REINVENTING Retirement
YOUR RETIREMENT PLANNING NEWSLETTER
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Tend Your Garden

to Cultivate Long-term Investment Growth

The world of investing may seem complex, but it doesn't have to be; think of it as growing a simple yet abundant vegetable garden. Reflecting on the time-honored elements involved in gardening may be able to help us invest successfully.

Plan well, plant your seeds, prune and weed, and be patient. Just as a garden will do well with a diverse mix of produce, a healthy, well-tended investment portfolio may be inclined to produce a good yield.

Plan Well

Planning is essential to success in many endeavors, including both gardening and investing. Set realistic and achievable goals, and then create an action plan that supports or reflects your particular situation.

Farmers depend on favorable weather for a profitable yield. They hope to avoid extremes such as heat waves, freezes, floods or droughts. Similarly, investors benefit from a favorable economic climate—neither overheated nor ice-cold. But reading forecasts is just the beginning. Be ready to make plans or modify them based on the prevailing business climate and your personal situation, goals and financial needs. If your investments are not on track to help you reach your goal, for instance, you might have to reconsider your efforts.

Plant Seeds

Making an initial investment is like planting seeds. It's the first step in a long process, which requires monitoring and follow-ups for a healthy yield. Select investments that suit your time horizon and goals. For long-term goals such as retirement, stocks or equity mutual funds are traditionally suitable investments. They are more volatile than cash-equivalent investments, such as a certificate of deposit or a money market fund, but they have potential to significantly exceed more conservative investments over long periods of time. Although past performance is never a guarantee of future results, from 1926 to 2008 the S&P 500 Index averaged a 9.7% annual return, while long-term government bonds earned 5.7%, and Treasury bills returned 3.8%, according to Standard & Poor's.[1]

With a distant time horizon, having patience and perspective will help you reach your potential for long-term growth. Don't panic the next time your investments encounter cloudy weather or a turbulent or rocky market. Give them time to recover and wait for sunnier days to return.

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1 *http://tinyurl.com/TotalReturn*

Dollar cost averaging—the process of investing the same dollar amount at regular intervals and allowing the cost to average out over time—can be an effective way to keep planting new seeds and to help grow your portfolio through all kinds of weather, year in and year out. Please note though that systematic investment strategies, such as dollar cost averaging, do not assure a profit nor protect against a loss in declining markets.

By investing $200 a month, based on the hypothetical illustration below, as the price per share and number of shares purchased fluctuates, a total of $1,000 purchases 75 shares at an average share price of $14.40.

Month	Investment	Share Price	Number of Shares Purchased
1	$200	$10.00	20
2	$200	$16.00	12.5
3	$200	$10.00	20
4	$200	$20.00	10
5	$200	$16.00	12.5
	$1,000	**$14.40** (avg share price)	**75.0**

Diversify

A healthy vegetable garden has a variety of produce ripening at different points in the growing season. Similarly, an investment portfolio can often be most effective if it contains numerous complementary products—some providing growth, with others yielding income and designed to mature at distinct times. Although diversification is not a guarantee against loss and does not ensure a profit, it can be an effective strategy to help you manage investment risk.

Tend Your Garden

Monitor and manage your investments regularly. Begin by reviewing performance and the overall balance of your investments. If certain parts of your portfolio are not measuring up to their potential, or don't seem like the right fit for your needs or the economic climate, reconsider them, but try to follow a long-term plan, with perspective and patience. Also, consider rebalancing if some of your investments have grown faster than others, leading to a change in the overall style of your asset mix.

Be Prepared For Adversity

Just as farmers' best-laid plans can be thrown off by the weather's vagaries, such as droughts or floods, retirement plan participants can be deeply affected by market volatility—sharp swings up or down in the value of stocks and bonds. To help protect yourself, there are a number of prudent actions you may want to take: For example, establish broad diversification, maintain a long-term horizon, and have a comfortable cushion of cash available for emergencies so that you won't have to harvest your investments prematurely.

Balance Your Time Horizons

At almost any age, you'll probably have a mix of short-term and long-term goals and priorities. Select your products and strategies accordingly. A diversified mix of short-term and long-term investments almost always makes sense, whether you are 18 or 81. Even retirees have a mix of immediate needs and more distant concerns, such as protecting against the risk of inflation eroding their purchasing power.

You don't have to sacrifice your need for current income or long-term capital appreciation. In practical terms, this means a mix of stable-value investments for immediate needs, fixed-income or bonds for medium-term goals and primarily stocks or other higher-yielding but volatile investments, such as real estate or high-yield bonds, for longer-term growth potential. The idea is to protect your portfolio and your purchasing power from being eaten away by long-term inflation.

Are You Ready to Grow Your Garden?

Do you have a "green thumb" for investing? Here's a six-step plan to help you grow your assets and reach your goals.

1) **Plan and cultivate an interest.** Learn more about investing by reading financial books, magazines and articles, and you may want to talk to your financial advisor. Then set goals for your investments.
2) **Select your seeds.** Invest in the right mix for your needs.
3) **Diversify.** Don't put all your eggs—or seeds—in one basket.
4) **Keep it healthy.** Be ready to maintain a healthy portfolio, including potential weeding and pruning from time to time.
5) **Be prepared for emergencies.** Do you have a large enough stash of savings set aside? Having a financial cushion will give you comfort and let your investments continue to grow intact.
6) **Always look ahead.** Whether your time horizon is next year, next decade or beyond, periodically revisit your goals, your investments, and your progress.

