RETIREMENT PLAN Update

Wealth Management

Issue 4, 2025

Your Challenge, Our Solutions™

How exposed are your retirement savings to market risk?

Retirement plan savings can be exposed to risk in a volatile market. While no strategy offers a guarantee against losses, some strategies can help with managing the risks associated with market losses.

It's a given that the stock market is volatile, and investors are at risk of suffering losses to their capital. Investors confront several different types of risks, including market risk, inflation risk and interest rate risk. Of these risks, market risk is one that all investors, but especially those who are investing for their retirement, should understand and prepare for. Essentially, market risk is the risk that the prices of securities may fall due to external factors like economic changes, world events or investors' expectations and outlook. Investors in stocks are most likely to be impacted by market risk.

As traditional pension plans become less common, households with investments in 401(k) and other defined contribution plans increasingly bear the full brunt of turmoil in the stock market and the attendant market risk. Retirement plan investors have learned that declines in the major stock market indexes, such as the S&P 500, the Dow Jones Industrial Average, and the NASDAQ, occur relatively frequently and have been occasionally severe over the last half century.

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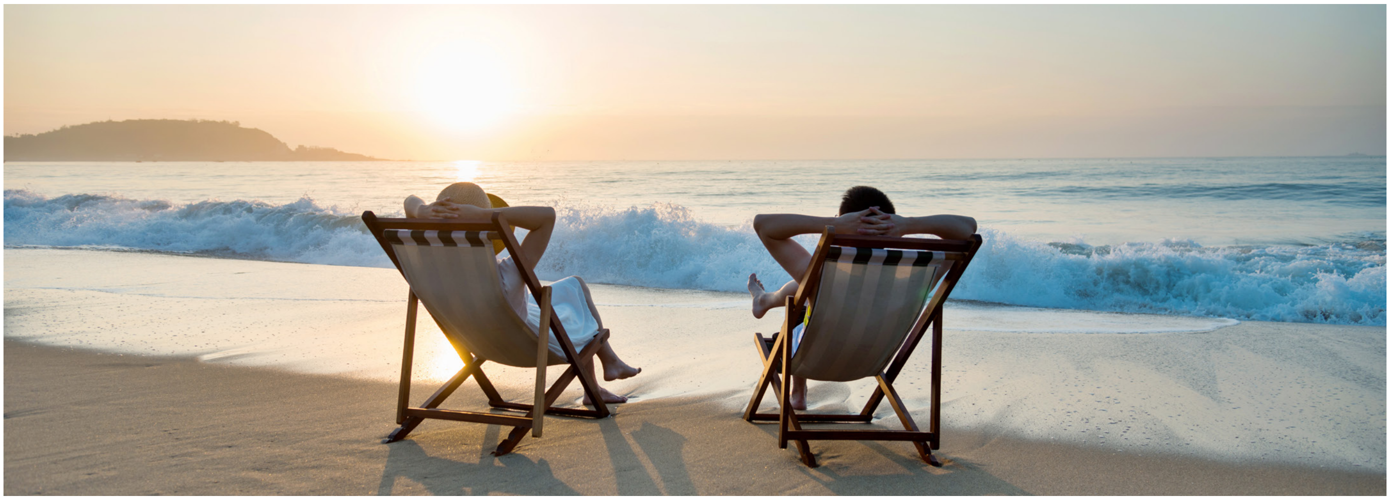


While all investors have to temper their hopes for gains with the realization that the market can also deliver losses, they should also take concrete measures and employ strategies that can lessen both the potential for and the impact of capital losses. While no strategy offers a guarantee against losses, some strategies can help with managing the risks associated with market losses.

Assessing your risk tolerance

Start by determining your risk tolerance. Your tolerance for investment risk is your ability to accept the chance of losses from an investment in return for the possibility of higher returns. You can measure your tolerance for investment risk by answering several questions:

When will I need the money?

If your retirement is a decade or more in the future, you may be able to take on more risk with your investments. If your investments experience losses in one year, you should have time to recover from them. However, if retirement is close, you may be better off reducing the percentage of your portfolio that is allocated to stocks and increasing the percentage allocated to bonds and cash equivalent investments. Essentially, this is a move from a strategy that stresses growth to one that focuses on earning a more modest return and preserving any gains you have made.

Would a big loss derail my future plans?

Ask yourself what would happen if your portfolio were to decline 15%, 20% or 30% in value? Would a loss of that size mean that you would have to postpone buying that dream retirement home or delay your planned retirement date by a year or more?

How large a loss can I handle?

Like many others, you may overestimate your ability to handle a loss. If you put the loss in real dollar terms, you may have a better understanding of your tolerance for investment risk. How would you react if your $450,000 retirement plan portfolio fell by $45,000 or more in a severe market correction? What other assets, if any, do you or your spouse have for retirement?

Implementing risk management strategies

Once you understand your time frame for investing and your tolerance for investment risk and determine what other assets you may have available for retirement, then you are in a better position to take measures to protect against market turmoil. The key to success in investing is to balance risk and potential reward. You can accomplish this by having a well-diversified portfolio and an appropriate asset allocation strategy.*

Diversification helps you manage risk by spreading your plan assets among a broad mix of different investments. Doing so allows you to take advantage of the fact that securities usually do not move in the same direction at the same time. The idea behind diversification is that the strong performance of one investment can offset the weak performance of another.

