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Why Save for Retirement?

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When you envision retirement, you probably see yourself living comfortably, doing what makes you happy. Your dreams could be as lofty as traveling the world or as simple as spending more time with your friends and family. Everyone's vision is unique.

Fortunately, whatever your dream, your employer wants to help you make it reality--by offering a retirement savings plan. Here's why you should consider taking full advantage of your plan.

Enhance your income strategy

Like so many other major life events, a successful retirement depends on advance planning. No matter what your age, now is the time to start thinking about where your retirement income will come from. Several possible resources may be available.

For instance, some people assume that Social Security will meet all of their retirement income needs. Others believe that Social Security will dry up before they retire. While no one can say exactly what the future holds, the truth probably falls somewhere in the middle.

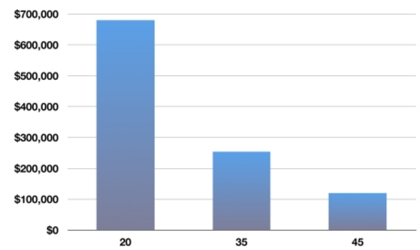
According to the Social Security Administration's *Fast Facts & Figures About Social Security, 2014,* the government-run program provides less than 40% of the income received by today's retirees. While some retirees get just a small percentage of their income from Social Security, others rely on the program as their only income source. As you think about how Social Security will fit into your plan, consider that it was never intended to be a retiree's only source of income. Social Security is meant as a safety net to help keep people out of poverty.

Another possible income resource is a traditional pension plan. These employer-provided plans, which reward long-term employees with a steady stream of income in retirement, were common during the twentieth century. Over the past couple of decades, however, traditional pension plans have become increasingly scarce. Even if you are one of the lucky ones who will receive traditional pension income in retirement, you may still need an extra cushion to be able to retire comfortably.

The cost of waiting

The younger you are, the less likely it is that saving for retirement is a high priority. If you fall into this category, consider this: Time can be one of your greatest advantages. Delaying your savings plan has the potential to be a costly mistake.

For example, say you invest $3,000 every year beginning at age 20. If your investments earn 6% per year, your account would be worth $680,000 at age 65. If you wait until age 35 to begin saving, your account would be worth just $254,000 at age 65. And what happens if you put off saving until age 45? In that case, you would accumulate just $120,000 by age 65. In this example, a 25-year delay cost you more than half a million dollars.



Of course, bear in mind that this example is hypothetical and for illustrative purposes only. It assumes a fixed 6% rate of return; however, no investment return can be guaranteed. The rate of return on your account will change over time. This example also does not take into account taxes or investment fees, which would reduce the performance shown if they were included. Withdrawals from your retirement savings plan are taxed at then-current rates, and distributions prior to age 59½ are subject to a 10% penalty tax (special rules apply to Roth accounts).

Current and future benefits

When utilized wisely, an employer-sponsored retirement savings plan can become your most important tool in planning for retirement. Your plan offers several benefits, including convenience (and possibly free money), tax advantages, and a variety of investments to choose from. Here's a quick snapshot:

- **Convenience:** When you participate in an employer-sponsored plan, your contributions are deducted automatically from your paycheck. Known as "payroll deduction," this process makes contributing to your plan easy and automatic--you pay yourself first before you even receive the money. In addition, some plans offer an

Why save for retirement?

Because people are living longer. According to the U.S. Administration on Aging, persons reaching age 65 have an average life expectancy of an additional 19.3 years. And since Social Security accounts for only 35% of total aggregate income for aged persons,** Social Security alone may not be enough to see you through your retirement years.*

****Source:** National Vital Statistics Reports, Volume 63, Number 9, 2014*

*****Source:** Fast Facts & Figures About Social Security, 2014, Social Security Administration*

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employer match, which is essentially free money. If your plan offers a match, be sure to contribute at least enough to get the full amount of your employer contribution.

- **Tax advantages:** Depending on the type of plan offered, you may be able to cut your tax bill both now and in the future. With a traditional 401(k)-type savings plan, contributions are deducted from your pay before income taxes are assessed. This method of "pretax" saving reduces your taxable income, and therefore the amount of tax you pay Uncle Sam each year that you participate in your plan. In addition, your investments benefit from tax deferral, which means you don't have to pay taxes on your pretax contributions, any employer contributions, and any earnings until you withdraw the money. Some employers also offer Roth accounts as part of the plan. With Roth accounts, you don't receive an immediate tax benefit, but qualified withdrawals are tax free.*
- **Investment choice:** Your plan offers a variety of investment options to choose from, so that you can put together a strategy that pursues your goals within a comfortable level of risk. Depending on the specific offerings in your plan, you may be able to combine a mix of investments or choose a single one designed to meet your investment needs.

*Withdrawals from non-Roth plans and nonqualified withdrawals from Roth plans will be taxed at then-current rates. In addition, early withdrawals will be subject to a 10% penalty tax.

