

OnTrack

Time for Some **GOOD NEWS**

Does it seem like *news* has joined the list of things you can't avoid? These days, news of the economy is everywhere. And much of it is negative. In this struggling economy, you may be discouraged about how your retirement plan investments are performing. Instead of dwelling on the negatives, however, try to look for the positives.

Plan Assets Are Kept Separate

The investment options your plan provides are subject to market risks, and falling investment values certainly are a concern. In addition, you may be worried about the security of your account. However, qualified retirement plans are closely regulated by federal law. After funds are contributed to your employer's plan, they must be kept completely separate from your employer's accounts and may be used only for the benefit of plan participants and beneficiaries.

You Can Take It with You

Federal law also provides you with a lot of flexibility in terms of the portability of your retirement savings. If you change jobs, you won't have to start over. You may have several options for keeping your retirement savings in your current plan or moving your savings to another tax-advantaged retirement account, so you can keep making progress toward your long-term savings goal.

Think of the Future

If you're worried that investing may not be the best way to prepare for your future, take a look at the past. You've heard this before, but it's worth repeating: Although there is no guarantee that history will repeat itself, the stock market has always bounced back after a drop. There have been numerous recessions and periods of economic turbulence in the past. Each time, the stock market has eventually recovered and gone on to new highs.

When investment values drop, those close to retirement may

have to make some adjustments to their short-term plans. However, those with a longer time to save and invest for retirement have an opportunity. Continuing to regularly save and invest when prices are low could give your account balance a nice boost if prices rebound in the future.

As always, you'll want to make sure that your investments are adequately diversified* and that the way you've allocated your assets (divided them among different types of investments) is appropriate for your risk tolerance, investing time frame, and goals.

Half Full

Optimism has been linked to such things as happiness, good health, and success. The next time you need a reason to be optimistic, think about the safeguards and the opportunities your retirement plan offers.

** Diversification does not ensure a profit or protect against loss in a declining market.*



Here's a BARGAIN for You

Everybody's looking for bargains so they can save money. And there are plenty to be found if you look around. Although you might not realize it, your retirement plan is a great bargain — a great tax bargain, that is.

Put More in Your Pocket

Contributing to your retirement plan offers you two opportunities to save income taxes. To begin with, if you contribute on a pretax basis, you don't have to pay taxes on the plan contributions you make until you withdraw money from your account.*

When you take advantage of this opportunity to defer taxes, you end up saving tax money every payday. Here's a hypothetical situation to illustrate.

Claire earns \$2,500 a month. Since she's serious about saving for retirement, Claire defers \$300 a month before taxes to her retirement account. As a result, instead of paying \$375 in federal income taxes each month ($\$2,500 \times 15\%$, Claire's marginal tax rate), she pays only \$330 ($\$2,200 \times 15\%$). Claire saves \$45 a month, or \$540 a year.

Earn Now, Pay (Tax) Later

Your investment earnings also get a "pass" on federal income taxes. The income your retirement investments earn — and the earnings on those earnings — is not immediately taxed. Income taxes will be due on your account earnings when they are withdrawn from your account.* But, in the meantime, not having to pay income taxes immediately

on your earnings can add up — that's the power of compounding.



Savings You Can Bank On

If your tax bracket is	and your annual contributions are	your actual cost in take-home pay is	which means annual savings of
10%	\$1,200	\$1,080	\$120
	\$3,600	\$3,240	\$360
15%	\$1,200	\$1,020	\$180
	\$3,600	\$3,060	\$540
25%	\$1,200	\$900	\$300
	\$3,600	\$2,700	\$900
28%	\$1,200	\$864	\$336
	\$3,600	\$2,592	\$1,008
33%	\$1,200	\$804	\$396
	\$3,600	\$2,412	\$1,188
35%	\$1,200	\$780	\$420
	\$3,600	\$2,340	\$1,260

Source: NPI

Before Claire joined her employer's plan, she decided to find out whether tax-deferred earnings would be an advantage. She compared how investing \$300 a month in a tax-deferred retirement account stacked up against putting the same amount in a taxable account.

