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Winter 2018

Your Financial Future

Picture It Now

Your Questions Answered

What is the saver's tax credit?

You may be eligible to claim the saver's tax credit on your federal income tax return for contributions you make to an employer-sponsored retirement plan. The "saver's credit" returns a percentage of your contributions and reduces your tax liability dollar for dollar.

Your income must fall within a certain range to qualify for the saver's credit. The range depends on your tax-filing status. The credit is for 50%, 20%, or 10% of up to $2,000 of qualified retirement savings contributions. If you are married and file a joint return, you and your spouse each may be able to claim the credit on up to $2,000 of contributions. The credit is unavailable with income over $62,000 for married taxpayers filing jointly, $46,500 for those filing as head of household, and $31,000 for single or married filing separately taxpayers.[1]

To claim the credit, you must be age 18 or over, not a full-time student, and not claimed as a dependent on another person's return.

[1]*Income ranges are for 2017, and amounts may be adjusted for inflation in future tax years. At the time of publication, lawmakers are considering tax reform proposals that might change this and other tax rules.*

Ring In a New Year for Your Finances

What will your resolutions be this year? Eat less? Exercise more? How about a resolution to review your financial situation and identify areas where you could do better? Improving your finances is one resolution that can help you pursue your retirement goals and benefit you for years to come.

Resolve to Understand Your Plan

Start by learning as much as you can about your employer's retirement plan so you can make the most of this opportunity to save and invest for your retirement. The summary plan description (SPD) explains your rights and benefits under the plan. And there are additional resources available to you as a plan participant that can also help you use the plan effectively.

Resolve to Contribute More

The more money you put into your plan, the bigger your potential nest egg. Over time, contributing an extra $10 or $20 per paycheck could make a big difference. You may want to consider adding a portion of any pay increase or bonus you receive to your plan account.

Resolve to Be a Long-Term Investor

Review how you have allocated the investments in your retirement plan. You may find that your allocation is too focused on "safe" investments. By investing all of your retirement contributions in very conservative investments, you risk having inflation erode the purchasing power of your savings. To potentially earn inflation-beating returns, you may want to take on some additional risk by including stock funds in your portfolio. Although they're more volatile than either bonds or cash investments, stocks have historically outperformed both of these asset classes over the long term.[1]

Resolve to Diversify

No matter what your feelings are about investment risk, you generally won't want to invest all of your retirement savings in just one investment or asset class. By spreading your money among several different investments in a variety of asset classes — a technique called diversification[2] — you reduce the risk that your overall portfolio will be dramatically affected if a particular investment or asset class performs poorly.

Resolve to Stay the Course

Once you make your financial resolutions, stick with them. Over time, they can help you reach your retirement savings goal. Keep in mind that your situation is unique, so be sure to consult a professional before taking action.

[1]*Past performance does not guarantee future results.*

[2]*Diversification does not ensure a profit or protect against loss in a declining market.*

Inside: Paying Off Student Loan Debt: Have a Plan and Retirement Investing: No Time for Guesswork

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Paying Off Student Loan Debt: Have a Plan

When students are busy getting a college education, they may not think much about the loans they took out to pay for it. But reality hits soon after graduation when it's time to start repaying the money. Graduates who are knee deep in student loan debt may want to consider strategies that could help reduce their loan balances faster.

Start With a Budget

Everyone — not just new college grads — should have a spending plan that shows income and expenses and allocates money accordingly. Creating a budget is the best way to find out how much discretionary money is available to apply toward student loans and save for other goals at the same time.

Organize

Students may have multiple loans, so keeping track of the lender, loan balance, interest rate, and repayment terms for each loan is essential. With this information in hand, graduates can develop a smart payback plan and avoid penalties, extra interest, and fees.

Start Making Payments

Borrowers may have a grace period after graduation (typically six months) before loan payments are due. But since the interest that accrues during that time is added to the loan principal, starting the repayment process as soon as possible saves on borrowing costs. Even paying only the interest can save money.

Check for Discounts

Students might score a small reduction in interest rates by setting up automatic payments or by having a history of paying on time. Even small discounts can add up.

Consider Consolidating

Loan consolidation allows you to combine multiple federal loans into one loan with a single monthly payment and interest rate, and with a repayment period of up to 30 years. Private consolidation loans are also possible. Consider all the pros and cons before you decide to consolidate. For example:

- Loan payments may be smaller, although the term may be longer.
- A single loan payment may be easier to manage.
- Borrowers may pay more interest when they extend the term.
- The interest rate on a consolidation loan may be higher than the rate on some current loans. But it could also be lower.

Find Out About Loan Forgiveness

Borrowers may be eligible for federal loan forgiveness or repayment assistance if they work in certain fields or for certain types of employers. Public service and government employees, teachers, nurses, and AmeriCorps and Peace Corp volunteers, among others, may qualify for these programs.

Get a Break on Taxes

Student loan interest of up to $2,500 may be deductible on a borrower's federal income tax return.[1]

Pay Extra

Since federal and private student loans can be prepaid without penalty, paying more than the required minimum every month — even if it's a small amount — can help reduce the balance faster. Borrowers should specify in writing that the extra amount should be applied to the loan principal. To save more in overall interest, extra payments should first go to the loan with the highest interest rate.

[1]*At the time of publication, lawmakers are considering tax reform proposals that might change this and other tax rules.*

Retirement Investing: No Time for Guesswork

If investors could have one wish, it might be to know when market values were going to rise and fall. Then investors could buy or sell investments at just the right time to maximize gains and minimize losses.

