Your RETIREMENT Matters

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Don't Count Your Chickens

An experienced farmer could explain why you shouldn't count your chickens before they hatch: What you expect will happen might not. "Don't count your chickens" also applies to your own future, especially if you're assuming you don't need to save that much for retirement because you expect to keep working. The reality may be very different from your expectations.

Forecast Unpredictable

No one knows what the future holds. If your financial security later in life depends on your ability to continue working, you may be putting your future at risk. A number of factors could prevent you from working as long as you want. For example, you may not be physically able to work, or you may have to care for a family member full-time.

With the average lifespan increasing, even if you do work well into your "retirement" years, your savings may still have to last a long time. Don't forget that even a low rate of inflation will increase your day-to-day expenses over the years. You'll need more money in the future just to maintain your current standard of living. While Social Security benefits are adjusted each year for cost-of-living increases, the future of Social Security is uncertain. In all likelihood, the Social Security benefits you receive, if any, won't be enough to live on comfortably.

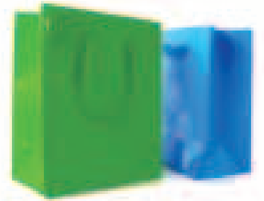
You'll Reap What You Sow

The money you save in your retirement plan can be an important source of income during your retirement years. No matter how many years you intend to work, you should be saving as much as you can now in your employer's plan. Then you'll be financially prepared — no matter how many chickens hatch!

Stock Up?

Have you checked the inventory of investments in your retirement account recently? That's right, just as store owners need to have a good selection of merchandise on their shelves, you want to make sure you've chosen an appropriate mix of investments for your retirement account.

You may decide to stock some of your account with stock investments. But how much shelf space should you reserve for stocks? That will depend, in part, on whether it's your grand opening, you're getting ready to close up shop and retire, or you're somewhere in between.



Pile 'em High

When you're just starting out, retirement is a long-term financial goal. Of the three major asset classes, stocks may provide the best opportunity to achieve the long-term growth you need. While the stock market can be very volatile, historically, stocks have produced higher long-term returns than bonds or money market and other cash equivalent investments. So you may want to consider letting stocks hold a prominent place in your retirement plan account, especially in the early stages.

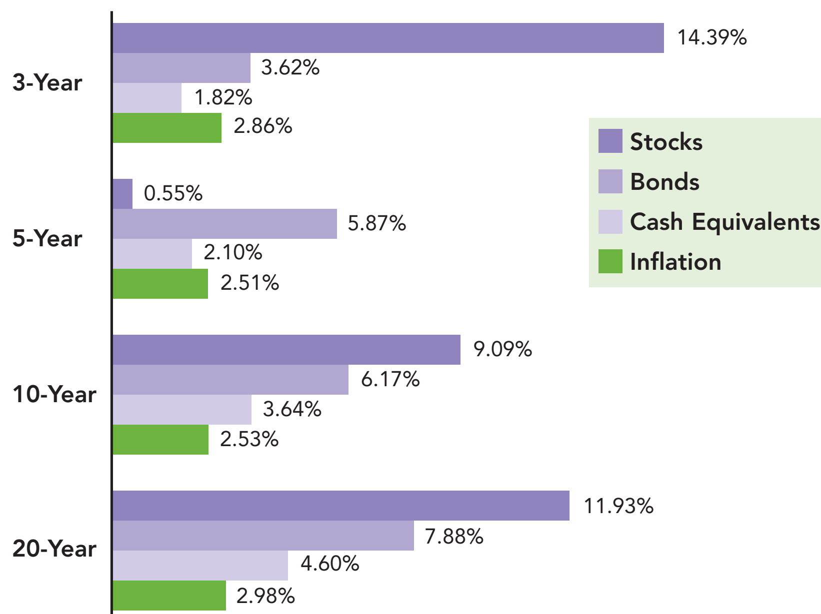
Although past performance is no guarantee of future results, stock investments have a history of earning returns that stay ahead of the rate of inflation over time. The potential for outpacing inflation is another reason to maintain a good inventory of stock investments.

Lighten the Load

When retirement is a mid-term or short-term financial goal, the situation changes. You no longer have the time you once did for your stock investments to recover from short-term losses.