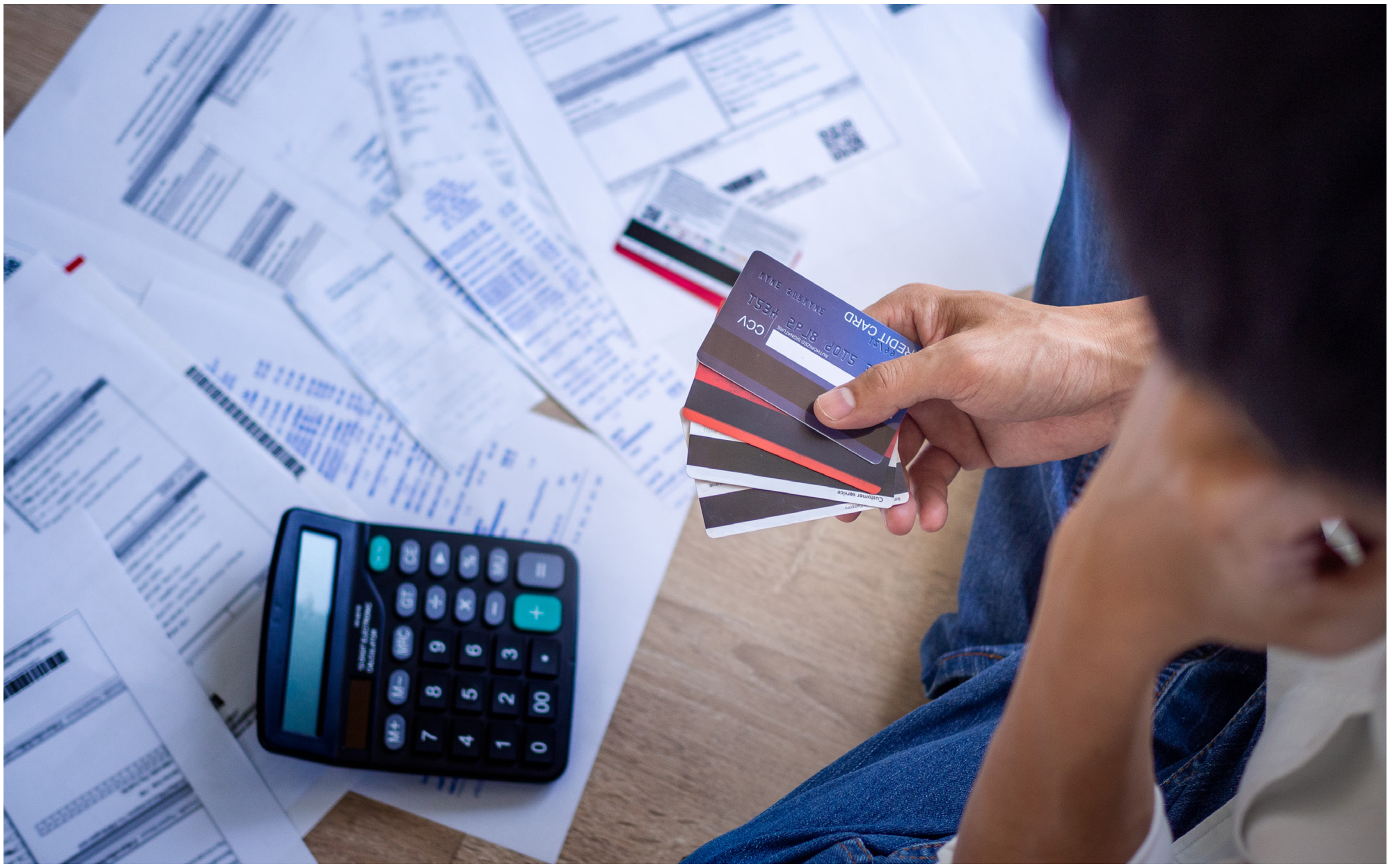
Spreading your portfolio among different asset classes, an approach known as asset allocation, takes diversification a step further. Investors who have a higher risk tolerance may decide to allocate a relatively large portion of their portfolios to stocks because of their greater return potential, while investors with a lower risk tolerance may choose a more conservative asset allocation.

As always, the input of a financial professional can be very helpful when you are crafting a strategy to protect your retirement savings from market turmoil.

* Asset allocation and diversification do not assure a profit or protect against loss.sks, charges, and expenses, please contact your financial professional to obtain a prospectus. The prospectus contains this and other information. Read it carefully before you invest.

Should you carry debt into retirement?

If you are carrying a lot of debt, consider ways to eliminate or greatly reduce your total debt before retiring.



Too much debt at any stage of life can be a problem, but it can be particularly problematic for people who are close to retiring. Carrying a lot of debt into retirement can stress your finances. And for most people, using retirement savings to pay the interest on debt means that there will be less money available to meet their daily needs.

