

INVEST

IT'S
YOUR
FUTURE

STRATEGIES FOR **STARTING OUT**, **BUILDING UP** AND **ENJOYING IT**

IS IT TIME
TO RETHINK
BONDS?
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4 Steps for Spring Cleaning Your Portfolio

Regular Rebalancing Keeps
Your Portfolio on Track



Just like a car, your company-sponsored retirement portfolio requires a regular tune-up. That's because different investment sectors react differently to various market and economic cycles, which could cause your portfolio's asset allocation to drift out of balance over time. This drift could expose you to increased investment volatility, higher market risk and the potential for long-term investment underperformance. Rebalancing is a tried-and-true maintenance practice that ensures your portfolio stays in tune with your target asset allocation.

Online employee retirement plan portals make this a fairly painless process, as you can access your investments and make changes quickly and easily. So roll up your sleeves, log in and follow these four steps for rebalancing your portfolio.

1. Check your target asset allocation: This should reflect your risk tolerance, your investing time horizon and your overall investment goals. Use your asset allocation as a guideline when reviewing your portfolio. While you don't want to react to every market movement, you may want to consider rebalancing if one sector moves more than 5 percent from your target.

2. Review the timing of dividend and income distributions: Most employees use mutual funds when investing in their company-sponsored retirement plan. Funds tend to distribute dividends and capital gains

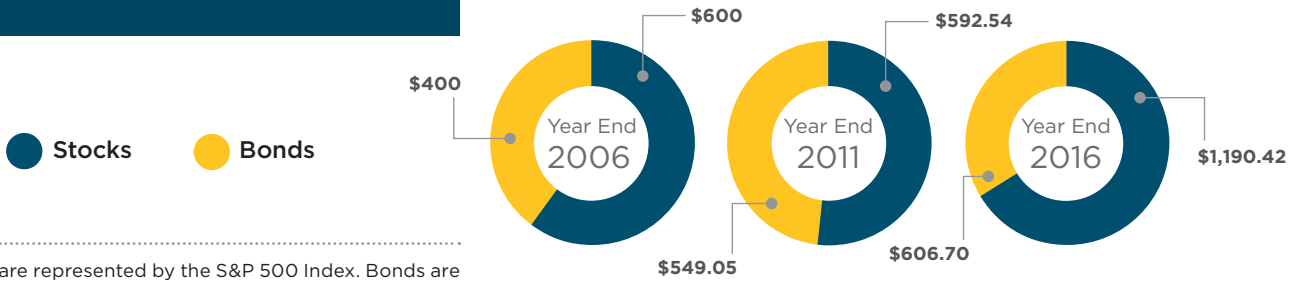
in December, while interest income may be distributed throughout the year. Try to time any sales around these distributions so that you don't miss out on income.

3. Consider selling gainers: You invest in the market to make money, which makes a year like 2016 a win because most equity markets performed well. However, that performance can skew your portfolio towards stocks. Selling some of your stock holdings that have performed well and reinvesting the proceeds in sectors that have lagged, such as fixed income, can help you lock in those gains while tilting your asset allocation back to your original plan.

4. Redirect contributions: If you don't want to sell your winners, you can direct future contributions to the asset classes that are underweighted in your current portfolio. That could mean adjusting the mix of your contributions to rebalance your portfolio back to your original target.

SAVING MORE MAKES A DIFFERENCE

Here's how a portfolio that started out as 60 percent stocks and 40 percent bonds in January of 2007 would have shifted without rebalancing.¹



¹Stocks are represented by the S&P 500 Index. Bonds are represented by the Barclays Aggregate Bond Index. Source: S&P Capital IQ

HOW DO YOU COMPARE?