It's up to you

Your employer-sponsored plan offers an important opportunity. Take the first important step toward turning your retirement dreams into reality by taking full advantage of your retirement savings plan.

If your plan offers an employer match, be sure to contribute enough to take maximum advantage of it. The match is a valuable benefit offered by your employer--additional money to invest for your future.

How a Retirement Savings Plan Works

Employer-sponsored retirement savings plans, such as 401(k), 403(b), and 457 plans, present an ideal opportunity to build a nest egg for retirement. You contribute to the plan via payroll deduction, which can make it easier for you to save for retirement. In addition, you may receive significant tax benefits along the way. Following is a brief overview of how your plan works.

Tax advantages

"Pretax" means that your contributions are deducted from your pay and contributed into your plan account before federal (and most state) income taxes are calculated. This reduces the amount of income tax you pay now. Moreover, you don't pay income taxes on the amount you contribute--or any returns you earn on those contributions--until you withdraw your money from the plan.

Example(s): *Taylor earns $40,000 a year and contributes 6% of his salary, or $2,400, to his plan on a pretax basis. Because of his plan participation, his taxable income is reduced to $37,600. He won't be taxed on those contributions or any earnings on them until he takes money out of his plan.*

Your plan might also offer a Roth account. Contributions to a Roth account are made on an after-tax basis. Although there's no up-front tax benefit when contributing to a Roth plan, withdrawals of earnings are free from federal income taxes as long as they are "qualified." (Note: With Roth accounts, taxes apply to withdrawals of earnings only; withdrawals of contribution dollars are tax free.)

Generally a withdrawal from a Roth account is qualified if:

- It's made after the end of a five-year waiting period (starting on January 1 of the year you make your first contribution) AND
- It's made after you turn 59½, become disabled, or die

Because employer-sponsored savings plans were established to help American workers prepare for their retirement, special rules are in place to discourage people from taking money out of the plan prior to retirement. With certain exceptions, taxable withdrawals from traditional (i.e., non-Roth) accounts prior to age 59½ and nonqualified withdrawals of earnings from Roth accounts are subject to both regular income taxes and a 10% penalty tax.

Traditional or Roth?

The decision of whether to contribute to a traditional plan, a Roth plan, or both depends on your personal situation. If you think you'll be in a similar or higher tax bracket when you

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retire, you may find Roth contributions more appealing since qualified income from a Roth account is tax free. However, if you think you'll be in a lower tax bracket in retirement, then contributing to a traditional pretax account may be more appropriate.

Employer contributions

Employers are not required to contribute to employee accounts, but many do through what's known as a matching contribution. Your employer can match your pretax contributions, your Roth contributions, or both. Most match programs are based on a certain formula--say, 50% of the first 6% of your salary that you contribute. If your plan offers an employer match, be sure to contribute enough to take maximum advantage of it. The match is a valuable benefit offered by your employer. In the example formula above, the employer is offering an additional 3% of your salary to invest for your future. Neglecting to contribute the maximum (and therefore not receiving the full match) is essentially turning down free money.

Often, employer contributions are subject to a vesting schedule. That means you earn the right to those contributions (and the earnings on them) over a period of time.

There are two possible vesting schedules for an employer-sponsored plan. One is called "cliff vesting," which means you have no right to the employer-provided portion of your account for your first three years with the organization. In year four of your employment, you are 100% vested--i.e., you have access to the entire amount of your employer's contributions and associated earnings.

The second type of schedule is called "graded vesting." With this type of plan, you cannot access the employer contributions and earnings in year one, but beginning in year two, you earn 20% of the amount each year. After six years, you are fully vested--100% of the employer matching funds are yours.

Keep in mind that you are always fully vested in your own contributions and the earnings on them.

Eligibility rules and contribution limits

You can contribute to your employer's plan as soon as you're eligible, as defined by the plan documents. Some plans will require up to a one-year waiting period, while others allow you to begin participating right away.

Still others provide for automatic enrollment, which means you will automatically be enrolled in the plan unless you specifically opt out. The automatic contribution amount is typically low, perhaps 3% or less, and your contributions will be placed in the plan's default investment.

If you have been automatically enrolled in your plan, be sure to check the contribution amount and investment selection to make sure they are appropriate for your needs.

The IRS imposes combined limits on how much participants can contribute to their traditional and Roth savings plans each year. In 2015, that limit is $18,000. Your employer may impose lower limits, however.

Participants age 50 and older can make additional "catch-up" contributions of $6,000 per year. (Special catch-up limits apply to certain participants in 401(k) and 457(b) plans.)

One smart move

An employer-sponsored retirement savings plan offers a tax-advantaged opportunity to save for your future. Participating in your plan could be one of the smartest financial moves you make.

Choosing Investments for Your Retirement Savings Plan

Your employer-sponsored retirement plan offers a variety of investments to choose from. How do you know which ones may be right for your needs? How many investments should you choose? And how much should you direct to each one? The keys to answering these questions are to understand your options and consider how they relate to your own personal circumstances.

