

Employee Investor[®]

STRATEGIES FOR SMART SAVING



The Savings Tradeoff

The stock market's recent gyrations may have tempted you to shift a portion of your portfolio to more conservative investments, which may be a wise move if you're approaching retirement. But if you still have many working years ahead, taking a more conservative stance now involves a tradeoff: You'll likely have to save more of your income to make up for the long-term growth potential you may be sacrificing.



Keep your goals in sight

Like any investor, you hope to accumulate enough money to maintain your standard of living by the time you retire. Whether or not you reach your savings target depends largely on two factors: the amount you contribute to your retirement plan and the rate of return on your investments. As a general rule, the stronger your investment returns, the

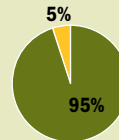
less you'll need to contribute to your retirement savings. Of course, that shouldn't stop you from contributing the maximum. In 2012 the IRS allows you to contribute up to \$17,000 to your workplace retirement plan (\$22,500 if you're age 50 or older), although some plans set other limits.

Stocks' risks and rewards

Investing in stocks generally offers a greater chance for growth, especially if you have decades of saving ahead of you. Between 1926 and 2010, stocks listed on the Standard & Poor's 500 Index gained an average of 9.9% a year, compared with just 5.4% for bonds and 3.6% for cash investments.* Day-to-day, however, stocks are more prone to price fluctuations—known as market risk—than bonds or cash investments. And prolonged periods of stock market declines can take a devastating toll if you invest mostly in stocks and don't have many years to recover from losses. Indeed, the past few years have been very difficult for many investors approaching retirement, as the S&P 500 is still trading well below its 2008 pre-crash peak of 1,447.*

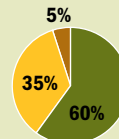
It's All About Time

Your age is the most important factor when determining your investing strategy. Here are sample portfolio allocations to consider over the course of your life as your strategy evolves:*



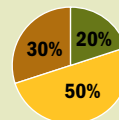
Your 20s, 30s and 40s

Consider favoring stocks for potential growth. You have plenty of time to ride out the market's ups and downs.



Your 50s and early 60s

Trimming stocks while boosting bonds and cash can help soften the impact of a steep market downturn.



Age 65 and beyond

Your retirement may last several more decades. Bonds and cash can provide stability, while stocks' growth potential hedges against inflation. ■

■ Stocks ■ Bonds ■ Cash

*Portfolio allocations are based on the Schwab Model Portfolios.

Juggling Priorities

Dan and Ruth Joseph, both 50, have two children and are saving for their family's future. But the Josephs have a new financial responsibility: caring for Dan's 80-year-old mother.



The cost of care

The Josephs decide to pay for in-home care for Dan's mother, who has medical issues that require periodic attention. Hiring a home health aide for a few hours a day will allow the couple to maintain their full-time jobs—and their combined annual salary of \$130,000. But it also will cost roughly \$1,200 a month.*

Dan and Ruth don't want to dip into long-term savings to cover that expense, so they look for alternatives. They first talk with Dan's mother, who receives \$1,000 a month in Social Security benefits and \$300 a month from her late husband's pension. Her housing costs have dropped since moving in with Dan and Ruth, so she can afford to contribute \$1,000 a month toward her care, leaving \$200 for the Josephs to finance.

A new budget

To cover the remaining \$200, the couple review their monthly budget and decide to scale back their vacation plans and meals out.

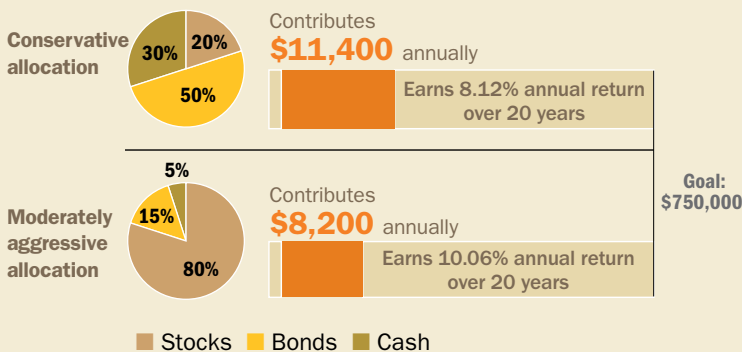
Finding a way to pay for in-home care without exhausting their savings means the Josephs can continue caring for Dan's mother without jeopardizing their long-term financial goals. They're glad to be able to help—and be assured that their own financial future will likely remain stable. ■

Source: "Cost of Care Survey, 2011," Genworth.

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Hit Your Number: Are You Saving Enough?

The more conservative your investment strategy, the larger your contributions should be. Here's what two 45-year-old investors with 401(k) savings of \$25,000—and very different investing strategies—would need to contribute each year in order to accumulate \$750,000 by age 65.



Example for illustrative purposes only.

Assuming annual contributions are made at the beginning of each calendar year. Portfolio allocations and returns are based on Schwab Model Portfolios. Average annual returns are based on actual performance from 1970 to 2010.

The S&P 500 Index is a capitalization-weighted index of 500 widely traded stocks. Created by Standard & Poor's, it is considered to represent the performance of the stock market in general. It is not an investment product.