Stop, Shop, and Compare

Take a look at the average annual total returns for stocks, bonds, and cash equivalents, and compare them with the inflation rate for the 3-year, 5-year, 10-year, and 20-year periods ending December 31, 2005.



Stocks as measured by the S&P 500 Index. Bonds as measured by the Lehman Brothers U.S. Aggregate Bond Index. Cash equivalents as measured by the 91-day U.S. Government Treasury bills. Inflation as measured by the Consumer Price Index. *Sources: Russell Data Services and NPI*

Savings Interrupted

You're the boss when it comes to saving for retirement. You can hurry up and increase your contributions to your retirement account. Or you can slow down or even stop making contributions if you want. However, you should carefully consider the potential consequences before interrupting your retirement savings.

It's Not Quitting Time Yet

Think of your option to stop making contributions as an emergency exit. In cases of financial hardship, such as unexpected medical costs, interrupting your savings can provide some relief. Don't stop contributing just to get some quick cash to pay for gifts or vacations.

Even a short interruption can put a sizeable dent in the amount you can accumulate for retirement (see chart). It may be difficult to keep making regular contributions, especially when you have other pressing financial demands, such as paying for your child's day care or college education. But a short-term break from saving for retirement can do long-term damage to your financial future.

Costly Break

Michael started off contributing $2,000 a year to his retirement plan. Then, he decided to take a five-year break from contributing while he was paying his child's day-care costs. While he ended up contributing only $10,000 less to his account due to the interruption, the difference at retirement was significantly higher.

	Interrupted Savings	Continuous Savings
Annual contribution years 1 – 5	$2,000	$2,000
Annual contribution years 6 – 10	0	$2,000
Annual contribution years 11 – 40	$2,000	$2,000
Total amount contributed	$70,000	$80,000
Account value after 40 years	**$340,622**	**$437,469**
Difference	**$96,847**	

This is a hypothetical example used for illustrative purposes only. It does not represent the results of any investment plan in any fund or portfolio. A 7% 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

During these years, you may decide that stocks shouldn't occupy as much shelf space in your account. If that's the case, you can gradually reduce your inventory of stocks and add more bond and cash equivalent investments. Your plan allows you to shift money from one investment to another, or you might simply change the way you are having new plan contributions invested.

Don't Sell Out

However, even as your retirement date nears, consider keeping some shelf space open for stocks. With retirees today living longer, healthier, more active lives than ever before, investment growth will probably still be important even *after* you retire. By allocating at least a small share of your portfolio to stock investments, you can keep the door open to growth.

Stocking up your retirement plan account with a diversified mix of investments that includes stocks may help you reach your retirement savings goals.

On Your Side

It's always nice to have help, especially when it comes to the important things in life. So it's good to know that your employer's retirement plan is on your side. The advantages your plan provides can help you accumulate the savings you'll need for a comfortable retirement.

Tax Breaks

You don't pay federal income taxes on the pretax contributions you make to your plan until you withdraw funds from your account (usually after you retire). In fact, you can reduce your federal income taxes by increasing your contribution amount* (see chart).

Reduce Taxes by Increasing Contributions

Weekly Contribution	$50	$100
Annual Amount Saved in Plan	$2,600	$5,200
Federal Income-tax Rate	25%	25%
Weekly Tax Savings	$12.50	$25.00
Annual Tax Savings	$650	$1,300

Pretax amounts saved in the plan are taxable upon withdrawal.
Your contribution, tax rate, and tax savings may be different.

Source: NPI

You also benefit from potential tax-deferred investment growth. Not having to pay current income taxes on plan investment earnings is a big advantage because it allows you to keep all your money invested until the time of withdrawal.

Investing Made Easy

Your plan offers a number of investment options and two easy ways to diversify your account. (Diversification** is the strategy of spreading your money among different investments and asset types to help manage risk.) Each fund (or portfolio) already invests in a number of securities, so investors benefit from automatic diversification. You can diversify even further by dividing your plan contributions among a mix of options that hold different types of investments, such as stocks, bonds, and cash equivalents.

** Some plans also allow employees to make after-tax Roth contributions. If your plan offers this alternative, you may want to consult a tax advisor regarding which type of contribution, pretax or Roth, is right for your situation.*

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

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