Asset classes: the building blocks

When choosing investments to pursue your retirement accumulation goals, you'll need to balance the amount of risk you take in your

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The investments you select for your retirement savings plan will be based on your own personal circumstances.

Before investing in any mutual fund, be sure to request a prospectus, which contains more information about objectives, risks, fees, and expenses, and should be read carefully before investing.

Asset allocation and diversification cannot guarantee a profit or protect against a loss. All investing involves risk, including the possible loss of principal.

investment mix (or "portfolio") with the potential for returns. Generally speaking, the riskier the investment, the higher the return potential. But with this higher return potential comes a greater chance of loss, including the loss of your original investment dollars (your "principal").

There are three basic asset classes to choose from, and each has different risk/return characteristics.

- **Stocks:** Stocks represent ownership in a company--i.e., when you own stock in an organization, you actually own a small portion of that company. Stocks are the riskiest of the three asset classes, but historically have offered the greatest return potential over time. Stocks are offered in many different categories; some tend to be riskier than others. For example, the stocks of large, well-established companies are typically less risky than those of smaller, younger firms. Similarly, stocks of companies based in developed nations, such as the United States, are typically less risky than stock of companies in "emerging market" regions, where economies are not considered developed. Also, differences in financial reporting, currency exchange risk, as well as economic and political risk unique to the specific country can adversely affect the value of these securities.
- **Bonds:** Bonds are essentially loans made to a company or government (the "borrower") by the bondholder (you). In return for the loan, the borrower promises to pay income at a stated interest rate. However, there are no guarantees that steady repayments will occur or that the bond (or how much you paid for it) will maintain its value. For this reason, bonds typically fall in the mid-range of the risk/return spectrum. Like stocks, bonds come in a variety of categories, and some tend to be riskier than others. Bonds issued by the U.S. government tend to be more stable, while high-yield or "junk" bonds are typically among the most risky. U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest.
- **Stable value/cash:** These investments are designed to protect your investment dollars while pursuing modest returns. They're also used as a place to temporarily "park" your money while you decide on an investment strategy. Although this asset class generally carries a lower risk of loss to principal, it does have the risk that your investment returns won't beat the rising cost of living, potentially reducing your purchasing power over time. And although many cash investments strive to preserve your principal, there is no guarantee that they will be able to do so.

Mutual funds: instant diversification

For the most part, investors cannot purchase individual stocks, bonds, and other "securities" through a retirement plan. Rather, they can access them by choosing from a variety of mutual funds.

Mutual funds pool the money of many different investors to buy a series of securities. By investing in a fund or several funds, you own small portions of each individual security. The fund's manager chooses securities for the fund based on its stated objective, which is usually growth, income, or capital preservation. Generally, growth funds invest in stocks; income funds, in bonds (or dividend-paying stocks); and capital preservation funds, in stable value or cash securities. (Please note that while dividend-paying stocks are intended to provide income, the amount of a company's dividend can fluctuate with earnings, which are influenced by economic, market, and political events. Dividends are typically not guaranteed and could be charged or eliminated.)

Investing through mutual funds is an ideal way to utilize an investing principle known as diversification, which is the process of combining different types of investments in your portfolio to help manage risk. The thinking is that when one investment performs poorly, another may be holding steady or gaining in value.

Asset allocation: putting the pieces together

After familiarizing yourself with the investment options in your plan, the next step is to put together your mix, or "asset allocation." Although many factors will contribute to your asset allocation, three are particularly important--your savings goal, risk tolerance, and time horizon.

- **Savings goal:** How much do you need to accumulate in your plan to potentially provide the income you'll need throughout retirement? Targeting a goal will help you develop your strategy. After all, before mapping a route, you should first know where you're going.
- **Risk tolerance:** How much loss--5%, 10%, 15%--would it take to make you worry?

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Risk tolerance refers to your financial and emotional ability to withstand dips in your account value as you pursue your goal, and also helps you determine how to allocate your plan contribution dollars among the investments you select.

- **Time horizon:** How much time do you have until you will need to tap the money in your account? The longer you have, the more time you may have to ride out those dips in pursuit of long-term results.

Generally speaking, a large goal, a high tolerance for risk, and a long time horizon might translate into an ability to take on more risk in a portfolio. The opposite is also true: smaller goals, a low tolerance for risk, and a shorter time horizon might warrant a more conservative approach.

In many cases, your plan's education materials will provide tools to help you set a goal, gauge your risk tolerance, and choose investments for your strategy. You might also seek the assistance of a financial professional, who can provide expertise and an objective viewpoint.

IMPORTANT DISCLOSURES

Securities offered through Securities Service Network, Inc., Member FINRA/SIPC. Fee-based advisory services are offered through Chlebina Capital Management, LLC., a registered investment advisor.

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