REINVENTING
Retirement

4th QUARTER 2012

YOUR RETIREMENT PLANNING NEWSLETTER

New **Year**, New **Resolve**

Achieving financial freedom takes a little up-front toil, and enough time to make your savings work

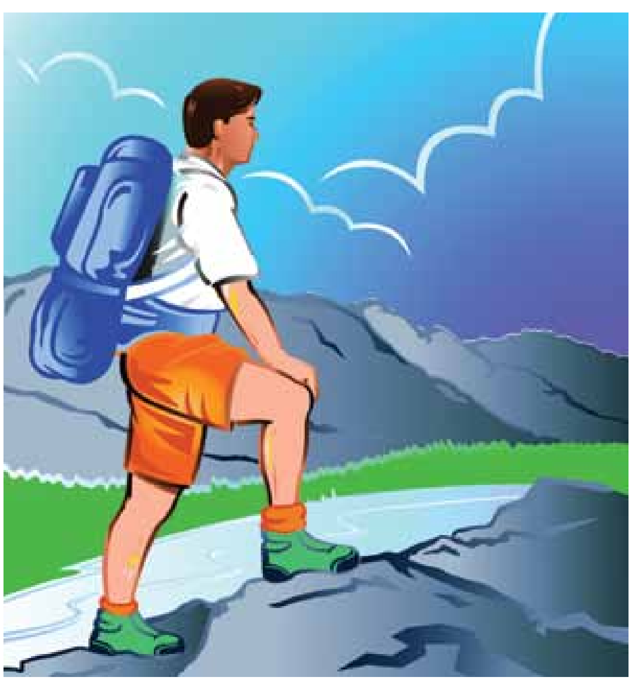
Financial freedom. It's what many people dream of, and work for. Yet surprisingly lots of Americans spend more time planning for their summer vacation than planning for retirement. It's a new year, and now is the perfect time to turn over a new leaf.

Three ways to kick-start your savings plan

As with any resolution, the most important step is to take action. Here's our three-step program for whipping your savings into shape:

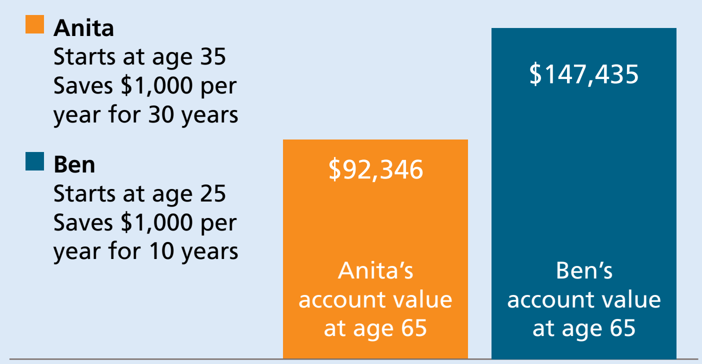
1. Start early. When investing, time is your friend. That's because the longer you have to invest, the longer your money has a chance to earn a return, and for those returns to earn returns. This is called "compound interest," and it's what Albert Einstein was rumored to have called "the greatest mathematical discovery of all time."

To illustrate, let's take two investors, Anita and Ben. Anita begins saving in her retirement plan at age 35. She puts $1,000 a year into her retirement account, earning a hypothetical average annual rate of return of 8%. After 30 years of making annual contributions, Anita retires at age 65 with $92,346 in savings.



Ben starts investing at age 25, and puts $1,000 a year into an account also making a hypothetical return of 8%. However, Ben only contributes to his account for 10 years, and then stops. When he retires at 65, his account is worth $147,435. So even though Ben contributed one-third the amount Anita did, for one-third the time, his nest egg grew nearly 60 percent bigger than Anita's—giving him more financial flexibility in retirement.

THE BENEFIT OF STARTING EARLY



FOR ILLUSTRATIVE PURPOSES ONLY. Assumes an investment in a tax-deferred retirement account in which you hypothetically earn an average annual rate of return equivalent to 8%. This is a what-if scenario, and is not based on (or predicting the performance of) any specific investment or savings strategy. In the real world, most investments will move up and down with the market over time, producing higher or lower actual returns for you. Your returns are not guaranteed.

The reason Ben's account grew so much larger than Anita's was because he started 10 years earlier than she did.

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Here's To Your **Health**

It's never too early to plan for health care coverage

Health care expenses are likely to continue to increase for retirees due to higher costs for medical services, the development of new technology, and increases in the use of specialized services such as diagnostic testing. To control health care expenditures, you need to learn more about the level of health care you need, and where to get it. This is important because most retirees leaving full employment also leave their health care coverage behind. The small number of plans that do offer retirement health coverage may look very different from their pre-retirement versions, with higher deductibles, co-pays and premiums.

