire. The more you know now, the better prepared you will be when you do stop working.

Here are some age-related considerations.

Before Age 59½

A 10% early withdrawal penalty generally applies to plan distributions taken before age 59½. There are certain penalty exceptions, but you should check to find out if you can qualify for one of them before taking money out of your plan early.*

You generally won't be able to collect Social Security or enroll in Medicare. So, if you want to retire early, you should make sure you have other sources of income available to you.

Age 59½

If you retire at age 59½ or later, you generally will be able to make withdrawals from your retirement savings plan without penalty. However, plan distributions are generally subject to income taxes in the year received (unless the amounts have already been taxed or are qualified distributions from a Roth account).

Carefully estimate the amount you withdraw from your savings to pay your expenses during retirement. The more you withdraw each year, the less money you'll have invested to potentially generate returns and the sooner your assets could be depleted. Plan your withdrawals to help your money last throughout your entire retirement.

Age 62

You can start receiving Social Security benefits at age 62. But if you start receiving benefits early, they are reduced a fraction of a percent for each month before your full retirement age. If you want, you can retire early and wait until your full retirement age or later to collect Social Security benefits. Basically, your choice is a smaller benefit for a longer period or a larger benefit for a shorter period.

Age 65

Generally, you won't be eligible for Medicare until age 65. To avoid paying higher premiums, it's important that you enroll on time. You have a seven-month window in which you can sign up for Medicare and avoid a late enrollment penalty.

Ages 66 and 67

Your full retirement age depends on when you were born. If you were born before 1955 (and after 1942), your full retirement age is 66 and you will be eligible to collect full Social Security benefits at that age. If your year of birth falls in the 1955 through 1959 range, the full retirement age gradually increases from 66 and two months to 66 and ten months. If you were born in 1960 or later, your full retirement age is 67.

Age 70

If you don't start taking Social Security benefits at your full retirement age, your benefit is increased by a certain percentage each year until you reach age 70. The benefit increase no longer applies after age 70, even if you continue to delay taking benefits.

** Examples of early distributions that may be excepted from the 10% penalty include distributions from a qualified plan after an employee's separation from service in or after the year the employee attains age 55 and distributions attributable to disability. Consult your tax advisor for details regarding the penalty exceptions.*

The Reality of Risk

Like it or not, risk is a part of investing. If you choose primarily aggressive investments in the hopes of potential growth, you risk losing money if those investments, suffer losses. If you pick mostly conservative investments, you're now at risk of not meeting your long-term goals. So, what are your options? The answer is to learn how to manage your account's exposure to different types of investment risk.

Market Risk

Market risk is the possibility of investments losing value when the overall market declines. One way to deal with market risk is to split your money among a variety of different asset classes — stocks, bonds, and cash alternatives. When one asset class performs poorly, investments in other asset classes may hold their value or even gain, helping cushion losses in the asset class that is down. When you choose a variety of investments from *within* each asset class, you add another level of diversification* to your portfolio. For example, consider choosing stock funds or portfolios that invest in different industries or different size companies.

Interest Rate Risk

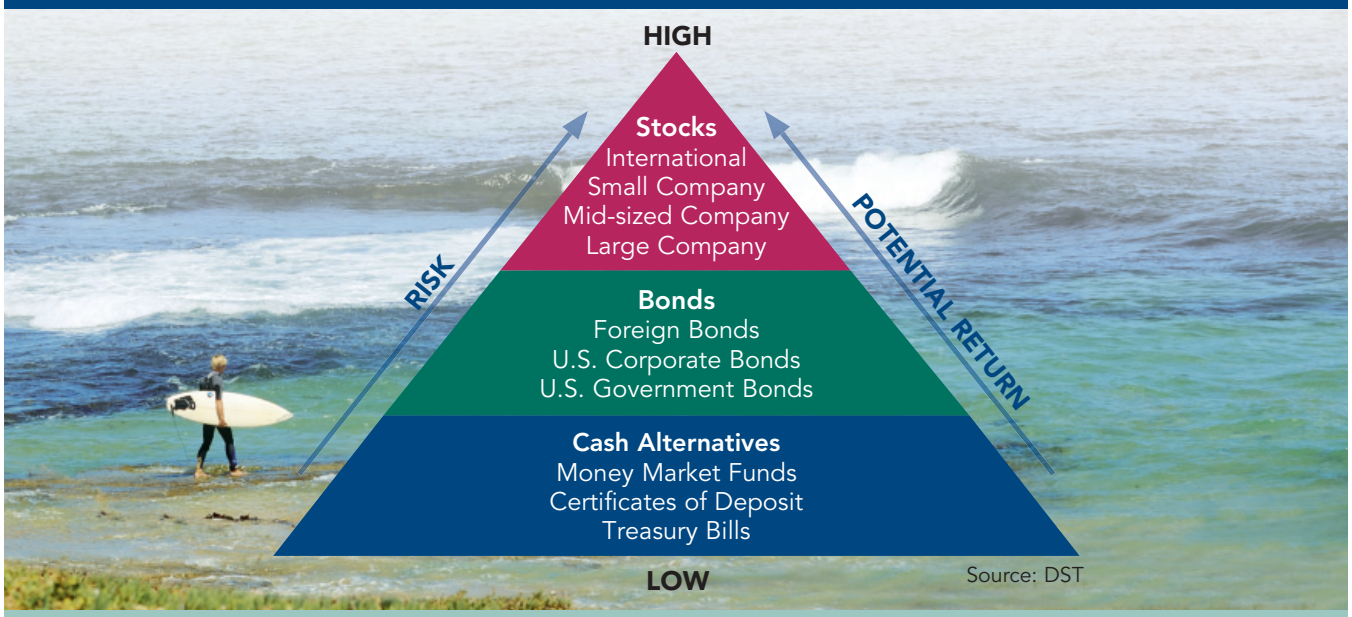
Interest rate risk is the potential that fluctuating interest rates will affect the value of your bond investments. When interest rates rise, the values of existing bonds generally will decline since newly issued bonds that pay higher rates are typically more attractive investments. Although long-term bonds usually offer higher rates than short-term bonds, long-term bond prices tend to fluctuate more with changing market interest rates. To help manage interest rate risk, consider choosing funds or portfolios that hold bonds with a variety of maturities.

Inflation Risk

Inflation risk is the risk that, over time, your investment earnings won't keep up with increases in the cost of living. Over several years, even a low rate of inflation can erode the purchasing power of your retirement savings. As prices rise, you'll need more money to maintain your standard of living. If you choose only conservative investments, you risk falling behind if returns don't keep pace with the inflation rate. Consider including investments, such as stocks, that have the potential to earn returns that outpace inflation.

** Diversification and asset allocation do not ensure a profit or protect against loss in a declining market.*

Risk and Return Relationship



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