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Participant Perspectives Newsletter

Stick to the Facts

How do you know if the time is right to change your retirement investments? It's a challenging question that all investors face. Figuring out the answer will be easier if you remember one important thing: Look at the facts.

Fact #1—Your Risk Tolerance Can Change

How do you feel about investment risk right now? If it's been a while since you asked yourself that question, you may find that the answer has changed, especially since the stock market has been extremely volatile. Some investors react to volatility by reducing their exposure to investment risk. They switch out of higher risk investments (such as stock funds) and buy lower risk investments (such as bond funds or cash equivalents). Other investors look at a volatile market as an opportunity to buy stock investments at a discount and improve their long-term chances for growth.

Volatility isn't the only thing that can change how you feel about investment risk. Changes in your life—getting married, having a baby, getting divorced, losing a spouse, etc.—also may cause a change in your risk tolerance. It's a good idea to review your investment strategy whenever there has been a life-changing event.

Fact #2—Your Time Frame Will Shorten

When you're just starting out, you have time for your investments to recover from market slumps. As you get closer to your goal, however, conventional investing wisdom calls for reducing your exposure to risk. Once retirement is on the horizon, consider reducing risk by trimming the portion of your account invested in higher risk investments and increasing the portion invested in lower risk investments.

Fact #3—Your Asset Allocation May Be Off

Asset allocation* is the way you spread your investments among the different asset classes (stocks, bonds, and cash equivalents). Sometimes, investment performance can alter your original percentages. When your asset allocation is out of balance, you're exposed to more—or less—investment risk than you intended, and that may have an impact on your investment returns. So you may need to rebalance.

One way to rebalance is to sell investments in the asset classes that are overweighted and buy investments in the underweighted types. (You can do this all at once or over a period of months.) Or you can direct new plan contributions into underweighted asset types until the asset class percentages are back on track.

Review Often

Participating in your retirement plan is a long-term opportunity. To make the most of it, you should review your investments on a regular basis (at least annually) by checking the facts and making changes when necessary.

**Asset allocation does not guarantee a profit or protect against losses.*

Your Go-to Game Plan

Do you have a winning strategy to help you accumulate enough money for your retirement? Since you're participating in your employer's plan, you're already benefiting from the built-in advantages that joining the plan provides. Making the most of these advantages is your go-to game plan for your future.

Kick Off More Savings

The amount you've decided to contribute to your employer's plan is automatically taken out of your paycheck and deposited in your plan account each pay period. It's easy and convenient. Try to increase the amount you are contributing on a regular basis. Additional contributions can make a big difference in the amount of money you'll have available during retirement.

The Power of Tax Deferral

Not having to pay federal income taxes on your pretax plan contributions until you withdraw your money gives you a powerful advantage.* Your taxable income is reduced by the amount of your pretax contributions. You also don't have to pay taxes on any plan investment earnings as long as your money stays in the plan. So you are not only saving for retirement, you are saving on your annual tax bill.

Diversification Defense

Your plan gives you the opportunity to diversify your investments to help manage risk.** Each fund or portfolio your plan offers as an investment option likely holds a large number of securities. A loss in one fund security may be offset by gains in others. You can diversify even further by choosing a variety of funds that hold different types of investments.

Your Plan in Motion

When your paycheck contributions are invested in the options you've chosen, you are using the strategy of dollar-cost averaging.*** With dollar-cost averaging, a set amount of money is invested in the same investments regularly, regardless of market conditions or share prices. So, while the same amount of money is invested each time, the number of shares that are purchased varies based on the share price. When the price is high, fewer shares are purchased. When the price is low, more shares are purchased.

Teaming up with your employer's retirement plan and making the most of the advantages it provides can help you successfully prepare for your future.

Score One for Tax Savings

You will save on current income taxes when you save for retirement in your employer's plan.

$1,200 Contribution

Tax Bracket	Annual Tax Savings	Actual Cost in Take-home Pay
10.0%	$120	$1,080
15.0	180	1,020
25.0	300	900
28.0	336	864
33.0	396	804
35.0	420	780
39.6	475	725

Amounts are rounded to the nearest dollar assume an annual pretax contribution of $1,200. Estimates are based on savings of estimated federal income taxes and do not account for state taxes.

