Saving for Retirement

Your guide to getting on track.

charles SCHWAB

Own your tomorrow

It's great that you're looking ahead and thinking about retirement now. A sound plan can make all the difference in reaching your future goals. This guide can help you turn saving and investing into habits you can stick with, whether retirement is 20, 30, or even 40 years ahead.

Own it with these four steps.

Make saving a priority.

With careful planning, you can save for retirement and still take care of your other financial responsibilities. An important first step is to understand where your money's going now. If you're not sure, track your spending for a couple of months. This will help you create a budget that earmarks money for retirement—even if it's not very much.

Explore our tools.

Create a budget with our Monthly Budget Planner at **schwab.com/budgetplanner** or create a payoff plan with the Credit Card Payoff Calculator at **schwab.com/startsaving**.

Start with the basics.

Contribute enough to your 401(k) to get your company's full employee match.
If your company matches all or part of your 401(k) or similar contribution, contribute at least enough to get the full match. Think of it as free money.

Pay off nondeductible, high-interest-rate debt.
Eliminating a monthly credit card or auto loan payment gives you that much more money to save.

Create an emergency fund.
We suggest the equivalent of at least three months of essential living expenses. With an emergency reserve, you won't have to dip into your retirement savings if you need cash in a hurry.

Set aside as much as you can for retirement.
Once you've handled debts and created an emergency reserve, make it a goal to contribute as much as you can to tax-advantaged retirement accounts such as your 401(k) and IRA. You can even decide to save part of any tax refunds, bonuses, or raises. See how much you need to save and track your progress with our Retirement Savings Calculator at **schwab.com/retirementcalculator**.

Take action now.

Time is your biggest ally when it comes to saving, thanks to the power of compounding. Your original investments—plus any earnings on those investments—can grow together over time. And if the earnings are reinvested back into your original investment, your money can grow much faster than your original investment alone. See how your retirement savings can grow with our Compounding Calculator at **schwab.com/compounding**.

Get the most out of saving regularly.

One way to save money consistently is to arrange automatic transfers from your checking to your savings account on payday.

Setting a series of short-term goals can also help you maintain your savings habit. For example, this year's goal might be to contribute 1% more to your 401(k) and the next year you can fund a traditional or Roth IRA.

Investing in tax-deferred accounts such as 401(k)s and IRAs allows your earnings to compound free from current taxes, so even small contributions can grow into a significant sum over time. Depending on your circumstances, you may also be able to deduct traditional IRA contributions from your taxable income, leaving you that much more money to invest.

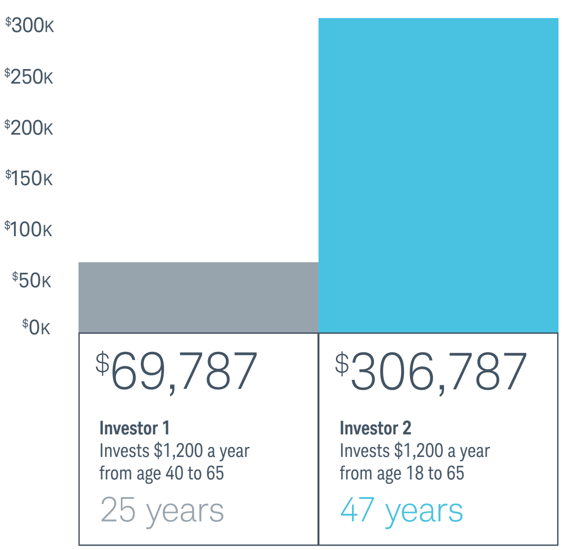
If you leave a job, consider rolling money from your workplace plan into a rollover IRA, where it can continue to grow tax-deferred.

Of course, a rollover of retirement plan assets to an IRA is not your only option and you should consider all of your available options, which also include rolling over to a new employer's plan (where permitted) and taking a cash distribution from your old plan. The latter can be helpful if you need immediate cash, though you may have to pay tax penalties and you will lose the potential to grow your money tax-deferred.

