PLOTTING YOUR COURSE FOR A

SUCCESSFUL FUTURE

If you're like most people, you want your retirement years to be carefree years, free of financial worries. But the reward of a successful future takes careful planning. You'll want to begin by defining your retirement goals and setting a course that will allow you to reach them.

Having enough money for your retirement means learning as much as you can about planning and investment strategies. We've designed this material to help you better understand the sometimes confusing aspects of retirement plan investing. You'll discover the advantages of starting your planning early, the role of your employer's retirement plan in helping you achieve your retirement goals, and the basics of investing through your employer's plan.

Implementing a plan for a successful future is up to you. No one can do it for you.

Keep your retirement goals in sight as you read through this section.

As you read through this material, you'll learn the importance of:

Planning Ahead for Your Retirement
Achieving your investment goals means starting to invest for retirement as early as you can.

Saving for a Successful Future
It's easy to invest through your employer's plan.

Becoming a Wise Investor
Learn some basic concepts that can help you invest contributions in choices that are right for you.

THE ROUTE TO

RETIREMENT

How much income do you think you'll need during retirement? Many people believe they'll need a lot less than before retirement because their homes won't be mortgaged, their children will be grown, or they will no longer have the expenses of working, such as commuting and clothing costs and daily lunches.

The reality, according to financial planners, is that you'll probably need about 70% to 90% of your preretirement income after you retire. Have you thought about where that income will come from?

Maybe you haven't given much thought to retirement planning because you think you have plenty of working years left — and therefore plenty of time to start investing. Or perhaps you're counting on Social Security or your personal savings to provide you with retirement income.

If this is the extent of your financial plan, it may be time to cast your old assumptions aside and examine what steps you need to take to begin investing for your future financial security.

Here is a worksheet you can use to estimate how much income you will need in the future and how much you may have to save to help provide that income.

		Example	You
1	Your current yearly income	$35,000	$ ________
2	Estimated yearly income you need at retirement (Example: 80% of $35,000)	$28,000	$ ________
3	An estimate of your future Social Security benefit. **Insert the estimated benefit** from *Your Social Security Statement*, which you may receive by mail or can access securely on the Social Security Administration's website at *www.ssa.gov*. If you don't have your estimated benefit available, multiply Line 1 by .25 for a conservative estimate of your benefit*	$8,750	− $ ________
4	The estimated annual income you will need to replace through retirement savings and personal assets. **Subtract Line 3 from Line 2**	$19,250	= $ ________
5	Now adjust your current replacement income for inflation by **multiplying Line 4 by the inflation factor from Table A**. The inflation factor figure is below the number of years you have left until you retire. For this example, we assume 30 years left to retirement. Thus, we multiply $19,250 by 2.43	$46,778	× ________ (INFLATION FACTOR) = $ ________
6	How much would you need to have at retirement to give you the yearly income in Line 5? **Multiply Line 5 by a payout factor from Table B.** (Example assumes 3% inflation, 6% investment return, and that you will need 15 years of retirement income, so the payout factor would be 11.94.)	$558,529	× ________ (PAYOUT FACTOR) = $ ________
7	Value of your current assets (savings, investments, etc.) adjusted for growth. (Example: $45,000 multiplied by investment factor of 5.74)	$258,300	− $ ________
8	**Subtract Line 7 from Line 6** to find how much you'd need to save	$300,229	= $ ________
9	How much would you have to set aside each year in order to work toward the retirement goal on line 8? **Divide Line 8 by the present value factor in Table A.** (Example: $300,229 divided by 79.06)	$3,797	÷ ________ (PRESENT VALUE FACTOR) $ ________
10	The amount you need to invest each month toward retirement. **Divide Line 9 by 12**	$316 Monthly Investment	÷ 12 $ ________

The worksheet does not take into account any contributions your employer may make to the plan. The projection is based on your current income as adjusted for inflation and does not consider possible future increases in your pay.

* There is an annual cap on benefits.

