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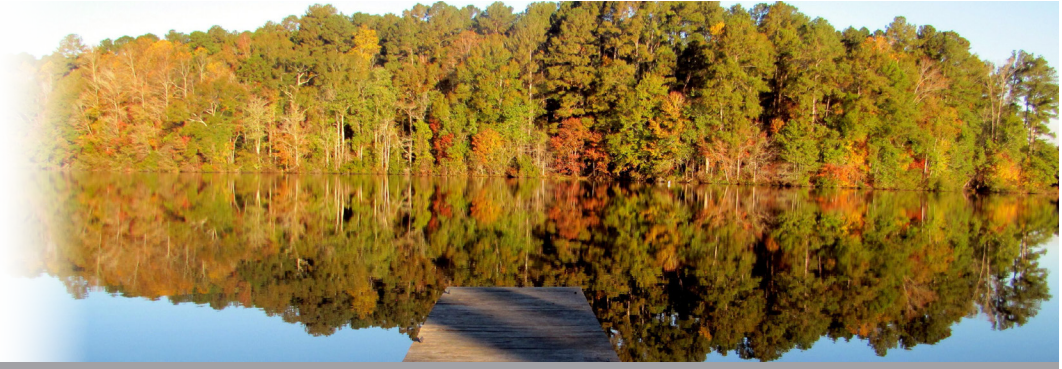

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Participant Perspectives Newsletter

Survival Tips for a Rocky Market

Nobody likes it when stock prices go haywire. Up substantially one day; down precipitously the next. It's enough to make even seasoned investors sweat. But instead of getting jumpy when volatility picks up, stay calm and review the basics. Knowing what to do—and what not to do—will help you make better decisions about your retirement investments.

Shrug off Paper Losses

Yes, watching your retirement account balance drop is unnerving. But as long as you don't sell, the losses your investments experience when the market declines are just "paper losses." You haven't actually lost any money if you continue holding those investments. Over time, your portfolio may be able to recover from its paper losses. Once you sell your investments, however, the losses are locked in—they're real.

Stay in the Game

If you're uncomfortable with falling stock prices, remember that selling may do more harm than good. Although past performance doesn't guarantee future results, history shows that market declines have often been followed by periods of price gains. In fact, over the long haul, the stock market has always eventually recovered from its losses. If you move out of stocks, you won't be able to benefit from potential upswings in the market.

Manage Risk

Diversifying* your portfolio by investing in a range of investments in several different asset classes helps control risk. If one investment type loses value, the others may gain or hold steady. If your retirement account isn't well-diversified, think about making some changes.

Go Long

Investing for retirement is a long-term goal. Although there are no guarantees, stocks have the potential to provide inflation-beating returns over the long term. As you get closer to retirement, however, you may want to adjust your asset allocation to reduce risk in your portfolio.

Stay Focused

Regardless of what the market is doing, stay focused on why you're investing in the first place. By focusing on your goal, you'll be more likely to make the right moves.

The S&P 500 index is an unmanaged index of the stocks of 500 major U.S. corporations.

Past performance is no guarantee of future returns.

Source: DST

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

Downs and Ups: S&P 500 Annual Returns

1962	-8.73%
1963	22.80%
1966	-10.06%
1967	23.98%
1974	-26.49%
1975	37.20%
1981	-4.90%
1982	21.40%
1990	-3.20%
1991	30.60%
2002	-22.10%
2003	28.68%
2008	-36.99%
2009	26.45%

Meet Retirement Challenges Head On

Gone are the days when employees stayed with one company for their entire working life and then retired with a nice pension. When it comes to having a secure retirement, you may be pretty much on your own.

What will your retirement be like? A lot depends on your ability to recognize and overcome the potential financial challenges. Consider some of the challenges you might face in the years ahead.

Keeping Tabs on Expenses

Your retirement budget may be a lot different from your budget while working. By the time you retire, you may have paid off your mortgage and eliminated most of your other debt, such as credit card balances and car loans. And you won't have commuting and other work-related expenses. But if you plan to travel or pursue hobbies, the costs of those activities may be significant, at least in your early retirement years.

Retirees may see their expenses decrease in mid-retirement when they may be less active, only to rise again later on as health care costs increase. Keep in mind that health care may represent a substantial portion of your retirement spending, so plan accordingly. Longer life expectancies can make budgeting for health care costs one of your biggest challenges.

Balancing Investment Risk

You want to be confident that your savings will last throughout your lifetime. But investing too aggressively in retirement can be risky. Falling stock prices could cause your portfolio to suddenly lose value, leaving you with far less savings than you anticipated. On the other hand, investing too conservatively could prevent your investments from earning returns that stay ahead of inflation. Finding the right balance between risk and potential return will be another challenge as you get ready to enter your new stage of life.

