*Money*Talks

Wisconsin Deferred Compensation (WDC) Program

Is There a Gap in Your Retirement Savings?

Will your retirement income be enough to cover all your expenses in retirement? One national study says you may need more than 15 times your final pay in retirement resources to maintain your current standard of living during retirement.[1] Those retirement resources can include an employer-provided defined benefit plan, such as the Wisconsin Retirement System (WRS), a defined contribution plan such as the Wisconsin Deferred Compensation (WDC) Program, as well as Social Security and personal savings.

In its study of more than 2 million employees at large U.S. companies, Hewitt Associates found that four out of five workers will fall short of meeting their financial needs in retirement unless they increase their savings, retire at a later age, or significantly reduce their spending in retirement. Moreover, factoring in anticipated medical costs and inflation, Hewitt projected employees will need 15.7 times their final pay available to meet their financial needs during retirement. By that calculation, someone who earns $50,000 in the last year of employment will need a total of $785,000 available to retire comfortably at age 65.

What about Social Security? According to Hewitt, Social Security is expected to provide only an average of 4.7 times final pay. That means an individual's other retirement income sources—such as employer-provided plans and personal savings—must comprise 11 times final pay.

In its study, Hewitt Associates found that just 18% of the employees who work a full career and contribute to a defined contribution plan (like the WDC) are expected to achieve this goal.

So what does this mean for you? Take a look at your financial resources—is there a gap in your retirement savings? It's possible that your WRS and Social Security benefits (if applicable) combined will not be enough to maintain your current standard of living in retirement. Unless, of course, you supplement them with other savings.

Closing the potential gap between what you have and what you'll need for retirement savings may seem like a daunting task. But the good news is that even small changes can dramatically improve your retirement picture. Hewitt's first recommendation for closing that gap is to start saving. You have already taken the first step by saving through the WDC.

The next step is to regularly increase the amount of your deferrals. Hewitt's analysis showed that many workers who increase their salary deferrals by 1% each year for five years will be on track to meet most of their financial needs in retirement.

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1 Hewitt Associates, Retirement Income Adequacy at Large Companies: The Real Deal 2010

In This Issue:

FDIC Insured Bank Option: M&I Bank has declared an annualized interest rate of 0.42% for the second quarter 2010.

Let Go of Your Emotions

Emotion motivates many investors. Understanding this human tendency may help you avoid common investment mistakes.

An individual who held funds that matched the S&P 500's return from 1990 to 2009 would have earned an annualized gain of 8.20%. But the typical equity fund investor earned an average annualized return of just 3.17%, according to research firm DALBAR Inc.[1,2] DALBAR attributes this shortfall to investors' tendency to invest in stock funds after the market rises and sell after the market declines—that is, to buy high and sell low.

When emotions rule

Behavioral economists have documented and categorized a number of common emotion-driven investment errors:

> **Loss aversion:** People tend to fear losses more than they enjoy gains.[3] As a result, you may be tempted to hold much of your retirement savings in cash investments, which tend to be stable but don't offer the long-term growth you may need to reach your goals.
>
> **Herding:** Individuals often make the same choices they see other people making. "Following the herd" may blind them from making decisions based on their own financial goals.

It may be impossible to remove emotion entirely from your investing decisions. However, you can help manage your reaction to the market's ups and downs by reviewing your investments on a regular schedule—say every three months. This way, you'll have time to think through your decisions, rather than react emotionally to headlines.

One way to help check emotional investing is to use the Rebalancer feature on the WDC website at **www.wdc457.org**. Rebalancer automatically redistributes your account balance to selected investment options at the frequency period you choose. You can find the feature under "Change Account" after you login to your account.[4] ■

1 Past performance is not a guarantee or prediction of future results
2 "Quantitative Analysis of Investor Behavior," DALBAR, Inc. 2010
3 Nudge: Improving Decisions About Health, Wealth and Happiness, Richard H. Thaler and Cass R. Sunstein, 2008
GWFS Equities, Inc is not affiliated with DALBAR, Inc.
4 Rebalancing does not ensure a profit and does not protect against loss in declining markets.

Is There a Gap in Your Retirement Savings?

(continued from cover)

In 2010, you may contribute as much as $16,500 to workplace retirement savings plans such as the WDC. If you're age 50 or older, you can also make an additional "catch-up contribution" of as much as $5,500, for a total contribution of $22,000. Contact the WDC for help in determining whether you are eligible to make any catch-up contributions.

Another option to close the savings gap: work longer. According to Hewitt's analysis, employees who delay retirement to age 67 can significantly reduce their retirement savings shortfall. For these workers, retirement needs drop from 15.7 times their final pay to 14.4 times final pay. At the same time, their retirement resources (savings) increase from 13.3 times their final pay to 14.2 times final pay, enabling them to meet 98 percent of their retirement needs.

By working longer, you can make more money, keep making tax-deferred contributions to the WDC, and delay collecting any Social Security benefits.

If you are eligible for Social Security retirement benefits you can begin receiving them at age 62. But benefit amounts increase if you work until your full retirement age – and even more if you work until age 70. In fact, your Social Security benefit increases 8% each year you put off retirement between ages 65 and 70.[5]

To help determine whether you're on a path to a comfortable retirement, use the DreamTracker℠ tool to help project your financial future. Go to the WDC website at **www.wdc457.org** and click on "Planning Tools." At the top of the left menu, click on "DreamTracker."

The WRS Retirement Benefits Calculator available online at **http://etf.wi.gov** allows you to enter data to calculate an unofficial projection of your WRS retirement benefits. Likewise, you can obtain an estimate of your Social Security benefits at **http://www.ssa.gov/estimator/**.