More Americans Feel Confident About Their Retirement Plans

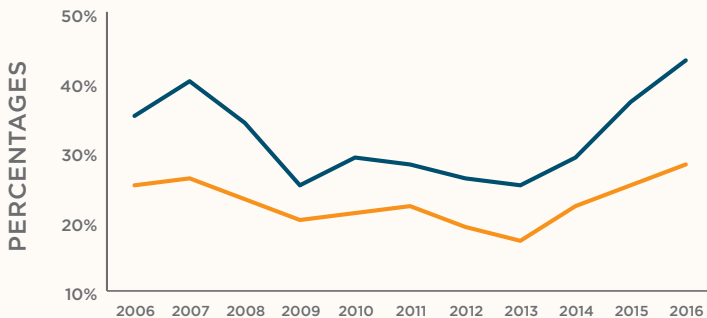
In tandem with an improving economy and falling unemployment, workers are feeling more confident about their preparation for retirement. Despite this faith, though, there is a disconnect between confidence levels and how much workers are actually saving for retirement, according to the most recent report from the Employee Benefit Research Institute.²



74%

of workers feel very or somewhat confident in their ability to cover basic expenses in retirement.

WORKER CONFIDENCE INCREASES...



Worker Confidence in Ability to Pay Retirement Expenses



Worker Confidence in Doing a Good Job to Prepare for Retirement

...WHILE ACTUAL SAVINGS RATES AND KNOWLEDGE LAG



Workers' Current Level of Savings and Investments

- 2016
- Have a Plan
- Have No Plan

² "The 2016 Retirement Confidence Survey," Employee Benefit Research Institute, March 2016.

Reduce Risk With Diversification

Consider Including Stocks, Bonds and Cash in Your Portfolio

In your investment journey towards a secure retirement, you'll encounter many types of risks. Here are the three major risks that every investor faces and tips on how diversification can help reduce your exposure to them.

Market risk:

The risk that markets will drop significantly or underperform for an extended period. A diversified portfolio ensures that you're invested in all three major market asset classes so that when one sector is underperforming, the other asset classes may perform better or at least remain neutral, dampening the impact of one sector's underperformance.

Interest-rate risk:

The risk that interest rates will rise or fall, impacting your investments. While rising rates can negatively impact bond prices (the price of bonds move in the opposite direction of their yields), falling rates can negatively impact cash and stocks. Diversifying into stocks, bonds and cash will help position your portfolio so that at least one asset class in your portfolio may have the potential to thrive regardless of the interest-rate environment.

Inflation risk:

The risk that inflation (the tendency of prices to increase) will rise, eroding the future purchasing value of your investment. Your investments need to grow faster than the rate of inflation in order to provide the real growth necessary to meet your retirement goals. Equities are the only asset class that has outperformed inflation over the long term.

You can't control the markets, but you can control your asset allocation. By ensuring your portfolio is properly diversified among cash, stocks and bonds, based on your risk tolerance, time horizon and investment goals, you'll be better positioned to ride out the regular ups and downs of market cycles.



Mortgage Makeover

5 Tips for Finding the Right Loan

With interest rates in flux, the mortgage market is zigging and zagging. Here are some suggested strategies for finding the best loan for you needs, whether you're buying a home or refinancing.

- 1 **Know your credit score:** Get your free score at sites such as Credit Karma ([creditkarma.com](https://www.creditkarma.com)), and review your credit reports regularly at [AnnualCreditReport.com](https://www.annualcreditreport.com) so that you can correct any mistakes.
- 2 **Determine your budget:** Helpful calculators include the Home Affordability Calculator at [Realtor.com](https://www.realtor.com) and the Refinance Calculator at [Zillow.com](https://www.zillow.com).
- 3 **Research lenders:** Check out mortgage search engines such as [Bankrate.com](https://www.bankrate.com) and get rates from local lenders either online or by phone.
- 4 **Understand all the costs and fees:** The U.S. Department of Housing and Urban Development ([hud.gov](https://www.hud.gov)) and the U.S. Federal Reserve ([federalreserve.gov](https://www.federalreserve.gov)) both have useful guides on fees and expenses.
- 5 **Shop around:** Download the mortgage shopping worksheet from the Consumer Information Division of the Federal Trade Commission ([consumer.ftc.gov](https://www.consumer.ftc.gov)) to compare loan costs to help you determine the best deal.

