Fall 2012

Wise Choices®

No More Penny Candy

There really was a time when you could buy all sorts of wrapped candies for a penny apiece. Today, you'd be hard pressed to find *anything*, candy included, that costs just a penny. That's inflation for you.

Steady Erosion

Inflation* has been relatively modest in recent years. Compared to the double-digit inflation rates of the past (e.g., 13.3% in 1979 and 12.4% in 1980), the rates of the past several years (e.g., 1.5% in 2010 and 3.0% in 2011) seem downright tame. However, even a low rate of inflation can put a serious dent in your buying power over time.

Above Average Increases

As you may be aware, some costs, most notably college costs and medical expenses have been rising faster than the "official" inflation rate. With health care costs increasingly being passed on to employees, health care inflation could have a particularly detrimental effect on your ability to save for retirement.

Inflation-beating Strategies

Reducing the impact of inflation can be particularly challenging for investors saving for retirement. Fortunately, you can combat the effect of inflation on the retirement savings you're building. Here are two strategies to consider:

- Choose at least some investments that have the potential to provide inflation-beating returns, such as stock funds or portfolios.
- Increase the amount you're saving for retirement every chance you get.

Into the Future

Penny candy may be gone forever, but inflation is probably here to stay. Someday you might tell your grandchildren how much cheaper things were back in 2012. But as long as you plan and invest wisely, you should still be able to take them out for popcorn and a movie.

Inflation Deflates Buying Power

No one knows how much inflation we will experience in the future. But here are some hypothetical scenarios that show the potential impact of inflation on your purchasing power.

Today you have	At an annual inflation rate of	In 10 years, you'll need	In 20 years, you'll need
$20,000	3%	$26,878	$36,122
$20,000	5%	$32,578	$53,066

This example is for illustrative purposes only. Your actual savings may be more or less than $20,000, and the actual inflation rate may be different.
Source: NPI

No Such Thing as Safe Investing

Finding out that an investment has lost value can be upsetting. So why not just put all your retirement savings into low-risk cash alternatives?** Limiting your investment selections to these so-called "safe" investments may seem like a good idea. But in reality, you're trading the risk of losing value in the market for another type of value risk: low potential returns.

Not Enough Growth

When it comes to investing, risk and return are related. As risk decreases, return potential generally decreases, too. If you put everything into money market or other cash alternative investments, the growth of your retirement account may not keep up with inflation and over time your savings can lose purchasing power. Although the risk of losing the amount you invest in cash alternatives is reduced, you risk earning returns that are too low to keep pace with or outpace inflation which in turn impact your ability to reach your retirement savings goals.

The Upside of Risk

Including some higher risk investment types, such as stocks and bonds, in your retirement portfolio gives you the opportunity of higher investment returns.

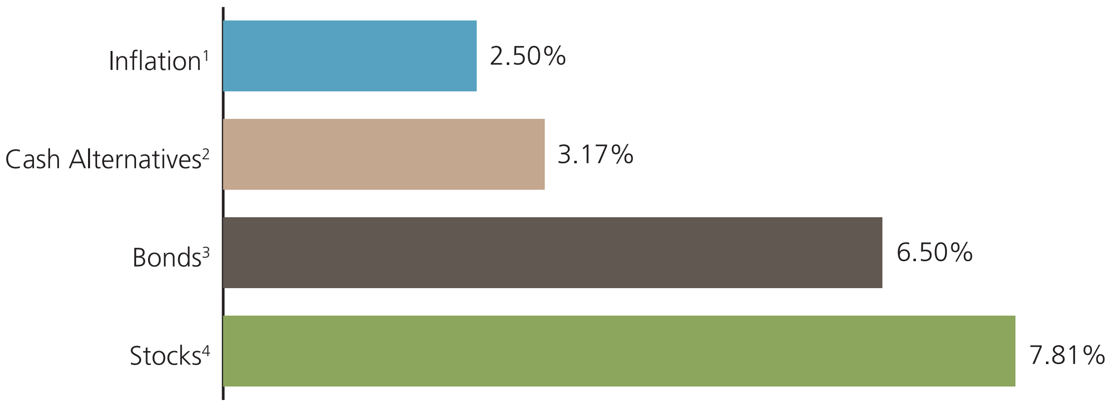
The further away you are from retiring, the more investment risk you may be willing to take because your long term investment time frame gives you more time to recover from market losses. As retirement gets closer, it's generally wise to decrease your portfolio's risk exposure.

Variety Is Key

Choosing all low-risk investments can be anything but safe for retirement investors. Instead, choosing a well-diversified*** mix of investments—which could include cash alternatives—may be the best way to meet your retirement investing goals.

A Long-term Look

20-year Average Annual Total Return (through December 31, 2011)



Source: NPI

* *As measured by the CPI, the Consumer Price Index.*

** *Cash alternative investments may not be federally guaranteed or insured, and it is possible to lose money by investing in cash alternatives.*

*** *Diversification does not guarantee a profit or protect against losses.*

[1] *Represented by the Consumer Price Index (CPI).*

[2] *Measured by U.S. Treasury bills.*

[3] *Measured by Barclays Capital U.S. Aggregate Bond Index, an unmanaged index of U.S. government, corporate, and mortgage-backed securities.*

[4] *Measured by the S&P 500 Index, an unmanaged index of stocks of 500 major corporations.*

Past performance does not guarantee future results. Your investment results will be different. This chart is for illustrative purposes only and does not represent the performance of any particular investment. Investments cannot be made in an index. Stocks have greater return potential, but are more volatile than other investment types. Unlike stocks and corporate bonds, government bonds and Treasury bills are guaranteed by the U.S. government and, if held to maturity, offer fixed rates of return and stable principal.

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