

# your retirement resource

## Stay in the match

Investing regularly — in both bear and bull markets — can work to your advantage.

The movement of the financial markets may have you feeling like you're on the losing side of a tennis match. When the markets go through periods of decline — known as bear markets — it's easy to be concerned about losses to your retirement plan account. You may even begin to wonder if it makes sense to keep contributing money to your employer's plan. "Am I throwing good money after bad?" you may ask. Or you may wonder if it's time to move your account balance from more volatile growth funds into relatively more stable cash-equivalent-type funds. All of these reactions are normal. Before you act, however, you may want to look at how market downturns can actually provide opportunity for long-term investors.

### Keep the ball in play

When you joined your employer's retirement plan, you likely made the decision to contribute a fixed dollar amount to your plan account each pay period. These steady contributions are meant to put you in a good position to meet your financial goals in retirement. Regular investing like this makes it possible for you to buy more

shares when the markets are falling (and mutual fund share prices are lower). Of course, you will buy fewer shares when the markets are rising (and mutual fund share prices are higher).

In other words, when the share prices of the mutual funds in your retirement plan account go down and you keep investing the same amount, you're able to buy more mutual fund shares — it's as though the shares are on sale. Even better, when the markets start to go back up again, you'll have more shares that are potentially worth more money.

This investing approach is called dollar cost averaging, and for it to be effective, you must continue to purchase shares while a fund's price is falling. Keep in mind though that regular investing does not guarantee a profit or protect against loss — so, you should consider your willingness to keep investing when share prices are declining.

Let's look at a hypothetical example of what could happen to the investment of a plan participant in a down market. Paula

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## Stay in the match

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contributes \$150 to her retirement plan account every two weeks. Her investment mix includes a mutual fund that has a starting value of \$15 a share. She allocates \$50 of her \$150 contribution amount to this fund each pay period.

### Share price declining

(\$50 contribution every two weeks)

Total amount contributed	Fund share price	Number of shares purchased	Value of the shares
\$ 50	\$15.00	3.33	\$ 50
100	14.85	3.37	99
150	14.62	3.42	148
200	14.58	3.43	198
250	14.31	3.49	244
300	14.15	3.53	291
350	13.98	3.58	338
400	13.95	3.58	387
450	13.52	3.70	425
500	13.33	3.75	469
550	13.10	3.82	511
600	12.80	3.91	549
650	12.64	3.96	592
700	12.33	4.06	628
750	12.30	4.07	676
800	12.02	4.16	711
850	11.91	4.20	754
900	11.76	4.25	795
950	11.55	4.33	831
1,000	11.40	4.39	870
1,050	11.15	4.48	901
1,100	10.80	4.63	923
1,150	10.66	4.69	961
1,200	10.41	4.80	988
1,250	10.25	4.88	1,023
\$1,300	\$10.00	5.00	\$1,048
<b>Total value of the shares in one year \$1,048</b>			

Even though Paula’s investment is losing value as the share price declines to \$10, she continues to contribute, and in one year’s time the value of that one mutual fund holding is worth \$1,048. Now you may say that Paula lost \$252 because she contributed \$1,300. This occurred because she bought these shares when the market was falling.

### Share price rising

(\$50 contribution every two weeks)

Total amount contributed	Fund share price	Number of shares purchased	Value of the shares
\$1,350	\$10.15	4.93	\$1,114
1,400	10.25	4.88	1,175
1,450	10.52	4.75	1,256
1,500	10.76	4.65	1,334
1,550	11.01	4.54	1,415
1,600	11.22	4.46	1,492
1,650	11.45	4.37	1,573
1,700	11.61	4.31	1,645
1,750	11.78	4.24	1,719
1,800	11.98	4.17	1,798
1,850	12.00	4.17	1,851
1,900	12.05	4.15	1,909
1,950	12.37	4.04	2,009
2,000	12.85	3.89	2,137
2,050	13.20	3.79	2,246
2,100	13.42	3.73	2,333
2,150	13.78	3.63	2,446
2,200	13.85	3.61	2,508
2,250	14.32	3.49	2,643
2,300	14.45	3.46	2,717
2,350	14.70	3.40	2,814
2,400	14.86	3.37	2,895
2,450	15.05	3.32	2,982
2,500	15.57	3.21	3,135
2,550	15.92	3.14	3,255
\$2,600	\$16.00	3.13	\$3,322
<b>Total value of the shares in two years \$3,322</b>			