The cost of stability

Cash investments seldom lose value, and bonds can provide stable returns. That may seem attractive when the stock market is zigzagging. On the other hand, holding mostly bonds and cash investments increases the risk that your savings won't grow fast enough to outpace inflation. Even at low levels, inflation can erode your assets' purchasing power over time.

Keep stocks in your mix

Holding stocks can help soften inflation's bite: Stocks have outpaced inflation during every rolling 20-year period since 1926, while bonds and cash trailed inflation in 16 and 20 of those stretches, respectively.* Your best bet in a volatile market is to aim for a balance: Invest in a mix of stocks, bonds and cash that's appropriate for your age and tolerance for risk—and contribute as much as you can to your retirement plan. (See "It's All About Time" on page 1.) ■

* Morningstar, Inc., Ibbotson® SBI® 2011 Classic Yearbook.

Finance 101 for College Students (and Parents)

Before your children head off to college, help them become financially savvy by sharing strategies for spending, saving and investing. Every family has different needs and priorities. The key is to discuss them with your children so they can make wise decisions. Consider the following topics:

Expenses: *Decide whether or how much you'll contribute.* Nail down your portion of expenses, such as tuition, books, food, housing and entertainment. Whatever amount you decide you'll cover, be consistent in your budgeting rather than impulsively writing checks.



Saving: *Offer incentives.* If your child has a job, you might suggest opening a Roth IRA to take advantage of decades of tax-free growth potential. You might also consider providing incentives for saving: For instance, give your child a financial goal to meet by the end of the year and offer to match that amount, if you can afford it.

Credit Cards: *Weigh the pros and cons.* Some parents are opposed to letting their children have credit cards because they're worried about fostering unhealthy spending habits. Others consider credit cards useful for building a good credit score, or for unpredictable situations, such as a car breakdown. If you go the credit card route, choose one that has a pre-set spending limit and emphasize the importance of paying the full balance due—on time.

Independence: *Set expectations.* Some parents want their children to work in order to learn to be independent—particularly when it involves recreational expenses like meals out or social activities. Set your expectations regarding your child's financial responsibilities. ■

Adapted from *Charles Schwab On Investing* magazine, Spring 2011.

Q & A Roll Over Your 401(k)



Q. I have a new job. What should I do with my old 401(k)?

A. You have several choices: You may be able to roll over your assets into your new employer's plan or into an individual retirement account (IRA), or you can leave them in your old plan, if allowed. You also could withdraw your assets, but that's typically unwise.

Q. Why is it a bad idea to cash out my old 401(k)?

A. Withdrawing the assets before age 59½ means you'll pay income taxes along with a 10% early-withdrawal penalty. Even worse, that money will lose the potential for years of tax-deferred growth.

Q. Which option is right for me?

A. It depends on your situation. You may want to consolidate your retirement accounts to make it easier to manage your investments. In that case, a rollover into your new employer's plan may be the right choice, if allowed. If you want more investment options, compare choices in each plan, or consider an IRA. Also take fees into account: Going with the provider with the lowest fees allows you to keep more of your savings.

Q. What is a "direct" transfer?

A. With a "direct" transfer, your previous plan's administrator sends a check to your new plan sponsor or IRA custodian. If you opt for an "indirect" transfer, in which a check is sent directly to you, the IRS may view it as a taxable distribution and require a 20% withholding, plus—if you're under age 59½—a 10% early-withdrawal penalty. For more insight on rollover options, visit schwab.com/rolloveroptions. ■

Stay on Top of Your Finances

The new year is an ideal time to take a fresh look at your financial situation. Here are a few steps to help you get your financial house in order:



Fine-tune your budget

Your household budget needs periodic updating. Track your spending for at least 30 days and compare the figures with your expectations. If some expenses are higher than you thought, consider whether you can cut back spending. Otherwise, adjust your budget to reflect your new reality.

Review your credit reports

Lenders use your credit reports to determine your eligibility for loans and the interest rate they charge. Check with each of the three major credit reporting agencies—Equifax, TransUnion and Experian—to make sure your information is correct. For example, are the loan balances listed by each agency accurate? Are there errors concerning recent late-payment resolutions? Make sure the report doesn't list loans or credit accounts you don't have. You can get a free copy from each agency once a year at annualcreditreport.com.

Update your beneficiary designations

Beneficiary listings on retirement plans, life insurance policies, annuities and other accounts override wills. So review your beneficiary designations once a year and keep them up to date—particularly if you've experienced a major life change such as a marriage or the birth of a child. Contact your insurance agent, broker or plan administrator to get a copy of your beneficiary forms.

Rebalance your investments

A volatile year in the stock market can throw your mix of stocks, bonds and cash out of balance. Review your portfolio's allocations at least once a year: If they've shifted from your targets, either move assets from overrepresented funds to underrepresented ones, or direct new contributions to the funds that fall short. Contact a Participant Services Representative to review your portfolio allocations.

Take a snapshot of your net worth

An accurate picture of your net worth can help you make financial decisions about everything from managing debt to saving for retirement. It's as simple as adding up your assets and subtracting your liabilities (what you owe). Be sure to include tax liabilities in your estimate, and take into account appreciation of assets such as jewelry, and depreciation of assets such as cars. ■

What You Can Do Now

Get a jump on your monthly budgeting by tracking your household spending and plugging those figures into Schwab's MoneyWise budget planner. Visit schwab.com/moneywise. Click on the Calculator and Tools header for the Monthly Budget Planner.

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