

RETIREMENT CHECK-UP



ANNE ARUNDEL
COUNTY PUBLIC SCHOOLS

Invest for Success

Building long-term financial security takes time but is rewarding. It provides the foundation for living the life you want throughout your retirement. As you save and invest over the long term, keep in mind some simple steps that can make a big difference in your financial future.

Balance Risk and Rewards, Beat Inflation

You'd like to make great investments all the time, but investments fluctuate, increasing and decreasing in value from time to time. To achieve your financial goals, you'll want to balance risks and rewards, and beat inflation. Fortunately, the wide range of SRP investment funds give you choices for how you want to invest and build resources for your future.

All of the SRP investment funds are diversified in different ways, which always gives you a degree of security, but it's a basic investing principle that the potential for higher returns comes with the potential for greater volatility (increases and decreases in value). It's a good idea to review SRP funds periodically and invest in the ones that correspond with your goals.

Diversified investments in SRP investment funds, especially those targeting a retirement window you choose, can be a great way to safely unlock returns that enhance your retirement outlook.

Another reason to embrace a degree of risk in your investments is to beat inflation. If your account doesn't grow faster than inflation, your account balance will essentially lose some of its buying power! The safest investments come at a price that includes lower returns, often below the rate of inflation. When you are investing with a long enough time horizon, don't overlook the cost that low returns might carry for you.

AN EXAMPLE

Lisa and Emily are alike in just about everything except their tolerance for risk. Both save \$1,000 a month and expect to retire in about 25 years. Lisa likes to play it safe and invest her money in funds that pay an average of 3%. Emily invests in growth funds that return 8% a year on average.

The difference in investment results will give Emily twice as much at retirement.

LISA: \$1,000/month
x 25 years
x 3% annual earnings

= **\$433,000**

EMILY: \$1,000/month
x 25 years
x 8% annual earnings

= **\$909,000**



Small Leaks Can Damage Your Overall Retirement Security

It's good to have access to financial resources but drawing on your retirement savings should be a last resort. Loans and withdrawals are available under certain circumstances but taking money out of your SRP accounts will result in what's called leakage – missing out on ways to increase your balances.

Loans are not available from the 457(b) plan; however, you may be able to borrow from your 403(b) plan and under certain circumstances hardship withdrawals are available.

Three Dangerous Leaks

LEAK #1: Missed Opportunities

When you take a loan from your retirement account, you risk missing market gains that would have benefited you. For example, if you borrow \$25,000 out of a \$100,000 balance, you essentially have \$75,000 invested in the market. If the market goes up 10 percent, your account will gain \$7,500 instead of gaining \$10,000. If the market goes down, you'll probably miss a good time to buy investments that are essentially on sale.

LEAK #2: Double Taxation

Traditional contributions are made with pretax dollars, and the money is not taxed until you withdraw it from the account. But loan repayments of both principal and interest are made with after-tax dollars. This results in double taxation of the interest portion, since when you retire, you'll need to pay tax on the full benefit from the plan, a portion of which is due to this after-tax interest you paid for the loan.

LEAK #3: Shifting Priorities

It's challenging to meet life's current demands and save for the long term, but don't let a temporary financial need change your focus on the future. Keep contributing and investing. If you take a loan, be aware that your repayments only replenish money you've already taken out of the market – they do not replace making new contributions to build your savings.

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The need to access retirement savings often reflects deeper financial issues. A good first step is to make a budget and see what changes you may be able to make to balance your income and expenses. Then, weigh your options and choose what's best for you. Taking out a loan is more flexible because loans don't require you to be under a hardship. An advantage of a withdrawal is that there is no repayment, but that permanently reduces your account balance. However you choose to manage and use your SRP account, it's there to make your financial future better.



NOT SAVING? START NOW!

When you save in the SRP you're not just saving for the future, you're getting benefits from day one.

[Watch this video](#) to learn more about the plan and services offered by our administrator, AIG Retirement Services.

Learn about the benefits of your retirement plan and enroll today.

[Click to learn more](#)



For personal assistance, contact any of the AIG financial professionals dedicated to serving SRP participants.

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