

How to start saving for retirement

Start now

Retirement, as we've known it, is changing. Many retirees are becoming more active, as well as living and working longer. Also, thanks to the decreasing number of corporate pensions, you will likely be personally responsible for funding your retirement to a degree that would have been unimaginable just a few generations ago.

Find creative ways to save

Understand what you're really spending each month by creating a budget and keeping track of your spending. Then review your spending to find ways to fund your retirement. Sometimes a quick call to your cable or phone service provider to ask about customer specials can result in unexpected savings.

Calculate how much to save each month

The more you can save now, the better. That's because the sooner you start saving — even if the amounts are small — the more time your money has to potentially grow. This is due to the power of compounding interest.

Make your employer's retirement plan work for you

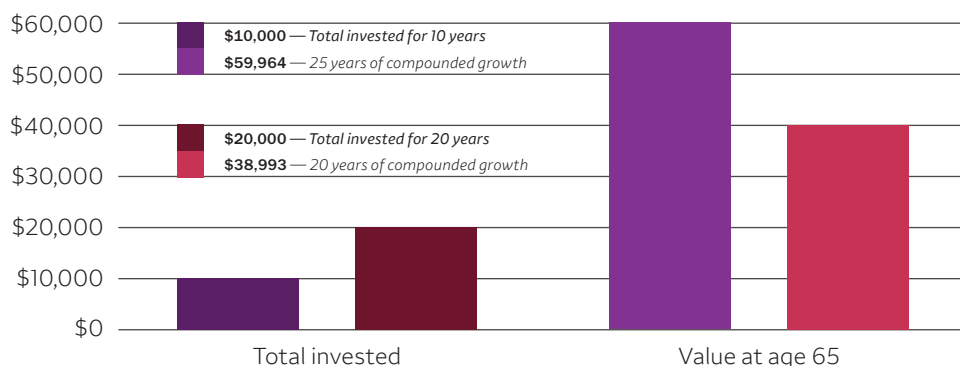
Investing in a qualified employer sponsored retirement plan (QRP), such as a 401(k), 403(b), or governmental 457(b) plan, can be an easy way to help fund your future and reduce your taxable income.

Consider the following steps:

- Determine a fixed amount or percentage to be taken from each paycheck to fund your QRP. This helps you take a consistent, disciplined approach to retirement saving.
- If your employer offers a matching contribution program, try to contribute at least as much as the employer match, otherwise you are leaving money on the table
- Think about increasing your contributions when you receive a raise.

You can contribute to an IRA whether you contribute to a QRP or not.

Putting time on your side — start early to save more with less



Investor A opens an IRA with \$1,000 at age 30. Saves for 10 years and stops annual contributions at 40 but continues to allow the money to grow until 65. **\$59,944 Total value**

Investor B opens an IRA with \$1,000 at age 45. Saves \$1,000 for 20 years until age 65. **\$38,993 Total value**

The above graph is for illustrative purposes only. It depicts a hypothetical initial value of \$1,000 in an IRA for two investors. Investor A, age 30, contributes \$1,000 per year for 10 years. Investor B, age 45, contributes \$1,000 per year for 20 years. The example assumes a 6% annual fixed rate of return and annual compounding. The growth of the assets is before tax and portions of distributions from the account will be taxed at an ordinary income rate at the time of withdrawal. The chart does not represent the returns of any particular investment and should be not be used to predict or project performance. There is no guarantee you will earn 6% on investments and your account value may fluctuate over time. It assumes all earnings are reinvested and does not include transaction costs, fees, or expenses associated with the account or any individual investment made in the account.

Why you might want to contribute to an IRA

If your employer doesn't offer a QRP, think about opening and contributing the maximum amount each year to an IRA. You are still eligible to contribute to an IRA whether you contribute to a QRP or not. Because an IRA is not related to your employer's plan, you can simultaneously contribute to both. By contributing the maximum amount each year, you can supplement your QRP savings and gain access to a potentially wider range of investment choices than with your QRP.

Traditional & Roth IRAs

There are two main types of IRAs — Traditional and Roth — each with distinct features:

Traditional IRA — offers *tax-deferred* growth potential. Tax deductible contributions and any earnings are subject to ordinary income tax when distributed from a Traditional IRA, presumably in retirement.¹ Additionally, depending on your income and whether or not you or your spouse are covered by a QRP, your contribution may be tax deductible. You can contribute even if you don't qualify for the deduction. Traditional IRA contribution can be made at any age as long as you, or your spouse if filing jointly, has earned income.

Roth IRA — offers *tax-free* growth potential. Investment earnings are distributed tax-free, if the account was funded for more than five years **and** you are at least age 59½, or as a result of your disability, or using the first-time homebuyer exception or taken by your beneficiaries due to your death.¹

Since contributions to a Roth IRA are made with after-tax dollars, there is no tax deduction regardless of income. You, and your spouse, if filing jointly, are not eligible to contribute to a Roth IRA if your income meets or exceeds the modified adjusted gross income (MAGI) limit.

Think about investing automatically

You're busy, so it can be easy to forget about regularly saving for retirement. Instead of making yourself remember to do it, put your saving on autopilot. You can consider setting up an arrangement for a preset amount of money to automatically move from your bank account to your IRA each paycheck or each month.

Build an emergency fund

Try to set aside an amount equal to three months' income in a savings account. This cushion can help you weather an emergency without dipping into your retirement savings.

Keep debt under control

The credit history you establish now will increase in importance as you apply for large loans — such as auto loans or mortgages — in the future. This means it's important to manage your debt carefully. Here are a few steps to consider taking:

- Pay off credit card debt as soon as possible to avoid high interest rate charges
- Evaluate consolidating all of your debt — credit card, student loans, car payments, etc. — at a lower interest rate
- As you reduce debt and free up cash, consider using those funds to save for retirement or other long-term goals

When changing jobs, evaluate the options for your QRP savings

Remember, if you change jobs, you may find yourself considering cashing out your QRP proceeds. Carefully evaluate all the options available to you, including rolling the assets to an IRA, leaving the assets with your former employer's plan, or moving to another employer's plan. Each option has advantages and disadvantages, including investment options, fees and expenses, which should be understood and carefully considered.

Choose an investment mix that's right for you

Over the long run, your asset allocation — how you invest your savings — will be an important consideration in your retirement strategy. While some types of investments historically have shown higher returns, they often can be more volatile. Consult with a Wells Fargo Advisors financial advisor to determine the mix of assets that fits your time horizon and tolerance for risk. Asset allocation cannot eliminate the risk of fluctuating prices and uncertain returns.

With you every step of the way

Everyone has a different vision of retirement that requires a unique financial strategy. Wells Fargo Advisors can support you in your retirement planning process by providing the guidance needed to make more informed choices. We will meet with you and help create a comprehensive plan that takes into account your complete financial picture. Your financial advisor will be with you every step of the way to review your progress and adapt your plan as needed. Working together, we'll design and implement a retirement plan that can help you live out your unique vision of retirement.

¹ Traditional IRA distributions are taxed as ordinary income. Qualified Roth IRA distributions are federally tax-free provided a Roth IRA has been funded for more than five years and the owner has reached age 59½ or meets other requirements. Both Traditional and Roth IRA distributions may be subject to a 10% IRS additional tax if distributions are taken prior to age 59½. Qualified Roth IRA distributions are not subject to state and local taxation in most states.

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