CHARTING YOUR COURSE SERIES:

INVESTING FOR RETIREMENT

INVESTMENT PLANNING FOR PUBLIC SECTOR EMPLOYEES

ICMARC

BUILDING PUBLIC SECTOR RETIREMENT SECURITY

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Once you have committed to regularly saving for your retirement, you need to decide how to invest it.

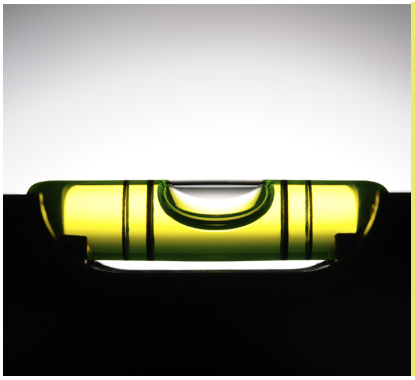
CONSIDER THESE STEPS:

Step 1. Decide how much risk you should take

The Risk-Return Trade-off

History has shown that in seeking higher long-term returns, you generally have to accept more risk of losses, especially in the short term.

Risk-averse investors who seek to avoid losses may be unhappy years later if the purchasing power of their savings has been eroded by inflation. Aggressive investors may experience losses near the time they will need the invested money, or may be so unsettled by volatility that they change a generally sound investment plan.



Finding the right balance between risk and potential return can be challenging but it is a key to successful investing.

Your Risk Approach

How well do you tolerate risk? Consider your willingness to accept losses in exchange for expected, but uncertain, longer-term gains. Here are some questions to help you assess your comfort level with risk.

- Do you prefer investments that change in value slowly and have lower growth potential, or those with a higher risk of losses but also higher potential growth over time?
- If you owned an investment that declined in value similar to the overall markets over a few months or years:
  - Would you sell all of it? Sell some of it? Buy more of it? Do nothing?
  - Would your answer change if the markets and your investment declined 30 to 50 percent versus 10 percent?
- How have you *actually* responded to losses for investments you owned when they declined in value?

In addition to the amount of risk you are comfortable taking, there is the amount you should consider taking in order to meet your saving goals. Generally, you can afford to take more risk for money you will not need for many years.

WHAT IS YOUR IDEAL RISK LEVEL? ▶

Consider what the *actual* consequences for your retirement plan would be if your investments suffered a loss of 10 to 20 percent, or of 30 to 50 percent:

- If nearing retirement, would you have to delay your retirement date, or reduce your spending in retirement? Would you have other income from pension and Social Security to meet your needs?
- If retirement is not on the horizon, will you have sufficient time for your investment to recover? Could a market downturn be an opportunity to purchase investments at an attractive price?

You should generally reduce your risk level over time as your time horizon shortens. For retirement though, remember that time horizon is more than just when you retire; it's when you will first begin withdrawing your assets and over how long you will withdraw them, such as over the remainder of your life.

Remember to review these issues in the context of your overall investment strategy or financial plan. If you're planning for retirement with a spouse or partner, you should discuss them together.

LESS RISK	***HIGHER RISK***
Prefer lower volatility, lower growth potential	Prefer higher volatility, higher growth potential
Likely to sell a declining investment	Would consider buying more of a declining investment
Shorter time horizon	Longer time horizon
Money set aside for "needs"	Money set aside for "wants"
Less stable job and income	More stable job and income

Step 2. Determine Your Investment Mix

The Benefits of Asset Allocation and Diversification

Understanding your ideal level of risk is key to choosing your asset allocation, that is, how you divide your portfolio among various types of investments. Your ideal mix is the one most likely to meet your investing goals with a level of risk that is suitable for you.

Whatever your asset allocation, you should strongly consider being diversified within it, spreading your investments in funds that invest across multiple companies of different sizes, industries, and countries. As an example, owning only technology stocks — or only mutual funds that invest primarily in technology stocks — does not mean you are diversified.

Diversification reduces the potential for losses that disproportionately hit any single area of the market, but does not ensure a profit or guarantee against loss.

You should generally reduce your risk level over time as your time horizon shortens.

Choosing Your Asset Allocation

Determining what percentage of your overall portfolio should be in different types of stocks and fixed-income securities — including bonds, stable value funds, and cash-equivalents — is one of your most important investment decisions.

