State of Indiana

S.T.A.R.T.® SMART

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Auditor's Corner

By Auditor of State Tim Berry

Is your retirement account running at peak performance?

Just as you routinely take your car to the mechanic for a tune-up, you should also take a look at your retirement strategy at least annually to help ensure it's running at peak performance. As the years go by, and life changes, so may your retirement strategy. Performing a tune-up on your retirement future is easy too! Just follow these simple steps:

1. **Review Your Goals and Plans**—Are you on track to reach your retirement goals? Have those goals changed? Visit **www.hoosierstart.in.gov** to manage your account online and take advantage of the various tools and calculators like DreamTracker℠, which can help determine how much income you might need in retirement.

2. **Maximize Your Contributions**—If you're not contributing the maximum possible to your Hoosier S.T.A.R.T. Plan, increase your contributions by 1% each time you get a pay increase.

3. **Review Your Investment Allocation**—Ask yourself if your asset allocation is proper for your stage in life. Have you had a major life change in the past year? For instance, some folks nearing retirement may decide to shift some of their assets into more conservative investments.

4. **Rebalance**[1]—Rebalancing is the process of adjusting your portfolio's investments so they match your original allocation. The Rebalancer tool on **www.hoosierstart.in.gov** automatically redistributes your account balance to selected investment options at the frequency you choose.

5. **Check Beneficiaries**—Make sure the correct person is named as your beneficiary by reviewing your beneficiary designations. This may be especially important if you are recently divorced, widowed or remarried.

Follow these annual retirement account tune-up steps and you should be on your way to helping your retirement account run at peak performance. