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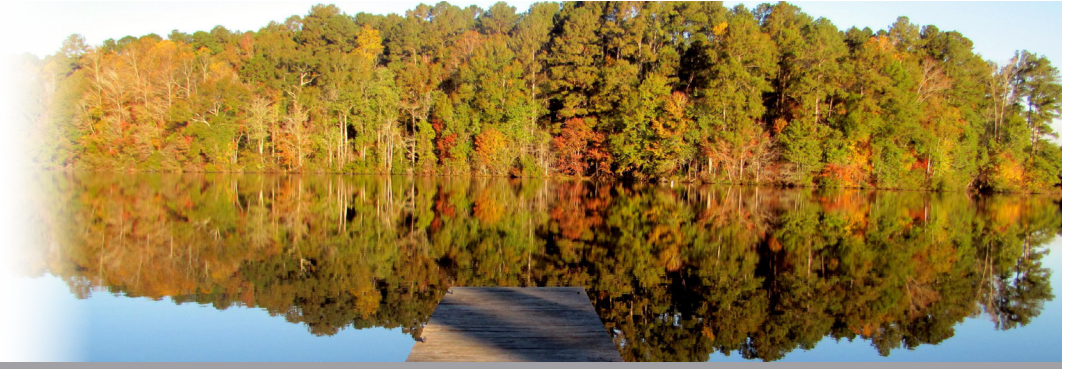

Third Quarter 2016

Participant Perspectives Newsletter

Saving Savvy

Have you checked out the latest smartphone? Are you willing to spend thousands of dollars for it? Probably not. But that's how much it could actually cost you in the long run because you won't have the money you've spent on your purchase to invest.

Sure, it's tempting to have the latest high-tech device or high-fashion accessory now. But resisting temptation and saving that money in your retirement plan instead could improve the quality of your life in the future.

Dwindling Dollars

Each dollar you spend now is a dollar you won't have to spend in the future. And you're probably going to need that money. With retirees living longer and more active lives, you may need to fund a retirement that lasts a long time. Then there's inflation to worry about. The prices of the things you buy regularly are likely to go up, and certain expenses, such as health care, may increase at a rate faster than inflation. If, like many people, you feel you have some catching up to do with your retirement savings, reducing your spending on nonessential items and saving the money instead makes good sense.

Growth Potential

The dollars you save for retirement instead of spending have the potential to grow in your plan account. Over time, even small amounts of money can increase significantly due to the power of compounded investment earnings. When the money you've contributed to your plan generates investment earnings, those earnings are added to your balance and reinvested. You then have the potential to earn a return on your contributions and your earnings. As the compounding process repeats itself, you have a larger and larger pool of money invested.

While you may not always have the latest and greatest high-tech device or this season's most fashionable look, being saving savvy is a smart move that can help you have a brighter future.

Spending vs. Investing

Consider what might happen if you didn't spend money on the items below and you invested that money in your plan account instead.

If you don't buy:	You could have this much after:			
	10 Years	20 Years	30 Years	40 Years
$210 designer sunglasses	$382	$695	$1,265	$2,301
$750 computer tablet	$1,365	$2,483	$4,517	$8,218
$1,000 plasma TV	$1,819	$3,310	$6,023	$10,957

The prices shown are hypothetical. 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. Monthly compounding and an average annual total return of 6% are assumed. Your investment results will be different.

Source: DST

Don't Take the Money and Run

When you change jobs, what should you do with the money in your former employer's retirement plan? If you have some credit card debt or other bills you need to pay, you may be thinking about taking a cash payout. You might assume it will be easy to catch up on your savings by starting over in your new employer's retirement plan. Right?

Wrong. Cashing out your retirement plan account can cost you—now and in the future.

Drawbacks of a Cashout

First, if you cash out your retirement plan account, you'll owe federal income taxes on the taxable portion of the distribution, which may be the entire amount.* You also might owe a 10% early withdrawal penalty, and you may have a state income-tax liability as well. After you pay the taxes and the penalty (if applicable), you could have a lot less money left to pay your bills.

Second, if you use your savings for other expenses now, you won't have that money for your retirement. Nor will you have the potential investment returns your savings might have earned if you had kept that money invested until you're ready to retire. Even if you start saving right away in your new employer's plan, you probably won't be able to make up the difference. Taking a cash payout now probably means having less money for your retirement.

Other Options to Consider

Instead of taking the plan money when you change jobs, you can arrange for a direct rollover from your plan account into your new employer's qualified retirement plan or an individual retirement account (IRA). Or, just leave your money in your plan account (if allowed). Keeping all of your savings in an IRA or employer's plan will allow your money to stay invested where it can potentially continue to grow tax deferred, helping you reach your savings goal. And, you won't have to pay any current taxes or penalties.