**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.*

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

****Investing regular amounts steadily over time (dollar-cost averaging) may lower your average per-share cost, but this investment method will not guarantee a profit or protect you from loss in declining markets. Effectiveness requires continuous investment, regardless of fluctuating prices. You should consider your ability to continue buying through periods of low prices.*

Can You Contribute More?

Have you thought about your retirement plan contributions lately? If your contribution is automatically deducted from your paycheck, you might not think about it too often. But periodically revisiting the amount you're contributing can be a smart move.

Consider reviewing your contribution amount under the following circumstances.

You Receive a Raise or a Bonus

Earmarking at least a portion of any raise or bonus you receive can be a painless way to increase your plan contribution. You've already been living without that money, so you probably won't miss the amount you contribute to your retirement savings.

Your Job Description Changes

You get a big promotion—and so does your salary. It's a good time to consider contributing the maximum amount to your employer's 401(k) plan. For 2015, you can contribute up to $18,000, with a $6,000 catch-up contribution if you're age 50 or older. (Other plan limits may apply.)

Your financial situation might also improve due to a spouse joining the work force. The extra income might allow you to increase your plan contributions.

It's Financial Checkup Time

Your annual financial review should include a look at your retirement accounts. If your finances have taken a turn for the better, you may be able to increase your contributions. Paying off your car or other loan might leave you with extra money each month that you could invest for retirement.

No matter what your current financial situation, make sure you're contributing at least as much as your employer will match to your retirement account.

Retirement Age—Different for Everyone

What's your ideal retirement age? 55? 62? 70? Each age has planning issues you'll need to consider before you make a decision.

At 50 to 55

First and foremost, you should plan for a very long retirement. Besides living expenses, you'll need money to support the kind of lifestyle you want. In most cases, you won't be able to withdraw money from retirement accounts without penalty until you reach age 59½. Be cautious about spending too much during these early years, and be realistic about estimating investment returns. And remember that you won't be eligible for Social Security benefits or Medicare for several more years.

At 62

You've reached the earliest age to begin collecting Social Security retirement benefits. However, if you don't need the income, waiting until your full retirement age (FRA 66 to 67) or beyond to collect will increase your monthly benefit. Consolidating assets from individual retirement accounts and employer-sponsored plans into a single account might make managing your money easier.

At 65

While you're now eligible for Medicare, keep in mind you'll need supplemental insurance to pay expenses Medicare doesn't cover. Although you still haven't reached your FRA for collecting Social Security, review all your other sources of income, such as pensions, personal investments, and retirement accounts, to see where you stand.

At 70

If you've delayed taking Social Security, you're now eligible for the maximum benefit. Once you've reached age 70½, you'll generally have to begin taking required minimum distributions from your retirement plan accounts.

Starting your own business, becoming a consultant in your field, or working part-time to increase your retirement income are options at any age.

Top Five Things Your Retirement Plan Offers

You probably won't see this list featured on late night TV. But it's one that retirement plan participants can appreciate. It will help you get the most out of your plan—so you can make the most of your retirement.

#5—Information

As a plan participant, you have access to a variety of educational materials. Taking advantage of these materials can help you learn what you need to know about retirement planning and basic investing terms and strategies. You also have access to information about the plan's specific investments.

#4—"Double" Savings

You hear a lot about the tax benefits of saving in a qualified retirement plan. But did you know that every time you contribute pretax money to your plan you're essentially saving twice?*

First, you're putting money away for retirement. Second, you're paying less in current income taxes. Over the years, the potential earnings generated by investing the gross amount of your contributions—and not the net or after-tax amount—can really add up.

#3—Portability

If you leave your current job, you don't have to start saving all over again at your new job. You'll be able to keep your savings growing tax deferred by rolling the vested amount into an individual retirement account (IRA) or your new employer's plan. Or you may be able to leave the money in your current plan.

#2—The Opportunity to Save More

Compared to an IRA, 401(k) plans generally have higher contribution limits, allowing you to save more. You also may be able to make catch-up contributions if you're age 50 or older and would like to boost your savings.

#1—A Great Way to Prepare for the Future

If you had to make a conscious effort to put money away for retirement instead of having it automatically deducted from your paycheck, would you do it? One of the biggest advantages of your retirement plan is that it puts saving on autopilot—and does it in a tax-advantaged way.

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