Harvesting Your Nest Egg

For Maximum Benefit

Growing your nest egg is vitally important, but how will you reap your rewards and manage your money once you retire? The final phase of the life cycle of investing—after planting and growing—is harvesting.

Reaping investment gains is not quite the same as harvesting garden vegetables. Unlike vegetables, which may have a brief period of being ripe, investments typically don't need to be "harvested" or sold at a particular time. Often, the longer an investment is left to grow, the better—especially if its growth is tax-deferred.

Retirees tend to have several main concerns—maintaining enough cash flow to meet current expenses and continuing to earn enough on their investments to meet future expenses and not outlive their savings. The key is being able to address these varied concerns without shortchanging or ignoring any of them.

Know what you need

Take the time to add up all your expenses and sources of income. By doing so, you'll establish how much money you need to withdraw from your retirement account(s) to make ends meet. After adding up your typical monthly expenses, tally your Social Security benefits, company pension (if you have one) and any other regular source of income, such as an annuity. The difference between these monthly figures is what you may need to withdraw from your Individual Retirement Accounts or 401(k) or other workplace savings account in order to fully cover your expenses.

Aside from determining and making up the deficit in this manner, be aware of the so-called "safe withdrawal rate" and what that represents for you as you harvest your retirement nest egg over time.

Withdraw at a safe rate

A safe withdrawal rate is one with which you would run relatively little risk of outliving your money over 30 or so years. For some individuals, this may mean you withdraw no more than 4% to 5% of a retirement account balance each year. By beginning your retirement with that restriction, you'll tend to have greater financial flexibility down the road. Then, depending on the state of your investment account and your ongoing expenses, you could adjust that amount in future years.

Here's a two-part method that may help you meet your current and future expenses:

1) Consider annuitizing part of your nest egg in order to guarantee some steady monthly income as long as you live. One approach is to buy an annuity that can pay for some or all of your regular expenses, such as mortgage payment or rent, utilities, basic groceries, and insurance premiums. Then, use your retirement account withdrawals to pay for extras, such as travel and other leisure pursuits.

2) If you are confident that you won't need certain assets for five or 10 years or longer, consider investing them more aggressively. Having some money invested in equity mutual funds may be able to help you outpace long-term inflation and preserve your purchasing power. By having your short-term financial needs met by regular retirement income sources—Social Security benefits, pension, an annuity, and/or short-term conservative investments—you'll be freer to invest more aggressively for longer-term goals.

Retirement in Motion

TIPS AND RESOURCES THAT EVERYONE CAN USE

Boomers on the Brink

Issues facing participants approaching retirement

Retirement-age workers keep working
Older people are working longer because they want to, not because they need to financially, according to the latest survey of the Pew Research Center's project on demographic trends. Of workers age 65+, 54% said the main reason they work is that they want to. Just 17% cited a monetary need as the top reason. Another 27% are driven by a mix of desire and need. According to one government estimate, 93% of U.S. labor force growth from 2006 to 2016 will be among those 55 and up. Older workers were roughly twice as likely to say they are completely satisfied with their job.

Q & A

Common questions asked by retirement plan participants

If I work part-time in retirement, how will that affect my eligibility for Social Security benefits?

Depending on your age, earning money could reduce your Social Security benefits. If you are under normal or full retirement age, $1 in retirement benefits will be deducted for every $2 you earn above a limit. For 2010, that limit is $14,160. In the year that you reach "full retirement age," which is currently 66, you'll lose $1 in benefits for every $3 you earn above a limit ($37,680 for 2010), but only counting the months before you reach full retirement age. After you reach full retirement age, your Social Security benefits won't be affected by any earnings. For more information, go to www.ssa.gov.

Tools & Techniques

Resources and ideas to guide you in your retirement planning efforts

Save More by Spending More Carefully
The markets have been rebounding over the past year. That's good, but retirement plan participants also have to save more. Being thrifty doesn't have to involve sacrifice as much as being money-smart and looking for ways to spend less. Drive slower, drive less (walk, cycle, car pool, take public transit), and lower your home thermostat at night or when you're away. Dine out less and order less when you go out. Look for deals when you shop. Bring your own coffee and lunch to work. Regularly ask: "Do I really need this or do I merely want it?"

Quarterly Reminder

Have you updated your estate plan?
Preparing a will and establishing an estate plan is essential if you want to make sure your financial affairs will be taken care of as you wish after you die. Monitor and update your estate plan periodically. Review it whenever your family situation changes—for example, if you marry, divorce, separate, become widowed, or become a parent or grandparent. Other life circumstances that could prompt you to review or update your estate plan: an inheritance, a life-threatening disease, or the sale or purchase of a business. If you encounter any of these or a similar life event, update your estate plan.

Corner on the Market

Basic financial terms to know

Market capitalization
A company's market capitalization (cap) represents the value of all its stock shares. Calculate it by multiplying the number of outstanding shares by their price per share. For example, if a company has 10 million shares and the price is $20 a share, its market cap is $200 million ($20 x 10 million). The U.S. stock market typically is divided into large-cap, mid-cap and small-cap stocks. Some define the three as follows: Small-caps are less than $2 billion, mid-caps $2 billion-$10 billion, large-caps more than $10 billion. Others use $1 billion and $5 billion as the break points.

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