TEXAS STATE UNIVERSITY
The rising STAR of Texas

Your Retirement

Why do you need to plan for retirement?

A more comfortable retirement doesn't just happen. It takes vision, planning, and determination. Part of the planning you need to do involves understanding why you need to save for retirement in the first place. Read on for some retirement realities you may face after you decide to begin your retirement.

People are living longer and healthier lives

The good news is that with today's focus on health and fitness, people are living longer and healthier lives. Depending on when you retire, you could spend 15, 20, 25 years or more in retirement. Because you want your money to last as long as you do, it's important to make sure you're working toward that goal.

Will you have enough income?

While Social Security is often a significant source of income for most retired people, it was never designed to be the only source. On average, Social Security replaces less than half of a person's income after retiring.

Potential Sources of Retirement Income

- Social Security
- Pension*
- Savings
- Earnings from Work

* Traditional pension plans are far less common than in the past.

Real Life

"I plan on being here for a long time. I work out, do maybe 100 miles a week on my bike. Retirement? I'm only 23. It's so far away, why should I bother to think about retirement now? I'll tell you why: So I don't miss out on the opportunity for tax-deferred compounding that participating in my employer's plan gives me. I choose my investments carefully and check my account regularly. Yeah, I know . . . I have my whole life ahead of me. But I want to make sure I have something to show for it."

— Vernon Alexander

Why Invest

You want work to be a choice

Many people find that they may need to work part-time after retirement to supplement their income. If your hoped-for retirement doesn't include work, then you'll have to make the most of the retirement planning opportunities you have.

Inflation means things will cost more

Inflation is the rise in the cost of goods and services over time. Many things you buy may cost more in the future because of inflation.

You want a great retirement

All of the facts you've read are important. But the most important reason to plan is that you want a more comfortable retirement. Imagining what you want to do in retirement is an important first step in getting started.

Write your retirement goals here:

1) ______________________________

2) ______________________________

3) ______________________________

Investing Can Be Easy

Why your retirement plan is a great way to invest

For most people, investing is easier when they are investing for a specific goal and have a specific way to reach that goal. Your retirement plan gives you a simple way to work toward your retirement goals, and it offers some special advantages that you can't get with other types of savings plans.

You enjoy the convenience of automatic deductions

Your retirement plan is set up to provide you with the convenience of automatic deductions. The money comes out of every paycheck automatically. So even if you've found it hard to save in the past, your retirement plan can make it easy.

You may be able to roll over money from other plans

If you have had a retirement savings account at another employer, you may be able to consolidate your accounts. Talk to a financial professional about the pros and cons of rolling over your account balance.

You control your investment choices

Within the terms of the plan, you can arrange your plan investments in a way that best fits your personal needs and goals. And you can switch your investment choices as your situation changes.

Your Plan Brings It Together

It's an easy way to save!

Saving for something that may be as far in the future as your retirement may seem difficult. But as you've already seen, the special benefits offered by your retirement plan make it easier to save.

- *Payroll deductions* make it simple for you to save a portion of your salary from each paycheck.
- *Tax-advantaged savings and potential tax-deferred compounding* make your money work harder for you.
- *It's always your choice* of how much you want to contribute, what type of contributions to make, and how you want your contributions invested among the options offered by your plan. Even if your plan "automatically enrolls" employees at a specific percentage of pay (as some plans do today) and offers a "default investment" to those who don't choose their own, you always have the right to choose your own contribution rate and select your own investments. Your options are explained elsewhere in these materials.

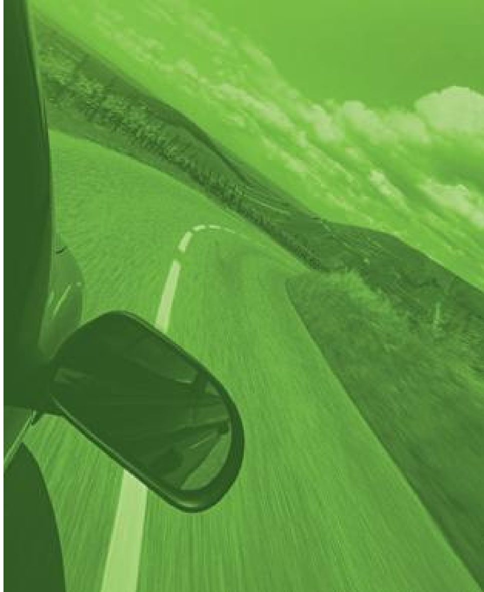
Start saving early

Time can be your most important ally when you're saving for retirement. The longer you have to invest, the greater the potential benefits of compounded earnings. And saving gradually over several years is less difficult than trying to save a lot when you have less time until retirement. Even if you begin by contributing just a small amount early in your career, you may come out ahead because of all the time you'll have to invest your money.

