Focusing Your Future

Spring 2009

Back in Balance

The investment markets never stand still, but the ride was particularly bumpy last year as the financial crisis and recession took their toll on investors. If your retirement account holds stock investments, chances are good that the downturn has thrown your portfolio out of balance. This may be a good time to make sure your investment assets are allocated the way you want them to be.

A Balanced Beginning

When you first joined your employer's retirement plan, you selected investments for your account. You may have decided to divide your investment dollars among the different asset classes — stocks, bonds, and cash equivalents — in percentages that reflected your goals, risk tolerance, and time horizon. If retirement was still a long way off, you may have been comfortable with a portfolio that was more heavily weighted in stocks and lighter in bonds and cash equivalents.

Downturn Damage

Because of last year's large decline in stock values, stock investments may now represent a smaller percentage of your portfolio, and bonds and/or cash equivalents may represent a larger share. If your asset allocation has become more conservative than you want, you may decide to rebalance.

Rebalance Restoration

It's relatively simple to rebalance the investments in your retirement plan. You can sell investments in the asset class that has become too large and buy investments in the asset class that's too small. Or you can invest new contributions in the underrepresented asset class until your portfolio is back in balance. While you may be reluctant to reduce your holdings in an investment that's doing well and increase holdings in one that's underperforming, remember that what's up now may be down in the future, and vice versa.

A Regular Routine

A market downturn can be a signal to check your retirement portfolio and your asset allocation. But periods of growth can also affect your asset allocation. In fact, you may want to review your asset allocation at least once a year and make rebalancing part of your regular routine.

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Retirement Reality

Retirement may seem like a distant fairy tale world where you won't have to go to work every day and you can spend your time doing as you please. Yet, the reality is that the decisions you make today could have a major impact on how you'll actually spend your time during your retirement years.

Real-life Numbers

Today, the average yearly Social Security benefit for a retired worker is about $13,800, and retired couples receive about $22,500.* Compare those amounts to the median income of *all* U.S. households — which was $50,233** in 2007 — and you can see that there's a big difference. Now think about the kind of retirement you'll have if you don't have adequate savings to supplement Social Security.

When you look at your own financial situation and do some projections, you'll probably conclude that you shouldn't rely on Social Security to provide you with enough income to maintain your preretirement standard of living. If your plans include traveling or pursuing an expensive hobby, it's possible that you'll need even more income once you retire. Also keep in mind that over the years, inflation is likely to increase the amount of money you'll need.

Reality Check

If you know you won't be comfortable living on a lot less money once you retire or if you realize you'll need even *more* income to achieve your dreams, it's time to face reality. A good way to prepare for your future is to increase your contribution to your employer's retirement plan.

Increasing your monthly contribution now by just a small amount could lead to a big difference in your monthly income during retirement. The bigger your increase, the more you could have to live on later.

Real Solutions

The more you contribute to your plan account each month, the larger your monthly income may be during retirement.

Monthly contribution	$50	$100	$150
Amount already saved	$25,000	$25,000	$25,000
Account value in 30 years*	$153,307	$194,919	$236,532
Monthly income during retirement**	$1,012	$1,286	$1,561

* 5% average annual total return

** Assumes a 20-year retirement, a 5% return on savings (compounded monthly), and that the account will be depleted after 20 years

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

Source: NPI

* Social Security Administration, *2009 Social Security Changes*, October 2008

** U.S. Census Bureau, *Income, Poverty, and Health Insurance Coverage in the United States: 2007*, August 2008

Any Questions?

Q. I've just started saving for retirement by enrolling in my employer's plan. Could you provide any tips to help me start off on the right foot?

A. Joining your employer's plan and making the commitment to save for retirement already puts you on the path toward reaching your retirement goals. And, yes, there are certain steps you can take that can help you get going in the right direction.

Pack on the Savings

The more you save for retirement now, the more you may have to live on when you retire. So, whenever you can, increase the percentage of pay you contribute to your employer's plan. Since the money is taken directly out of your paycheck, you may not miss it as much. If you don't think you can afford to save more, look closely at your budget. Just cutting back on a few extras a week — such as restaurant meals and movies — can help you save more for your future.

Carry a Mixed Bag

It's a good idea to choose a well-diversified* mix of assets when selecting investments in your retirement plan. The three major asset types — stocks, bonds, and cash equivalents — have different levels of risk and potential returns. Compared to the other asset classes, stocks provide the greatest opportunity for growth but have the highest risk of loss. Bonds, especially government bonds and those with shorter maturities, often offer more conservative returns and less risk of principal loss than stocks. Cash equivalents typically provide the lowest returns of the three major asset classes and historically have the lowest risk of loss. Choosing a mix of these assets may help cushion your investment portfolio from a loss in one asset type and lower overall portfolio risk.