Cashing Out Consequences

If you cash out your retirement savings account and spend the money, you may have much less for retirement, even if you start saving all over again in a new employer's plan.

After 10 Years	After 40 Years
$32,776	$398,298

John *arranges a direct rollover of his account balance after 10 years and continues contributions without a break.*

After 10 Years	After 40 Years
$32,776	$200,903

Dorinda *cashes out her account after 10 years and starts saving from scratch.*

This is a hypothetical example used for illustrative purposes only. It is not representative of any particular investment vehicle. It assumes a monthly contribution of $200 and a 6% average annual total return compounded monthly. Your investment results will be different. Tax-deferred amounts accumulated in the plan are taxable on withdrawal, unless they represent qualified Roth distributions.

Source: DST

**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.*

Play by the Rules

When it comes to traditional IRAs and tax-qualified retirement plans, such as 401(k) plans, you'll want to pay close attention to the required minimum distribution (RMD) rules that take effect when you reach age 70½. If you mess up, you may have to pay big time.

Eyes on the Ball

The IRS is eager to collect the taxes due on these tax-deferred accounts. It will know if you're required to take a distribution because the broker, bank, or institution that holds your IRA or services your retirement plan will provide that information. The institutions will also notify you, so pay close attention to any reminders you receive about taking a required distribution.

Penalty Box

If you don't take the required distribution, the IRS could slap you with a stiff penalty—50% of the amount of money that you should have withdrawn but didn't. For example, if you missed taking a required distribution of $20,000, you could have to pay a penalty of $10,000.

Consult a Coach

If you're not sure of the RMD rules, or if you have several IRAs or retirement plans, talk to your financial professional. He or she can help you figure out when to take a distribution and how much it should be. If you have multiple accounts, you might also ask if it makes sense to consolidate them.

Retirement 'Round the Bend?

A successful retirement doesn't just happen. You have to plan for it. If you're getting close to retirement age and haven't thought about some of the basics, what are you waiting for?

Let's assume you've been faithfully saving for retirement throughout your working years. That's great. But it's only one piece of the retirement planning puzzle. Here are some others.

Discuss your plans with your spouse. Making decisions about retirement is no different from the other important decisions you've made throughout your marriage: You need to be on the same page. Will you spend your leisure time traveling or enjoying hobbies, or will you work or volunteer part-time? Is moving to another city or state—or even another country—something you want to do?

Estimate your income. Figure out where your retirement income will come from and how much income you can expect to receive. By planning ahead, you'll have time to beef up your retirement plan or individual retirement account contributions if you think you need to save more.

Estimate your expenses. You need an accurate picture of how much money you'll spend each year on living and other expenses. Be sure to factor in health-care costs and inflation.

Plan your retirement age. Choosing when you will each retire is an important decision. The retirement benefits you can expect to receive from Social Security will depend in part on your age when benefits begin. Knowing your retirement age is also important for estimating the number of years your retirement plan accounts and personal savings may last.

Your financial professional can help you plan for retirement. Make an appointment soon.

Retirement Planning—It's Not Just About Money

It goes without saying that you want to have enough money to live comfortably and do all the things you enjoy after retirement. So, most of the time, when people talk about retirement planning, they're referring to saving and investing. But your finances aren't the only part of retirement that you need to plan for. Thinking about how you want to spend your time and where you want to live is just as important.

Tennis, Anyone?

Thinking about the activities that will fill your days can help you plan. You might want to travel extensively, cultivate hobbies, take classes at a local university—or even pursue a degree that you've always wanted. Retirement can also be a great opportunity for you to spend more time with family and friends.

Wear a New Hat

Not sure that you want to completely stop working? Many people start businesses or begin new careers after they retire. You may decide to turn a hobby into a moneymaking venture or expand a part-time business. Or perhaps you'd like to keep your hand in your current field of work by becoming a consultant. If your goal is to work during retirement, planning ahead will make for an easier transition.

Reach Out and Touch Someone

Volunteering in your community is another way to stay active without taking on the responsibilities of a job. Choose an organization whose mission is important to you. Food banks, animal shelters, and children's or senior citizen centers are just a few of the places that could benefit from your help and expertise. In addition to being rewarding, volunteering can lead to new friendships and connections.

Movin' Out

A new home? A warmer climate? If you plan to move after retirement—whether to a local retirement community or another state—visit the places you're considering while you're still working. Preparing for changes ahead of time can make them easier when the time comes.

Retirement planning means more than saving enough money. It's smart to get a head start.

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