The Case for Bonds

Bonds Provide Crucial Portfolio Diversification

After raising interest rates twice in the past two years, the U.S. Federal Reserve Board (the “Fed”) is expected to continue increasing rates slowly during 2017. That reflects good news for the economy because the Fed usually raises rates during times of economic growth. Regardless of where rates are headed, though, most investors could benefit from holding bonds in their portfolios. Here’s why:

How Bonds Work

Bonds are basically I.O.U.s. The issuer promises to pay the bondholder a set amount of interest, typically twice a year, over a specific period of time—say 10 years, for example. At the end of the term, called the bond’s maturity date, the issuer repays the full amount of the loan, or the face value of the bond.

The interest rate is based on a variety of factors, including the creditworthiness of the issuer (or the risk that the entity will not be able to pay back the loan in the future) and term of the loan. Typically, the higher the perceived risk of getting your money back, the higher the interest rate. For example, U.S. Treasuries pay the lowest interest rates on the market because bondholders are confident that they will be repaid.

How Interest Rates Impact Bonds

Because the interest rate is set for the life of the bond, the price of the bond moves in the opposite direction of





interest rates. Consider this example: You buy a \$1,000, 5-year bond paying 10 percent interest, or \$100 a year. If interest rates rise to 11 percent and you want to sell that bond, you would have to sell it at a lower price so that it would yield 11 percent of its purchase price. Conversely, if interest rates drop, the value of your bond would rise.

Of course, if you hold that bond until maturity, fluctuating interest rates won’t impact your investment. Rates can impact bond mutual funds, though, as managers frequently buy and sell bonds based on market and economic conditions. They also need to replace maturing bonds in the portfolio.

Diversify With Bonds

Investing in bond funds insulates your portfolio against large swings in the equity market because, typically, bond values rise when stocks drop, and vice versa. As a result, portfolios composed of both stocks and bonds are likely to be much less volatile than a portfolio composed of stocks alone. Over time, this benefit of diversification could protect you on the downside from excessive losses and capture investment gains on the upside. By sticking with a diversified portfolio through good times and bad, you can help position your portfolio to meet your goals and provide you with income in retirement.

TYPES OF BONDS: Like stocks, there are many different types of bonds that fill a variety of purposes.

	 GOVERNMENT BONDS	 CORPORATE BONDS	 AGENCY BONDS	 MUNICIPAL BONDS
Issued By	U.S. government	Companies	U.S. government agencies	States, cities and counties
Purpose	Finance public spending and government debt	Pay for buildings, factories, materials and acquisitions	Finance purchase of mortgages from banks and provide agricultural funding	Pay for roads, sewers, building and other local projects
Tax Status	Exempt from state and local taxes	No tax exemption	Some are exempt, depending on issuing agency	Exempt from federal and some state and local taxes
Safety	Backed by the U.S. government	Depends on credit rating of issuing corporation	Some are backed by the U.S. government	Depends on credit rating of issuing city, state or county
Available As	Bonds, mutual funds and ETFs	Bonds, mutual funds and ETFs	Bonds, mutual funds and ETFs	Bonds, mutual funds and ETFs

Realizing Your Retirement Goals

Everyone has financial dreams—buying a first home, putting the kids through college or retiring to a warm beachfront community. The best way to make those dreams a reality is to set specific goals and identify milestones along the way to help you measure your progress and stay on track. Here are tips for reaching your retirement goals.

STARTING OUT

\$18,000 Worker contribution limit to employer-sponsored retirement plans in 2017¹

60% Percentage of 401(k) plans that offer a Roth after-tax contribution option²

It's hard to imagine what retirement might look like when it's still several decades away, but the more you plan today, the more options you will create for yourself in the future. Start by evaluating retirement plan benefits as part of the overall compensation package when considering job offers. Ideally, your employer will offer you a tax-advantaged retirement plan and match your contributions up to a certain level. Save as much as possible in your employer-sponsored plan, and commit to increasing your contribution level by 1 percent a year until you reach your annual contribution limit. And don't forget to design an asset allocation strategy that fits with your long-term investment horizon.

