Principal® Financial Group

PLAN AHEAD GET AHEAD®

Because the Future Is Almost Here

Winter 2011

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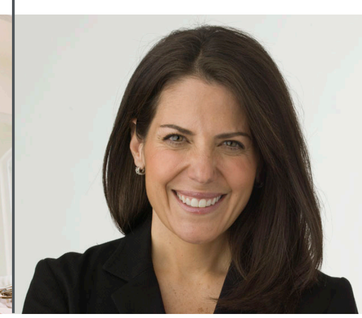

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Close to Retiring? Make Sure You're Ready

Fine-tune your plan as retirement nears.

Over the years, Ann Middleman, a 64-year-old marketing consultant, has been diligent about contributing to her retirement accounts and adjusting her asset allocation to match her risk tolerance. Now that she's just a few years away from retirement, she is again adjusting her retirement portfolio to better reflect her appetite for risk. "I moved from a growth strategy to an income strategy," she says. "I'm staying away from riskier investments, even though they could have higher returns." As you get closer to retirement, it's time to assess at least these components of your plan for retirement:

Assess your goals

Your life situation may have changed since you laid out your original vision for retirement. You might have decided to work part-time. Perhaps your children or extended family have moved away and you'd like to travel more to see them.

Whatever your goals, your retirement plan should take them into account. If it doesn't, you may need to adjust your contribution rate to reach your new target.

Review your asset allocation

The tolerance for stock market risk often declines, and the desire for income-producing assets often heightens, as an individual gets closer to retirement. The key is making sure your assets are appropriately diversified to the level of risk with which you are comfortable. Get an idea of the asset allocation that may support your retirement goals and your tolerance for risk by taking our **Investor Profile Quiz**.

Check your progress

Estimate how much you can afford to withdraw each month once you're retired. A good rule of thumb is to begin your first year of retirement by withdrawing no more than 4 percent of savings and adjusting this amount in future years to help offset inflation. Test whether this guideline would work for you: If you were to withdraw this amount, would you be able to fund the life you want in retirement?

If you determine you don't have enough savings to cover the income you'll need in retirement, you may have a savings gap. In that case, consult a financial professional. He or she can suggest ways to help increase your contributions, adjust your asset allocation and help you develop a strategy that suits your unique needs.

Identify any retirement savings gaps. **Use our interactive retirement planning tool**. It can help point out potential shortfalls and suggest possible solutions to close them.

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Take Advantage of Catch-Up Contributions

Give your retirement savings a boost and help make up for lost time.

Somewhere between raising children and meeting day-to-day expenses, your retirement funds may have fallen short. If you're behind, you can make contributions that may allow you to "catch up" for years you might not have been contributing as much. Catch-up provisions enable you to make additional contributions to your organization's retirement plan* or individual retirement account (IRA) as you near retirement.

"Ongoing market volatility has left many pre-retirees with far less money than they were counting on," says Bob Croy, a financial professional with Lockton Financial Advisors based in Kansas City. "While investors can't control the market, they can take an active role in maximizing their contributions. Take advantage of retirement contribution limits by putting away as much as possible each year."

Catch-up contribution limits

Currently, individuals can make a maximum annual contribution of $16,500 to their organization's retirement plans.[1] If you're age 50 or older, you also may be eligible for a catch-up contribution of $5,500.* That adds up to a total annual contribution of $22,000. Common catch-up provisions include:

Plan	Annual Contribution Limit[2]	Catch-Up Contribution[*,2]	Total Contribution[2]
401(k)/403(b)	$16,500 for 2011; $17,000 for 2012[1]	$5,500	$22,000 for 2011; $22,500 for 2012[1]
Individual retirement account (IRA, traditional & Roth)	$5,000	$1,000	$6,000
SIMPLE 401(k) & SIMPLE IRA**	$11,500	$2,500	$14,000

Maximize your annual contributions

If you're 50 or older, the catch-up provision can provide a great opportunity to contribute more for retirement, especially if you haven't been able to contribute the maximum amount each year in the past. The pre-tax contributions also allow you to reduce even more of your current taxable income.

To be eligible for catch-up contributions in any given year, you first must meet the maximum annual contribution IRS limit or that for your organization's retirement plan.*

Calculate your deferral amount

While making catch-up contributions is important, increasing the amount you're saving through a lump sum contribution may not always be easy. Looking ahead, consider increasing your contributions early in the year when you can.

Get started today. Log in to the account to review and update contributions to your organization's retirement plan. If your plan doesn't allow contribution changes to be made online, see your employer. Contact your financial professional to discuss IRA contributions.

FAST FACT:

In 2002, 54 percent of Americans said they feared not having enough money in retirement. By April 2011, the number leapt to 66 percent, according to annual Gallup polls.

Bob Croy and Lockton Financial Advisors are not affiliated with the Principal Financial Group or any of its member companies.

*Some plans may not allow catch-up contributions to the plan.
** Simple IRA and Simple 401(k) plans are available to employers with 100 employees or less.
[1]Contributions are limited to the lesser of plan or the IRS limit as indexed.
[2]IRS limit as indexed for 2011 and 2012.

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How Much Is Your Lifestyle Costing You?

Is your lifestyle costing you big savings? If you think you need a large income to have a large retirement savings account, think again: Simple changes in how you spend may help you pocket more savings than you might expect—and you probably won't even miss the money.