TABLE A

NUMBER OF YEARS UNTIL RETIREMENT	5	10	15	20	25	30	35	40
Inflation Factor (3% inflation):	1.16	1.34	1.56	1.81	2.09	2.43	2.81	3.26
Investment Factor (6% return):	1.34	1.79	2.40	3.21	4.29	5.74	7.69	10.29
Present Value Factor (6% return):	5.64	13.18	23.28	36.78	54.86	79.06	111.43	154.75

Future investment returns cannot be predicted and your actual returns and principal value will differ.

TABLE B

NUMBER OF YEARS IN RETIREMENT	10	15	20	25
Payout Factor (3% inflation):	8.53	11.94	14.88	17.41

Assumes 3% inflation and a 6% annual investment return. Actual inflation and your investment returns will differ.

ONCPLAN2

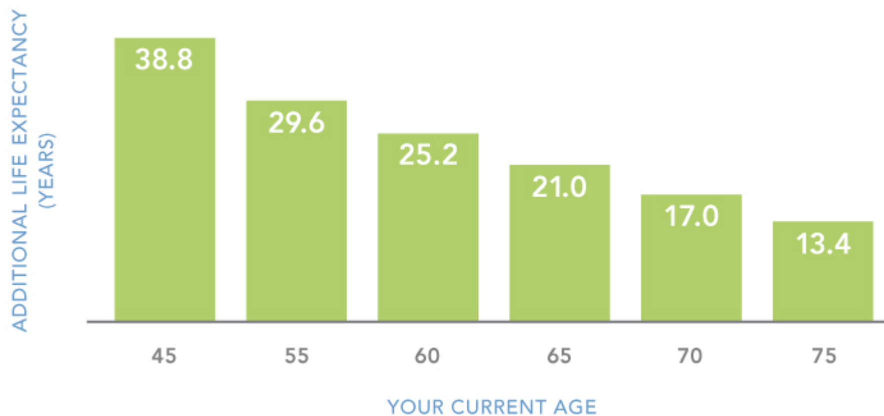
Your Retirement May Outlast Your Resources

With today's focus on health and fitness, people are living longer, healthier lives. A longer life span means you could spend 15, 20, or 25 years — or more — in retirement. In fact, your retirement could last almost as long as your working years. At the very least, you should plan on having a retirement income that will support you for 15 years — and probably much longer.

Plan To Beat Inflation

Over time, the rising cost of goods and services can significantly erode the buying power of your retirement assets. You need to earn a return on your investments that will keep your money growing faster than the inflation rate. The illustration on the next page shows you how even relatively low increases in the cost of living can deplete the value of your savings over the years.

HOW LONG CAN YOU EXPECT TO LIVE IN RETIREMENT?



This table is based upon averages calculated by the IRS.
Source: IRS Single Life Expectancy Table

Where Does Social Security Fit In?

Social Security benefits may be the source of some of your retirement income, but chances are, you'll need more than just Social Security to live on. And, in the future, changes to the Social Security system may decrease benefits, especially if you have several years before you retire. You'll want to plan for your retirement without relying too much on Social Security benefits.

ONCPLAN3

KEEP ON TRACK WITH

YOUR EMPLOYER'S PLAN

Finding extra cash to put away for retirement can be difficult. That's where your employer's retirement savings plan can help.

Payroll Deduction Makes Saving for Retirement Simple

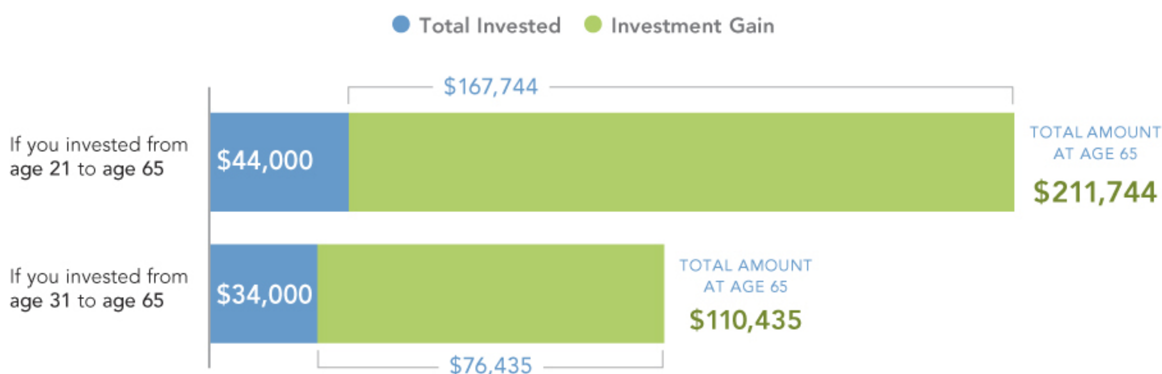
With payroll deduction, you save a portion of your salary from each paycheck. You choose how much you want to contribute and how you want your contributions invested among the options offered by your plan. Your contributions to the plan are automatically deducted from your paycheck before you receive it. There's no chance that you'll spend the money instead of investing it for your retirement.

