AMERICAN FUNDS®
From Capital Group

Retirement News
Winter 2018

Go the Distance.

9 Ways to Rev Up Your Retirement Savings

The beginning of the year is a good time to take stock of your finances and review your retirement investment plan. Are there things you could do to tune up your plan or improve your potential for long-term success? Consider the following ideas.

1 | Get back on track

If you've stopped contributing to your retirement plan, now may be a good time to jump back in. Taking a break from investing can be costly because you're missing out on potential returns that can grow over time. You may also be leaving money on the table if your employer offers a company match. If that's the case, try to contribute enough to get the maximum matching dollars if you can.

Need help restarting your contributions? It could be as easy as signing up online or filling out a form. See your employer's HR contact for more information.

2 | Boost your contribution

Many financial professionals suggest investing 10% to 15% of your annual income for retirement. If that's not realistic today, consider changing your contribution in small increments over time. Also consider

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giving your contribution rate a boost each time you receive a raise or a bonus. The maximum you can contribute for 2018 is $18,500.

Read "The Power of Small Changes" on page 3 to see how small increases in your contributions can make a big difference over time.

3 | Review your financial goals

Does your investment strategy still fit your needs? An investment plan that made sense a few years ago may no longer be a good fit. For example, if you're nearing retirement, you may want to adjust your portfolio mix to help reduce your exposure to market volatility. Other life changes, such as getting married or the birth of a child, may also affect your investment goals.

4 | Keep your account in balance

Your investments will gain and lose value as the market rises and falls. Because some investments grow faster than others, you may want to move money from one investment to another in order to maintain certain asset allocations. Many professionals suggest you should consider rebalancing if the funds in your portfolio have changed more than 5% to 10% from your intended allocations.

Another option is choosing a target date fund if they're offered in your plan. Target date funds are designed to be a complete portfolio in a single investment. They're managed by experienced investment professionals who monitor allocations and adjust the funds' holdings over time.

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5 | Contribute to an IRA

If you're maximizing your contributions to your workplace plan, you may want to open an individual retirement account (IRA). An IRA is a tax-advantaged retirement vehicle that's available in two forms: traditional and Roth. For 2017 and 2018, you can contribute up to $5,500 to an IRA. If you're age 50 or over, you can contribute an additional $1,000.

6 | Make catch-up contributions

If you're maxing out your regular contributions to your retirement plan and you're age 50 or older, you can contribute up to $6,000 more as a catch-up contribution. This can help you build your account balance in the final stretch, while deferring more taxes.

7 | Repay your loan early

One hidden cost of taking a plan loan is that the withdrawn amount loses the potential to grow over time, which could lead to a shortfall at retirement.

If you have an outstanding retirement plan loan, some plans allow you to pay it off early as a lump sum. This gets your money back into your account and working toward your retirement.

8 | Consolidate your assets

Do you have retirement plans from former employers? You may want to consolidate them into one account to make it easier to keep track of your investments. You can roll them into your current employer's plan (if permitted) or roll them into an IRA. Moving your retirement assets to an IRA may give you more control over your investments. If you leave your account with a former employer's plan, you'll be limited to the options of that plan.

9 | Meet with your plan's financial professional

The beginning of the year is a good time to meet with your plan's financial professional. Consider the ideas we've discussed here as a starting point to help you set a course for 2018.

How to Keep a Steady Hand in Market Declines

Many investors have been riding high on strong market results in recent years, but it's important to remember that the market will likely pull back at some point. In fact, a 10% market correction typically occurs about once a year. Here are three tips to help you stay the course next time the market takes a dip.

1 Turn down the volume.

In the age of nonstop connectivity, tuning out financial news can be tough, but fixating on daily or even weekly market returns can spur us to take actions that could impede our long-term success.

2 Avoid jumping in and out of the market.

Resist the temptation to move all your money into stocks at the hint of good news or everything into cash following bad news. Successful market timing is extremely difficult, and investors typically end up buying high and selling low.

3 Think of market declines as an opportunity.

Continuing to invest when markets are declining can be difficult, but if you believe that stock and bond funds are a good way of meeting long-term financial objectives – which has been the case historically – then making purchases during a downturn can be like buying investments on sale.

The Power of Small Changes

Small, incremental increases in your contributions can make a meaningful difference over the long term. Let's take a look at two people who took different paths to retirement saving.

Jason and Jane are a lot alike: They're the same age, work at the same company, earn the same salary and receive the same raise each year. There's one big difference: Jason never changed his 4% contribution rate over the years, and Jane increased hers by 1 percentage point each year until she was contributing 12% to her plan.

One percentage point doesn't sound like a lot, but after 40 years of saving, Jane's monthly retirement withdrawals are more than two times larger than Jason's. That additional money could mean a different lifestyle in retirement.