As history has shown, financial markets don’t stay down (or up) forever. So what happens to Paula’s same investment once the fund’s share price begins to rise again? Well, because she keeps contributing, she is able to purchase over 100 shares during the market decline (she would have purchased only about 87 shares had the price remained steady at \$15 a share). As the fund’s share price rises, the shares she has accumulated (including the extra shares she bought as the market declined) increase in value. By the end of the year, Paula has contributed \$2,600 and her holding’s value has risen to \$3,322. Keep in mind that, with the share price now increasing, her regular contribution amount will buy her fewer shares. This is the way dollar cost averaging works — you buy more shares when prices decline, giving these additional shares the potential to increase the value of your holding if prices rise again.

### You can’t time it

You never know how long a tennis match will last. Financial markets, too, have no set times for market highs or lows. No one can predict how long bull or bear markets might last or even when they might begin. That’s why it’s so important to understand that no one can “time” the markets. (You should consider your willingness to continue investing in a declining market.)


In our example, Paula doesn’t try to time the market. She just keeps contributing. As a result, she’s able to take advantage of the investment’s best days, which helps offset losses during the worst days.

### Game, set and match

In tennis, it takes at least six games to win a set and at least two or three sets to win a match. Players can lose games and even

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This example does not illustrate the actual results of any particular investment. It’s based on a \$50 contribution every two weeks and hypothetical mutual fund share prices at net asset value. Your actual results may differ, and regular investing does not ensure a profit or protect against a loss in a declining market.

sets and still win. In fact, what sometimes makes tennis so exciting is the fact that you can lose for sustained periods but still ultimately win. The same is true when you're investing for a long-term goal like retirement. At times you may lose money, but if you keep investing — stay in the match — you may have the opportunity to meet your goals. 

### On the Web

Learn how to take a positive look at any negative numbers you may see on your account statement. Go to **AmericanFundsRetirement.com** and type "PositiveLook" in the search box.

# Don't be a statistic

Most of us have an idea of the perfect retirement. While that idea may vary from person to person, many baby boomers share a common concern. A recent online survey by *Money* magazine found that many baby boomers feel financially unprepared for retirement.

- 65% said they want to save enough for retirement
- 55% believe they will be able to maintain their standard of living in retirement

#### But

- 45% don't think they will be able to retire
- 78% think that Social Security benefits will be lower
- 90% haven't done a great deal of planning

## The high cost of a small break

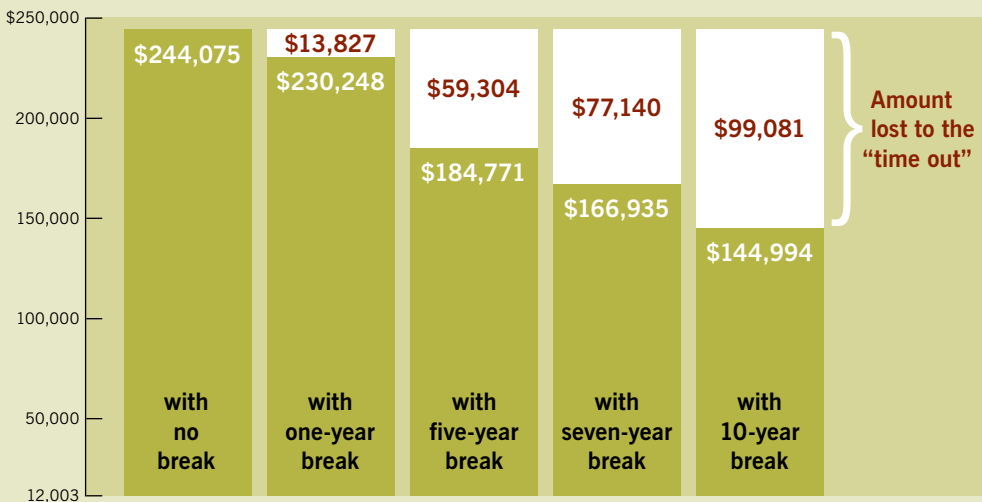
When you're looking for some extra cash, it might be tempting to temporarily stop contributing to your retirement plan account. After all, this money could go toward paying bills or saving for a house. But putting some extra dollars in your pocket today could prove quite costly tomorrow. For example, let's say a participant contributes \$75 to his retirement plan every two weeks and his investment earns an average of 8% a year. After five years he's accumulated \$12,003.