Some plans "automatically enroll" employees. Contributions are made at a specified percentage of pay and those contributions are placed in a "default investment." But you aren't locked into these automatic choices. You can choose your own contribution rate and select your own investments, if you want.

Starting Early Can Pay Off

Time can be your most important ally when you're saving for retirement. The longer you have to invest, the greater the potential benefits of compounded earnings. And it's less painful to save gradually over several years than to try to make up for it later by saving large amounts over a shortened period. Even if you save just a small amount early in your career, you may come out ahead because of all the time you'll have to invest your money.

THE ADVANTAGE OF INVESTING EARLY



Assumes single deposit of $1,000 at beginning of year; 6% annual return. This chart is hypothetical and for illustrative purposes only. It is not indicative of any particular investments.

THE PLAN MAKES MY RIDE EASY.

COMPARE YOUR CONTRIBUTION OPTIONS

	TRADITIONAL PRETAX* CONTRIBUTION	ROTH CONTRIBUTION (equal to pretax amount)	ROTH CONTRIBUTION (reduced by tax paid)
TAXABLE SALARY	$24,000 (after contribution)	$25,000	$25,000
LESS INCOME TAX	$3,600	$3,750	$3,750
LESS ROTH CONTRIBUTION		$1,000	$850
SPENDABLE PAY	$20,400	$20,250	$20,400

Assumes a $1,000 annual contribution and tax withholding at 15%. Your tax rate may be different.
* Amounts received from a tax-deferred account are taxable when distributed.

You Benefit from Tax Advantages

Your plan offers two ways to gain tax benefits from your contributions to the plan — *traditional pretax contributions* and *Roth contributions*.

Traditional pretax contributions are paid to the plan before federal (and, in most cases, state) taxes are deducted from your paycheck. Your tax benefits begin immediately. The money you contribute reduces your taxable income — and your income taxes! While taxes will be due when you withdraw the money, you may then be retired and possibly in a lower tax bracket.

Roth contributions are treated differently. You pay current federal and, if applicable, state taxes on your contributions. Your Roth contributions won't be taxed again on withdrawal. After your money has been in the plan for at least five tax years from the time of your first Roth contribution, on reaching age 59½, withdrawals from your Roth account (contributions *and* plan earnings) generally are tax free.

The choice is yours. Which type of contribution is best for you depends on your personal needs and goals. Your current age, your expected retirement age, your current tax bracket, your expected retirement tax bracket, and the amount of your contributions are all important factors. Before making a decision, talk with a tax advisor who can help you look at your specific situation and determine which approach — pretax or Roth — might be best for you.