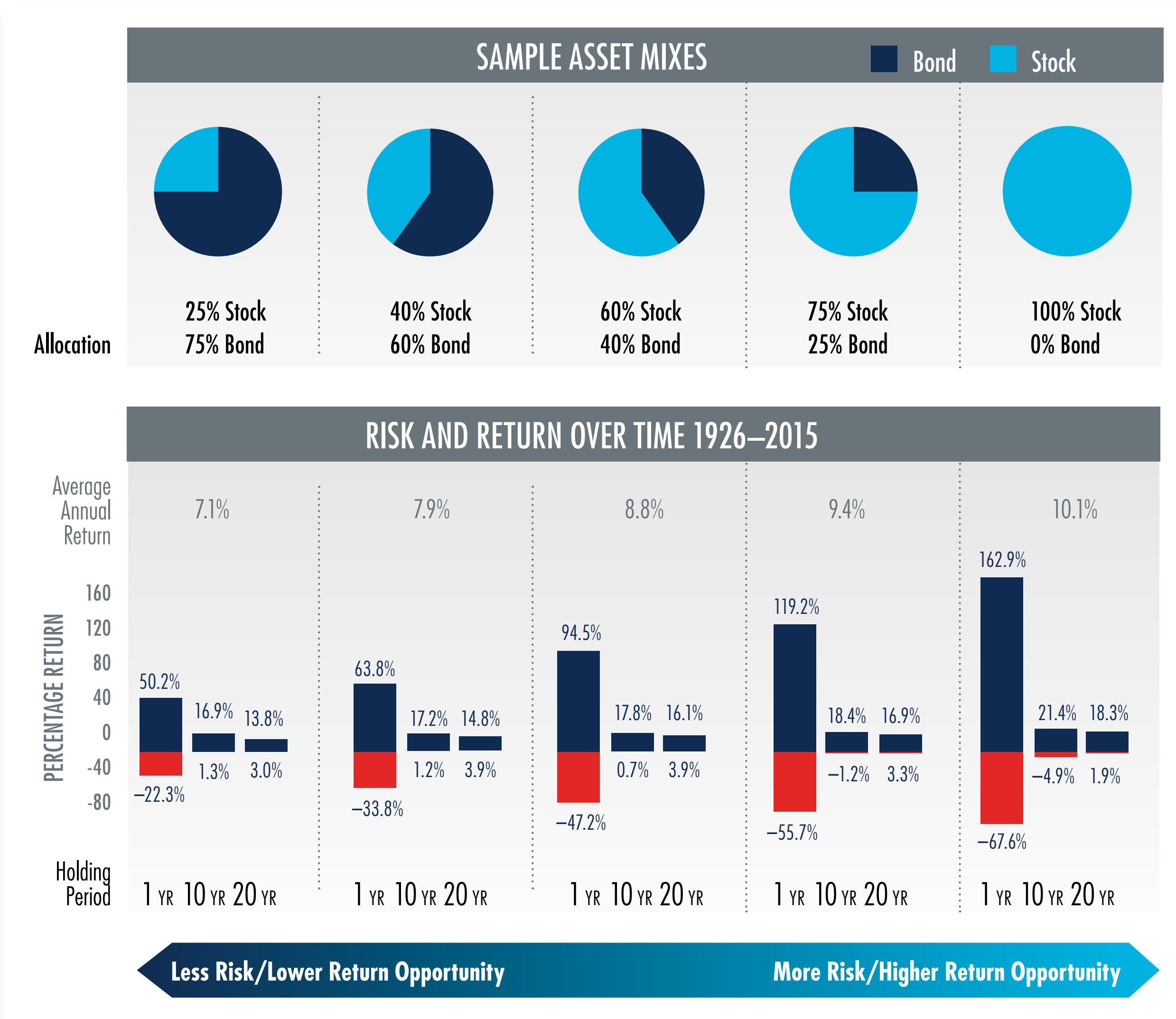
1. **Stocks,** often referred to as ***equities,*** represent ownership in a corporation. They tend to be more volatile than other major investment types, with much greater downside risk, but overall have outperformed other major asset classes over long periods of time.

2. **Bonds,** a type of ***fixed-income*** security, are loans that pay interest. Overall, bonds have been in between stocks and cash-type investments in terms of risk and return. Bond funds — even those investing in government bonds — are not federally guaranteed and may lose principal, particularly during short time periods.

3. **Cash Equivalents,** often referred to as ***cash,*** are short-term fixed-income investments, such as money market funds and bank certificates of deposit. While relatively predictable with less likelihood of loss, they are expected to have less investment return over time. Consider putting money you are likely to need soon in cash investments. You also may wish to set aside some longer-term money in cash for additional security and/or buying opportunities.

