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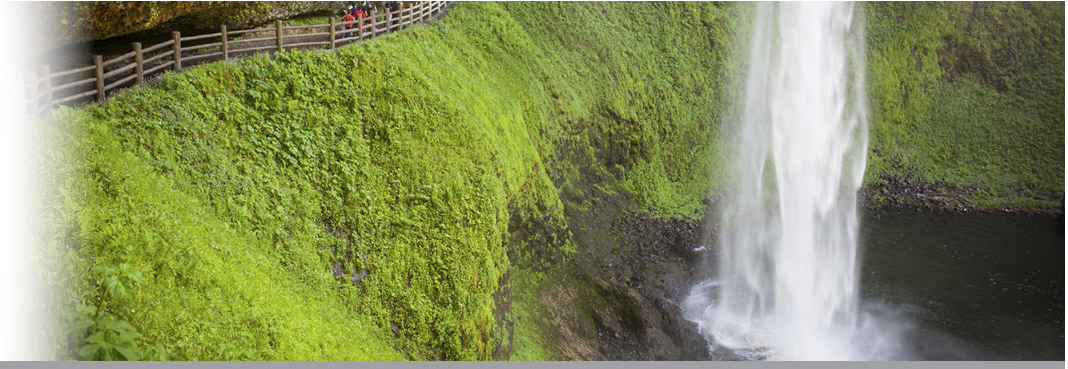

First Quarter 2016

Participant Perspectives Newsletter

Make It All About You

You pay taxes out of every paycheck. Meanwhile, are you taking a cut for yourself? Or is the money you earn all but gone by the time you pay Uncle Sam, your monthly bills, and all your other expenses?

One way to make sure there will be something left for you is to tuck some money away in your retirement account every payday.

What Money?

Out of sight, out of mind. That's the beauty of having your contributions deducted directly from your paycheck—you don't get the money or even see it, so you don't think about spending it. Instead, you make budget and spending decisions based on the money you take home.

It's a No-brainer

Having your contributions automatically deferred into your account makes your life simpler. You don't have to think about whether you can afford to make a contribution. You don't have to go to the trouble of writing a check or transferring funds. And you don't have to make investment decisions every time: Your contributions are automatically invested according to your instructions.

It's Habit Forming

Like exercising and eating well, saving is a healthy lifestyle choice for your finances. Watching your retirement savings grow can motivate you to save for other goals. Before you know it, you'll be cutting back on discretionary purchases and looking for new ways to save more money. And if you get a raise or receive a bonus, you won't think twice about saving a portion of it.

You'll Be Glad You Did

Saving for your future is a big, important goal. If putting your future first means scaling back on some plans or delaying some big purchases, so be it. Waiting a little longer to buy a bigger television or take a cruise isn't really a problem. Not being financially prepared for your retirement could be.

It Adds Up

If you can trim:

Spending By	You Could Have This Much Saved After			
	5 Years	10 Years	20 Years	40 Years
$10/week	$3,023	$7,101	$20,020	$86,291
$15/week	4,535	10,652	30,033	129,447

This is a hypothetical example used for illustrative purposes only. It assumes amounts are invested monthly, an average annual total return of 6%, and monthly compounding. It does not represent the result of any particular investment. Your results will be different. Amounts are rounded to the nearest dollar.

Source: DST

DC Plan Participants Want More Encouragement From Employers to Boost Savings

While employers are largely supportive of workers' efforts to save for retirement, defined contribution plan participants are looking for additional guidance from sponsors to help improve their savings habits.

In a recent study, participants aged 25–54 and pre-retirees between 55–65 acknowledged that they could and should save more for retirement, and said they understood the consequences of not doing so. Moreover, they said "life gets in the way" of their goals, citing inadequate earnings, debt and expenses related to children, dining out and vacations as primary obstacles to saving.

The study showed that participants recognize they aren't doing enough on their own to put aside necessary savings for their post-working years. However, they revealed they would happily comply if their employers established specific savings requirements.

Interestingly, a majority of employers adopt a "hands-off" approach when it comes to providing particular parameters for savings. According to the study, participants want sponsors to implement clearly established guidelines and helpful plan provisions such as automatic enrollment and default contribution rates.

Participants and Sponsors: Disparate Viewpoints

Participants said they value their employer-sponsored defined contribution plan as a vehicle to help them prepare for the future. However, they graded employers a B- when it comes to providing a retirement plan that meets their savings, investing and accumulation needs. Plan sponsors gave themselves higher marks: one-fifth graded their efforts an A, and another 63% gave themselves a B.