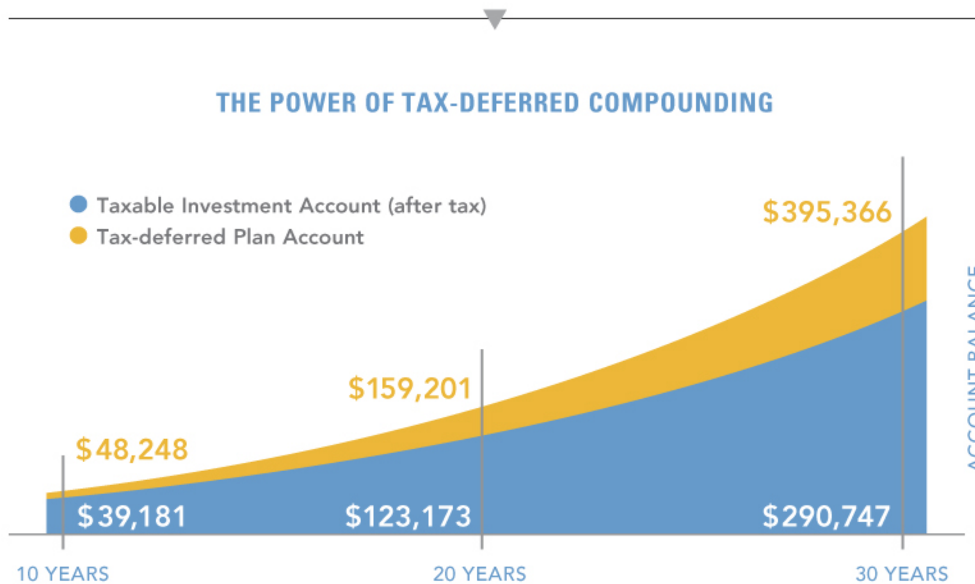
Tax-deferred Compounding May Speed Up Your Account Growth

With a retirement savings plan, all of the money in your account — contributions and investment earnings — can grow and earn additional income without being depleted by annual taxes. For example, if you invest $1,000 and earn a 6% annual return, you'll have $1,060 in your account at the end of the first year. The following year, your $1,060 will earn 6%, giving you $1,123.60 at the end of the second year, and so on.

Your account balance has the potential to grow faster than it would in a taxable account — such as a savings account — where interest is taxed annually as income.

Employer Contributions May Help You Get Ahead

If your employer makes contributions to your retirement plan account, you get a bonus: free money. But even if your employer doesn't contribute, your plan still allows you a tax-advantaged opportunity to save for retirement.



Compares $250 per month (increased for inflation over time) contributed to a tax-deferred retirement savings plan account to the same amount contributed to a taxable investment. Assumes a 6% annual return, 4% annual wage increases, and a 15% federal tax rate. Your tax rate may be different. Taxes on contributions and earnings are taken each month from the taxable account. No withdrawals are made from the tax-deferred account. Amounts received from the tax-deferred account are taxable when distributed. Since tax deferral may not be beneficial for all taxpayers, you may want to consult a tax professional about your specific situation.

This chart is hypothetical and used for illustrative purposes only.

YOU'RE IN CHARGE OF YOUR

PLAN INVESTMENTS

As a retirement plan investor, you can design an investment portfolio that will allow you to pursue your financial goals for retirement. Although your employer helps you by offering a tax-advantaged retirement plan, you are responsible for keeping your investment portfolio on course. (Even if your money has been put into a default investment, you still should determine if that investment is right for you.) To be successful, you need to learn as much as you can about the basics of investing for your future.

Investment Categories — What's on the Horizon?

Before you can design an investment strategy that takes into account your goals and your risk tolerance, you would do well to educate yourself on the different asset classes that are available and the risks and potential rewards associated with each one.

Stocks

The stock asset class includes stock and stock funds or portfolios. Stock represents an ownership interest in the company that issued the shares. Of all the major asset classes, stocks present the most risk to your principal but offer the greatest potential for higher returns over the long term.

A stock's value rises and falls with the success of the company, the general conditions of the stock market and economy, and the stock's appeal to investors. This is called market or volatility risk. Although volatility is a formidable short-term risk, it becomes less significant over time.

Large Company Stocks. These stocks are issued by companies that usually have a diversified product line and a strong financial base. Because they are stocks of large companies with well-established earnings histories, they may perform more reliably than the stocks of small companies.

Small Company Stocks. Small company stocks are issued by companies with less product diversity and a less secure financial base than large-cap stock companies. However, the companies' potential for fast growth makes their stocks attractive to many investors who are willing to overlook the increased risks involved.

Value Stocks. Value stocks are considered by financial managers to be undervalued in the market, based on the issuing company's book value, earnings potential, cash flow, and other factors.

