OnTrack

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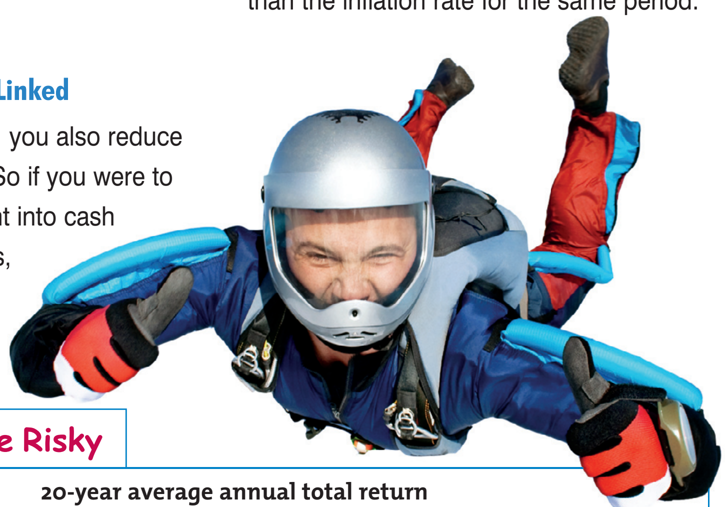
No RISK? No WAY.

Investing for retirement is a big deal. The last thing you want is for your investments to lose value. If you're worried that a drop in the stock market will tank your retirement savings, you may be tempted to fill your portfolio with low-risk cash alternative investments, such as funds holding short-term securities that can be readily converted to cash.* But if you do, you'll be trading one risk for another. These so-called "safe" investments are not risk free.

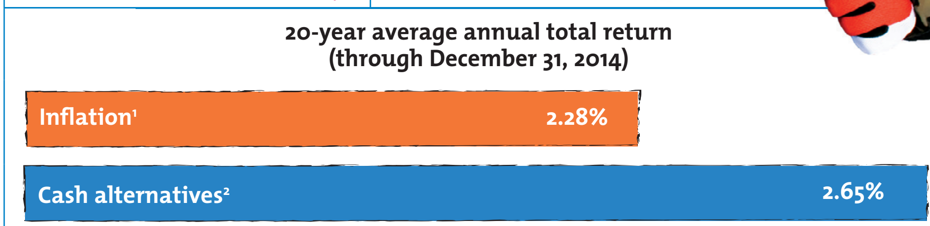
Risk and Return Are Linked

When you reduce risk, you also reduce your potential return. So if you were to put your entire account into cash alternative investments, you'd risk not earning enough on your investments to beat inflation. As a result, you could lose purchasing power.

Although there's not much risk of losing your principal by investing in cash alternatives, there is the risk that you may not reach your savings goal. If that happens, you might not be able to afford the kind of retirement you want. The graph shows that the 20-year average annual return for cash alternative investments is not much higher than the inflation rate for the same period.



Low Risk Can Be Risky



[1] Represented by the Consumer Price Index (CPI)
[2] Measured by Barclays U.S. Treasury Bill 1-3 month index

Past performance does not guarantee future results. Your investment results will be different. This chart is for illustrative purposes only and does not represent the performance of any particular investment. Investments cannot be made in an index. Stocks have greater return potential, but are more volatile than other investment types. Unlike stocks and corporate bonds, government bonds and Treasury bills are guaranteed by the U.S. government and, if held to maturity, offer fixed rates of return and stable principal. Source: DST

Some Risk Can Be Beneficial

You can adjust your portfolio's risk-return profile by including some riskier investments that offer higher potential returns than cash alternatives (e.g., stock and bond funds). The percentages of your account that you devote to stocks, bonds, and cash will depend in part upon how soon you plan to retire. The further away you are, the more risk you may be willing to take since your long time frame gives you more time to recover from losses. As retirement gets closer, however, it's generally wise to decrease your portfolio's risk exposure.

A Mix Is Best

You can't totally avoid risk when you are investing for a long-term goal. Instead, focus on managing risk by choosing a well-diversified** mix of investments.

** Note that cash alternative investments may not be federally guaranteed or insured and that it is possible to lose money by investing in cash alternatives.*

*** Diversification does not guarantee a profit or protect against losses.*

By Any OTHER NAME . . .