Determining what percentage of your overall portfolio should be in different types of stocks and fixed-income securities is one of your most important investment decisions.

Use the chart below to help guide your asset allocation decisions. It shows the performance of different stock and bond portfolios since 1926, including ranges of annual returns over one, five, and 10 year periods. (For example, 10 year periods run from 1926 to 1935, 1927 to 1936, and so on.) Notice the tradeoff between potential risk and reward.



Average Annual Returns and Range of Returns *(1926–2015)*

Source: Morningstar Direct

Performance figures were calculated using historical returns of the Standard & Poor's 500 Index and U.S. Long-Term Government Bonds.

The past performance shown is no guarantee of future results.

Step 3. Choose Your Investments

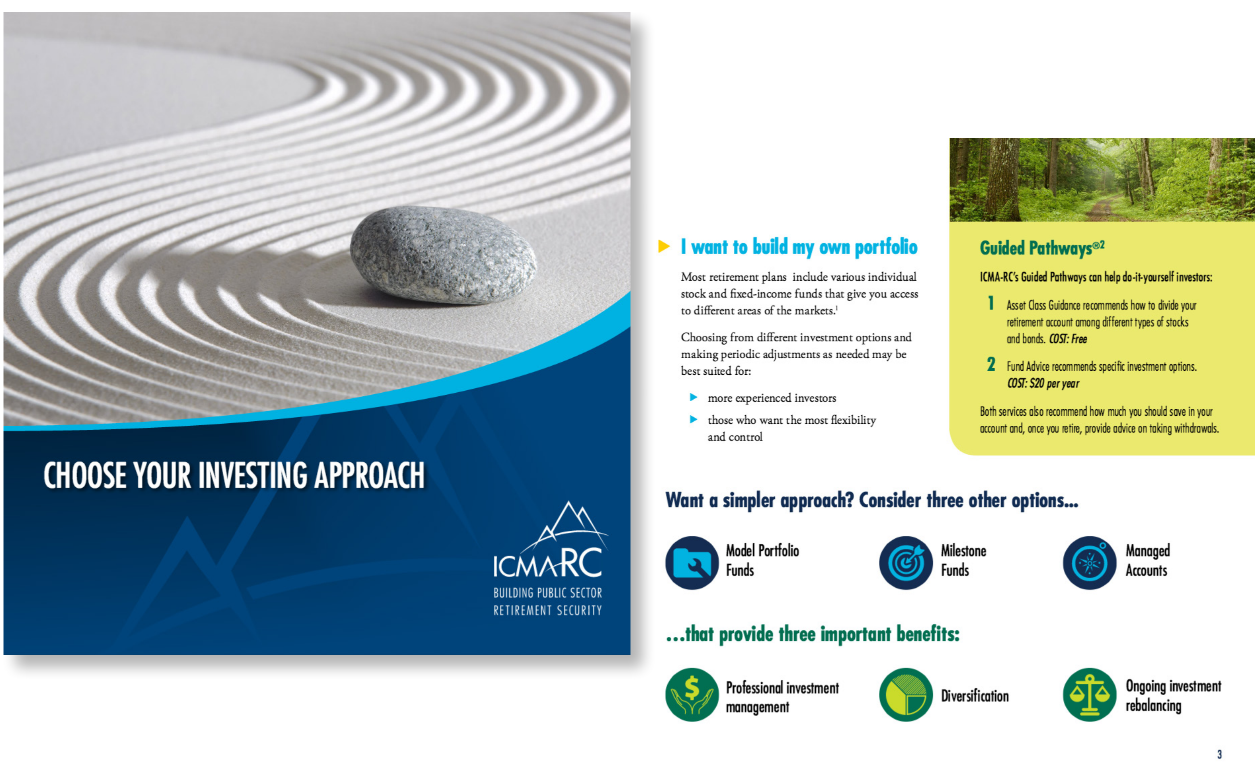
For many individuals, funds (or mutual funds) are recommended for their diversification, professional management, and choice.

A fund invests in stocks, bonds, cash, and/or other securities. It is managed by an investment company and guided by the fund's investment objectives. When you own the fund you, in effect, own each of its underlying securities in proportion to the number of the fund's shares or units that you own.

- Diversification — a fund allows you to be diversified across many different investments with much less work versus choosing individual stocks and bonds.
- Professional Management — an experienced professional monitors and manages the fund.
- Choice — many types of funds are available for investing in a variety of ways.

