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Build a Solid Foundation

Building wealth takes time and work. It doesn't happen overnight and not without making it a priority. You need to set goals, have a good blueprint, stick to your plan and keep building on your success. By establishing good savings habits, you can accumulate wealth over your lifetime. Here are a dozen tips to build on:

1. **Dream big but stay grounded.** All big projects begin with a vision, require solid execution, and are grounded in practical matters. What's your vision? Know what you want to do in retirement, and what you're saving for. Then, take action and make it happen.
2. **Start early. Put time to work for you.** The earlier you begin to save, the longer your money can compound. In fact, by starting earlier, you can achieve more while saving less than someone who waits. In a hypothetical example, Jim begins saving at age 25 and accumulates $1 million by age 65 by saving just $522 a month and earning 6% a year on his investment. But Janet waits 20 years and only begins to save at age 45. Earning the same 6% a year, she'd need to save $2,195 a month to reach $1 million by age 65. For more on this topic, read "Timely Tips for Building Wealth" on page 2.

3. **Go for growth.** If you start early, your time horizon should help shape your investment mix. When you save for longer periods, it's easier to live with greater volatility (ups and downs) because you have more time to recover in the event of a loss. By investing more aggressively, you should have a greater chance for your money to earn a higher rate of return.
4. **Pay yourself first.** Invest the money before you can spend it. Payroll deduction in your retirement plan is simple, convenient and effective.
5. **Don't leave money on the table.** If you receive an employer matching contribution, contribute enough to receive the full match. Anything less is like leaving money on the table, or turning down a raise.
6. **Sweat the small stuff.** Little things add up. Bring a lunch to work, make your own coffee in the morning, don't buy on impulse, eat at a less expensive restaurant or dine out less frequently. Good financial habits make a difference and they leave you in control.
7. **Live within your means.** Don't spend money that you don't have. Spending less than you make frees up money for future use.

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Timely Tips For Building Wealth

When trying to build wealth, put time to good use

Start early and benefit from compound returns

Although they involve risks, stocks and bonds have tended to earn substantial gains over long periods. From 1950 to 2009, the S&P 500 Index returned 11.0% a year on average, despite losing 1% in the 2000s.[1] The longer your money is invested, the greater the opportunity for it to grow and for its earnings to compound. Look at the growth of $10,000 at a modest return of 6% a year, which would double every 12 years:

$10,000 doubles...	**to $20,000 in 12 years**
Then, $20,000 doubles	**to $40,000 in 24 years**
$40,000 doubles	**to $80,000 in 36 years**
$80,000 doubles	**to $160,000 in 48 years**

Tap into tax-deferred growth

When you invest in a tax-deferred savings account, such as a 401(k) plan, you don't pay tax on your investment earnings each year. With all of your money working for you, it can grow much faster than if it were taxed each year.

Ride the dips and peaks with dollar-cost averaging

Dollar-cost averaging is a great way to instill discipline by investing a certain amount regularly, such as once a month. Also, dollar-cost averaging lets you ride the market's ups and downs. The more time you have, the less concerned you may be with volatility because you can see every dip as a bargain or buying opportunity. For the same amount of money, you can buy more shares at a lower price per share. Dollar cost averaging does not ensure a profit or protect against a loss in declining markets.

Let your time horizon shape your investment mix

When you save for longer periods, it's easier to live with greater volatility. Investing in stocks or stock funds is more appropriate over 30 years, for example, than a 5- to 10-year time horizon. There can be a greater chance for your money to earn a higher rate of return if you invest more aggressively.

Next steps:

1) **Review your account and your budget:** Could you save more? If you save $10 more a week, that's $500 a year. And that can grow into thousands of dollars over time.

2) **Review your investments' performance:** Are they competitive with their peers (similar types of investments)? Rebalance or transfer into another fund if you have to. Be sure to focus on long enough periods—several years at least—to make fair judgments. But do this regularly so that if there is a problem, you can address it in a timely way.

3) **Estimate your retirement expenses and needs:** As retirement approaches, look at each expense category, and see if that expense will increase, decrease or stay roughly the same after you retire. Medical costs might rise, but transportation may go down and your rent or mortgage may be lower or non-existent. Step up your savings if you need to.

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8. **Use your 2% well.** For 2011, the government gave everyone a gift: 2 percentage points off the Social Security tax of 6.2%. Put that money right into your retirement savings.

9. **Think for yourself.** Many investors follow the crowd. They don't want to miss out on the latest big thing. But often by the time a crowd is following a trend, the best opportunity has come and gone. It's better to think for yourself and follow your own path.

10. **Learn from others.** Make your own decisions, but learn from others and build on their knowledge and experience. Talk about investing with a relative or close friend, attend seminars, and read books and magazine articles.

11. **Take your time.** Don't be rushed into quick decisions. If you have several decades, keep on doing what has worked for you, and maintain a steady course.

12. **Stay focused.** Review your progress regularly, but keep moving in a straight line. It'll get you to your goal faster.

1 http://www.simplestockinvesting.com/SP500-historical-real-total-returns.htm

Use Caution When Searching for Yield

For a long while, short-term interest rates have been very low, and yields on various savings and investment products—such as money market accounts and short-term CDs—are below or at the current rate of inflation.