A spending plan is the same thing as a budget. You could also call it a financial blueprint. What you call it isn't important. What *is* important is that you have one. A budget or spending plan provides a frame of reference and serves as a guideline for making sure your money is working as hard as it can for you. Without it, you're making important financial decisions in a vacuum.

Keep It Positive

The main purpose of a spending plan is to help you maintain a positive cash flow, which means spending less than you earn. When your cash flow is positive, you have money left over after paying your bills.

What you do with those extra dollars can make a big difference, both in the short term and later on. Ideally, you'll use the money to build financial security by creating an emergency fund and saving for your future. You may have several financial goals, such as saving for a house down payment, college, and retirement. Even with multiple goals, you should make sure you continue adding to your retirement savings all through your working years.

Treasure Hunt

So what should you do if you want to take a vacation in a couple of years or upgrade that old couch in your living room? If you'd like to add a splurge to your budget, you can — as long as you cut back on spending in other places to make up the difference.

Cut Out Some Extras

This is a hypothetical example used for illustrative purposes only. It assumes a monthly investment of $65, an average annual total return of 6%, and monthly compounding. It does not represent the result of any particular investment. Your results will be different. Source: DST

You may not be able to do much to reduce your fixed expenses (e.g., rent or mortgage, insurance). But discretionary expenses are a different story. You might be surprised at how much you can save by cutting back on small purchases, such as buying coffee and bagels on the way to work every day.

Going through your spending plan may reveal other ways you can make progress toward your financial goals. For example, instead of being in a hurry to replace the car you just paid off, think about waiting a couple of years. Saving the equivalent of two years' worth of car payments and adding that money to your retirement account could give your nest egg a nice boost. As for that vacation you want to take, think about going off season to take advantage of lower rates. If you set the extra money aside, you might have more to spend on vacations when you retire.

Saved by Your Budget

Using a budget encourages you to pay attention to your cash flow. You'll know when you're in negative territory spending more than you earn, and you'll be able to take steps to correct the situation.

A prolonged pattern of overspending can land you in debt. Instead of using your money to help build financial security, you'll have to use it to pay down the amounts you owe, plus interest. You could be forced to put your financial goals on hold until you're debt free. That might be the best example yet of why you need a spending plan and how it can help you keep your finances on track — splurges and all.

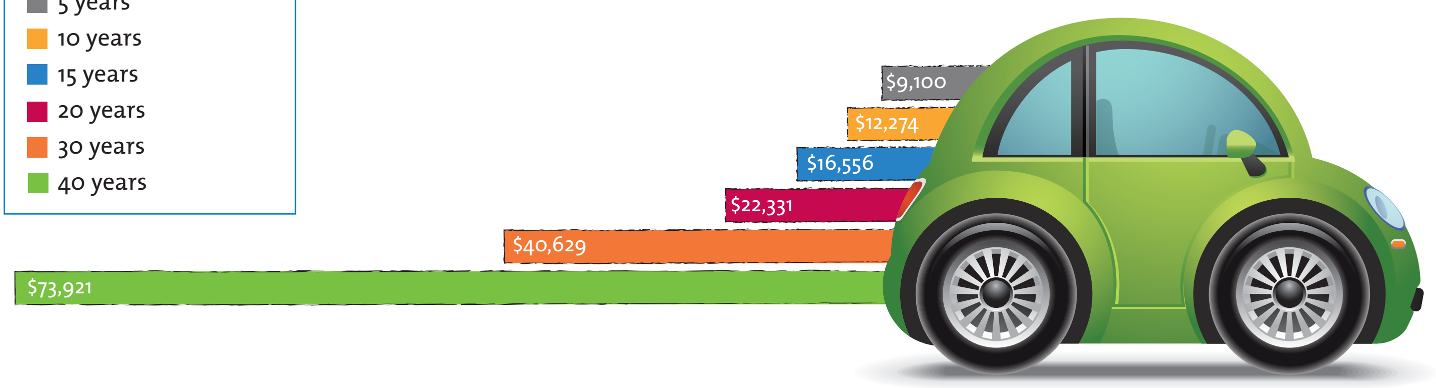
Take Your Vacation Off Season

Investment value after:
- 5 years
- 10 years
- 15 years
- 20 years
- 30 years
- 40 years

This is a hypothetical example used for illustrative purposes only. It assumes a one-time investment of $1,200, an average annual total return of 6%, and monthly compounding. It does not represent the result of any particular investment. Your results will be different. Source: DST

