Six ways to make the most of your retirement savings

Investing for retirement is a smart way to save for the future. Your retirement may last for decades and making regular deposits into a retirement plan can help you build the wealth you’ll need to live the retirement lifestyle you want. Here are six things you can do to help make the most of your savings.

1. Understand your investments

There are many types of investments, and each has pluses and minuses. Investments fall into three main categories, or asset classes—stocks, bonds, and cash equivalents. The more you know about your investment choices, the better equipped you’ll be to select the ones that are right for you.

2. Allocate your assets based on your needs

The way you divide your money among stocks, bonds and cash is known as asset allocation. The asset allocation you decide on should depend on your goals, time horizon and risk tolerance.

For example, if you want to be more conservative with risk, and you’re not comfortable with increases and decreases in the stock market, you might invest more of your money in bonds and cash equivalents and less in stocks. Typically, younger investors—who have more time to ride out the ups and downs in the market—invest more in stocks than in the other asset classes.

However, keep in mind, even the most conservative investor should invest a certain percentage in stocks. In light of today’s longer life expectancies, you could be looking at a retirement that is several decades long. To make your money last over this extended period, your retirement account will need some growth investments.

For help estimating your ideal asset allocation given your goals, time frame and risk tolerance, use the Asset Allocation Planner found on mybmoretirement.com in the Learning Center under Calculators.

3. Make sure to diversify

The goal of diversification is to minimize the risk of losing value in your investments. When you diversify, you invest in different types of assets—so if one goes down, others may go up.

Mutual funds, like those found in your retirement plan, are designed for diversification. Each one invests in a large number of securities. For example, a stock fund usually invests in hundreds of different stocks. In addition, asset allocation can help you diversify by spreading your money among stocks, bonds and cash. If the stock market goes down, the bond and cash investments may help preserve value.

You can be even more diversified if you:

• Choose different types of stock funds: Large-cap funds invest only in large companies; small-cap funds focus on smaller firms; and growth funds invest in companies that are growing rapidly.

• Go global with international funds that invest in foreign company stocks and bonds.

• Select both government and corporate bond funds.

4. Rebalance your asset allocation from time to time

When it comes to your asset allocation, it can be easy to “set it and forget it,” especially when you’re investing automatically into a retirement plan or an IRA. But, over time, as the value of your investments changes, your asset allocation can change too.

For example, you may start with an asset allocation of 60% in stocks, 30% in bonds and 10% in cash. If the stock market has a good run, your stock allocation could grow to, say, 70%, while your bonds decrease to 25% and your cash to 5%. At 70%, the stock allocation may expose you to more risk than you’re comfortable with. To rebalance, or get your asset allocation back to a place that reflects your goals and risk tolerance, you would sell some of the stocks and transfer that money into bonds or cash.
Asset allocation funds, such as target retirement date funds, rebalance for you. Look for the article about target date funds in this issue.

5. Stay on track with your plan
Most investors need stocks and other growth investments to keep their money growing faster than the rate of inflation. But, it’s easy to become worried when the market fluctuates and the value of your investments goes down. Keep in mind, you only lose money if you sell your investment—and it is very difficult to know when to invest or when not to invest. If you hold it and continue to invest when prices are low, you can actually buy more than you would when prices are high.

For example, let’s say you invest $100 every month into a stock fund. Because the price per share changes every day, some months your $100 will buy more shares (when the price is low) and other months it will buy fewer shares (when the price is high). But over time, it averages out. Investing the same amount every month (or per paycheck) is known as dollar-cost averaging.1 It helps you to stay on course and build your savings, despite what may be happening in the market.

6. Start investing as soon as you can
The sooner you start investing, the more you can save. Consider the following story of Maria and Brian2 co-workers who are the same age. Maria started contributing $100 a month to her retirement plan when she was 25 years old. She stopped contributing after 15 years but kept the money in the account where it continued to earn a 6% annual rate of return until she retired at age 65.

Brian waited until age 35 to start making contributions. He also saved $100 a month and earned a 6% annual rate of return. Brian kept contributing for 30 years until age 65.

Maria contributed $18,000 less than Brian but ended up with over $29,000 more—simply because she started earlier.

When you start early and give your money time to grow, like Maria did, you can benefit from compounding. Simply put, compounding is earning a return on your investment’s return, like earning interest on your interest. Over time, compounding can make a big difference in your account.

How much can you afford to contribute? Use the Salary Deferral—Take-Home Pay Calculator to see how your take-home pay would be affected by changes in your contribution level. Go to mybmoretirement.com and select Calculators in the Learning Center.

1 Dollar-cost averaging does not ensure a profit nor guarantee against loss. Investors should consider their financial ability to continue their purchases through periods of low price levels.

2 This hypothetical illustration is for demonstration purposes only. It is not based on the rate of return of any particular investment and does not include costs incurred under any particular investment. It is also not intended to serve as financial advice or as a primary basis for our investment decisions. Taxes are generally due upon withdrawal. Your results will be different.

Accumulation over time

<table>
<thead>
<tr>
<th>Age</th>
<th>Contribution</th>
<th>Accumulation</th>
</tr>
</thead>
<tbody>
<tr>
<td>25</td>
<td>Maria: $18,000</td>
<td>$130,499</td>
</tr>
<tr>
<td>35</td>
<td>Brian: $36,000</td>
<td>$100,954</td>
</tr>
</tbody>
</table>

Compound interest arises when interest is added to the principal of a deposit or loan, so that, from that moment on, the interest that has been added also earns interest.

Wikipedia, The Free Encyclopedia

Starting asset allocation

Asset allocation after a stock market gain

Your asset allocation is likely to change over time. Rebalancing sets it back to where it was before.

\[ \text{Accumulation over time} \]