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From Capital Group

Retirement News
Summer 2017

Reflect, Rebalance, Recharge!

Keep Your Retirement Goals in Focus This Summer.

Summer is a great opportunity to reflect on what's important, rebalance priorities and recharge to handle life's twists and turns. As you take these steps to refresh your mind and body, consider the ideas in this issue about how to do the same for your retirement strategy.

Reflect – Envision Your Retirement

When planning for retirement, you can start by asking yourself what you would like to be doing in 10, 20 or even 30 years. What type of lifestyle do you hope to enjoy?

Many investors put travel at the top of their list. If you planned a vacation this summer, you know how it helps to budget and set a savings goal. Others aspire to donating a meaningful amount of money to charity or helping fund their grandchildren's education.

Do you want to have the freedom to follow your dreams in retirement? Will you continue working because you want to or have to?

The answers will impact how much you need to invest.

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Reflect – Envision Your Retirement

When Do You Want to Retire?

There really isn't a right or wrong answer. In fact, baby boomers are redefining retirement as a new beginning. They are determined to stay active and engaged. Some may embark on a second career or work part time doing something they enjoy. However, others will have to work to meet their expenses.

Investors also need to consider that increasingly longer life expectancies mean retirement could last as long as three decades. The average 65-year-old can expect to live another 20 years. If possible, delaying retirement gives you more years of earning an income, additional years to save and invest, and fewer years of withdrawing money from your retirement account.

In addition, you can apply for full Social Security benefits at age 66 or 67, depending on when you were born. Alternatively, you can apply for reduced benefits as early as age 62 or wait as late as 70 years old for increased benefits.

How Much Will You Need?

Many financial experts suggest that investors will need enough resources to replace 80% of their current annual income for each year of retirement. However, you may be surprised to hear that Social Security may only cover up to 40% of what you need. The rest is up to you.

In addition to your aspirations, there are also practical considerations about your retirement. What will your living situation be? Will you still have to pay a mortgage or rent? Will you stay where you are or move to a different area that is less expensive? Moving to a more affordable area could help stretch your nest egg.

Also, keep in mind that inflation may cause you to spend more on everyday purchases in the future than you do today, which could cause you to need more income than you might expect. Health care is a good example of one such cost, which is rising along with increasing lifespans.

To check your progress toward meeting your goals, go to americanfundsretirement.com/retirementplanningcalculator. Whether you are on track or need to catch up, you can fine-tune your strategy over time to improve your outlook.

80%

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Summer Reads

On those lazy summer afternoons, you may want to read or listen to one of these:

Mr. President (Kindle edition), a financial thriller by Norb Vonnegut

The Tao of Charlie Munger: A Compilation of Quotes from Berkshire Hathaway's Vice Chairman on Life, Business and the Pursuit of Wealth with commentary by David Clark

The Grapes of Wrath, a Pulitzer Prize–winning epic of the Great Depression by John Steinbeck

Broke Millennial: Stop Scraping by and Get Your Financial Life Together by Erin Lowry

West of the City: A Financial Thriller by Grant Sutherland

Rebalance – Allocating Investments Is a Balancing Act

When investors construct their own retirement portfolios, many end up at the extremes of asset allocation. Some may only invest in equity funds, which are more volatile than bond funds. Others may keep their investments in the perceived safety of cash funds, which will likely not have enough return to build an adequate retirement base.

Start With a Well-Diversified Portfolio

A key part of a long-term retirement strategy is diversification. Diversification helps balance risk and returns by spreading your investments across stocks, bonds and cash. Your portfolio's overall returns should fluctuate less, as different asset classes will experience gains and losses at different times.

Keep in mind that diversification is not a one-time undertaking. It's a good idea to review your investment allocations at least once a year. Are your investments aligned with your retirement goals? You'll also need to consider any changes to your retirement time frame.

For example, if you are 20 years from retirement, you may want to invest more in growth and growth-and-income funds that invest primarily in stocks. As you approach retirement, think about investing more in bond funds and less in more volatile growth funds.

Keep Your Strategy on Track

If you're happy with your investment strategy, you may want to make sure your original allocations remain the same. Your asset mix may have shifted over time as some investments grew faster than others.

Many experts suggest you should consider rebalancing if the funds in your portfolio have changed more than 5% to 10% from your original allocations. If you need to rebalance, exchange some of your investments from funds whose allocations have increased to funds with allocations that have decreased.

You can rebalance online by logging into your account on your plan's website to make an exchange of funds. Some plans also offer a rebalancing option that automatically returns your investments to their original allocations.

