RETIREMENT PLAN CONSULTANTS

RPC NEWS

A quarterly newsletter for Retirement Plan Participants

Hey, Millennials — Retirement Matters!

When you're in your twenties and just starting out in your career, saving for retirement might not seem that important. It can be hard to save for retirement when you have so many other demands on your money. But getting a head start on saving while you're young could have a significant impact on your future financial security.

Out in the Real World

If you've just started working at your first "real" job, you may be earning more money than ever before. But you could have new expenses, too. If this is your first time living independently from your parents, you're now the one responsible for paying for rent and utilities, groceries, gas, insurance, and all your other living expenses. Plus, you may be paying off your student loans and saving to buy a new car. Setting aside money for a distant retirement might not seem to be a sensible thing for you to do right now. But this really is the ideal time to save.

Time Is on Your Side

Saving for retirement while you're in your twenties will give your savings more time to benefit from potential compounding. Compounding occurs when investments generate earnings and the reinvested earnings generate additional earnings. You therefore have the potential to earn returns on your contributions and your earnings. The longer the compounding process has to repeat itself, the larger your account balance may be at retirement.

Your Plan Makes It Easy To Save

Saving for retirement is very convenient with your employer's plan. You don't have to make a special trip to the bank or write a check each month. Your plan contributions are automatically deducted from your paycheck each pay period and put into your plan account. Because you don't receive that money, you aren't tempted to spend it instead of saving it. Try to increase your contribution whenever you can.

Built-in Plan Benefits

Your employer's retirement plan also offers you a number of investment options. These likely include the three main asset classes: stocks, bonds, and cash investments. Stocks tend to provide the highest potential for long-term returns but the greatest risk for short-term losses. Bonds generally provide more modest returns than stocks but are less volatile. While cash investments are considered the least risky, they offer the lowest potential returns. These funds or portfolios are professionally managed. You can select a well-diversified mix* of investments that fits your risk tolerance and time frame.

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

Website 101:

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Facts of Investing Life

Some things will never change: The sun will always rise in the east, country singers will always sing about broken hearts, and it will always rain after you've washed your car.

On a more serious note, there are also certainties in the world of finance and investing. Two are particularly important for plan participants: (1) The prices of stocks and bonds will rise on some days and fall on others and (2) inflation will always be around. Understanding these two realities and knowing what — and what not — to do in response can help you better manage your plan investments.

Rising and Falling

The values of stocks, bonds, and other investments can rise or fall on any given day. But the different asset types don't always move in the same direction. Stocks and bonds, for example, often react differently to developments in the market or economy. That's why you might want to consider diversifying your portfolio by selecting different types of investments.*

Although past performance never guarantees an investment's future results, in the past, bond returns have often been good during periods when stock returns were not so good — and vice versa. The chart illustrates how investing in both asset classes can help an investor lessen the impact of market risk.

Steady Erosion

On to inflation. Even though inflation rates have been low during recent years, inflation can still "rob" your savings. For example, over a 30-year period, a relatively low average annual inflation rate of 3% will reduce the purchasing power of a $200,000 retirement savings account to $82,397.

That's why it's so important to account for inflation as you plan for your retirement. Even when inflation is low, it will increase the amount of income you'll need once you retire. If you want to maintain your standard of living throughout your retirement years, being able to absorb the impact of inflation is important. To combat the effects of inflation, you want your retirement plan investments to earn a rate of return that's greater than the annual inflation rate. That doesn't necessarily ensure that you'll meet your retirement income needs, but you'll at least keep pace with inflation. Investing a portion of your account in stocks, which have the greatest potential to earn inflation-beating returns, also increases the potential for your portfolio to meet your needs.

Your situation is unique, so be sure to consult a professional before taking action.

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Bonds Versus Stocks: Performance Variations

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016
Bonds	5.25%	5.93%	6.54%	7.84%	4.22%	-2.02%	5.97%	.55%	2.65%
Stocks	-36.99%	26.45%	15.06%	2.11%	13.41%	32.39%	13.69%	1.38%	11.97%

Stocks measured by the S&P 500 Stock Index, an index of the stocks of 500 major corporations. Bonds measured by the Bloomberg Barclays Capital U.S. Aggregate Bond Index, an index of U.S. government, corporate, and mortgage-backed securities with maturities up to 30 years. Both indexes are unmanaged and carry no expenses. You can't invest directly in an index. These returns are for illustrative purposes only and don't reflect the returns of any specific investment or the returns stocks and bonds may earn in the future. Past performance doesn't guarantee future returns. Your investment returns will be different.

Source: DST