Real Life

"As an avid road rally participant, I know that mapping a strategy is important to success. When I began participating in my employer's retirement plan, I wanted to be sure I was making the right decisions for my situation. So, I took stock of my situation now and what I think it might be in the future, and made the choices I thought would best help me reach my goal. I am looking forward to the time I can rally full-time, and I'm hopeful my retirement plan choices today will help me get there sooner."

— Tony Lawrence

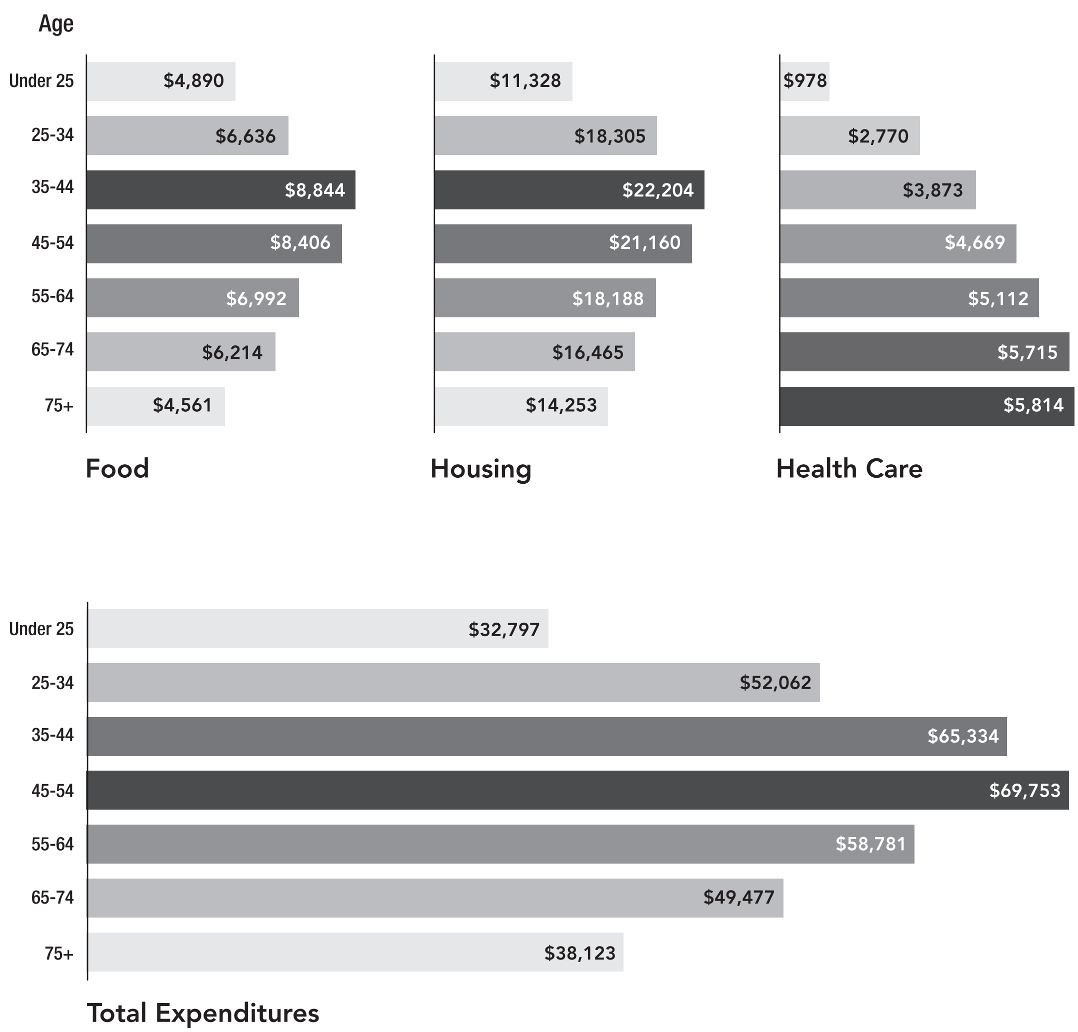


Your Retirement Income

How much will you need?

The retirement income rule of thumb is to replace 70% to 90% of your current income throughout retirement. However, depending on your financial goals and personal situation, you may need more or less than this. To help determine how much income you will need, take a look at the graphic below. As you can see, average household spending tends to decline after age 54. However, some expenses, such as health care, may increase with age.

Average Household Spending*



* Represents the average annual (2015) expenditures by a "consumer unit." The average number of people in a consumer unit varies for the different age groups and is 2.5 across all the groups. Not all categories of expenditures are shown.

Source: Consumer Expenditure Survey, U.S. Bureau of Labor Statistics, August 2016

Invest in Your Future

The difference between saving and investing

Saving is putting something aside for use later. Investing is when you put something in with the hope of getting something better out. Understanding how to invest doesn't have to be hard. You just need to learn a few terms and investing strategies.