Before deciding, be sure to understand the benefits and limitations of each option, considering such factors as differences in investment-related expenses, plan or account fees, available investment options, distribution options, legal and creditor protections, the availability of loan provisions, tax treatment, and other concerns specific to your individual circumstances. For more information on your options, visit **schwab.com/rolloveroptions**.

Compounding Makes a Lifelong Difference

Accumulated earning at age 65



Source: Schwab Center for Financial Research. Assumes a consistent annual 6% rate of return with $1,200 contributions made at the beginning of each year. The amounts shown reflect investment growth only, and final results do not consider any transaction costs, fees, or taxes. This represents a hypothetical investment, is for illustrative purposes only, and cannot predict or project the performance of any specific investment. The actual annual rate of return and value will fluctuate with market conditions.

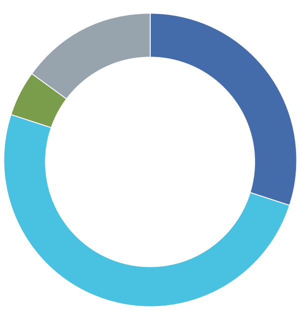
Put your money to work.

Choose your investing comfort zone.

Once you start saving, you can consider putting your money to work by investing. Your decision about how to invest should be based on three things: your goals, the number of years you have to invest, and how much risk you're comfortable taking.

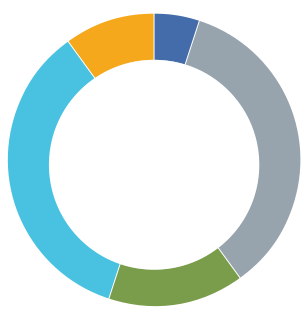
Your asset allocation—the way you divide your money between stocks, bonds, and cash investments—helps you strike a balance between the return you want and the risk you're willing to tolerate.

Sample Asset Allocations



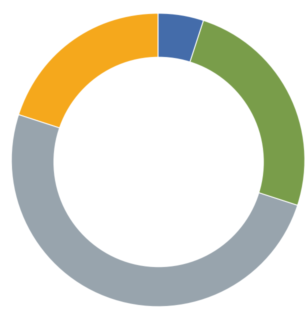
Conservative

- 30% Cash/Cash Investments
- 50% Fixed Income
- 5% International Equity
- 15% Large-Company Equity



Moderate

- 5% Cash/Cash Investments
- 35% Fixed Income
- 15% International Equity
- 35% Large-Company Equity
- 10% Small-Company Equity



Aggressive

- 5% Cash/Cash Investments
- 25% International Equity
- 50% Large-Company Equity
- 20% Small-Company Equity

Diversify.

Don't invest all your money in a single stock or even a single sector or industry. Owning a mix of investments—called diversification—helps you avoid excessive risk and preserves your potential for growth.[1] In fact, we believe how you diversify is even more important than the individual investments you choose. There are several ways to diversify:

Across asset classes
Invest in large, well-established companies (large-cap); smaller, emerging companies (small-cap); and international stocks, as well as bonds and cash.

Within asset classes
Be sure to invest in multiple market sectors (such as technology or health care) and a variety of companies and countries.

With mutual funds and ETFs
Investing in mutual funds and exchange-traded funds (ETFs) is an easy way to have a mix of investments. These funds pool money from shareholders to invest in a variety of stocks or bonds.

Stay focused.

It's easy to get sidetracked by competing priorities, such as buying a home or saving for college. But while there are other ways to finance those goals, your options are limited if you come up short for retirement.

Be willing to adjust your retirement savings as your life changes. For example:

- If your salary goes up, consider increasing the amount you save.
- When additional expenses impact your disposable income, try to adjust your discretionary spending rather than cut into your savings.
- If you change jobs, avoid the temptation to take a 401(k) payout, unless it is absolutely necessary. Instead, consider your options for keeping your retirement funds tax-advantaged, such as rolling your savings into a new employer's plan or consolidating to a rollover IRA for easier management and choice. You may even have the option to keep your savings in the old plan, if that's right for your situation, though you may be unable to make future contributions.