Of course, debt won't be a concern if you have considerable assets available. Or, if you enjoy working and expect to continue doing so, you may feel comfortable about carrying debt into your 60s. Perhaps you have planned ahead and are confident that you will have enough savings to cover your debt payments and still live comfortably throughout your retirement.

However, if you are carrying a lot of debt, you should consider whether it is likely to reduce your options when it comes to doing the things you hoped to do in retirement. It may make more sense in this situation to eliminate or greatly reduce your debt total before retiring.

Tackling debt the smart way

Your first and most important step in reducing your debt burden is to identify the debts that are costing you most in interest payments. Typically, credit cards and consumer loans have the highest interest rates. Focus on paying those down first. While the money you put toward debt payoff would not be available to invest elsewhere, you would essentially earn a return equal to the interest you would otherwise pay.

Look at the pros and cons of paying off your mortgage

Your home mortgage is likely your biggest debt. It may also be the one debt you would most like to pay off before retiring. Before you go any further, check first to determine if there is a penalty for prepayment. Also review the loan amortization schedule so that you can figure out how much interest you'd save

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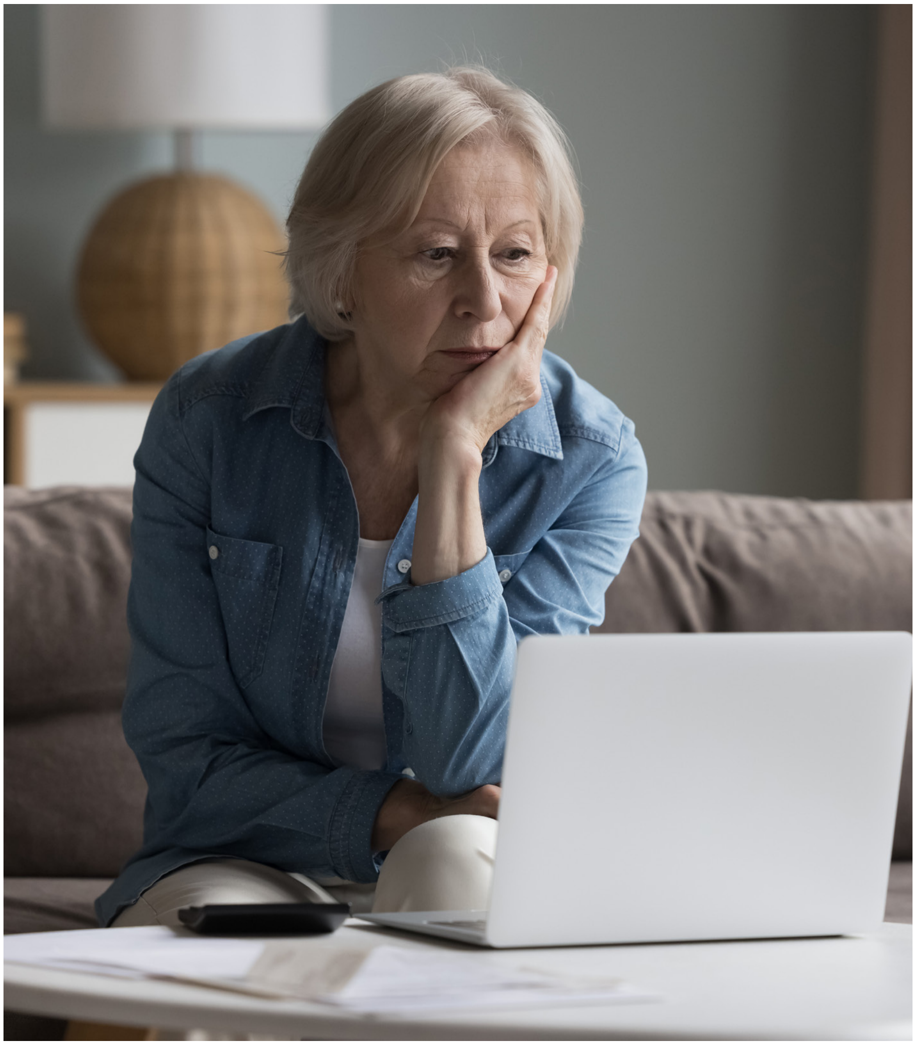
by accelerating your payments. Typically, the amount of each monthly payment that goes toward the principal increases—and the portion that represents interest decreases—as you get further into the loan term. So paying off the mortgage a few years early may not save as much interest as you would hope. There are times when keeping a mortgage and allocating the cash to other investment opportunities may make more sense. Your financial professional can help you weigh the options and decide on a course of action.



Where do you find the money?

It may seem overwhelming at first to even consider ways to reduce your debt while still saving for your retirement. However, you may have more options than you realize. Are there ways that you can simplify your lifestyle? Could you downsize to a smaller and less expensive home? Can you consider holding on to your vehicles for a little longer than you have in the past? Being proactive now about finding ways to reduce your expenses before you retire might go a long way toward freeing up the cash you need to pay down your debts. Taking action now to beef up your savings can improve your overall financial picture in the years ahead.

And be sure to talk to your financial professional for insights on steps you can take to lay the foundation for a more secure financial future.

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