A variety of funds are likely to be available in your employer's retirement plan or IRA.
Ask your ICMA-RC representative about your ICMA-RC accounts.

The *Choose Your Investing Approach* guide reviews different approaches to selecting your investments. Ask your ICMA-RC representative for a copy or view it online at www.icmarc.org/library.



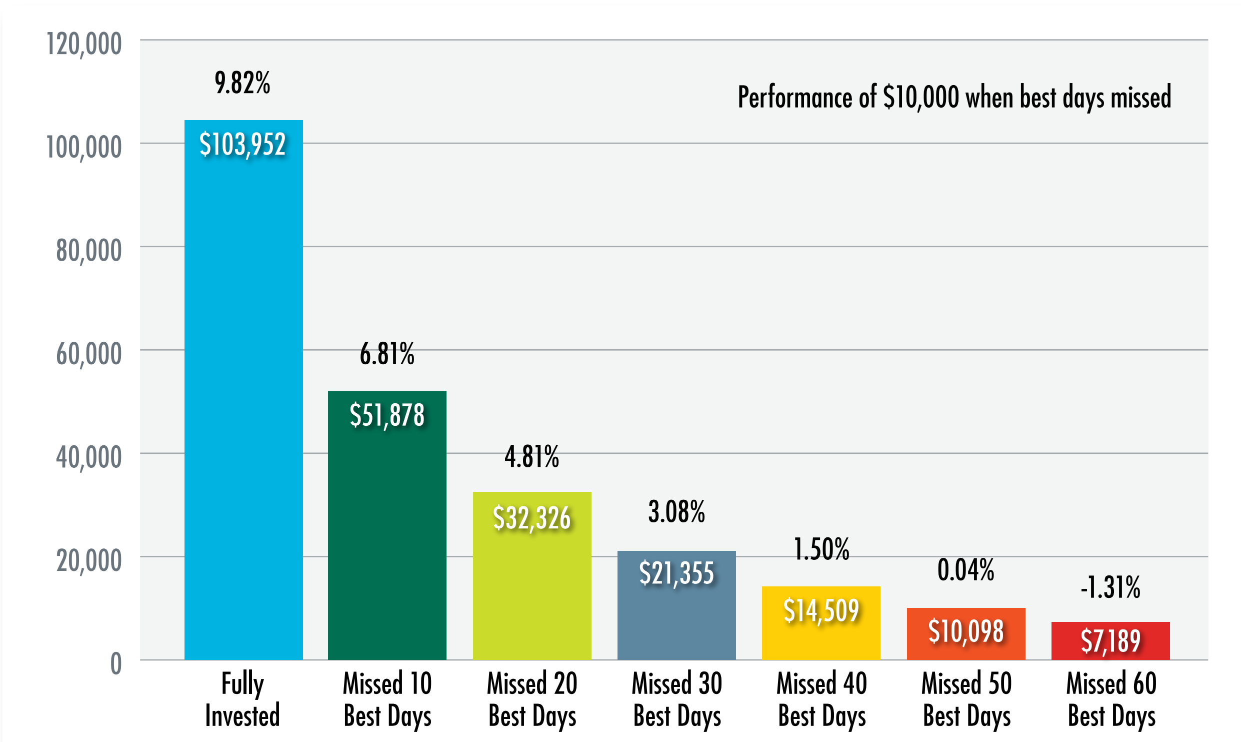
Step 4. Monitor Your Investments

Things change. Over time, your investment time horizon shortens. Your financial situation and family needs change. So your investment decisions need to be reexamined.

For most, a once per year review will be enough. Even then, changes may not be needed. Remember that markets often move in cycles, which are extremely hard to predict. Selling a fund because it has disappointed you lately, or buying one because it has done well recently may be a poor decision. A poorly performing fund may be ready to cycle back into favor and vice-versa.

Avoid market timing, or moving money from one type of investment to another in anticipation of what will happen next. It is extremely difficult to successfully time the financial markets. Future market and economic conditions are too complex and uncertain to predict reliably.