The Social Security Dilemma

The decision of when to begin receiving Social Security benefits can make a big difference in your retirement income. You can claim reduced benefits starting at age 62. Delaying benefits until your full retirement age (FRA) increases your benefit significantly. For each year after your FRA that you wait to collect, up to age 70, your annual benefit increases by 8%. If you're married, you may be able to take advantage of strategies, such as file and suspend, to maximize your benefits. Your financial professional can help you determine the claiming strategies that are the most advantageous for you.

Withdrawing Assets

You've spent your working years building your assets so that when you retire, you'll have enough money. But choosing a withdrawal strategy that preserves your nest egg isn't always easy. If you don't manage their impact, market fluctuations and income taxes can take their toll on your portfolio. Holding several years' worth of living expenses in a low-risk account is one strategy to consider.

Retirement planning has its challenges. Preparing to meet them can put you in a better position to enjoy your retirement years.

Trick or Treat with Your IRA

Contributing to an individual retirement account (IRA) can help you save for your future. Here are a few IRA "tricks" and the "treats" they offer.

Trick: Contribute at the beginning of the year. You have until the April tax-filing deadline to contribute to an IRA for the prior year. But instead of waiting until the last minute, make your contribution as soon as you're eligible—January 1 of the year for which the contribution is being made.

Treat: Over time, having many extra months of compounding can potentially add up to a much larger balance at retirement.

Trick: Choose IRA investments with an eye toward taxes. Investments that generate income that isn't subject to federal income tax, such as municipal bonds, receive no additional benefit from being held in a tax-deferred account.

Treat: Holding securities, such as corporate bonds whose interest income is taxed at your ordinary income-tax rate, in your IRA allows the income to accumulate tax deferred.

Trick: Take advantage of direct rollovers from a 401(k) to an IRA or from one IRA to another. Arrange for a trustee-to-trustee transfer of the funds between accounts so the money is never in your hands.

Treat: A direct rollover avoids the possibility of a tax bill and an early withdrawal penalty.

Dueling Goals

It's high noon at your financial corral. Looming on one side are your children's future college tuition costs. On the other side, the cost of funding your retirement. What should happen in this showdown between two of your biggest financial goals?

Spur on Your Retirement Savings

Many financial advisors suggest that saving for your retirement should be a higher priority than helping your children pay their college costs. If you put saving for college first, you may not have time to save enough for retirement once the tuition bills are paid. And, unlike paying for college, you can't get student loans to help pay for retirement if you don't have enough money saved.

Your Plan is Your Posse

Participating in your retirement plan helps you put saving for retirement first. The amount you choose to contribute is automatically deducted from every paycheck and invested in your plan account according to your instructions. Since the money is put aside before you get your paycheck, you never have to worry about having enough left over to save for retirement. Any "extra" money you have left can go toward college savings.

Ride Off into the Sunset

Ideally, it would be nice to be able to fund your retirement and your children's college education. But, if it comes to a showdown, you're probably going to need a lot more money to fund a comfortable retirement than your kids will need to pay for college. And they may be eligible for assistance through scholarships and financial aid.

If you have to choose between these two goals, make saving for retirement a top priority—and contribute as much as possible to your plan.

Retirement Benefits—Weigh Your Options

If you participate in a retirement plan at work, you may have an important decision to make when you retire: how to take your benefits. Don't make your choice without careful analysis.

One-time Payment: The Lump-Sum Option

Like many plan participants, you might like the idea of receiving your benefits in a lump sum. Instead of waiting for a monthly check to arrive in the mail, you'd have all your savings in hand—to invest and spend as you see fit. Of course, with this freedom comes risk. Many a nest egg has dwindled faster than its owner anticipated because of poor investment and money management decisions.

With a lump-sum payment, you'd have the ability to roll over all or part of the distribution into an individual retirement account (IRA) within 60 days to avoid a current tax bill on the rollover funds.* Money in a rollover IRA remains tax sheltered until withdrawn. You'd have to begin taking minimum distributions from your IRA each year after you reached age 70½ but would otherwise have the flexibility to take withdrawals as desired.

Monthly Payments: The Annuity Option

Your plan may give you the option to receive your benefits in the form of an annuity—steady monthly payments for life (or another period). As a married participant, you also may be offered a joint and survivor annuity that would continue to pay benefits to your surviving spouse if you died first.

The idea of having a regular income you can count on may appeal to you, especially if you have other assets you'll be able to tap as needed. Whether you set up an annuity through your plan or buy a commercial annuity yourself, make sure you are comfortable with the issuer's financial stability and understand the fees, expenses, and tax consequences associated with investing in the annuity.

Lump sums and annuities are just two possible payment options. You'll want to become familiar with the particulars of your plan—and the tax implications of your benefit options—well in advance of your retirement date. And remember that we're available to help you map out a financial plan for your retirement years.

**Arranging for a direct transfer of the distribution from your plan to a rollover IRA would avoid otherwise mandatory 20% tax withholding on the distribution.*

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