Take Credit for Contributing

Saving for retirement may offer you another tax-saving opportunity: a federal tax credit called the Saver's Credit. If you meet certain income requirements, you may be eligible for a 10%, 20%, or 50% credit on up to \$2,000 in retirement

contributions a year. The credit percentage you're eligible for depends on your adjusted gross income (AGI).

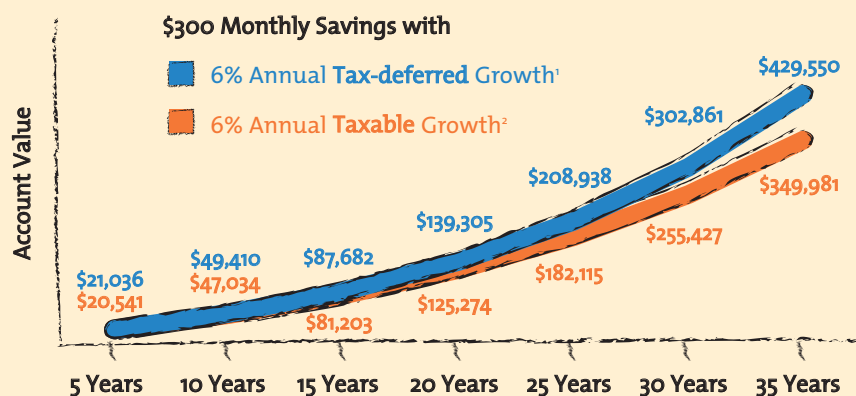
With an AGI of \$26,400, Claire (a single filer) is eligible for a tax credit of 10%. So, in addition to the \$540 in annual federal income-tax savings from contributing pretax money to her account, she's looking at trimming her federal taxes by an additional \$200 (\$2,000 x 10%). Bottom line: Claire is contributing \$3,600 a year to her retirement account. But combined federal tax savings of \$740 drops Claire's net cost to only \$2,860.

Happy Hunting

If you like finding bargains, do what Claire does: Take full advantage of the tax bargains that your plan offers. Save taxes while saving for your future.

** 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.*

Tax-deferred vs. Taxable Growth



¹ Tax-deferred retirement savings will be subject to income tax when distributed from the account. Amounts withdrawn from the taxable investments will not, since they already have been taxed. Assumes monthly compounding.

² Assumes annual federal income tax at a 15% rate and monthly compounding.

Your investment returns will be different from this hypothetical example, which does not represent the performance of any particular investment. Source: NPI

Saver's Tax Credit Amounts for 2009

	50% Credit	20% Credit	10% Credit
Couples Filing Jointly Earning	Up to \$33,000	\$33,001 - \$36,000	\$36,001 - \$55,500
Head of Household Earning	Up to \$24,750	\$24,751 - \$27,000	\$27,001 - \$41,625
Single & Married Filing Separately Earning	Up to \$16,500	\$16,501 - \$18,000	\$18,001 - \$27,750

The maximum credit is \$1,000 for an individual, \$2,000 for a married couple. Earnings are adjusted gross income (AGI). To qualify, you also must be age 18 or older before the end of the year and can't be a full-time student or claimed as a dependent on someone else's return. Source: IRS

Stick to the FACTS

How do you know if the time is right to change your retirement investments? It's a challenging question that all investors face. Figuring out the answer will be easier if you remember one important thing: Look at the facts.

Fact #1: Your Risk Tolerance Can Change

How do you feel about investment risk right now? If it's been a while since you asked yourself that question, you may find that the answer has changed, especially since the stock market has been extremely volatile. Some investors react to volatility by reducing their exposure to investment risk. They switch out of higher risk investments (such as stock funds) and buy lower risk investments (such as bond funds or cash equivalents). Other investors look at a volatile market as an opportunity to buy stock investments at a discount and improve their long-term chances for growth.