BUILDING UP

50 Age around which workers' earnings tend to peak³

\$6,000 Catch-up contribution limit for workers age 50 and over in 2017⁴

With less time until retirement, use your peak earning years as an opportunity to boost your retirement savings. First, commit to contributing on an annual basis the full amount allowed into your retirement account. Once you reach age 50, take advantage of the extra "catch-up" contribution that allows you to put more tax-advantaged savings into your employer-sponsored retirement plan each year. Free online retirement-planning tools can help you estimate your true retirement income needs based on your personal situation, as well as show you how much you need to save today to reach your ultimate savings target.

ENJOYING IT

40% Percentage of preretirement income that Social Security generally replaces for those with average earnings⁵

27% Percentage of retirees who say they've worked for pay since retiring⁶

Once you retire, you will still need a plan for efficiently managing your income and investments. Create a budget to determine how much income you will need every month, and don't forget to factor in quarterly or annual expenses, such as taxes or insurance payments. You'll also need extra income set aside for unexpected costs, including health care expenses and home repairs. Make sure your investment portfolio is properly allocated among stocks, bonds and other investments to provide both the income and growth you will need to sustain a potentially very long retirement. Consider options for maximizing Social Security, such as waiting until full retirement age or even age 70 to claim benefits.

¹"IRS Announces 2017 Pension Plan Limitations," <https://www.irs.gov>.

²"59th Annual Survey of Profit Sharing and 401(k) Plans." Plan Sponsor Council of America, Dec. 19, 2016.

³"What Do Data on Millions of U.S. Workers Reveal about Life-Cycle Earnings Risk?" Federal Reserve Bank of New York, February 2015.

⁴"IRS Announces 2017 Pension Plan Limitations," <https://www.irs.gov>.

⁵"Prepare for Your Financial Needs," <https://www.ssa.gov>.

⁶"The 2016 Retirement Confidence Survey," Employee Benefit Research Institute, March 2016.





Q What are my choices for consolidating my retirement accounts?

A If you own multiple retirement accounts, such as retirement plans with previous employers or individual retirement accounts (IRAs), consolidating them could streamline your investments and simplify your life.

One option is to roll any accounts from past employers into your current employer-sponsored retirement account, if your plan allows it. This could make sense if you like your current plan's investment choices and fees. An advantage to keeping your retirement assets in an employer-sponsored retirement plan is that you could borrow against those assets, if your plan allows it, and in most cases federal law protects assets in employer-sponsored retirement accounts against creditors.

Another option is to roll over balances from past employers into a Traditional IRA. Your money would still grow tax-deferred, and you may have a greater number of investment options to choose from. If you have multiple IRAs, they can all be consolidated into one account.

You may also want to consider a Roth IRA. Assets rolled into a Roth IRA will be counted as income and taxed at your current rate, but future distributions from the Roth may be exempt from federal income taxes if you are over age 59½ and the account is held for at least five years. Another advantage is that Roth IRAs are not subject to required minimum distributions at age 70½.

Because these are tax-advantaged accounts, though, there are strict rules governing any rollovers or transfers. Be sure to talk to your plan administrator and check with your tax or financial advisor before making any moves.

Q What's the difference between a mutual fund and an exchange-traded fund (ETF)?

A While mutual funds and ETFs share some similarities, there are three major differences:

1. Trading and pricing: ETFs can be traded during the day, and prices fluctuate based on the value of the securities in the ETF's portfolio. Mutual funds can only be traded at the end of the day. Although you can place an order to buy or sell mutual funds at any time, that order can only be executed once the fund's shares are priced after the market closes.

2. Costs: Both mutual funds and ETFs charge expense ratios, which include operating and management costs. But ETF fees are usually lower because they don't charge additional 12b-1 fees that traditional mutual funds collect. Because ETFs are traded like stocks, you may have to pay a transaction fee to buy and sell ETFs. You can buy and sell shares of no-load mutual funds, which include most mutual funds in company-sponsored retirement funds, without paying any commissions.

3. Transparency: Most ETFs must disclose which stocks, bonds or other securities they own every day. Mutual funds must disclose their holdings every quarter. You can usually find this information on your fund or ETF company website.

