Summer 2014

Five **Classic Excuses** for Putting Off Your **Retirement Plan**

There are many reasons why we defer our dreams of financial freedom. Here are the five top psychological barriers and how to overcome them.

1. "I can't afford it."

Sure, you have a lot of competing uses for your money. Some spending is locked in every month, like paying your mortgage, and some of your dollars go to nice-to-haves, such as eating out or taking a weekend trip. It may seem that nothing is left over. Saving for retirement seems impossible, given your present lifestyle.

Someday, you will have to get by without a paycheck. While Social Security can provide monthly income, it is not likely to replace your working-years salary. If you make it to retirement, you'll probably live to be close to 90, and you can expect that some expenses, like health care, will go up.

*Unless you are independently wealthy or can count on family members to care for you, you can't afford to **not** save for retirement.*

2. "I have years before I need to think about retiring."

As we move through our 20's, 30's and 40's, caught up with jobs and families, it's very easy to put off retirement planning. But the most powerful aid to retirement is math and time. The longer you have until retirement, the more you can build up your savings through compounding and the less you'll need to invest each month.

The earlier you start, the better. Even if you are just a decade away from retirement, you can set aside a good chunk each month and you can boost your savings by committing to increase your savings amount each year.

3. "I don't know how to get started."

This is simple: Go to the next enrollment meeting held by your company's retirement plan. The enrollment meeting, which usually takes an hour or less, will break down the steps you need to take to get started saving in your plan. This includes providing education about how you generate retirement income, select investment options, and determine what percentage of your salary you want to contribute to your account. You'll also learn about the fees and expenses associated with your account. Contact your plan administrator for more details on how to join an upcoming enrollment meeting.

4. "Planning for retirement is too big for me to tackle right now."

Retirement planning is, in actuality, life planning. You need to ask three essential questions: What do you have? What do you want? How do you get what you want? These questions can be stressful, but even so, they are important. Wishing won't make the problem go away. Try taking small steps by attending a financial education seminar offered by your employer or discussing your situation with a qualified financial advisor. By putting together a more measured financial game plan, you can set goals about your saving and spending habits.

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5. "Stocks and bonds are risky."

There is no avoiding risk in investing. Even stashing cash in your mattress doesn't relieve you of the risk of a fire or inflation, which nibbles away at your purchasing power. Stocks, and mutual funds that invest in stocks, can be one of the best ways to beat inflation over the long haul. The risk of investing in stocks, while never zero, decreases the longer your time horizon for investing in them. Bond investments also carry risks, but nevertheless deserve a place in every retirement portfolio. This is especially true for those nearing or entering retirement age. Bonds can offer a steady flow of income and often produce an attractive rate of return.[1]

ADP offers participants an easy-to-use retirement planning tool to see if they are saving enough for retirement. To access the Gap Analysis tool, log into your account at www.mykplan.com.[2]

Tapping the **Experts:** The Value of **Advice**

Retirement planning is not difficult, but your options can sometimes become difficult and confusing to sort through on your own. Fortunately, you have access to advisor tools and online resources through your company's benefits program to help you make decisions that are right for you.

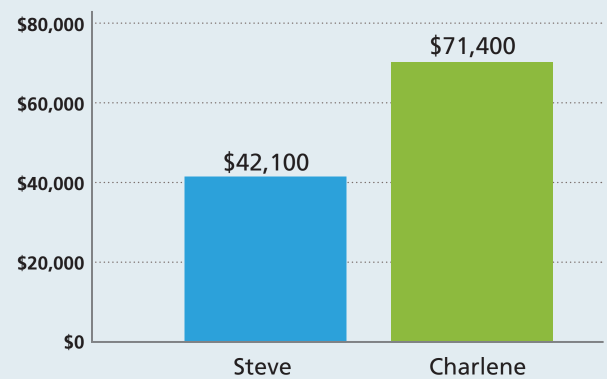
For example, a 2011 study showed that plan participants who received some sort of outside help have earned higher returns than those handling their own investment choices—up by 2.92% a year.[3] Having access to an advisor or online help not only may save you time, but it could also prevent you from making bad decisions, such as pulling money out of the market during steep declines and then failing to get back in during recoveries. Advice that's available in your plan may offer unbiased guidance on investment options that may best meet your objectives and risk tolerance, impose rebalancing discipline, and spur you to take action if you haven't made any changes to your plan in a while.

