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Participant Perspectives

Life Lessons: Saving While You're Young

When you're in your twenties and just starting out in your career, saving for retirement might not be a high priority. It can be hard to save for retirement when you have so many other demands on your money. But getting a head start on saving now while you're young could have a significant impact on your future financial security.

Welcome to the Real World!

If you've just started working at your first "real" job, you may be earning more money than ever before. But you also could have new expenses, too. If this is your first time living independently from your parents, you're now the one responsible for paying the rent and utilities, groceries, gas, insurance, and all your other living expenses. Plus, you may be paying off your student loans and saving to buy a new car. Setting aside money for a far off retirement might not seem to be a sensible thing for you to do right now. But this really is the ideal time to save.

Time Is on Your Side

Saving for retirement while you're in your twenties will give your savings more time to benefit from potential compounding. Compounding happens when the money you set aside for retirement generates investment earnings. Those earnings are added to your plan balance and reinvested. You then have the potential to earn a return on your contributions and your earnings. The longer the compounding process has to repeat itself, the larger your account balance may be at retirement. The money you save now could have 40 or more years to benefit from potential compounding.

Your Plan Makes It Easy To Save

Saving for retirement is very convenient with your employer's plan. You don't have to make a special trip to the bank or write a check each month. Your plan contributions are automatically deducted from your paycheck each pay period and put into your plan account. Because you don't receive that money, you aren't tempted to spend it instead of saving it. Try to increase your contribution whenever you can.

Built-in Plan Benefits

Your employer's retirement plan also offers you a number of investment options. These funds or portfolios are professionally managed. You just select the investments that fit your risk tolerance and time frame. As a young investor with many years before you plan to retire, you may want to consider including stock investments[1] in your portfolio. While the stock market can be volatile in the short term, historically stocks have produced higher long-term returns than the other major asset classes and have stayed ahead of

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

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inflation. (Past performance is no guarantee of future results.)

Getting a Head Start

Making contributions to your retirement plan account while you're young could have a significant impact on the amount of money you may be able to accumulate by the time you retire.

Age you start making contributions	25	30	35
Monthly contribution	$100	$100	$100
Average annual total return	7%	7%	7%
Years invested	40	35	0
Account value at age 65	$262,481	$180,105	$121,997
Earnings	$214,481	$138,105	$85,997
Contributions	$48,000	$42,000	$36,000

This is a hypothetical example used for illustrative purposes only. It is not representative of any investment vehicle. It assumes monthly compounding. 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

When Your Nest Empties...

Having a child leave home permanently is a significant event. After you've packed away the memorabilia, sit down and revisit your finances. It may be a good time to make some other changes.

From Their Diapers...

Raising a child is expensive. For a child born in 2015 (the latest figures available), a middle-income family can expect to spend about $233,610 for food, shelter, and other necessities associated with raising a child over the next 17 years.[2]

...to Your Dreams

If you think it's a big change when the kids leave home, the next one—retirement—may be even bigger. Once you no longer have the expenses of raising a family, use the financial "windfall" to beef up your retirement savings. If you haven't been saving as much as you should, this is the time to catch up. Building up your retirement savings should be a priority.

Check to see how much you're currently contributing to your retirement account, and consider increasing that amount. If you can sock away an extra $200 a month for 10 years and earn 6% a year (compounded monthly), you'll have added more than $32,000 to your account balance.

Max It Out

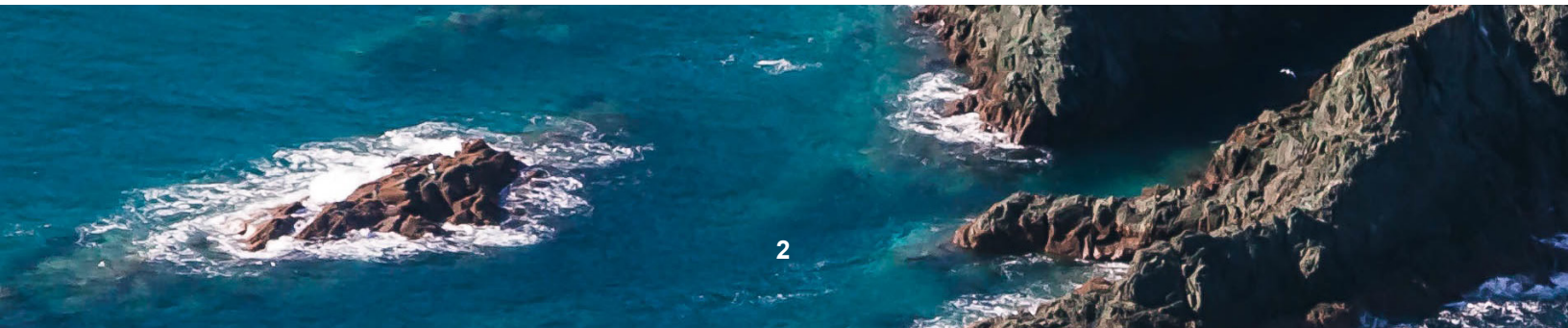
If you can, consider increasing the amount you're saving until you reach your plan's maximum contribution amount. Check with your plan administrator if you don't know how much the annual limit is. If you're age 50 or older by the end of the calendar year—and your plan allows for them—you may be able to make additional catch-up contributions.

No Procrastinating

It won't take long to adjust to having more money to spend after the kids leave home, so don't wait to reset your financial priorities. Earmark at least some of your empty nest surplus as retirement savings.

Your situation is unique, so be sure to consult a professional before taking action.

2. Source/Disclaimer: 2015 Expenditures on Children by Families, U.S. Department of Agriculture, January 9, 2017.



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Save More Now, Spend More Later

	Save an Extra $2,400 a Year	Save an Extra $5,000 a Year
For 7 years	$20,815	$43,364
For 10 years	$32,776	$68,283

These are hypothetical examples used for illustrative purposes. They do not represent the results of any particular investment. Monthly contributions and a 6% average annual total return (compounded monthly) are assumed. Your investment results will be different. Tax-deferred amounts accumulated in the plan are subject to ordinary income tax upon withdrawal. Source: DST Systems, Inc.

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Early Retirement Offer? Look at All Sides

Early retirement incentive. How do you feel when you hear those words? On one hand, you may be happy at the prospect of a life of leisure or a new career. On the other, you may have counted on working at your current company for several more years. If "conflicted" sums up your feelings, take some time to sort out the issues.

Is There Really a Choice?

Although an early retirement incentive may be presented as optional, think about what's happening with your employer. Companies sometimes offer retirement incentives as a way to eliminate jobs and reduce the workforce. Find out as much as you can about the company's direction and your future role. Accepting an early retirement offer could be the right move if reassignment, demotion, or job loss might be in your future.

Are You Financially Prepared?

If you were counting on working for several more years, taking retirement early could be a huge financial blow. Not only will you have fewer years to build your nest egg and benefit from any employer matching contributions, but you also may have to tap your retirement savings much sooner than you expected, potentially leaving you with a shortfall in later years. And pension and Social Security benefits could be permanently reduced if you're forced to take them early.

Are You Psychologically Ready?

Your work environment may provide you with structure, a sense of achievement and self-worth, and a social network—all things that you may not be ready to give up. If early retirement is optional, don't say yes to an offer until you've considered all the intangibles. The decision to retire should also include specific plans for how you'll spend your leisure time.

Got Health Insurance?

Your employer may include health coverage as part of your severance package. Alternatively, you may have access to health insurance through your spouse.

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Don't Sign Yet

Before you agree to an early retirement incentive, get all the details of your severance package in writing. Your financial professional can help you evaluate the offer in light of your personal situation.

Confused About Plan Fees? Here's a Glossary of Key Terms

Fee disclosure rules are supposed to make it easier for participants in employer-sponsored retirement plans to find out how much they are paying to participate in their plan. But the terminology can be confusing. Below is a handy glossary that can help you interpret all those items on your quarterly account statement, fund fact sheet, or fee disclosure statement.

12b-1 Fee—A charge assessed to mutual fund shareholders to cover that fund's shareholder servicing, distribution, and marketing costs.