Most people automatically qualify for basic hospital insurance (known as Part A) under Medicare as soon as they reach age 65. Although this benefit is free if these folks paid Medicare taxes during their working years, Medicare medical insurance (known as Part B) is not free. Part B pays for doctor's services, outpatient care and some other medical services such as physical therapy and home care. To cover prescriptions, retirees can also purchase Part D prescription coverage.

To plan ahead, you need to get a rough estimate of how much of your post-retirement budget you will need to devote to medical costs. Fidelity Investments® projects that a 65-year-old couple retiring in 2012 will need $240,000 to cover medical expenses throughout retirement—a 4% increase over last year's estimate.[1] With it being unlikely that Social Security will cover these costs for the average retired couple,[2] you may want to explore funding alternatives, such as 401(k) accounts, IRAs or Health Savings Accounts, to help build a more secure retirement.

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2. Make regular contributions. In resolving to increase your savings, one of the most important decisions you can make is to save regularly. This leads to something called "dollar-cost averaging,"[3] and it can actually lower your cost of investing. Investing the same amount on a regular basis helps to smooth the highs and lows of the market within which you're invested. The benefit is that you buy fund shares at different prices on a regular basis. When prices are low, you buy more shares, and when they are high, you buy fewer shares. Over time, this discipline lowers the average price you pay to invest, which has the potential to boost your returns over time.

3. Increase your percentage each year. Finally, if you have the ability to increase your contribution percentage each year, you potentially will build a bigger nest egg for retirement, due to the power of compounding on additional savings.

By resolving to save, making regular contributions, and allowing enough time for your savings to potentially grow through the power of compounding, the prospect of financial freedom can be yours. And you don't have to go on a crash diet to do it! Happy New Year.

1 Source: Fidelity Investments, May 9, 2012.

2 According to Fidelity, households relying on Social Security benefits to cover these costs should expect medical bills to consume 61 percent of their Social Security payments by 2027.

3 Dollar-cost averaging does not guarantee profit or protect against loss. Investors must carefully consider their ability to continue investing in extended down markets.

The **Right Mindset** for Saving

Positive thinking is an important part of visualizing your financial future

As much as we recognize the need to save for retirement, many small obstacles tend to get in the way of taking action. It turns out the decisions we make about financial matters, including putting off saving and investing for retirement, are deeply rooted in psychology, according to studies of investor behavior.

Here are five positive changes that you can make to your psyche that could help you put yourself in the right frame of mind for saving:

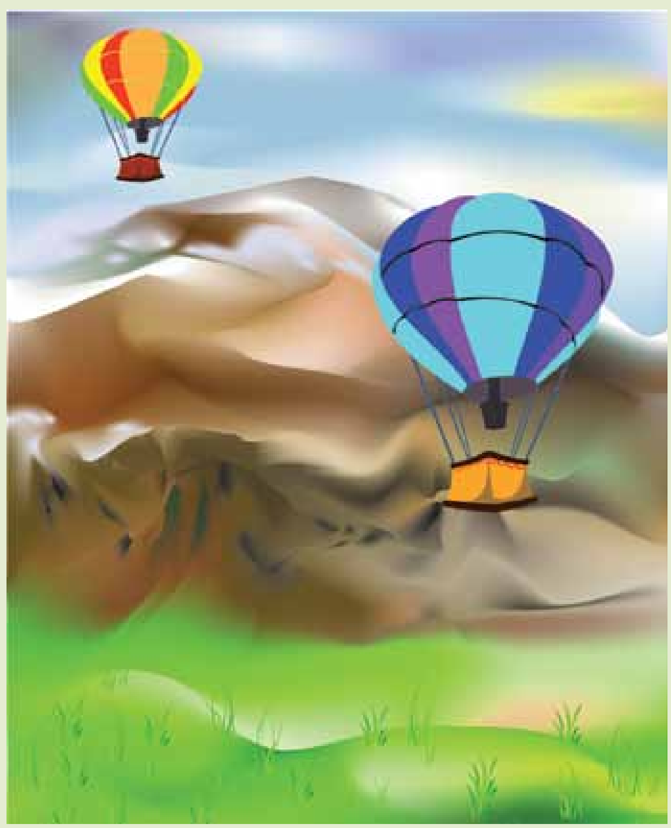
1. There's no time like the present. Lots of people procrastinate when it comes to making financial commitments. It appears humans are hard-wired to put off decisions whose outcomes may be uncertain or that appear to be "out of sight, out of mind." But retirement is closer than you think. Whether you have 40, 30 or 10 years to save, the time will pass more quickly than you think. By seizing the moment and beginning or adding to your savings account today, you have the benefit of time to potentially grow a larger nest egg, and to ride out rough market periods.