Having a six-figure (or more) retirement fund might be more within reach than you would imagine. So says Douglas Peete, founder of Douglas R. Peete & Associates, a Kansas City-based independent financial services firm.

Identify what's holding you back

Many individuals believe they need bigger incomes in order to save more. But regardless of income level or age, there are plenty of excuses that individuals use for not saving.

Young adults might think: "There's no way I could save now. I'm just starting out. I'd rather dress well and make a good impression on my bosses. Besides, I have plenty of time to save."

30- to 40-something adults might rationalize this way: "We just bought a house and are raising a family—there's just no way we can save now. When I get that management position, I'll be able to save more."

Middle age adults may think: "I wish we could save now, but we've got kids heading off to college soon. That's got to be our savings priority, right?"

Pre-retirees might be getting anxious: "We need to save more—we'll be retired in just ten years! But where would we cut back on our lifestyle so we could afford to save?"

The bottom line is that no matter what your age, you should never think it's too early (or too late) to save for retirement. Here are some ideas to help trim your spending so you can save more:

Save first; spend what's left

"If you spend first, there might be nothing left to save," Peete says. Take Peete himself: In his 20s, he made a commitment to save 10 percent of his salary and built his budget around the money that was left over. Make funding your retirement a priority and maximize contributions if possible. The good news? Individuals who take this approach and pay themselves first often don't see a big impact in their take-home pay.

Eat in

Each time you make dinner rather than dine out you're likely to save $20 to $50—especially if you have a big family. Brown-bagging your lunch can free up another $25 or more a week.

Cut your phone bill

Danny Kofke of Hoschton, Georgia, saves $30 a month by getting only basic service for his landline phone, skipping add-ons like caller ID and voicemail. He saved another $30 a month by switching his $50-a-month cell phone in favor of an inexpensive prepaid plan. If he contributes an additional $60 each month into his retirement account and his organization contributes a 50 percent match, there is the potential to have an additional $135,000 in 30 years[1].

Buy in bulk

Diane Pederson of Minneapolis buys in-season vegetables in bulk from her farmer's market, then freezes or cans them. This move could save you $150 a year, and you could contribute that amount to your organization's retirement plan. If you get a 50 percent match from your organization and your contribution grows at 8 percent annually for 25 years, you may have an extra $18,000 in your retirement account[2].

Watch the little things

Saving even $5 a week may impact your retirement account over time. So check out some books and DVDs at your library. Alternate renting movies with going to the theater. Use coupons. And when you eat out, skip dessert.

Take the next step toward a better retirement. **Increase your retirement plan contributions today.**

FAST FACT:

In 2010, the U.S. once again led the world with the highest number of millionaires at 3.1 million, up from 2.86 million in 2009, according to the annual World Wealth Report. In North America, 63 percent are men and 37 percent are women.

Douglas Peete, and Douglas R. Peete & Associates are not affiliated with the Principal Financial Group or any of its member companies.

[1]$135,000 assumes $90 per month (Danny's contribution of $60 plus 50 percent employer match of $30) contributed at an 8 percent annual rate of return over 30 years. The assumed rates of return is hypothetical and does not guarantee any future returns nor represent the returns of any particular investment. Amounts shown do not reflect the impact of taxes on pre-tax distributions.

[2]$18,000 assumes $225 per year (Diane's contribution of $150 plus 50 percent employer match of $75) contributed at an 8 percent annual rate of return over 25 years. The assumed rates of return is hypothetical and does not guarantee any future returns nor represent the returns of any particular investment. Amounts shown do not reflect the impact of taxes on pre-tax distributions.

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PLAN AHEAD *Because the Future Is Almost Here*

GET AHEAD®

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2012 Financial Outlook: Three Predictions from Jean Chatzky

Financial editor Jean Chatzky shares her top three predictions for what's to come in the new year, plus tips that may help make the most of each.

Prediction 1: Volatility is here to stay.

What you can do about it: Keep your emotions in check. There's no question in my mind that escaping these tough economic times is going to take longer than many people suspect. And with that will come considerable ups and downs—in the markets, consumer confidence and how you're feeling on a day-to-day basis. Try not to let short-term impulses drive you. Instead, take control of your fiscal life by creating a financial plan. Run every financial decision you make through these filters: Has my plan changed? Have the fundamentals? If the answer to both questions is no, you have a good reason to stand firm.

Prediction 2: Longevity planning will be the next big financial frontier.

What you can do about it: Revise your retirement strategy so that your money will last as long as you will—and assume you're in it for the long haul. Most people should plan on living to 95, if not 100. That may mean saving more or working a few more years. And it also means making sure you have not only an accumulation strategy, but also a withdrawal strategy. You don't want to pull too much out of your hard-earned retirement savings too soon.

Prediction 3: You may need to contribute more to your health insurance and retirement plan.

What you can do about it: During the past few years we've seen some employers, who offer health insurance, ask workers to kick in more for their health benefits in the forms of premiums and co-pays. We've also seen some employers scale back on matching retirement plan contributions (if they offered one), or eliminating them all together. It's your job to make up those gaps as much as you can. Health insurance is a must, and if you can't afford your workplace coverage, look at your spouse's or shop on your own. As for the retirement plan, try to boost your own contributions by 1 to 2 percent a year until you hit the maximum contribution amount.

Be prepared. No matter what the future holds, one way to be prepared for it is to have a strong financial plan in place. **Find more video tips from Jean Chatzky.**

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