If they received additional encouragement from their employer, participants said they would save more. Less than two-fifths of 55- to 65-year-olds and roughly one-third of 25- to 54-year-olds believe their companies have done everything they could to support their retirement savings efforts. What's more, participants look to their employers to offer motivation to help

boost their savings. Two in five would like "a slight nudge," while an additional two in five prefer either "a strong nudge" or a "kick in the pants." Only one in six said they'd like their employer to "leave [them] alone." Conversely, plan sponsors believe just one-quarter of participants prefer more than a slight nudge, and three in ten want to be left alone.

Default Features Can Positively Impact Savings

Provisions such as automatic enrollment and higher default contributions can positively impact savings rates. More than six in ten participants agree their company should offer 6% automatic enrollment, and four in ten believe plans offering this feature would significantly impact savings. Furthermore, annual automatic increases also garnered favor, with seven in ten participants indicating they'd be receptive to increases of 1%. Participants are also encouraged by offerings such as illustrations that show the income their savings can produce, annual reviews, retirement accumulation projections, and projection calculators.

As the study concludes, plan participants recognize the importance of saving for the future and the risks of not having enough in retirement, and support their employers establishing a solid framework for saving, including automatic enrollments and increases to encourage participation.

The study, from American Century Investments, is available online at http://tinyurl.com/AmericanCenturySurvey.

Savings for Spouses

Saving for retirement can be difficult without access to an employer's retirement plan. Leaving the work force or cutting back on hours to care for children or family members can put a huge dent in retirement savings.

But there's an option for married couples who want to set money aside for a stay-at-home spouse's retirement: setting up a spousal individual retirement account (IRA).

How Much?

For 2016, up to $5,500 can be contributed to an IRA for a spouse who doesn't have work earnings, provided the earned income on the couple's joint return is at least that amount. The contribution limit rises to $6,500 for an individual age 50 or older. Amounts are periodically adjusted for inflation.

Some Restrictions

Contributions to a traditional IRA may be tax deductible, although income limits may apply. Contributions can be made to a traditional IRA until the year the spouse turns age 70½. Age restrictions don't apply to Roth IRA contributions, but there are income limits.

Spring Cleaning Time

After the long winter, spring is a good time to wash windows, clean your closets, and generally get your home in order. The same can be said for your retirement investments. An annual spring review can help you make sure the investments you have chosen for your plan account still fit your needs.

Dust Off Those Statements

Locate all your retirement plan statements so you can file them away in a safe place. But before you close the drawer, review the recent and long-term performance of your investments. The total return of a fund is expressed as a percentage and includes the increase or decrease in its share price, plus distributions of dividends, interest, and capital gains. In a retirement plan, distributions are automatically reinvested in additional fund shares.

Shine with an Index

Just looking at an investment's total return, however, won't give you the whole picture. You also want to see how well your investments performed compared to other similar investments. For that you need to look at your investment's benchmark index. If your investment's return is consistently lower than the return of its benchmark over an extended period, you may want to consider making a switch.

If It's Not Broken, Don't Fix It

Don't be too hasty to get rid of an investment simply because of poor short-term performance. Investments often rebound after brief periods of low returns. If the investment still matches your goals, you may want to take a "wait-and-see" approach before sweeping it out of your plan account. Unless you are planning to retire soon, you should have enough time to ride out short-term performance fluctuations.

Got Goals?

Throughout your career, saving for retirement should be one of your most important financial goals. The reason that saving for retirement is a priority: You're probably going to need a lot of money to cover your expenses once you stop working.

Get a Game Plan

Your retirement savings goal will depend on your anticipated lifestyle during retirement and how long you expect to be retired. Do you plan to travel extensively, pursue a new hobby, or relocate? While you may not have some expenses once you stop working, new ones may take their place. The cost of the things you buy today will likely increase in the future because of inflation. Also, factor in health care costs.

Set Your Strategy

Your investment strategy should be based on your time frame and how comfortable you are with risk. When retirement is far in the future, you may want to consider including investments that have the potential for long-term growth, such as stock funds, in your investment mix.* As you get closer to retirement, you may want to shift more of your account into less volatile types of investments, such as bonds and cash investments.

Team Up with Your Plan

Your employer's plan can help you reach your savings goal. Your plan allows you to make pretax contributions, save automatically through payroll deductions, and potentially benefit from tax-deferred earnings compounded over time.**

**Stock investing involves a high degree of risk. Stock prices fluctuate and investors may lose money.*

***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.*

Go for Your Goals

Savings Goal	Years Until Retirement	Average Annual Total Return	Weekly Savings
$250,000	30	6%	$57.43
500,000	30	6	114.87
750,000	30	6	172.30

This is a hypothetical example used for illustrative purposes only and does not represent any specific investment product. It assumes monthly deposits into the plan and monthly compounding. Your investment performance will be different. Tax-deferred amounts accumulated in a retirement plan are taxable upon withdrawal, unless they represent qualified Roth distributions.

Source: DST

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