No Crystal Ball

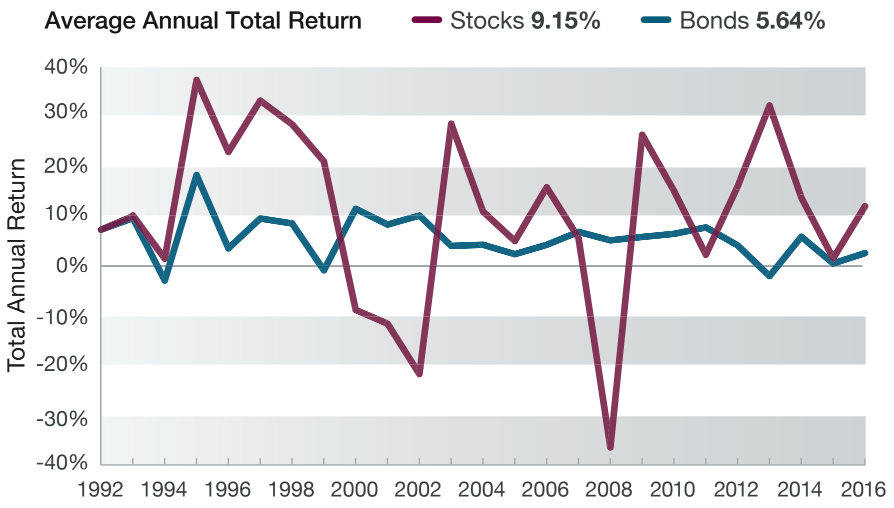
Investors who try to time the market believe they can reliably predict when an investment's price will rise or fall. Based on that belief, they may frequently jump in and out of investments in the hope that they will maximize any gains by "buying low and selling high."

However, while the "buy low, sell high" principle makes sense in theory, market timing is difficult to practice successfully. Market peaks and valleys are not clearly visible until they have passed. Few investors can consistently time their investment moves to match market high points or low points. Bad timing occurs when an investor buys an investment at a high price only to see the price drop afterward or sells an investment at a low price only to watch it increase later on.

Staying Invested

Retirement investors have a significant advantage: time. The longer the time frame, the greater the possibility that any losses in one year may be offset by gains in another. Take stocks, for example. The average annual total return of large company stocks (represented by the S&P 500) over the 25 years from 1992 through 2016 was 9.15%, even though for four of those years (2000, 2001, 2002, and 2008), large company stocks posted negative returns ranging from -9% to -37%. An investor who remained invested in a stock fund that mirrored the S&P 500 for those 25 years would have seen an overall positive return. But an investor who tried to time the market during the same years might have missed out on the periods of rising values that produced the 9.15% average annual return.[1]

Stock vs. Bond Returns 1992-2016



Stock returns are measured by the S&P 500, an index of the stocks of 500 major U.S. corporations. Bond returns are measured by the Bloomberg Barclays U.S. Aggregate Bond Index, an unmanaged index of U.S. government, corporate, and mortgage-backed securities. It is not possible to invest directly in an index. Index performance does not reflect the effects of investing costs and taxes. Actual results would vary from benchmarks and would likely have been lower. Source: DST Systems, Inc.

Not Just for Stocks

Bond investors may also benefit from a slow and steady approach. Using the same 25-year period, bonds (represented by the Bloomberg Barclays U.S. Aggregate Bond Index) produced a 5.64% average annual total return. Once again, overall returns were positive despite a few years of negative returns (-2.92% in 1994, -.84% in 1999, and -2.02% in 2013).

Stick With a Plan

Remember that in any one year, market results can be unfavorable. But having a well-thought-out, long-term investment plan that you're comfortable with may help you ride out periods of volatility and stay focused on your retirement goal.

[1]*Past performance is not a guarantee of future results.*

Make the Most of a Tax Refund

Getting an income tax refund can mean a nice boost to your finances — *if* you use it wisely. But if you don't plan ahead, your refund may be gone before you know it. Instead of waiting until the money is deposited in an account where you might be tempted to spend it, take time now to come up with a strategy for using your refund to benefit your financial well-being.

Pay Down Debt

The interest charges you incur on your credit card balances and consumer loans can make it tough to get ahead financially. Consider using your tax refund to reduce or eliminate your high-interest debt. One approach is to pay down the cards with the highest interest rate first while making minimum payments on all the others.

Save for Emergencies

Life is full of surprises. And some of these unexpected events can be expensive. Without an emergency fund, you may have to rely on your credit card to cover the costs. And if cash is tight, you may end up paying interest on the money you borrowed for a long time. You can use your tax refund to start an emergency fund — or add to one you already have. Ideally, you should save enough in your fund to cover living expenses for at least three to six months.

Fund a College Savings Account

If you have children, consider using your tax refund to jump-start a college education savings program. College tuition is expensive and likely to remain so. Regular additions, however small, to a college savings program can help make college more affordable and may reduce the amount of money your child will need to borrow.

Increase Your Retirement Savings

Since every little bit helps when it comes to saving for retirement, here is a strategy you may want to consider. Arrange to have less income tax withheld from your pay in 2018 so you won't receive a big tax refund. Then increase your contributions to your employer's retirement plan. Your tax preparer can help you calculate how much tax you should have withheld to avoid owing additional tax or penalties when you file your return.

Splurge a Little

Now that you have a solid plan for improving your finances, earmark a portion of your refund to spend on yourself. You may find it's a lot easier to stay committed to your goals when you aren't feeling deprived.

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