Administration/Recordkeeping Fees—Costs for providing recordkeeping and other plan participant administrative-type services.

Advisor Fees—Paid to an advisor for services provided to the plan, including selection of investment options and any participant advice or guidance.

Basis Point (bps)—A unit of value that is equal to 1/100 of 1%. For example, 10 basis points is equal to 0.10%.

Benchmark—A standard by which a particular security or mutual fund can be measured. For mutual funds, the benchmark is typically a broad market index, such as the S&P 500, for a fund that invests primarily in large U.S. equities.

Brokerage Fees—Charges for the administration and maintenance of a self-directed brokerage account.

Commission—A fee paid to a broker or other intermediary for executing a trade.

Contract Administration Fee—A charge for costs of administering an insurance or annuity contract. This charge can include costs associated with the maintenance of participant accounts and all investment-related transactions initiated by participants.

Distribution Fees—The costs typically associated with processing paperwork and issuing a check for a separation-of-service distribution, retirement distribution, hardship withdrawal, or other in-service withdrawal.

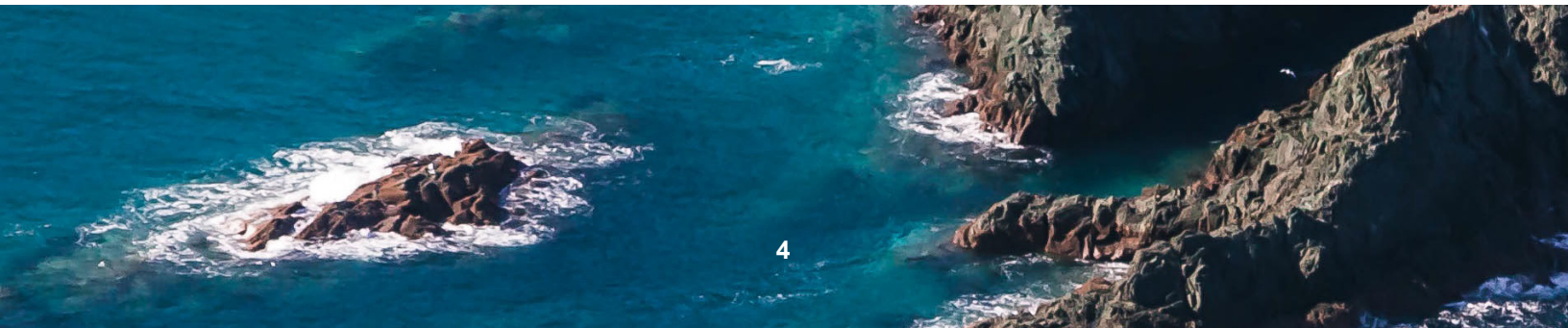
Expense Ratio—The cost of investing and administering assets, including management fees, in a mutual fund or other collective fund. This fee is expressed as a percentage of total assets.

Loan Fees—Separate fees may be assessed for the origination, processing, and maintenance of a loan.

Management Fee—Fee charged for the management of pooled investments such as collective investment funds, insurance/annuity products, mutual funds, and individually managed accounts.

NAV (net asset value)—The per-share value of an investment, such as a mutual fund or exchange-traded fund.

QDRO (qualified domestic relations order)—A legally binding order that creates or recognizes an alternate payee's (such as former spouse or a dependent child) right to receive all or a portion of a participant's retirement plan benefits.



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Sales (Load) Charge—A front-end load is a charge assessed when an investment in a mutual fund is made. A back-end load is a charge that is due upon the sale or transfer of the investment. A back-end load may be reduced and/or eliminated over time.

Separate Account—An asset account established by a life insurance company, separate from other funds of the life insurance company, offering investment funding options for pension plans.

Surrender/Transfer Charges—Fees an insurance company may charge when either an employer terminates a contract (in other words, withdraws the plan's investment) before the term of the contract expires or a participant withdraws an amount from the contract.

Wrap Fee—An inclusive fee generally based on the percentage of assets in an investment program, which typically provides asset allocation, execution of transactions, and other administrative services.

Contact Information

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