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OnTrack

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Slowly but SURELY

For the last several years, inflation has been so mild that you may not have felt its full impact. But over time, even small increases in the prices of consumer goods and services can have large consequences. Managing the financial effects of inflation can be difficult for anyone, but it may be especially challenging when planning for your retirement.

Impact on Buying Power

Over the 25 years from 1991 through 2015, the average annual inflation rate was 2.31%.* If inflation were to average 2.31% over the next 25 years, a salary of $30,000 today would need to grow to $53,097 to have equivalent buying power. Though this is only an example, it helps to illustrate the impact inflation can have.

During your working years, you may receive pay raises that can help you manage the effects of inflation on your budget. But since prices are likely to keep going up *after* you stop working, you should consider potential inflation when you're setting your retirement savings goal.

Staying Ahead of Inflation

Taking a highly conservative investment approach with your retirement investments may make you feel more comfortable, but it may not help much when you're trying to stay ahead of inflation. To reach your goal, you may have to take on additional risk by choosing some investments, such as stock funds, which have the potential for earning higher long-term returns.

Increasing the amount you contribute to your employer's retirement plan may be another smart strategy. The sooner you can start putting more money aside, the greater the chances that you'll be able to build the savings you'll need in the future.

Plan Now, Benefit Later

Inflation doesn't have to disrupt your plans for a financially comfortable retirement. Investing for growth and increasing your contributions to your retirement account can help you stay ahead of inflation and meet your retirement investment goals.

* U.S. Census Bureau

Effects of Inflation Over Time

	Loaf of bread	Baseball ticket	Pair of eyeglasses	Flat panel TV set
Today	$2.00	$30.00	$90.00	$750.00
2021	$2.24	$33.63	$100.89	$840.72
2026	$2.51	$37.70	$113.09	$942.41
2031	$2.82	$42.26	$126.77	$1,056.41

The prices shown in the "Today" column are hypothetical and for illustrative purposes only. Prices in your area may be different. Future prices reflect an annual inflation rate of 2.31%. Actual inflation may be higher or lower.

Source: DST

THINK TWICE About Taking a Break from Saving

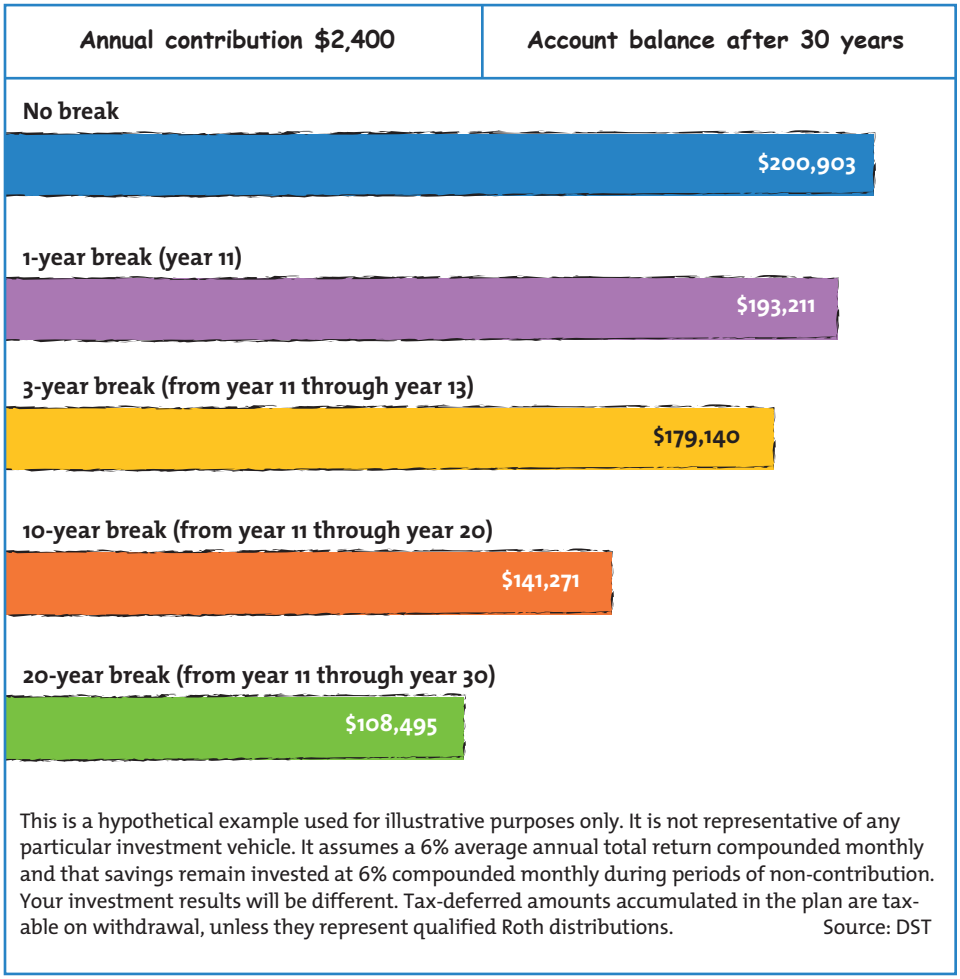
Have you found yourself in a situation that makes saving for your retirement more difficult? Instead of contributing to your retirement account, you may be tempted to use that money for other expenses that come up. But in the long run, pausing your contributions may be a mistake.

