

OnTrack



COMPOUNDING — The Magic Ingredient

If you're looking for a little magic to help you build a retirement fund for your future, look no further than this simple concept: compounding. Compounding is essentially the magic ingredient that can help your savings grow over time. Combined with your plan contributions, compounded investment earnings can help you achieve your retirement savings goal.

Money Making More Money

What is compounding? Basically, it's money making money. And investing for retirement through your employer's retirement savings plan lets you take advantage of it.

Here's how compounding works:

- The money you contribute to your plan is invested.
- Your plan investments earn income.
- Those earnings are reinvested in your account. Now you're earning income on a larger pool of money — your contributions *plus* your earnings.
- Every time you increase the amount you have invested, you increase the potential benefit of compounding.

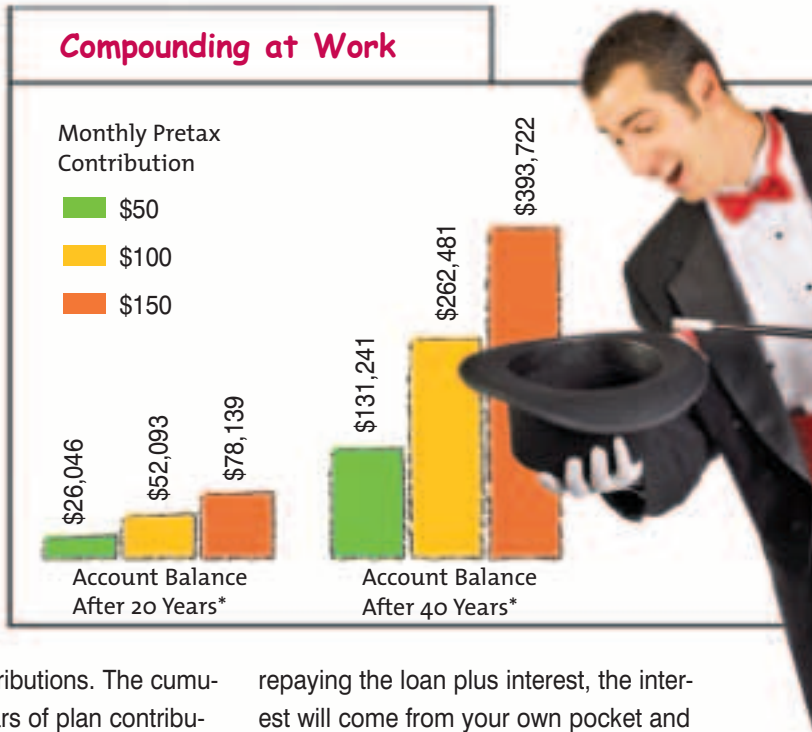
While investment returns are not guaranteed, a program of steady investing gives your savings the potential to grow through compounding.

Behind the Magic

Time is a big part of the magic. The longer your money is invested, the more you potentially benefit from compounding. So the key to making the most of compounding is to begin participating in your plan as early as possible and keep making regular contributions. The cumulative result after years of plan contributions and earnings may be the nest egg you'll need to see you through your retirement years.

Don't Break the Spell

Your regular, uninterrupted contributions should compound over time and help build up your retirement savings. However, you'll lose some of the benefits of compounding if you borrow from your plan. (Some employer plans do not permit loans.) When you take a loan, that money won't be available for investment in your plan. Even though you will be



repaying the loan plus interest, the interest will come from your own pocket and you will lose out on potential growth opportunities while the loan money is not invested in your plan account.

Also be sure to keep your savings invested if you change jobs. Compounding can only work its magic if you give it time.

* Amounts shown are before taxes. Distributions of pretax contributions and earnings on those contributions will be subject to income tax.

These are hypothetical results involving a retirement plan participant making the same monthly pretax contribution for the specified time periods and earning a 7% average annual total return, compounded monthly. These results are not representative of any specific investment. Your investment returns will differ, and your contribution amount is not likely to remain the same over an extended period.
Source: NPI

Can't Save ANOTHER CENT?

Feel like you're stretched to the max financially? If you do, you're not alone. A growing number of Americans are spending more and saving less than ever before. In fact, a recent survey* found that 35% of workers reported that they had less than \$10,000 in total savings and investments, while 13% had between \$10,000 and \$24,999 saved.

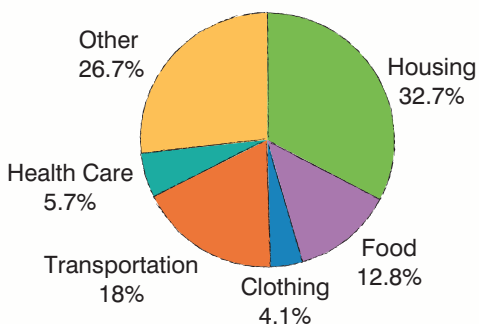
Following the Money

Unless employees find a way to save more during their working years, they could come up short at retirement time. If you could be doing a better job of saving in your employer's plan, figuring out where your money goes is a good first step in freeing up more money to sock away.

Here are some government statistics on how Americans are spending their money. How do your own spending patterns compare?

Spending on the Basics

Housing, food, and clothing account for almost half of the typical American household budget.** Transportation expenses and spending on health care



also account for a significant share of the typical household budget.

Spending on the "Must Haves"

More and more items that were once regarded as luxuries are now considered necessities. This expanding universe of "things" Americans can't live without is adding to the strain on wallets — and making it harder to save.

% of adults rating item as a necessity***

	2006	1996
Microwave oven	68%	32%
Home computer	51%	26%
Home air conditioning	70%	51%
Auto air conditioning	59%	41%
Cable or satellite TV	33%	17%

Finding Savings

The good news is that you *can* make changes if you're serious about saving more for your retirement. While you may not have a lot of flexibility when it comes to some of your expenses, you still can find ways to save on other things.

If you don't already have one, create a budget. It can be a great help in identifying areas of potential savings. Reconsider what are — and are not — "necessities" and limit your use of credit to buy only those items you really need. Who knows, it may not take you long to find enough savings to boost your retirement plan contributions. And that's a step in the right direction.

* *The Retirement System in Transition: The 2007 Retirement Confidence Survey*, by Ruth Helman, Mathew Greenwald & Associates; Jack VanDerhei, Temple University and EBRI Fellow; and Craig Copeland, EBRI. EBRI Issue Brief No. 304, April 2007.

** *Consumer Expenditures in 2005, U.S.*, Department of Labor, U.S. Bureau of Labor Statistics, 2007.

*** *Luxury or Necessity? Things We Can't Live Without: The List Has Grown in the Past Decade*, Pew Research Center, 2006.