A financial advisor is equally valuable when it's time to transition out of your plan when you retire or change jobs. Whether you are considering a rollover IRA that provides what your present plan lacks, a recommendation to stay in your plan, or rollover to another employer plan, as applicable—their advice can help you decide which distribution option is best for you.

You should be aware that financial advisors charge fees or commissions for their services and that target date funds and managed accounts also have fees and charges associated with them. If you prefer to manage your account yourself, there are a host of online calculators and worksheets available from your plan provider, AARP.org, and many other sources. Check out AARP's blog for practical ideas for managing your finances at: http://tinyurl.com/AARPBlogs.

More Help = Potentially Better Returns

Let's suppose Steve and Charlene both invest $10,000 in their retirement plan at age 45. Steve likes to make investment decisions on his own, while Charlene gets advice from a financial advisor and online resources. A 2011 Financial Engines/Aon Hewitt study shows that Charlene, who uses advice, earns 2.92% more a year on average in her account than Steve ($71,400 versus $42,100, respectively).



By seeking help, Charlene potentially earns 70% more in her account by the time she retires at 65 than Steve, who prefers to make his own investment decisions.

Assumptions: Both Steve and Charlene invest a lump sum of $10,000 on their 45th birthday. They make no additional contributions, but their portfolios grow at median annual rates such that Charlene earns 2.92% more a year than Steve over 20 years, net of fees. This hypothetical example is not intended to depict the performance of any investment. All investing carries risk, including risk of loss. Individual results will vary. For a more detailed explanation of how this hypothetical example was constructed, please see "Help in Defined Contribution Plans: 2006 Through 2011," Financial Engines and Aon Hewitt, September 2011, pp. 10, 46. Available online at http://tinyurl.com/FinEngines.

1 The bond market is volatile, and fixed income securities carry interest rate risk, inflation risk, and credit and default risks for both issuers and counterparties. Additional risks apply to international bonds, emerging markets bonds, and high yield bonds. Risk information for fixed income products may be found in the prospectus or other product materials, if available.

2 This tool is provided for educational purposes only. Income projections and other information generated by the tool are hypothetical in nature, do not reflect actual investments or investment results and are not guarantees of future results.

3 Aon Hewitt and Financial Engines study of 425,000 plan participants, in eight large 401(k) plans, who used target date funds, professionally managed accounts, or online help between January 1, 2006, and December 31, 2010.

Financial IQ – A 10-Question Quiz to Sharpen Your Money Smarts

See how much you know about how you should be saving and spending by taking this quick, multiple-choice quiz (answers and scorecard provided at end).

1. Is it better to pay off your credit cards or add to your savings?

a. It is better to pay down your credit cards before saving
b. It is better to add to your savings before paying off your credit cards
c. It is better to pay the minimum monthly payment on your credit cards first, and then save as much as you can
d. It is better to pay down credit as you save, paying off highest-interest cards first

2. How much of your income should you be saving each month for retirement?

a. 1% to 5%
b. 5% to 10%
c. 10% to 15%
d. 15% to 20%

3. What percentage of your pre-retirement income will you likely need to maintain your lifestyle in retirement?

a. 75% to 100%
b. 20% to 30%
c. 40% to 50%
d. 60% to 80%

4. What does investment diversification[4] mean?

a. Dividing your money among stocks, bonds and cash
b. Choosing investments that have different performance characteristics
c. Allocating your portfolio among conservative dividend-paying stock funds, growth and income funds, growth stock funds, and aggressive growth stock funds
d. All of the above

5. Which retirement-oriented investment vehicle is specifically designed to minimize the need to make changes as you approach retirement?

a. Roth IRA
b. Variable Annuities
c. Target Date Funds
d. Money Market Funds

6. When does the IRS say you have to start taking withdrawals from your retirement plan or IRA?

a. Age 59½
b. Age 65
c. Age 67
d. Age 70½

7. What percentage of your annual income do most experts say should go toward paying your home mortgage?

a. No more than 10% of gross earnings
b. Up to 28% of gross earnings
c. No more than 33% of gross earnings
d. Up to 50% of gross earnings

8. How often should you rebalance your retirement portfolio?

a. Never
b. Quarterly
c. Annually
d. B or C, depending on market conditions

9. How much of an emergency fund should you set aside?

a. Six months
b. Two weeks
c. Two years
d. Five days

10. Which asset class has, on the whole, produced the best performance results since 1929 but carries the most risk in the short term?

a. Bonds
b. Stocks
c. Gold
d. Baseball cards

Answers: 1, d; 2, c; 3, a; 4, d; 5, c; 6, d; 7, b; 8, d; 9, a; 10, b.