Spend Now or Invest for Later?

A new car. A vacation. A larger home. It's easy to focus on all the things you'd like to spend your money on today and delay long-term needs, such as saving for retirement. You may feel that you can take a short break from contributing to your retirement plan and start up again soon after. But there's a potential pitfall with that approach: You'll probably always have something else you *could* spend your money on. All too easily, the short break you'd envisioned may turn into a much longer one, shortchanging your retirement savings.

The Effect of Postponing

Skipping retirement contributions for just a short time can significantly decrease the amount you'll eventually have in your retirement account. Take a look at the example below.



Losing Out on Tax Benefits

If you take a break from contributing to your retirement plan, you're also taking a break from some important tax benefits. Until you withdraw money from the plan, you don't have to pay federal income tax on your contributions.* And because any earnings on your plan investments are not taxed until they're withdrawn, they are able to compound on a tax-deferred basis.

Take Advantage of a Good Thing

An advantage you have now is that you're already in the routine of contributing to your plan. It's convenient, since your contribution is automatically deducted from your pay and deposited into your plan account.

Taking a break from contributing may cause you to fall short in your retirement savings. You might have to delay retirement or work part-time while retired. And you may not be able to maintain the standard of living in retirement that you'd planned on. If possible, make contributing to your retirement account a high priority.

** Some retirement plans also offer a Roth contribution option. Unlike pretax contributions, Roth contributions do not offer immediate tax savings. However, qualified Roth distributions are not subject to federal income taxes when all requirements are met.*


SHORT TERM
LONG TERM

What Style SUITS You?

What comes to mind when you think of style? You might consider art, fashion, or architecture. For stock fund and portfolio managers, style refers to investing strategies.

Passive Style

Passive investing is one type of style. With a passive investing style, fund managers aim to reproduce the performance of a market index,* such as the S&P 500® (an index of 500 stocks issued by large U.S. companies). Funds that use this approach hold the same stocks in the same proportions as the indexes they follow.

Active Styles: Growth and Value

Active fund managers try to outperform a market index by buying and selling securities and use different methods to try to achieve this goal.

Those who follow a *growth* strategy of investing prefer the stocks of companies that typically offer above-average growth in earnings. Generally, these companies reinvest their earnings, a signal that they intend to keep growing.

Fund managers who follow a value style look for stocks whose prices they feel don't reflect the true values of the issuing companies. Sometimes, the price may be low relative to a company's current or potential earnings. And some of these stocks may be briefly out of favor with investors or come from troubled industries. Fund managers believe stock prices will eventually increase as investors discover that the stocks are underpriced and begin buying them.

Focusing on Size

Some fund managers focus on company size as measured by market capitalization, or "market cap." This is the total dollar value of a company's outstanding stock at a given point in time.

Large-cap stocks are those of the largest companies. They are usually well-known, established companies that have a significant share of the market and produce steady growth. These stocks may be suitable for investors interested in the potential for long-term capital appreciation.

Mid-cap stocks are generally more volatile than large-cap stocks but offer the potential for long-term growth. Mid-cap stocks may show more growth potential than large caps and possibly less risk than stocks of smaller companies.

Small-cap stocks offer relatively higher growth potential and higher risk than the other categories and are generally the stocks of newer or younger companies. Small-cap stock prices can be volatile but may offer substantial growth potential.

** An index is a measure of the value of a hypothetical portfolio of securities that is representative of the market (or market segment) it tracks. Indexes are unmanaged; no securities are bought or sold in an attempt to increase the value of the index. An investor cannot invest directly in an index.*