Volatility isn't the only thing that can change how you feel about investment risk. Changes in your life — getting married, having a baby, getting divorced, losing a spouse, etc. — also may cause a change in your risk tolerance. It's a good idea to review your investment strategy whenever there has been a life-changing event.

Fact #2: Your Time Frame Will Shorten

When you're just starting out, you have time for your investments to recover from market slumps. As you get closer to your goal, however, conventional investing wisdom calls for reducing your exposure

to risk. Once retirement is on the horizon, consider reducing risk by trimming the portion of your account invested in higher risk investments and increasing the portion invested in lower risk investments.

Fact #3: Your Asset Allocation May Be Off

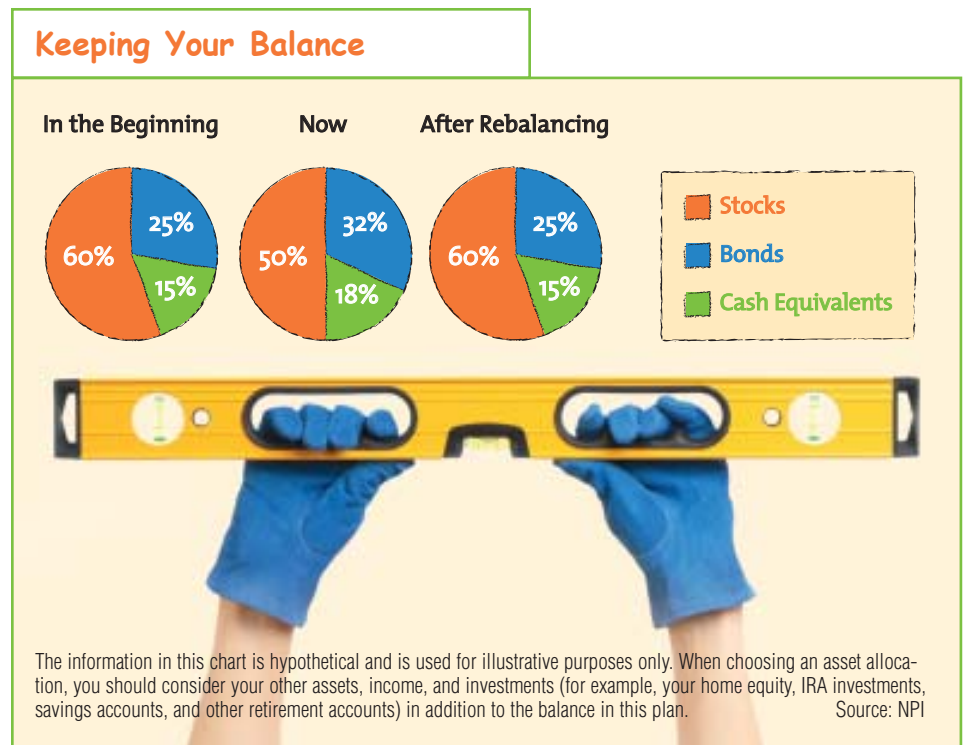
Asset allocation* is the way you spread your investments among the different asset classes (stocks, bonds, and cash equivalents). Sometimes, investment performance can alter your original percentages. When your asset allocation is out of balance, you're exposed to more — or less — investment risk than you intended, and that may have an impact on your investment returns. So you may need to rebalance.

One way to rebalance is to sell investments in the asset classes that are overweighted and buy investments in the underweighted types. (You can do this all at once or over a period of months.) Or you can direct new plan contributions into underweighted asset types until the asset class percentages are back on track.

Review Often

Participating in your retirement plan is a long-term opportunity. To make the most of it, you should review your investments on a regular basis (at least annually) by checking the facts and making changes when necessary.

** Asset allocation does not guarantee a profit or protect against losses.*



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