The illustration below shows you what might happen to his account balance if he continued contributing until he retires in 25 years versus taking a break from contributing.

Because of the power of compounding, the investor who continues investing without a break can be better off (oftentimes much better off) than an investor who takes a break.

### Value in 25 years

(Based on a value of \$12,003 at the beginning of the 25-year period)



This example does not illustrate the actual results of any particular investment. It's based on a \$75 contribution every two weeks and an 8% average annual return compounded every two weeks. This example assumes that each break occurs at the beginning of the 25-year period, such that the one-year break shows one year of growth on the account balance alone and 24 years of contributions and growth; the five-year break shows five years of growth on the account balance alone and 20 years of contributions and growth; the seven-year break shows seven years of growth on the account balance alone and 18 years of contributions and growth; and the 10-year break shows 10 years of growth on the account balance alone and 15 years of contributions and growth. Your actual results may differ, and regular investing does not ensure a profit or protect against loss in a declining market.

Bottom line: Don't be a statistic. Check to see if you're on track to meet your financial goals in retirement. Visit **AmericanFundsRetirement.com** (or the Web address on your statement) and use the Retirement Planning Calculator (type "RPC" in the search box). This calculator will show you if your current savings plan will provide you with enough money at retirement. If the results concern you, print them out and show them to your plan's financial professional who can discuss the results with you and help you develop an appropriate savings strategy.

# Social Security and you: by the numbers

The Social Security Administration estimates that the government retiree program will replace around 40% of the average worker's annual income in retirement. Of course, just how much it actually replaces depends entirely on how much income you earn during your working years, and how much income you'll need to live on in retirement. In fact, the Employee Benefit Research Institute has calculated that individuals earning more than the maximum taxable amount (\$97,500 in 2007) saw Social Security replace only 27% of their income in 2007. In 2027, the replacement is expected to drop to 20% of their income.

How much of *your* income will Social Security really replace? Check out the

**\$1,055**  
**The average amount of a monthly Social Security check to retired workers in 2007.**

Source: Social Security Administration.

monthly Social Security incomes in the following table. Look for your age and current annual salary. As the table shows, the amount Social Security will provide will be less than your current monthly income, so you'll need to make sure that

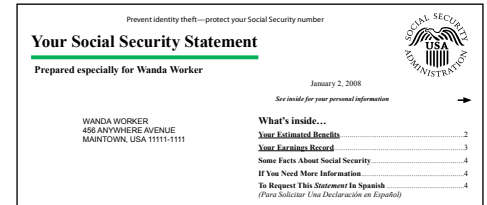
your current savings plan will help you close the gap.

Our Retirement Planning Calculator can help. It takes into account all of your current savings and investments, and automatically adds estimated Social Security payments into the equation. Visit **AmericanFundsRetirement.com** or the Web address on your statement and type "RPC" in the search box.

## Estimated monthly Social Security benefits

Age	Current annual salary							
	\$20,000	\$30,000	\$40,000	\$50,000	\$60,000	\$70,000	\$80,000	>\$90,000
25	945	1,212	1,478	1,745	1,891	2,016	2,141	2,266
30	945	1,212	1,478	1,745	1,891	2,016	2,141	2,266
35	938	1,201	1,464	1,727	1,881	2,004	2,127	2,251
40	923	1,178	1,433	1,689	1,859	1,979	2,098	2,218
45	901	1,146	1,391	1,636	1,829	1,944	2,059	2,173
50	875	1,107	1,338	1,570	1,792	1,901	2,009	2,118
55	837	1,050	1,263	1,475	1,688	1,839	1,938	2,038
60	801	996	1,190	1,385	1,580	1,775	1,871	1,962

Source: Social Security Administration. Amounts based on full retirement age. Collecting Social Security benefits before reaching full retirement age could lead to a reduction in benefits.



For an accurate estimate of your potential benefits in retirement based on all your actual reported earnings, keep an eye on your mailbox. Three months before your birthday each year, the Social Security Administration mails you an annual benefits statement.



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