What are the major types of investments?

There are three major types of investments — stocks, bonds, and cash alternatives. Each of these investment types has its own characteristics described below:

Stocks represent shares of ownership in a company. Sometimes called "equities," stocks can make you money in one of two ways — by growing in value or by paying dividends.

Bonds are loans made to a government or corporate entity. In return for borrowing money, bond issuers pay a fixed amount of interest. For this reason, bonds are often called "fixed income" investments. Investments in bond funds are subject to interest rate, credit, and inflation risk.

Cash alternatives can be turned into cash at any time without losing much, if any, of their original value. Cash alternative investments include certificates of deposit (CDs), U.S. Treasury bills, and money market funds. While U.S. Treasury or government agency securities provide substantial protection against credit risk, they do not protect investors against price changes due to changing interest rates. While the market values of government securities are not guaranteed and may fluctuate, these securities are guaranteed as to the timely payment of principal and interest.

What is a mutual fund?

In your retirement plan, you usually don't invest in individual stocks or bonds — you invest in mutual funds. A mutual fund pools the money of many investors who share the same investment objective. A professional fund manager then invests this money in stocks, bonds, and/or cash alternative investments in a way that pursues the investment objective.

Mutual funds are not FDIC insured; are not deposits or obligations of, or guaranteed by, any financial institution; and are subject to investment risks, including possible loss of the principal amount invested. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost.

Real Life

"I've been an avid gardener ever since I was a child. So many colors, so many choices. That's what I like best. I can plant daisies or snapdragons or tulips — or whatever — and if one plant doesn't do as well as I'd like, something else can take its place. I invest the same way. I never put my retirement money in just one investment, I spread it around. The fancy name for this is diversification, but to me it means not putting all my flowers in one basket."

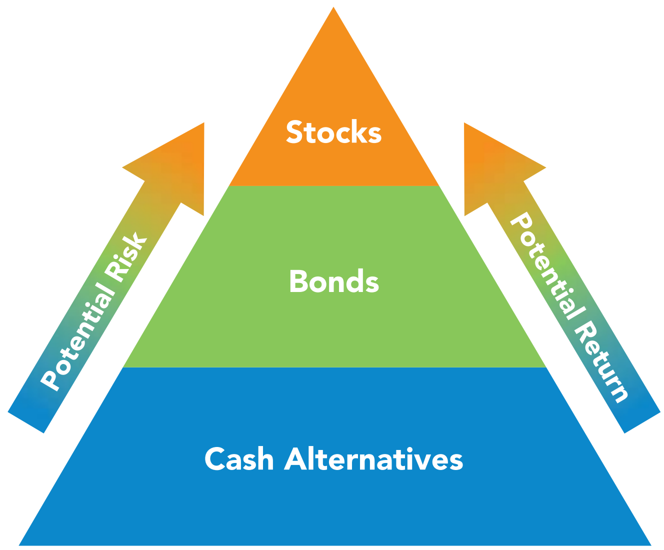
— Sonja Pena

Understanding Risk

Greater risk, greater potential return

Every investment carries risk. In general, the greater the level of risk you're willing to take, the greater the potential return. Listed below are some simple tools that can help you manage risk.

The Relationship Between Risk and Return



Diversification helps you manage risk

Diversification is the process of spreading your money around within an investment type. Let's say you invest your money in a stock fund. That fund may hold stock in many individual companies. Even if a few of those companies do poorly, those losses may be offset by the stocks that perform better than expected. But be aware that diversification does not ensure a profit or protect against loss in a declining market.

Time can smooth out risk

Stocks have historically been much riskier than investments like bonds or cash alternatives. However, stocks have historically outperformed other types of investments over time.

If you have many years until retirement, you can usually afford to be more aggressive with your investments because you have more time for your money to recover if your investments fall in value. If you are nearing retirement, you may decide to take a more cautious approach by investing in more conservative investments.

Your Asset Allocation

Asset allocation helps you manage risk

Asset allocation is one proven investment strategy for managing risk. It takes diversification one step further by spreading your money over different types of investments, or asset classes. By spreading your money across asset classes, you can help balance risk because different investments may do better in different market conditions — stocks may thrive while bonds languish, and vice versa.

Some funds do the asset allocation for you

Your plan may offer blended funds that spread the money around for you. These are often called balanced, asset allocation, or lifestyle funds. These funds can make it easier for an investor to get the advantages of a broadly diversified, balanced portfolio in a single investment. While some of these funds may handle portfolio rebalancing for you, it is important to note they still require some monitoring to ensure that the portfolio is in line with your current situation.

Creating an asset allocation strategy

When you create an asset allocation strategy, you decide how much of your money you want to put into each of the three major asset classes based on your time horizon, investor type, and personal goals. Creating an asset allocation strategy can be done in a few simple steps.