Think twice about tapping a 401(k). Let's say you're thinking about withdrawing $100,000 from your 401(k) before age 59½. A $100,000 withdrawal would net you just $62,000 after you pay a 10% early withdrawal penalty and income taxes at 28%. (Actual tax rate depends on your specific circumstances.)

However, if you left the money in the 401(k) and earned an average annual return of 6% for 30 years, you'd have $574,300.

Source: Schwab Center for Financial Research. This is a hypothetical example for illustrative purposes only and cannot predict or project the performance of any specific investment. Charges and expenses that would be associated with an actual investment are not reflected.

Review and rebalance your portfolio.[1]

To make sure you stay on target with your goals, check your portfolio at least once a year and look at the following:

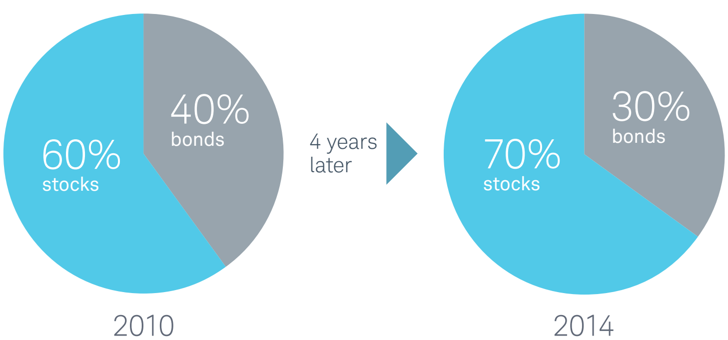
Your asset allocation: Does it still match your tolerance for risk and time horizon? Over time, as some of your investments go up and others go down, your portfolio will stray from its original asset allocation.

Your individual investments: Have ratings on your stocks or mutual funds gone down? To make sure your investments are on track, compare your results with benchmarks that measure the type of investment you're evaluating.

Life changes: Have personal events or circumstances changed your feelings about risk?

Is it time to rebalance?

Portfolios Go out of Balance Over Time
Hypothetical portfolio, 2010–2014



In this hypothetical portfolio, the stock allocation increased from 60% to 70%. Because stocks tend to carry higher risk than bonds, increased exposure to stocks could elevate overall portfolio risk. Changes in asset allocation can occur over time for a variety of reasons, including stock market performance, changes in interest rates, and economic cycles.

Source: Schwab Center for Financial Research. Stocks are represented by the annual total return on the S&P 500® Index; bonds are represented by the total return on the Barclays U.S. Aggregate Index. As of 12/31/2014. For illustration only. Indices are unmanaged, do not incur expenses, and cannot be invested in directly.

Resources

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Help with retirement:
1-800-548-5709

Rollover Consultant:
1-866-855-9095

Use our tools

Retirement Savings Calculator:
schwab.com/retirementcalculator

Portfolio Checkup Tool:
Log in to **schwab.com/portfoliocheckup**

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[1]Diversification, asset allocation, and rebalancing cannot ensure a profit, eliminate the risk of investment losses, or ensure that an investor's goals will be met.

Investors should carefully consider information contained in the prospectus, including investment objectives, risks, charges, and expenses. You can request a prospectus by calling Schwab at 1-800-435-4000. Please read the prospectus carefully before investing.

Investment return and principal value will fluctuate with changes in market conditions such that shares may be worth more or less than original cost when redeemed or sold. Unlike mutual funds, shares of ETFs are not individually redeemable directly with the issuing fund company.

The tax information herein is not intended to be a substitute for specific individualized tax, legal, or investment planning advice. Where specific advice is necessary or appropriate, Schwab recommends that you consult with a qualified tax advisor, CPA, financial planner, or investment manager.

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