Growth Stocks. Stocks that show or have the potential for rapid earnings and revenue growth are considered growth stocks. They typically represent more risk than other stocks.

International Stocks. These are stocks issued by foreign companies, although some international stock portfolios may include U.S. stocks, as well. Because they may be affected by shifts in foreign currency rates (currency risk), economic and political unrest, and other factors that may not affect U.S. stocks, international stocks are generally considered to carry more risk than domestic stocks.

Bonds

The next asset class is bonds. Bonds generally pay the investor a fixed rate of interest over a specified period of time. When you invest in bonds, you are essentially lending money to the bond issuer — often the government or a large corporation — for a certain number of years. At the bond's maturity date, your investment principal is generally returned to you.

If the issuer defaults, you can lose your investment (default risk). This is sometimes the case with bond issuers that are financially weak but pay higher interest rates to compensate investors for the added risk. Bonds issued by the U.S. government or a major corporation generally have a low risk of default.

Bond values are affected by changes in interest rates. When interest rates rise, prices of existing bonds usually fall, lowering bond values. When interest rates fall, bond prices and values generally increase. Typically, the longer the time until a bond matures, the higher the interest rate risk.

Many retirement plans offer investments in bond portfolios that hold a mix of individual bonds. Bonds and other fixed income investments can be used to help balance the risk from any stock investments you may have.

Cash/Stable Value Investments

The third asset class includes cash and stable value investments. The most common type of investment in this asset class is a money market portfolio, which invests in very short-term IOUs of the government and highly rated corporations. While these instruments are generally regarded as conservative investments, they offer a relatively low potential return.

Stable value investments include Guaranteed Investment Contracts (GICs) offered by corporations, insurers, banks, and other lending institutions. This category offers low risk and returns that historically have been at, or slightly above, inflation.

Blended

Your plan may also allow you to invest in specialized investments such as:

Balanced Portfolios. Composed of stock, bond, and money market investments, balanced portfolios seek income and growth. Portfolios are actively managed by investment professionals, who choose the investment proportions and adjust them over time.

Lifestyle Portfolios. Often called life cycle, life stage, or target date portfolios, these investment vehicles have managers who make asset allocation decisions and rebalance the portfolio as needed to keep funds invested within the portfolio's allocation guidelines. Portfolios in this category typically include a mix of stocks, bonds, and cash and take into consideration the number of years until your retirement and the general ability of people in your age group to accept risk.

Stock or Bond Index Portfolios

An index portfolio attempts to match the performance of a particular stock or bond market index by holding all, or a sampling of, the securities that compose the index. Unlike the managers of actively managed portfolios, index portfolio managers do not buy and sell securities in an attempt to outperform the index, lower investment risk, or achieve other objectives.