2. Delayed gratification can boost happiness. If you remember being a kid and saving your allowance money to buy a special toy, you will understand intuitively that immediate gratification doesn't always buy happiness. Saving for retirement is a marathon, not a sprint. It takes decades for your investments and your asset allocation to perform the way that they are intended. The payoff for patience? A smart retirement plan, in which your retirement income needs are matched to your ability to pay for them.

3. Think small investments, make them regularly. Ever see articles with titles such as "Can You Afford to Retire?" or "What's Your Retirement Number?" and think the only way for you to have enough money to retire is to invest big sums or play the lottery? Sometimes that perception can lead to inaction. Fact is, even setting aside $50 or $75 per week has the potential to grow to a sizeable sum, given enough time. The key is to start early, and to keep contributing regularly to your plan.

4. Stay in your comfort zone. Unquestionably, the financial crisis of 2008-09 took a major toll on American's retirement savings, in some cases cutting the value of nest eggs in half. The market volatility that followed this period revealed just how nervous many investors became about owning stocks. Investors must carefully consider their ability to continue an investment program when markets decline by 20% or 30% over a relatively short-term period. If such risks are intolerable, you should probably favor more conservative investments such as money market funds, fixed income or "stable value" options. Of course, bonds pay very low interest today, so as a general rule, keep the duration of the bond short, so that you can react quickly when interest rates go back up. It's also important to remember that asset classes that have less risk, such as money market funds, are less likely to generate returns that are higher than riskier asset classes, such as stocks. Investors are rewarded with higher returns for assuming higher risks.

5. Set realistic expectations. In investing, there are very few if any guarantees. For example, while investing in ultra-conservative investments has the potential to provide a positive if modest rate of return, it does not protect you from rising prices at the gas pump or the grocery store. That's why nearly all investors are best served by diversifying their portfolios with a mix of stocks, bonds and cash investments. It's also important that, as your retirement date approaches, you think about dialing back your exposure to riskier investments such as stocks. Although common stocks have historically been among the best-performing investments for individual investors, they do go through years and even decades of subpar returns.



Retirement in Motion

TIPS AND RESOURCES THAT EVERYONE CAN USE

Boomers on the Brink

Saving inspires greater confidence

Workers who currently contribute to an employer–sponsored retirement savings plan were more than twice as likely as those who do not to report savings of at least $50,000, according to a recent survey. Much higher average balances were reported for those in their 50s and 60s. Overall confidence levels in this group were higher too, with 64 percent of those who are currently contributing to a plan either very or somewhat confident that they will have enough to live comfortably throughout their retirement years, as opposed to only 48 percent of those who do not.[4]

Tools & Techniques

Think of buckets, not budgets for specific goals

Sticking to a regular savings plan is tough enough without having to go through a formal annual budgeting process. There's too much to keep track of mentally with a single savings budget. That's why some savers find it helpful to set up "buckets" for pursuing specific goals, such as education, retirement, car and home repair, health care and travel. And with online banking now available at nearly all financial institutions, it's easy to create, fund and track activity in subaccounts established for each savings goal.

Q & A

Where do I find info about my plan and fund fees?

By November 2012, you should have received information in your quarterly statement about the fees and expenses charged to your plan. This fee disclosure is designed to help you assess the value you receive by participating in your plan, and to help you compare your investment options on an apples-to-apples basis. In addition, this "plan-level" and "investment-level" disclosure information is also required to be posted on a publicly accessible web site. Check with your plan administrator if you have questions.

Quarterly Reminder

Rebalancing

Rebalancing is one of the best ways known to maintain investment discipline and to keep your asset allocation plan close to its target range. Rebalancing is pretty straightforward: Let's say you start out with a 50 percent stock, 50 percent bond portfolio. At the end of the year, the stock allocation grows to 60 percent and the bonds fall to 40 percent of the portfolio. To rebalance, you simply sell enough of the stock investments and buy enough bonds to restore the portfolio to the 50-50 balance.

Corner on the Market

Basic financial terms to know

Dividend yield

Company earnings are a big indicator of a large and established company's overall financial health. When companies retain their earnings, they can reinvest in their business, develop new products and services to market, or pay their shareholders a small share of their profits in the form of regular dividends. Dividends are usually declared and paid by companies on a quarterly basis; however, when the dividend is annualized and divided by the company's stock price, the resulting percentage is the stock's dividend yield.

4 EBRI, *2012 Retirement Confidence Survey*, March 13, 2012.

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