



Retirement

YOUR RETIREMENT PLANNING NEWSLETTER

The Answer is SIMPLE!

Our lives are so busy that we couldn't possibly cram in any more information: television, radio, the daily newspaper, telephone calls, e-mails, text messages, tweets, cell phones, Blackberry, the Internet... It all adds up to OVERLOAD.

One way you can make things simpler is to streamline your investments. You can still achieve your financial goals while spending less time tracking, researching and conducting transactions. Your financial life will be simpler, and you'll have more time to pursue other interests. It can be this SIMPLE:

S: Set it & Forget it

One of the most important innovations in investing in recent years is target-date funds, also known as lifecycle funds. These mutual funds act as an all-in-one solution for your portfolio. Each fund contains a mix of investments that is appropriate at each stage of your life. Periodically, the fund's level of investment risk is dialed down. By the time you retire, the mix should be fairly conservative, but still contain some stock exposure for long-term growth potential. Not only does this all-in-one solution simplify your current decision on what to invest in, it also automatically rebalances to the age-appropriate mix. It's simple, diversified, and you truly can "set it and forget it!"¹

I: Index

There are two approaches to investing: You can actively try to outperform a particular index or benchmark, such as the S&P 500 Index, or you can attempt to match or track the index's performance. Actively managed funds are plentiful, and may follow many different strategies in an effort to outdo the benchmark. But this takes research and active trading of stocks or bonds, and it leads to higher costs. It can also get complicated. And in the end, more often than not, active management fails. The latest annual scorecard released by Standard & Poor's, the S&P Indices Versus Active Funds (SPIVA) Scorecard, for the five years ending in 2008 shows the following:



Percent of active funds outperformed by benchmarks over market cycles

Benchmark Index	2004 to 2008	Fund Category
S&P 500 Index beat	71.90% of	All Large-Cap Funds
S&P MidCap 400 Index beat	79.06% of	All Mid-Cap Funds
S&P SmallCap 600 Index beat	85.45% of	All Small-Cap Funds

Source: <http://tinyurl.com/S-PIIndexReport>

There's a strong case to be made for simplifying one aspect of your investing: choosing one of numerous actively managed funds. With at least seven in 10 active funds failing to beat its index, you might improve your results while saving time in selecting the right fund. Focus on the benchmark you want to track and then pick the appropriate index fund. *(Continued on next page)*

¹ Principal not guaranteed. You may lose money.

M: Make it Automatic

When you join a workplace savings plan, you're faced with various choices: How much should I save? Which investments should I choose? When should I rebalance my investments? When should I increase my salary deferral and by how much?

Many savings plans have automated features now. Automatically enroll. Contribute X% by default. Automatically invest in a lifecycle or balanced fund. Raise your contribution 1% next year without raising a finger. They make these choices for you. You can opt out, but if you don't act, you'll remain in the default selection. What could be simpler? Doing nothing can accomplish something!

There are other ways to automate your financial life: Arrange auto-pay for various regular bills, such as mortgage or car loan payments, cable and utility bills, and you'll have fewer checks to write and fewer monthly payments to keep track of.

P: Patience

Let's assume you're investing for a goal a good number of years or decades away. Be patient. Stay focused on your long-term goals. If you can avoid worrying about the stock market and its short-term fluctuations, which have been sharp and dramatic over the past few years, you'll make investing simpler and easier, and you may even sleep better at night!

L: Less is More

Having fewer accounts and funds can give you more time to spend on other things and could potentially lead to better results. It may reduce paperwork and could save you time and effort in researching options and tracking performance. It could also help you stay on top of your funds' performance and your overall asset allocation. Being better informed is the first step to managing your investments more effectively.

If your goal is to be diversified, you could achieve that in a single fund (see "Set it & forget it"). Or you could choose a handful of funds, each representing a distinct part of the investment world. For example, with three U.S. stock funds, representing large, medium and small companies, plus an international stock fund and a diversified bond fund, you could literally cover the world with just five funds.

E: Eliminate Frequent Trading

The more investors trade, the worse their results, especially if they trade (buy and sell) stocks frequently. In a study, "Trading Is Hazardous to Your Wealth: The Common Stock Investment Performance of Individual Investors," Terrance Odean and Brad Barber found that households that traded stocks the most from 1991 to 1996 earned 11.4% a year on average compared with 17.9% for the overall stock market.² People tend to choose the wrong times to get in and out of the stock market and more trades means higher costs. *Success can be simple.*

What SIMPLE Things Can You Do?

Investing doesn't have to be complicated. What three things could you do to simplify your finances in the next month or two? Automate some bills... Select a target-date fund if your retirement plan offers one... Consolidate your investment accounts...?

- A) _____
- B) _____
- C) _____



Getting Rid of Financial Clutter

How long should you keep finance-related documents?

Keeping things simple is a worthwhile goal. In addition to making investing easier, it can help you keep your finances, including your financial records, in order. The benefits include less confusion and less time spent combing through papers.