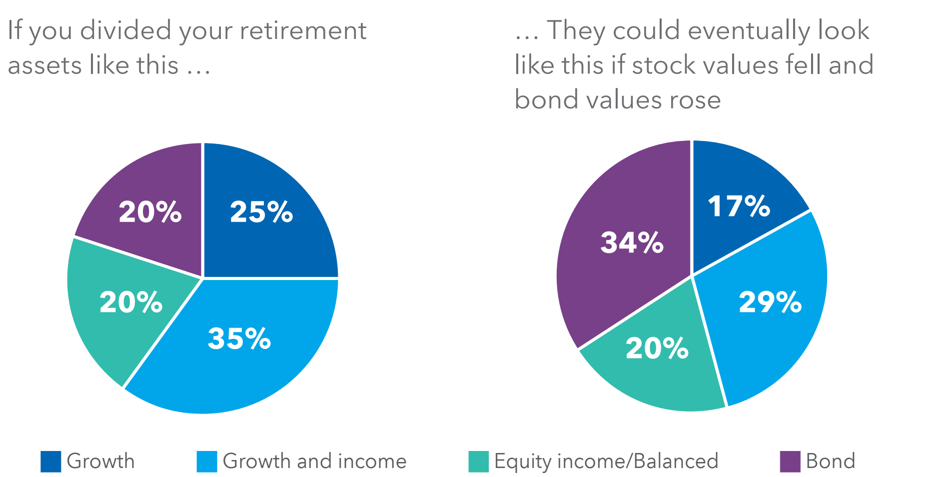
Consider a Target Date Fund

If you don't feel comfortable or don't have the time to manage your own asset mix, you may want to consider a target date fund that offers a simplified approach to investing. Target date funds are a group of mutual funds combined into one fund that serves as a single diversified investment.

Experienced investment professionals make decisions about the target date fund's holdings, emphasizing growth when retirement is in the distant future and becoming more income-oriented when approaching and through retirement.

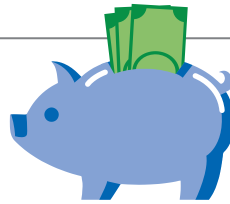
While a diversified investment strategy does not eliminate risk or guarantee above-average returns, it provides an increased chance of having a better long-term outcome than if you rely too much on one type of investment.

Without Regular Rebalancing, Your Portfolio Could Shift



These charts are for illustrative purposes only. The hypothetical examples are not intended to show the performance of any particular investment. Your results will be different.

Recharge – Save More This Summer



Many financial experts recommend saving 10% to 15% of your annual pay for retirement. As you envision your future lifestyle, here are some tips to help your money keep up with your goals.

Meet Your Employer's Match

Not all retirement plans offer an employer match, where the company matches a portion of your contributions. But of those plans that do, 25% of employees miss out on receiving the full match.

If your employer offers this benefit, you should contribute at least enough to get the maximum matching dollars. Otherwise, you're practically leaving free money on the table.

If it's feasible, go beyond the match, and contribute as much as you can.

Save Your Raise

You may be comfortable with your progress and sticking with your current contribution levels. But if you're not satisfied, you can also set goals to increase your contributions over time.

For example, if you recently received a raise, consider adding a percentage of your salary increase to your retirement account to close the gap. Gradually increasing your contributions by 1% per year until you reach 10% to 15% of your pay can make a big difference in your monthly withdrawals at retirement.

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Play Catch-Up

If you're getting a late start or have fallen behind with your retirement plan contributions, consider contributing the most money permitted under your retirement plan. To increase your long-term investment potential, the federal pretax annual contribution limit is $18,000, but your plan rules may differ.

In addition, the IRS allows you to make "catch-up contributions" if you're age 50 or over. This can give your account balances a boost while deferring more taxes. If this option is available in your company's retirement plan, you can generally add beyond the general contribution limit for a maximum of $24,000.

Start a Legacy

In addition to saving for your retirement, your savings priorities may also include contributing to the future of younger family members. If you want to help fund a child's education, you can open a 529 college savings plan account for them. Earnings in 529 accounts can grow free from federal tax. Withdrawals for qualified higher education expenses such as tuition, room and board are also free from federal tax.

Both parents and grandparents can start 529 accounts by contributing a lump sum, then make additional contributions on birthdays and holidays. Some 529 plans offer gift certificates or preprinted investment stubs so other family members can also make account contributions to mark milestones.

Did You Know …

25%
of employees miss out on receiving the full company match.[1]

8.4%
of annual income is the amount the average American spends on entertainment and eating out.[2]

6.8%
of their annual income is the average percentage a U.S. employee saves for retirement, compared with 10% to 15%, which many financial professionals recommend.[3]

[1] *Missing Out: How Much Employer 401(k) Matching Contributions Do Employees Leave on the Table?*, Financial Engines, 2015

[2] U.S. Department of Labor Bureau of Labor Statistics, Consumer Expenditures – 2015

[3] *PSCA's 59th Annual Survey of Profit-Sharing and 401(k) Plans*, 2016

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This newsletter is for use by retirement plan participants and with all variations of policy form number 28276.

Investors should carefully consider investment objectives, risks, charges and expenses. This and other important information is contained in the fund prospectuses and summary prospectuses, which can be obtained from a financial professional and should be read carefully before investing.

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