Living with Investment Risk

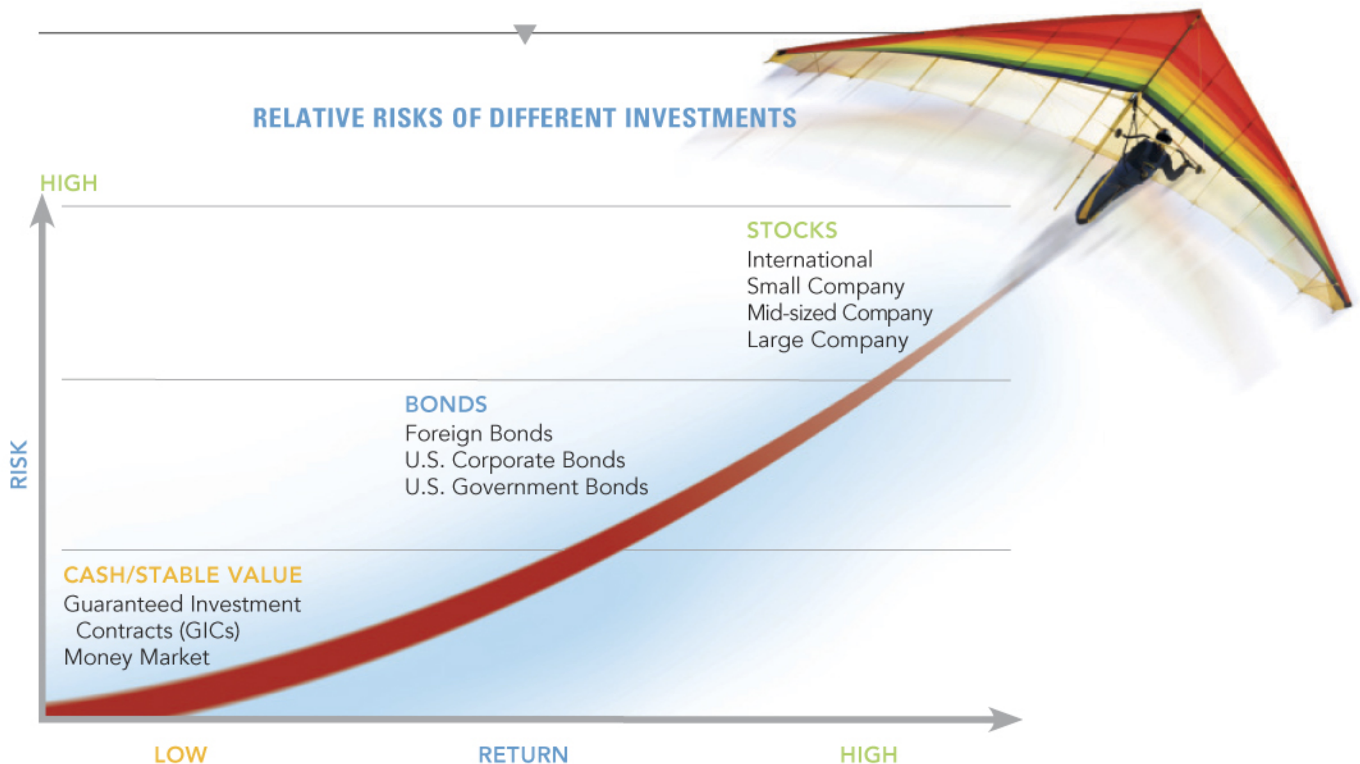
Understanding and learning to manage risk is important to your success as an investor. Typically, investments that present the most risk also offer the highest potential return. If you put your money in only low-risk investments, you may not earn enough to meet your retirement savings goal. You need to know the risks associated with each investment class, the earnings potential of each type, your own risk tolerance, and investment strategies that can help you take all of these variables into account.

Calculate Your Risk

The degree of risk you're willing to take with your investments is known as your risk tolerance. Investors with longer investment time frames can generally tolerate more risk than investors who have shorter time frames — say, a few months or years — until they need their money.

Over the short term, market volatility is a serious risk factor, since the value of your investments may be down when you withdraw your funds. But, for long-term investors, the risk of having to sell when the market is low drops. Therefore, the longer you have to invest, the more risk you may be able to tolerate.

However, time is only one consideration when you assess your risk tolerance. Your own "comfort level" is also important. If your investments are in asset classes that tend to fluctuate widely, you must be willing to accept that the value of your investments may drop significantly from time to time. Conversely, if you have invested very conservatively, you must consider the possibility that your returns will not keep up with inflation in the years ahead.



Source: DST

WHAT TYPE OF INVESTOR ARE YOU?

The information below can help you determine whether you are a conservative, a moderate, or an aggressive investor and which investments offered by your retirement plan may suit your needs. Use this information in combination with any investment planning advice available to you when you are developing a strategy.

Conservative investors seek to protect principal (the amount invested) and avoid significant losses.

Moderate investors seek income and some growth from their portfolios.

Aggressive investors seek to maximize the growth potential of their portfolios.

When you are determining your risk profile, you may find it helpful to assess:

1. **Your willingness to take risk** — what is your attitude toward risk? That is, how comfortable are you with the possibility that your investment portfolio could lose value? Would you be willing to stay invested during a market downturn or would you sell the investments that were experiencing losses?
2. **Your capacity to take risk** — to what degree are you able to take on investment risk given your financial situation? Would you still be able to meet your retirement goals if the value of your investment portfolio declined — and if so, by how much? When answering this question, consider several factors, including your current and expected future income, any other savings and assets you may have, and when you expect to start using your retirement savings. The less you can afford to lose and the sooner you'll need your savings, the less risk you may be able to take with your investments. Conversely, if you have sufficient income, assets, and time to make up for losses, the more risk you may be able to take.