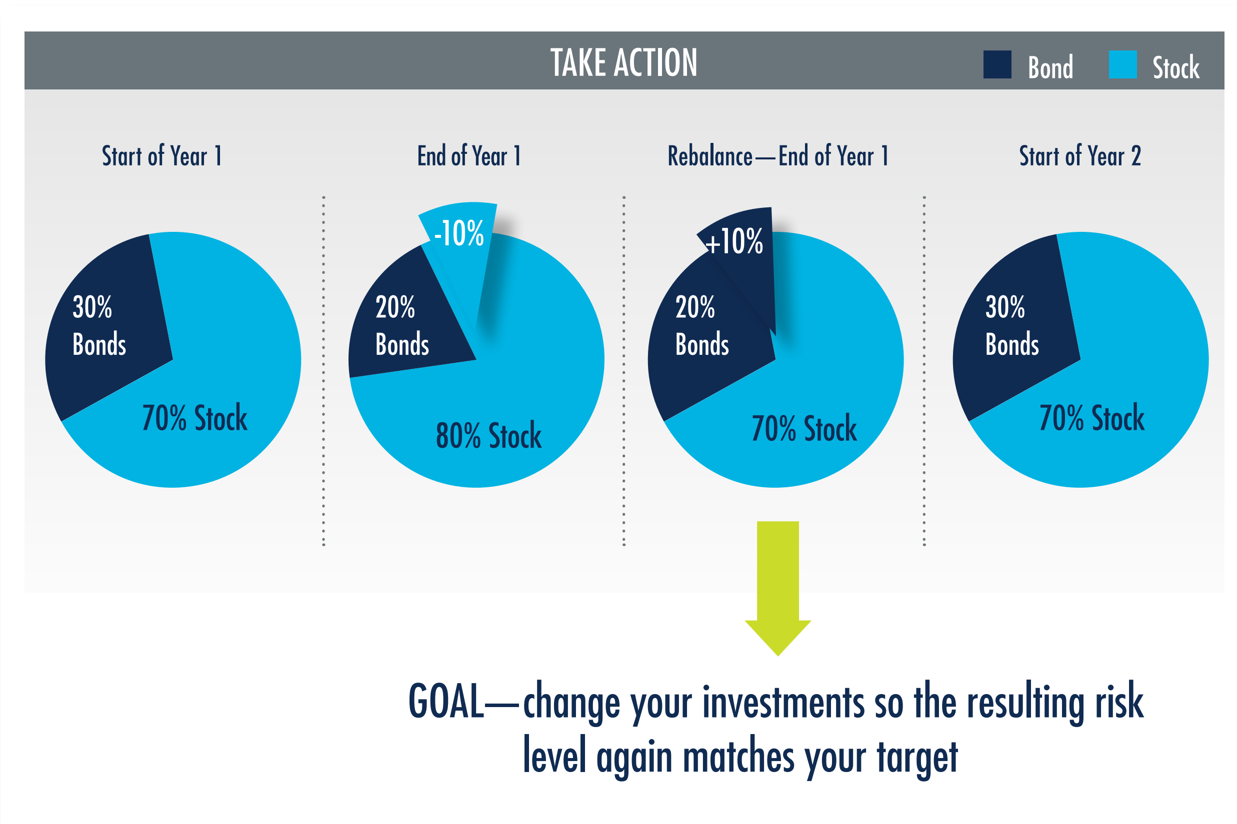
Also, the markets often make their most significant moves in a relatively few number of days. Missing those days can result in a huge reduction in performance.



Source: Morningstar Direct.
Measures performance of S&P 500 stock index from Jan. 1, 1991 through Dec. 31, 2015.
For illustrative purposes only. Past performance is no guarantee of future results.

But you should consider gradually reducing the overall risk level of your investments, as you get closer to retirement and have less time to recover from losses.

You should also consider periodically rebalancing your investments, particularly as you near and go through retirement. Different investments grow at different rates. Rebalancing refers to readjusting your investments back to your desired mix and risk level in order to manage risk and prevent your overall investments from becoming too aggressive or conservative. You periodically sell some investments that have increased in value and buy more of what has declined.



Finally, as the markets move up and down, follow an investment plan based on your circumstances rather than making decisions based on emotions. ICMA-RC has many resources to help you invest smart.

ICMA-RC Resources

Personalized Guidance

ICMA-RC offers several different resources to help you invest your retirement money. Visit **www.icmarc.org/invest** to learn more.

Continue to Learn!

For more information on saving and what you should consider as you near and go through retirement visit **www.icmarc.org/realize**.

ICMA-RC's Guided Pathways®

A service for those who are looking for additional investment guidance, or if available, ongoing management of their retirement account. Visit **www.icmarc.org/guidedpathways** to learn more.

Download ICMA-RC's mobile app from the App Store℠ or Google Play™ to keep track of your ICMA-RC retirement account whenever and wherever it's convenient for you.

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