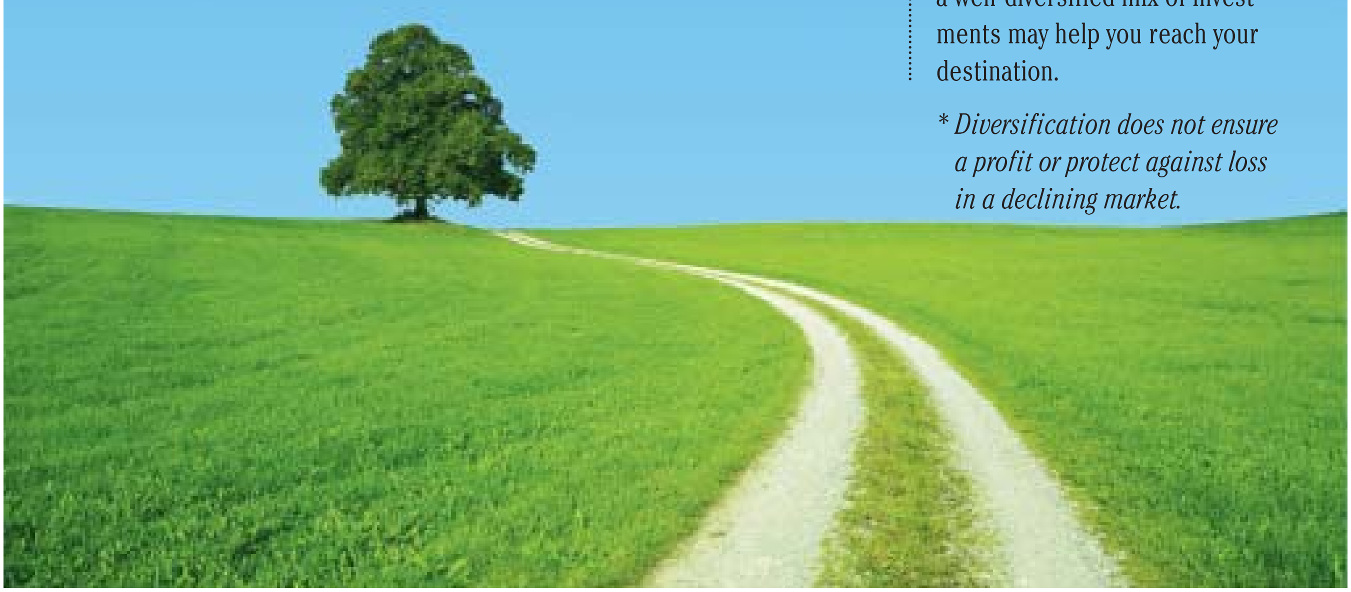
Keep on Plugging

There may come a time when you'll be tempted to stop saving for retirement. You may want to use that money during a financial difficulty or for a large purchase. Taking even a short break, however, could have a major impact on your ability to reach your financial goals. So look to other sources of income rather than your retirement plan when you need some extra money.

Stay on Your Path

Veering in and out of investments because of short-term fluctuations in their returns is usually not a wise move. Trying to time the market — buying when prices are at their lowest and selling when prices are high — is an extremely difficult strategy, even for financial experts. Instead of trying to figure out when an investment is peaking or has hit rock bottom, stick with the investments that fit your risk tolerance, time frame, and long-term goals. Staying on course with a well-diversified mix of investments may help you reach your destination.

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



Making a Switch

Thinking about selling one of your plan investments and putting the money in another option offered by your plan? Deciding when to make a switch in your investment lineup can be difficult. Here are some situations when making a switch may be warranted.

Retirement Is Around the Corner

As you near retirement, you need to look closely at your exposure to risk. If your retirement account is heavily weighted in stocks, your risk exposure may not be appropriate for your time frame. Once retirement becomes a short-term objective, consider shifting more of your assets into less risky investments, such as fixed-income and cash equivalent securities. You may, however, want to keep some of your money in stocks to give your portfolio a growth component.

A New Stage of Life

A big change in your life could have a big impact on your financial goals and when you hope to achieve them. If you marry, get divorced, or lose a loved one, take a look at your retirement investment strategy. If it's too aggressive or conservative for this new stage of life, you may need to switch some investments to attain a more appropriate mix.

An Unbalanced Portfolio

Some asset classes are likely to outperform others over time, causing your asset allocation to become more aggressive or conservative than you intended. To rebalance your portfolio, you may need to switch out of some investments and into others.

Long-term Underperformance

While many investments have had poor returns during the downturn, pay particular attention to any investment that has significantly underperformed similar investments as measured by its benchmark index for an extended period. Long-term underperformance may be a reason to consider switching out of an investment.

Stick with an Investment If:		
■ It still fits with your investment strategy and asset allocation	■ Its risk level is appropriate for your portfolio	■ You expect it to perform well in the future

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