Spend some time using the free and easy tools that are available to estimate your future retirement income and expenses. Adjust your retirement savings, if necessary, to reduce any gap. You'll be glad you did. ■

5 http://www.socialsecurity.gov/retire2/delayret.htm

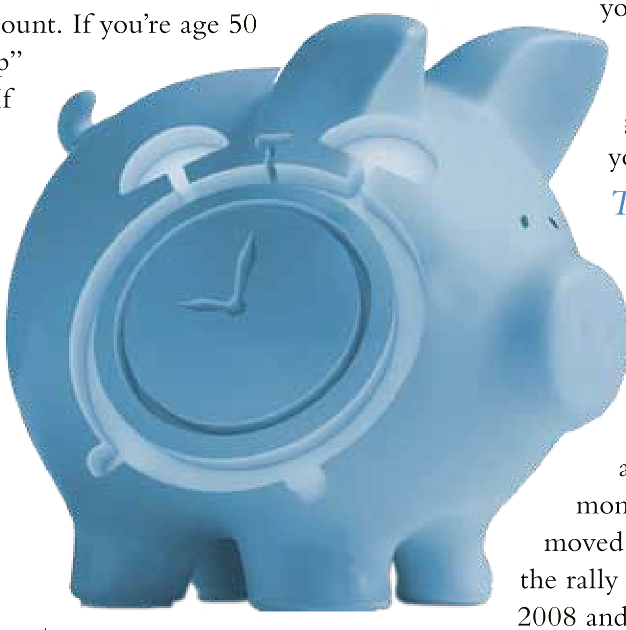
Three Savings Mistakes You Can Avoid

It's easy to go on autopilot once you've set up a workplace retirement savings account. Below are three common oversights that can limit your potential to save more, followed by ways you can be proactive:

Contributing too little. If possible, contribute as close to the maximum allowed, especially if you're among the millions of Americans whose savings declined during the recession. In 2010 you may contribute as much as $16,500 to a workplace retirement savings account. If you're age 50 or older, you can also make "catch-up" contributions of as much as $5,500.[1] If you are behind on your savings, this is a good way to build your savings faster. The WDC website now offers a 457 catch-up calculator to help you estimate your maximum contribution. See the bottom of the page for more information.

Investing too heavily in one asset class. Recent history has shown that the stock market can rise and fall significantly over a short period of time. That reality—as well as the ups and downs it can create in your retirement savings—may tempt you to minimize the portion of your portfolio you invest in stock funds and load up on bonds and cash investments such as money market funds.

Note: An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in a money market fund.



However, stocks could provide the strongest potential for the long-term growth you'll likely need to fund your retirement. You can capture some of that growth potential without exposing all your savings to the declines stocks occasionally experience. The key is to determine the appropriate asset allocation—the mix of stock, bond and cash investments—that is right for you and to stick to it.

How much you should devote to each asset class depends mainly on the amount of time before you plan to retire, but also on the amount of risk you're comfortable with and your overall investment objectives. In general, the longer your time horizon to retirement, the greater the percentage of stocks you may want to hold.

Timing the market. A single headline can drive a person to shift money from one asset class to another. In 2008 and early 2009 many investors, afraid of their continuing losses, sold their stock funds and put their money in bond and money market funds. But unless they moved back into stocks, they missed the rally that ensued; between Dec. 31, 2008 and Dec. 31, 2009, stocks gained 26.5%.[3] Bond returns fell 2.4% and cash investments were up just 0.1%.[2,3] ■

1 irs.gov
2 Stocks measured by the S&P 500®, bonds by the Ibbotson Intermediate-Term Government Bond Index, cash investments by 30-day Treasury bills. Source: Ibbotson Associates SBBI 2010 Classic Yearbook.
3 Past performance is not a guarantee or prediction of future results.

New Web Feature

457 Catch-up Calculator

If you are age 50 or older, you are eligible to contribute above the standard contribution limit of $16,500 in 2010. The WDC recently released a new web tool to help you determine how much more you can save after you reach age 50.

To calculate your maximum contribution amount:

» Login to your account at **www.wdc457.org**
» Click on "Planning Tools"
» Click on "457 Catch-up Calculator"

Spruce up Your Finances

A plan to help you save more

In a recent AARP survey, nearly 20% of Americans age 45 or older said they had prematurely withdrawn funds from their workplace retirement savings accounts and IRAs in 2009.[1] Read on to find out what you can do to help keep your savings growing.

1. Get rid of credit card debt

The sooner you eliminate outstanding balances, the less interest you'll have to pay to your lenders. You might consider using a low-interest rate loan to pay off these high-interest debts.

2. Save for emergencies

A good rule of thumb is to accumulate three to six months' worth of day-to-day expenses in an easily accessible account, such as a money market account. If you're worried about losing your job, consider making eight months' worth your goal.

3. Boost retirement contributions

Increasing contributions to your workplace retirement savings account by one percentage point each year can have a dramatic impact on its growth. Let's say you earn $50,000 a year and you start contributing 1% of that salary to the WDC now. If you increase your contributions by one percentage point each year thereafter for 20 years, your account could grow to $255,173.[2]

Take time to follow these few simple suggestions, and help put yourself on the path for financial wellness. ■

1 aarp.org, February 2010.
2 FOR ILLUSTRATIVE PURPOSES ONLY. This hypothetical illustration does not represent the performance of any investment options. It assumes a $50,000 beginning salary with 3% annual raises, a 7% annual rate of return, reinvestment of earnings, with no withdrawals. Rates of return may vary. The illustration does not reflect any charges, expenses or fees that may be associated with your Plan. The tax-deferred accumulation shown above would be reduced if these fees had been deducted. It does not take into account an employer match.

Representatives of GWFS Equities, Inc. are not registered investment advisers, and cannot offer financial, legal or tax advice. Please consult with your financial planner, attorney and/or tax adviser as needed.

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