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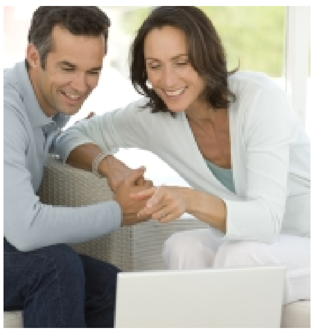


Saving and Investing Wisely for Retirement

The more you can save for retirement, the better your chances of retiring comfortably. Some ways to get started include:

- ***Start saving as early as possible***
- ***Invest on a regular basis***
- ***If you participate in an employer-sponsored retirement plan, take advantage of automatic contributions***
- ***If your plan allows, make appropriate investment choices for your time horizon***

Although tax-deferred accounts may have benefits over taxable accounts, it is possible that lower maximum tax rates for capital gains and dividends, as well as the tax treatment of investment losses, would make the investment return for the taxable investment more favorable, thereby reducing the difference in performance between the taxable and tax-deferred investments.

The benefits of saving in an employer-sponsored retirement plan

The more you can save for retirement, the better your chances of retiring comfortably. One of the best ways to save for retirement is to max out your contributions to an employer-sponsored retirement plan, such as a 401(k) plan, up to the legal limit.

Why is an employer-sponsored retirement plan such a good retirement savings vehicle? One reason is that your pre-tax contributions to your employer's plan lower your taxable income for the year. This means you save money in taxes when you contribute to the plan. For example, if you earn $100,000 per year and you contribute $10,000 to a 401(k) plan, you'll pay income taxes on $90,000 instead of $100,000.

Another reason is the power of tax-deferred growth. With an employer-sponsored retirement plan, any investment earnings have the potential to compound year after year and aren't taxable as long as they remain in the plan. Over the long term, deferring taxes could leave you with a much larger balance than that of someone who invests the same amount in taxable investments at the same rate of return.

Also, keep in mind that when you do take withdrawals from an employer-sponsored retirement plan, federal and state income taxes will be due at current rates on your pre-tax contributions, any employer contributions, and any investment earnings (special rules apply to Roth accounts). Also, early withdrawals will generally be subject to a 10% penalty tax.

Why is it important to invest your retirement savings wisely?

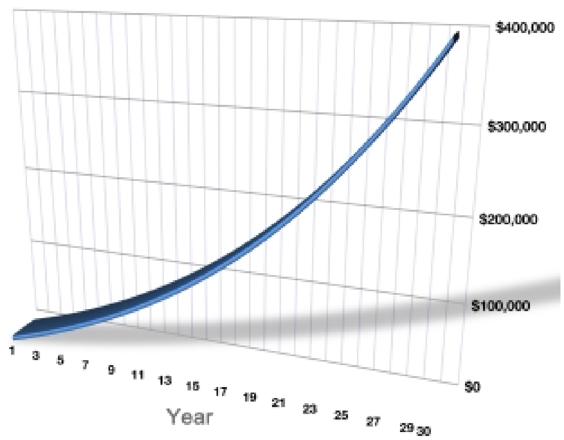
To try to fight inflation

When people say, "I'm not an investor," it's often because they worry about the potential for market losses. It's true that investing involves risk (e.g., investment losses) as well as reward, and investing is no guarantee that you'll beat inflation or even come out ahead. However, there's also another type of loss to be aware of: the loss of purchasing power over time. During periods of inflation, each dollar you've saved for retirement will buy less and less as time goes on.

To take advantage of compounding

Anyone who has a savings account probably understands the basics of compounding: The funds in your savings account earn interest, and that interest is added to your account balance. The next time interest is calculated, it's based on the increased value of your account. In effect, you earn interest on your interest.

Example of compounding interest



Compounding works similarly over time with investment earnings. Let's say you invest $5,000 a year for 30 years (see chart). After 30 years you will have invested a total of $150,000. Yet, assuming your funds grow at exactly 6% each year, after 30 years you will have over $395,000 because of compounding.

Note: *This hypothetical example of mathematical principles is used for illustrative purposes only and does not represent the performance of any specific investment. Fees, expenses, and taxes are not considered and would reduce the performance shown if they were included. Actual results will vary. Rates of return will vary over time, particularly for long-term investments. Investments with the potential for higher rates of return also carry a greater degree of risk of loss.*

Compounding has a "snowball" effect, which can be advantageous when saving for retirement. The more money that is added to a retirement account, the greater its benefit. The sooner you start saving or investing for retirement, the more time and potential your investments have for growth. In effect, compounding helps you save for retirement by doing some of the work for you.

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