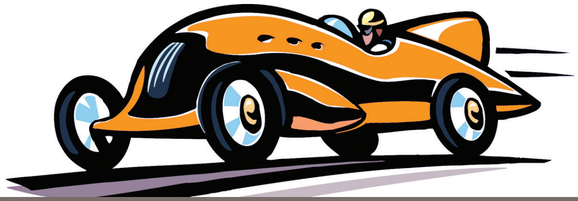
Score Yourself

Eight to ten correct answers: Take a bow, Financial IQ genius!

Four to seven correct answers: Brushing up on a few basic concepts will improve your money smarts.

Zero to three correct answers: Well, you still have your looks.

4 Diversification neither assures a profit, nor guarantees against loss in declining markets.



Retirement in Motion

TIPS AND RESOURCES THAT EVERYONE CAN USE

Boomers on the Brink

Leaving your company? Here are options for your plan.

When you retire or change jobs, you usually can keep your retirement money in your current plan, which has the advantage of potentially low fees and familiar investments. However, staying with your plan may not be the best choice if it doesn't offer periodic withdrawals. Other options include transferring to a new employer's plan, an IRA rollover, or a Roth IRA—all of which may offer better investment choices. Taking a full or partial distribution should be considered only as a last resort; taxes and penalties could take a sizable bite out of your nest egg. Consult with a financial advisor to help you decide on your best course of action.

Quarterly Reminder

Are your bond investments properly allocated?

U.S. bond returns for the next five to ten years may be in the low single digits, according to some market observers. If you are close to retirement, you will likely still need the protection against volatility that bonds generally provide but may need to look in other places for better returns and diversification.[5] Securities that are not closely correlated with U.S. bonds, but that are considered to have more risk, include international bonds, emerging markets bonds, and high-yield securities.[6]

Q&A

What is an Automatic Rollover (ARO)?

To help preserve retirement savings and protect assets from taxes and penalties when a plan is terminated or employees leave, the IRS allows retirement plans to automatically roll account balances of $5,000 or less into an IRA. Under a typical ARO arrangement, a third-party trust company will automatically set up an IRA for each participant. After which time, the new account owners can invest as they wish.

Tools & Techniques

Roth 401(k) for tax-free withdrawals.

Your retirement plan may let you direct a portion of your contributions into a designated Roth account. In contrast to traditional pre-tax salary deferrals, Roth contributions are made with after-tax dollars. You also can contribute to both a designated Roth account and a traditional pre-tax account in the same year, in any proportion you choose. Withdrawals from the Roth are tax-free if you have held the account for five years or if you take them on or after the day you turn 59½. The maximum you can contribute to a designated Roth account and a traditional pre-tax account in 2014 is $17,500, plus an additional $5,500 in catch-up contributions if your plan allows and you are turning 50 or older in this calendar year. For details, visit www.irs.gov.

Corner on the Market

Basic financial terms to know.

Federal Reserve System, a.k.a. "The Fed"

"The Fed" is the central bank of the United States, founded by Congress in 1913 to provide the nation with a safer, more flexible, more stable, monetary and financial system. The Fed's primary function is to control and regulate the nation's money supply. Ben Bernanke retired in 2013 as Chairman of the Federal Reserve, and President Obama chose Janet Yellen, the first woman Chair, to replace him.

5 Diversification neither assures a profit, nor guarantees against loss in declining markets.

6 Foreign securities are subject to interest-rate, currency-exchange-rate, economic, and political risks, all of which may be magnified in emerging markets. Lower-quality debt securities involve greater risk of default or price changes due to the credit quality of the issuer. In general, the bond market is volatile, and fixed income securities carry interest-rate risk, inflation risk, credit and default risk for both issuers and counterparties.

If you have questions about your current 401(k) Plan with ADP, you may contact your Plan Administrator, Financial Advisor, or ADP Client Services direct at:

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