Many people struggle over which financial statements and records to keep—and for how long—and which ones to throw out. And what's the best way to organize your files? Here are some guidelines:

Think about why

Why are you holding on to various records? Some documents clearly have short-term value while others have a long-term purpose. One way to put your financial files in order is to separate your short-term paperwork from your long-term items.

Current files

- Unpaid bills, paid bills, canceled checks, bank statements, credit card statements;
- Receipts for major purchases, this year's income-tax receipts, including tax deductions and charitable donations
- Insurance policies: life, health, disability, home and auto

Long-term files

- 7 years of income-tax records, including back-up information, such as W-2 forms and anything relating to tax deductions
- 7 years of bank statements, canceled checks and check registers

Time to throw out

- **Credit card receipts:** Toss them once you match them with your monthly statement unless you need to claim them as a business expense, or unless you need them for proof of purchase—for example, for a major purchase.
- **Credit card statements:** Throw them out as soon as your payment is posted unless you need them for tax purposes.
- **Pay stubs:** Keep the latest couple in case you apply for a mortgage; toss older ones.
- **ATM receipts:** Throw them out after reconciling them with your monthly bank statement.
- **Utility receipts:** Throw them out after your bill payment shows up on the next month's statement, unless you need them to deduct a home-office expense.



- **Investment statements:** Throw out monthly or quarterly statements after you compare them for accuracy with a year-end report.

Hold indefinitely

- **Investments:** Hold on to annual investment statements and records that show what you originally paid for stocks and mutual funds until you sell them and report tax gains and losses.
- **Home ownership:** Keep home improvement receipts and mortgage bills as long as you own your home
- **Receipts for major purchases**
- **Estate planning:** A copy of your will, inheritance papers, health care proxy forms, gift tax returns, powers of attorney
- **Warranties** and operating instructions for appliances
- **Retirement investment statements:** IRA and 401(k) statements
- **Insurance policies**
- **Personal papers:** Birth certificates, Social Security cards, legal papers about formerly owned properties

Be Organized

- Keep all your financial files in one place
- Keep the most recent files accessible
- Back up your computer files; keep the backup data in a safe place; provide computer passwords with your other vital information
- Keep your system easy—easy to keep, easy to use, easy to change.
- Each year, go through your short-term files and either throw out (recycle/shred) items or place them in your long-term file



Retirement in Motion

TIPS AND RESOURCES THAT EVERYONE CAN USE

Boomers on the Brink

Issues facing participants approaching retirement

Pre-retirees say they'll delay retirement, but...

Just over half of 50 to 64-year-olds say they have considered delaying their retirement because of recent investment losses and not being financially prepared, according to a study by the Pew Research Center. Similarly, in a poll¹ last December sponsored by CareerBuilder, six of 10 workers older than 60 said they planned to postpone retirement. But actual early retirement claims rose by 25% from October 2008 through May 2009, reports the Social Security Administration. Many people have lost their jobs, exhausted their unemployment benefits and are under immediate financial pressure. However, if you receive Social Security benefits at age 62, they may be reduced by up to 25% for the rest of your life.²

Tools & Techniques

Resources and ideas to guide you in your retirement planning efforts

Estimate your retirement expenses

There are a couple of ways to estimate what your expenses will be after you retire. You could use a rough rule of thumb, such as 75% of what you spend just before you retire. A more accurate

way is to look at each expense you have and estimate whether it will stay the same, increase or decrease (and by how much) after you retire. You may spend less on clothes and transportation but more on vacations, entertainment and health care. Take the time to be thorough so that you can have an accurate savings goal.

Q & A

Common questions asked by retirement plan participants

Does an annuity make sense? And what kind is best for me?

Annuities can either be deferred or immediate. They can also be fixed or variable. If you are about to retire, you could ensure income for the rest of your life by buying a fixed annuity. This would also be an immediate annuity because it would begin paying you an income right away. Annuities don't have to be all or nothing. You can put part of your money in an annuity and have the rest available to pay for a variety of expenses. Consider a deferred annuity if you're many years from retirement and have already invested to the maximum in a 401(k) plan. Deferred annuities are tax-deferred as well, but they may come with restrictions and additional expenses.

Quarterly Reminder

Make the right comparison

When you compare how your investment has performed, you may wish to measure it against the right benchmark (index) over a meaningful time frame. To review how a small-company stock fund has performed, use the Russell 2000 Index, for example. The S&P 500 Index reflects larger U.S. stocks. The MSCI EAFE Index is appropriate for broad international stock funds. Also, focus more on longer-term performance because one bad quarter or year may not accurately reflect a fund's long-term track record.

Corner on the Market

Basic financial terms to know

Leverage

Leverage is basically investing with borrowed money. By investing some of your money plus some borrowed money, you can magnify your potential returns, but you could magnify your losses as well. Leverage is commonly used in real estate transactions, such as a home mortgage. Borrowing in the form of a mortgage allows you to purchase a much larger house than you could with just cash. Where leverage can be risky is with very volatile assets, where you could risk losing much more than your initial investment. Like many things, leverage should be used carefully and in moderation.

¹ Source: <http://tinyurl.com/DelayingRetirement>

² Source: www.ssa.gov