Diversify Your Investments

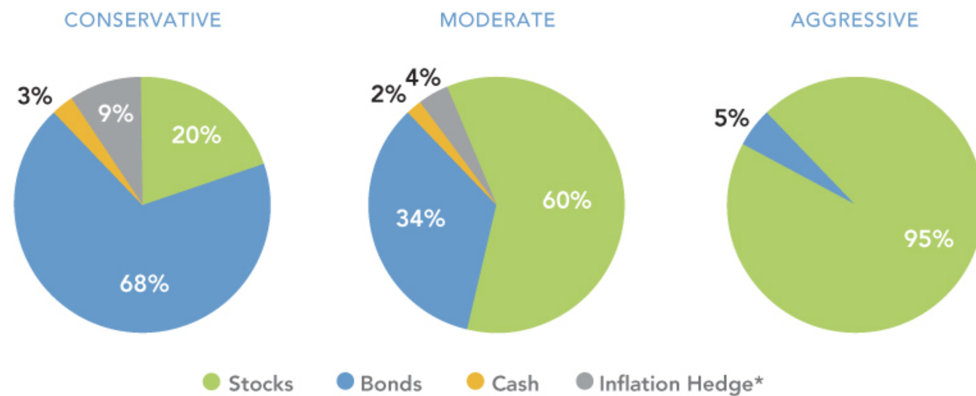
Your plan may offer you a variety of investment options from which to choose. Spreading your money among different investments — called "diversification" — allows you to moderate your risk because you don't have all your eggs in one basket. Putting your money together with the money of your coworkers in the funds or portfolios offered by your retirement plan allows you to achieve "automatic" diversification, since each fund or portfolio typically invests in many different securities.

You can achieve even greater diversification by spreading your money among different types of investments offered by your plan.

Choose an Appropriate Asset Allocation

You also need to decide how much of your retirement savings to put in each of the investment classes: stocks, bonds, and cash/stable value investments. This step is called "asset allocation." The amount of your account that you allocate to each investment type will largely depend on your personal situation: how many years you have until retirement, the amount of risk you are willing to take, other sources of retirement income you are anticipating, what other assets and investments you own, and any special needs you or your dependents may have.

SOME TYPICAL ASSET ALLOCATION MIXES



* Not all plans offer Treasury Inflation-Protected Securities (TIPS) or other inflation hedges as an investment option.

These hypothetical asset allocations show the broad asset-class weights represented in the Morningstar family of Target Risk Allocation indexes. They are presented as illustrations only to help evaluate potential investment strategies and should not be construed as recommendations for any investment approach. Plan participants, IRA owners and beneficiaries should consider their non-plan assets, other investments and income needs when considering any asset allocation or applying any particular model to their situation. Individual circumstances vary. There may be other solutions that meet your needs.

The Morningstar indexes use varying blends of 18 different asset classes and investment styles to create unique portfolios, each with its own level of risk and commensurate potential for return. For more detailed information on the performance and composition of the Morningstar Target Risk Allocation indexes, as well as the methodologies used for the indexes' construction and maintenance, please go to *http://indexes.morningstar.com*.

Asset allocation cannot assure a profit or protect against a loss. It is not possible to invest directly in any index. Index performance does not reflect the effects of investing costs and taxes. Actual results would vary from benchmarks and would likely have been lower. Past performance is not a guarantee of future results.

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Keep Your Portfolio in Line with Your Investment Goals

Over the years, you may find that things have changed since you first chose your retirement plan investments. Your retirement goals, your family situation, the investment markets — any or all of these can affect how you want your money invested. An annual review of your asset allocation will tell you whether your portfolio is still invested the way you intended or whether changes to your retirement plan account are necessary.

Make Your Future a Priority

Now that you know some investment basics, you should be ready to put your knowledge to work for you. Designing an investment strategy for your future should be one of your top priorities. Planning ahead can help you achieve your financial goals.

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