FIRST QUARTER 2013

Momentum News

Which Comes First? Saving for Retirement or Reducing Debt

People often identify two important goals when planning their financial futures: paying off debt and saving for retirement. But it can be tough to decide which goal should receive the higher priority, especially during a struggling market. Is it more important to shrink a large debt load or to grow a retirement nest egg?

The answer may be more complicated than you realize. You could allocate your money based on whether an investment's potential return will be higher than the interest rate on your debt. But this plan may be overly simplistic and leave you shortchanged in the long run. Instead, consider separating "good" debt from "bad" debt, and don't underestimate the hidden returns of your retirement plan.

All Debt Is Not Created Equal

Home mortgages and student loans are often considered "good" debt. Interest rates on mortgages and student loans are often lower than many other types of debt, and the interest you pay may be tax-deductible. For these reasons, it is usually more appropriate to contribute to an employer-sponsored retirement plan rather than strive to pay off a mortgage or student loan early. Even so, you may be able to pay off good debt more efficiently using loan consolidation or automatic payments.

A common form of "bad" debt is high-interest consumer debt, such as that on some credit cards. Unless you expect to earn a higher rate on investments than you pay on your debt, it sometimes makes sense to pay off this debt as quickly as possible. Your retirement plan may offer an exception, however. If your employer matches contributions to a certain level, maximize your contributions to meet that level. Otherwise, you're walking away from free money!

Once you've erased your high-interest consumer debt, you may want to increase your contributions above the matched amount to your retirement plan. By starting to save for retirement sooner rather than later, you give your money more time to benefit from compounding. And, when you have plan contributions automatically reduced from each paycheck, you won't be tempted to spend the money on something else.

Don't Underestimate Retirement Plan Returns

Unlike the money you spend toward shrinking a mortgage, student loan or consumer debt, money contributed to your retirement plan is made with pre-tax dollars, thereby lowering your current taxable income. As noted earlier, your employer may offer a match, immediately boosting the return on your investment, and any contributions, matched or not, can grow tax-deferred until you request a distribution.*

The First Step on the Road to Financial Security

Whether saving for retirement or tackling debt–or both–the most important step is to get started. Consider loan consolidation or meeting with a credit counselor to help eliminate your debt as quickly as possible. And, consult your financial representative to learn more about increasing your plan contributions.

**Distributions will be taxed as ordinary income. Distributions made before age 59½ (age 55 upon severance from employment) may be subject to a 10% penalty tax (the penalty tax does not apply to 457 plans).*

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FROM YOUR ORLANDO HEALTH BENEFITS DEPARTMENT

Dear Fellow Team Member:

Your retirement plan website, **www.myretirementnestegg.net**, can help you prepare for retirement. Before logging in, you can view educational content and tools, a suite of calculators, personalized guidance information and videos.

Once logged in, you'll have at-a-glance information that provides your account balance, rate of return and the amount of your most recent contribution. You'll find your retirement plan website a valuable tool that helps you build future financial security.

You can also always contact your on-site Financial Services Representative, **Salvatore Cino**, at 321-841-8622. He can provide you with the professional guidance needed to help you maintain financial wellness.

Participant Website Quick Tip

Did you know you can see how changing your contribution level affects your take home pay? To use this calculator and others, visit FINANCIAL PLANNING TOOLS on www.myretirementnestegg.net.

Pump Up the Savings

Concerned about your financial fitness? Worried that you've been neglecting your retirement plan? Saving more can help you get things into tip-top shape. If you haven't increased the amount you contribute to your plan in a while (or ever), here's why it's a good idea to give your savings a boost.

Compounding Work Out

The earlier you increase how much you're saving for retirement, the more time your money can benefit from the power of compounding. Compounding begins when your retirement savings generate investment earnings. Those earnings are added to your plan balance and reinvested. Then you have the potential to earn a return on your contributions and your earnings. The longer this process has to repeat itself, the larger your account balance may be at retirement.

Built-in Benefits

A built-in benefit of your employer's retirement plan is tax-deferred compounding. When your plan investment earnings are reinvested, no income taxes are taken out. So all of your money remains invested in your plan and potentially benefits from compounding. Over your career, tax-deferred compounding can have a significant impact on the amount of money you're able to accumulate in your plan account. You're not taxed on investment earnings until you withdraw money from the plan.*

More Reps, More Results

Increasing the amount you're contributing to your plan may help boost the benefit you get from tax-deferred compounding. And the sooner you start saving more, the greater the potential impact.

Stick to Your Schedule

Saving consistently is a key to achieving financial fitness. Try not to take any breaks. Sticking with your contributions and increasing your contribution amount when possible can help you reach your retirement goals.

Let's Get Saving!

Assume you begin saving $100 a month in your plan account at age 25 and later decide to increase the amount you save to $200 a month. The earlier you increase your contribution, the bigger the potential impact.

Account Balance at Age 65			
$442,583	**$384,475**	**$343,487**	**$314,575**
30	**35**	**40**	**45**
Age Savings Increased by $100 a Month			

This is a hypothetical example used for illustrative purposes only and does not represent any specific investment vehicle. It assumes a starting monthly contribution of $100 at age 25 that is increased to a $200 monthly contribution (at either age 30, 35, 40, or 45) and an average annual return of 7% monthly compounding. Your investment results will be different. Source: NPI

** Distributions of tax-deferred amounts are subject to income taxes unless they consist of qualified distributions from a designated Roth account.*

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