Jason

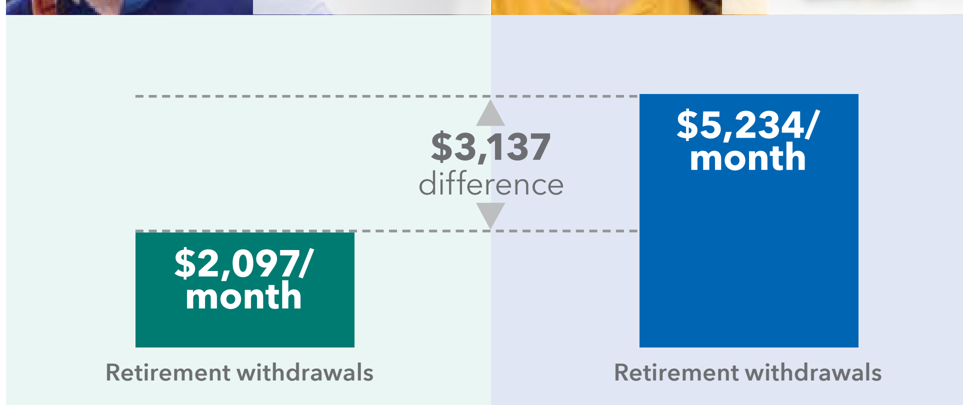
4% of Pay With No Increases

Save the same percentage of pay until retirement.

Jane

4% of Pay With Small Increases

Increase contribution by 1% each year until it reaches 12%.

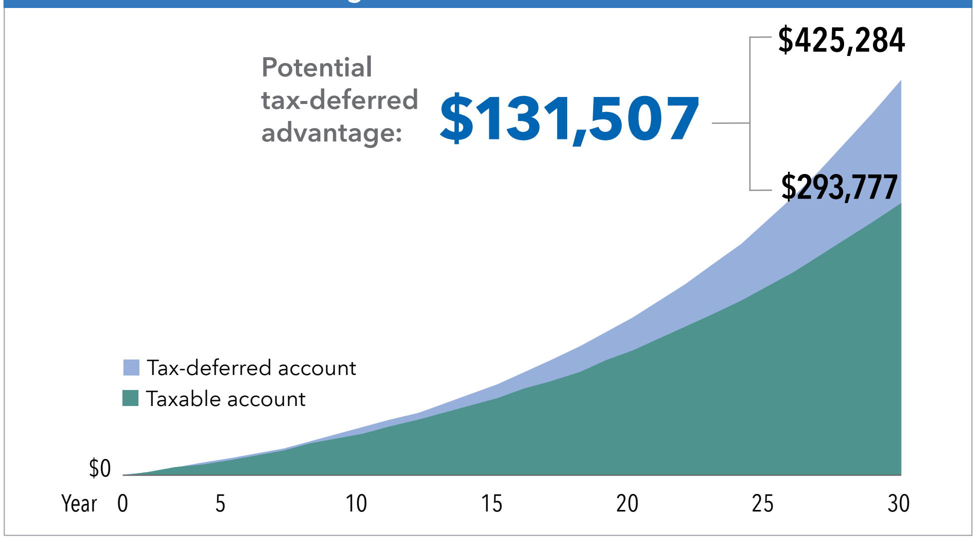


These examples assume a starting salary of $43,000, a 2% annual pay increase, a 40-year accumulation period, an 8% average annual return compounded monthly and a 4% annual withdrawal rate after the accumulation period. These are point-in-time views and as such do not take into account any growth or loss during retirement. Without investment growth/loss during retirement, a 4% annual withdrawal rate would deplete retirement savings in 25 years. Examples are for illustrative purposes only and do not reflect the results of any particular investment, which may differ, or taxes that may be owed on tax-deferred contributions, including the 10% penalty for withdrawals taken before age 59½. Regular investing does not ensure a profit or protect against loss in a declining market.

Reduce Your Taxes by Saving for Retirement

With tax time around the corner, you may soon be thinking about ways to save on your tax bill next year. [Making pretax contributions could be a good way to do that.] For example, let's say your salary is $50,000 and you contribute 10% to your tax-deferred retirement plan. That would reduce your taxable income to $45,000. In addition, earnings on your investments accumulate on a tax-deferred basis, which means you don't have to pay taxes on them until you take the money out of your account. This tax advantage could increase your retirement savings an additional 45% compared to a taxable investment. See the potential benefit of tax-deferred growth in the chart below.

The Tax-Deferred Advantage: $300 Per Month for 30 Years*



*Assumes an 8% average annual rate of return (compounded annually) for both investments and a 25% income tax rate. (The typical mutual fund investor falls into the 25% tax bracket.) The taxable example assumes taxes were paid annually out of the account. Your tax rate may vary. Current minimum tax rates on capital gains and dividends could make taxable investment returns higher, thus reducing the difference between the two ending values. If you take $425,284 as a lump-sum distribution, you'd be left with $256,871 after being taxed at the 39.6% tax rate. (Your actual tax rate may vary.)

When you withdraw only a portion of your retirement plan balance, you'll likely pay less in taxes and continue to have the remaining balance grow tax-deferred. The money you take out of your plan is subject to ordinary income tax and, if applicable, to an additional 10% federal tax penalty on early withdrawals before age 59½. Results shown are hypothetical and are not intended to represent an investment in a specific fund. Your investment experience will differ. Regular investing does not ensure a profit or protect against loss. You should consider your willingness to keep investing when share prices are declining.

Did You Know …

9 in 10

women are very or somewhat confident they have the knowledge to make good financial decisions.

58%

of women say having enough money to retire is their top financial concern.

63%

of millennial women began investing in their 20s.

Source: The "Wisdom of Experience" online survey was conducted for American Funds by APCO Insight, a global opinion research firm, in March 2017. They surveyed 1,200 American adults – 400 millennials (ages 21–37), 400 Generation Xers (ages 38–52) and 400 baby boomers (ages 53–71) – of varying income levels with investment assets who have some responsibility for making investment decisions for their families.

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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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