In search of higher yields, some investors are taking on dangerous levels of risk as they explore bonds. Not all bond funds are the same, and for the price of higher yields, an investor could actually lose principal. As with any investment, weigh the risks or consequences along with its potential for higher returns.

Always consider both risk and return

Understand the risks that affect bonds. As always, risk and return go hand in hand. There's a reason that a higher-yielding bond fund offers the potential for higher returns. Just like stocks, high yield bonds can have fairly large swings in performance—from double-digit annual losses to double-digit gains.

> These bonds are issued by companies with poor credit ratings—firms that have a greater chance of defaulting on the bond. These higher-risk bond issuers must offer higher yields in order to attract investors and compensate them for the additional credit risk.

On the other hand, being very conservative will protect your money from investment market swings, but you'll face other risks. These include:

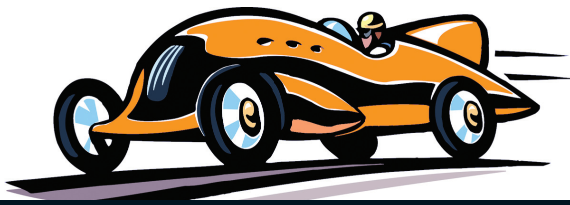
• **Interest rate risk** Bonds can be adversely affected by the movement of interest rates. As rates rise, bond prices drop. The longer the bond's duration, the more it will be affected by interest rate movements. Even long-term government bonds can lose principal as rates rise, and interest rates will eventually rise—no one knows when or how quickly.

• **Inflation risk** All investments have some degree of inflation risk. That's the risk that a rise in the price of goods and services will erode the value of that investment. If inflation rises faster than the yield of a conservative savings vehicle, such as a certificate of deposit or money market account, then the value of those savings will drop in real (after-inflation) terms. The longer the investment period, the more inflation grows as a concern.

• **Longevity risk** The greatest risk that we face as we head towards retirement is longevity—the chance that we might outlive our money. Because of this risk, and inflation risk, it's important to explore investing in stocks as part of your long-term investment mix, because stocks can outpace the long-term rate of inflation and potentially generate higher returns.

Diversified approach always good

Investors face numerous risks. Because your financial security could be affected by any one of these risks, it's good to maintain a broadly diversified portfolio that protects you from a variety of risks. Consider your time horizon and risk tolerance when deciding how much risk to take on as you seek higher yields, and be wary of exposure to unnecessary—or dangerous—levels of risk.



Retirement in Motion

TIPS AND RESOURCES THAT EVERYONE CAN USE

Boomers on the Brink

Issues facing participants approaching retirement

More early boomers to keep working

A study on early baby boomers by Met Life predicts that those born between 1946 and 1955—currently 55 to 65—will transform work and retirement. Fewer than half of those age 65 to 69 will retire by the time the first boomers turn 70; early boomer men age 60-64 have the highest level of educational attainment of any age group of men. This makes it more likely they'll work after age 65. Among working early boomers, three of four women and three of five men had white-collar jobs that paid more than other jobs and were less physically demanding, making it easier for them to stay in the workforce.

Q & A

Common questions asked by retirement plan participants

Is taking a loan from my 401(k) plan account a good idea?

While some 401(k) plans offer the option to borrow from your account, which can be very helpful in some circumstances, it's an option to use sparingly. When you take money from your account, even temporarily, you lose the benefit of that money compounding. Over the long term, the loss of compound earnings could add up. It's also difficult to contribute to your retirement plan while repaying the loan, and if you leave your job before repaying the loan in full, you'll have to pay income tax and possibly penalties on the balance. So, avoid taking a plan loan if you can.

Quarterly Reminder

Why are you saving? Revisit your goals.

Do you know why you are saving? Do you have a specific goal? Think about it. Review your goals so that you can formulate or renew a specific game plan. If you are on target, keep on your successful path. Are your investments too risky or conservative for your goal? Are your financial plans realistic? If you need to save more in order to reach your goal, how will you do it? Saving money is a great habit. But having a particular target in mind will give you more reason to save and encourage you to save more.

Tools & Techniques

Resources and ideas to guide you in your retirement planning efforts

AARP launches new easy-to-use retirement calculator

AARP has a new retirement calculator that aims to balance usability and accuracy. Some retirement calculators are easy to use but very basic while others may be complex or confusing. The new AARP tool allows you to develop a plan for a dual-income household, including individual Social Security benefit estimates. You can experiment with various retirement scenarios to create a meaningful, individualized plan. It also provides links to AARP resources to learn more. Go to: http://www.aarp.org/work/retirement-planning/retirement_calculator/

Corner on the Market

Basic financial terms to know

Net Worth

Do you know what you are "worth"? Net worth measures how much your net assets are, or your assets minus your liabilities. A simple way of looking at it is: everything you own (investments and physical assets) minus everything that you owe (all loans and credit card balances). For example, if you own a house, that asset is the value of the house minus the balance on your mortgage. Add up all your assets and subtract your liabilities. That's your net worth. Do that once a year and see how much your net worth grows from year to year.

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