

# Planning Tomorrow...Today!®

RETIREMENT PLAN EDITION

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## MARKET WATCH 06/30/2009

♦ DJIA	8,447
♦ NASDAQ	1,835
♦ S&P500	919
♦ Fed Funds	0.25%
♦ Prime Rate	3.25%
♦ LIBOR	1.60%
♦ 30 Yr Mortg	5.42%
♦ 15 Yr Mortg	4.90%

## INSIDE THIS ISSUE:

How Should I manage My Retirement Plan?	1
It's Time To Get Real	1
Get Your Retirement Reality Check	2

## How Should I Manage My Retirement Plan?

Employer-sponsored retirement plans are more valuable than ever. The money in them grows tax-deferred until it is withdrawn at retirement. Distributions from a tax-deferred retirement plan, such as a 401(k) or 403(b) plan, are taxed as ordinary income and may be subject to an additional 10-percent federal tax penalty if withdrawn prior to age 59 ½. And contributions to a 401(k) plan actually reduce your taxable income.

But figuring out how to manage the assets in your retirement plan can be confusing, particularly in times of financial uncertainty.

Conventional wisdom says if you have several years until retirement, you should put the majority of your holdings in stocks. Stocks have historically outperformed other investments over the long term. That has made stocks attractive for staying ahead of inflation. Of course, past performance does not guarantee future results.

The stock market has the potential to be extremely volatile. The return and principal value of stocks fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Is it a safe place for your retirement money? Or should you shift more into a

a money market fund offering a stable but lower return? And will the instability in the markets affect the investments that are used to fund the guaranteed interest accounts? In an employer-sponsored retirement plan, you have the option of shifting the money in your plan from one fund to another. You can reallocate your retirement savings to reflect the changes you see in the marketplace. Here are a few guidelines to help you make this important decision.

*(Continued on Page 2)*

## It's Time to Get Real

During times of market volatility, it can be easy for investors to lose sight of two seemingly immovable obstacles standing in the way of their long-term investment goals: taxes and inflation.

The tax bite of investment returns is most obvious around April 15. The immediate effect of taxes takes anywhere from 10% to 35% of your investment returns in one fell swoop. The effect of inflation on investments can be harder to spot, but it may be just as threatening to your long-term return. Although inflation does not

immediately affect your return in the same way that taxes do, it decreases the purchasing power of what's left. In fact, in spite of deflation worries in October 2008, when the consumer price index experienced the biggest one-month drop in its 61-year history, inflation was still 3.7% higher than 12 months earlier.

To see the way in which taxes and inflation work in concert to reduce overall investment returns, an investor can determine the investment's real rate of return. As you can see in the hypothetical example below, an investor in the 25% tax bracket would need more than a 5% gross rate of return just to break even. (This example does not consider any state income taxes.)

You can use the worksheet to estimate the effect that taxes and inflation might have on one of your own investments.

Real Rate of Return Worksheet	Example	You
Investment return	5.00%	___%
Subtract income tax (return x tax rate ÷ 100) (example assumes a 25% tax rate)	- 1.25%	___%
Subtract inflation (30-year average annual rate)*	- 3.89%	___%
Real rate of return	-0.14%	___%

This hypothetical example and the investment rate of return are used for illustrative purposes only and do not represent any specific product. Actual results will vary.  
\*Thomson Reuters, 2009 (consumer price index for the period 12/31/1978 to 12/31/2008)

## Get Your Retirement Reality Check

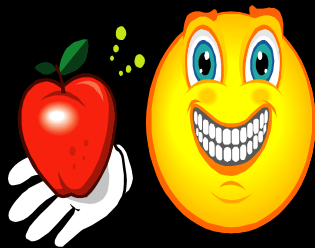
Do you have any idea of how much you need to save for the retirement lifestyle you envision? If not, you're like the majority of Americans who have never done the math. According to a retirement survey, only 47% of workers have tried to calculate how much money they will need for a comfortable retirement.

Even if your retirement seems a long way off, calculating your future income goal may help you become more serious about saving. In fact, 44% of people who have calculated a retirement savings goal made changes to their retirement plans, and of those almost two-thirds started to save more. A retirement needs calculation goes beyond the commonly suggested target to have 70% of pre-retirement income.

Your personal financial situation, desired lifestyle, health status, and life expectancy must be taken into account for a more accurate picture of your retirement needs. The familiar 70% figure usually assumes that all your major debts, including a mortgage, are paid off, and that your expenses in retirement will be lower than when you were working. Both assumptions may prove to be unrealistic. In the early years of retirement, some people may want to spend a significant amount of money on travel, the pursuit of their hobbies, and other leisure activities. In later years, health-care costs and possibly long-term care may eat away at a greater share of a retired couple's income. After taking a closer look at their individual situations, some people might determine that they would be more comfortable living on 80%,

90%, or even 100% of their pre-retirement incomes. Once an income goal is established, they can calculate the savings they will need to accumulate to generate that level of retirement income.

When determining your target retirement income, it's also important to think about the cumulative effects of inflation. If \$75,000 in today's dollars seems as though it would be enough, consider that the future purchasing power of that income would be significantly diminished over a period of 10 to 20 years. Fortunately, that same cumulative effect can also work in your favor. The sooner you begin saving for retirement, the longer your investment earnings will have to accumulate and multiply into the portfolio that you may eventually need.



We make a living by what we get, but we make a life by what we give.

## How Should I Manage My Retirement Plan?

*(Continued from Page 1)*

### Consider Keeping a Portion in Stocks

In spite of its volatility, the stock market may still be an appropriate place for your investment dollars — particularly over the long term. And retirement planning is a long-term proposition. Since most retirement plans are funded by automatic payroll deductions, they achieve a concept known as dollar cost averaging. Dollar cost averaging can take some of the sting out of a descending market. Dollar cost averaging does not ensure a profit or prevent a loss. Such plans involve continuous investments in securities regardless of the fluctuating prices of such securities. You should consider your financial ability to continue making purchases through periods of low price levels. Dollar cost averaging can be an effective way for investors to accumulate shares to help meet long-term goals.

### Diversify

Diversification is a basic principle of investing. Spreading your holdings among several different investments (stocks, bonds, etc.) may lessen your potential loss in any one investment. Keep in mind, however, that diversification does not guarantee against investment loss; it is a method used to manage investment risk.

### Periodically Review Your Plan's Performance

You are likely to have the chance to shift assets from one fund to another. Use these opportunities to review your plan's performance. The markets change. You may want to adjust your investments based on your particular situation.

Need information on your retirement plan? You can access our website at [www.MyBestPlan.com](http://www.MyBestPlan.com) 24 hours a day. Have a question? Feel free to e-mail us at [pas@FinancialGroup.com](mailto:pas@FinancialGroup.com). Participant Advisory Services can also be reached during normal business hours 8:30 a.m. to 5:30 p.m. EST, Monday through Friday at 800-393-9900. Thank you for letting us service your retirement plan.