Wait Two Years To Replace Your Car

Investment value after:
- 5 years
- 10 years
- 15 years
- 20 years
- 30 years
- 40 years



This is a hypothetical example used for illustrative purposes only. It assumes a monthly investment of $299 for 24 months, an average annual total return of 6%, and monthly compounding. After the 24 months, the balance continues to be invested, earning an average annual total return of 6%, compounded monthly. This example does not represent the result of any particular investment. Your results will be different. Source: DST

The POWER of Compounding

Quick quiz. Two investors contribute the same total amount of money to their retirement accounts and earn the same average annual total return on their investments. Will their account balances be the same? Not necessarily.

A Tale of Two Savers

Here's an illustration using two hypothetical retirement plan participants:

- At age 25, Elayna starts contributing $200 a month to her retirement account and continues throughout her 40-year career (a total of $96,000).
- Eddie doesn't get started until he's 45, but he contributes $400 a month for the next 20 years (also a total of $96,000).
- Both earn an average annual total return of 6% on their investments (compounded monthly).
- Elayna's balance at age 65 is $398,298.
- Eddie's balance at age 65 is $184,816.

Why the big difference? Time and compounding. Because Elayna started to save so much earlier than Eddie, she was able to put the power of compounding to work for a longer period of time.

What's the Secret?

Here's how compounding works. The contributions you make to your retirement account are invested. Any earnings your investments generate are reinvested in your account. You then have a bigger pot of money — contributions plus earnings — which means you have the opportunity to generate even more earnings. Repeat. Compounding is generating earnings on your investment earnings.

Pick Up the Pace

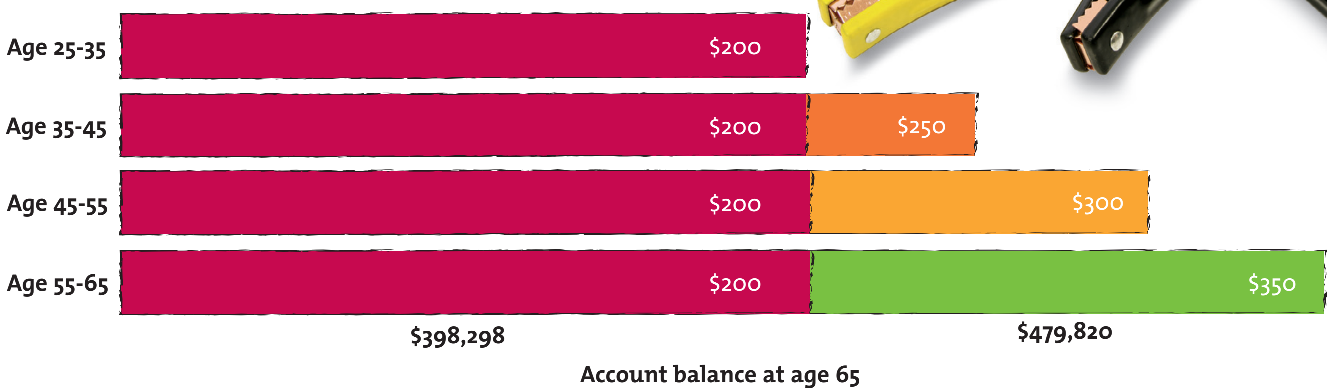
It stands to reason that the more you contribute, the more you may potentially benefit from compounding. And although investment returns are not guaranteed, steady investing gives your retirement plan savings the potential to grow through compounding. Years' worth of regular plan contributions plus investment earnings plus compounding can help you build the balance you'll need for retirement.

Don't Stop

Remember, the power behind compounding is time. Try not to stop making contributions, even for a short period. You may have trouble getting back in the habit of contributing. And if you're more like Eddie than Elayna, don't worry. You can still put the power of compounding to work. Just don't wait any longer to start saving for your future.

Give Compounding a Boost

What if Elayna had been able to increase her retirement plan contribution from time to time? Here's how her account would look if she'd found an additional $50 a month to contribute every so often.



The information is hypothetical and is used for illustrative purposes only. It assumes an average annual total return of 6% (compounded monthly) and is not intended to show the performance of any particular investment. Actual returns cannot be predicted and will vary. Income taxes will be due on accumulated amounts when received from the plan.
Source: DST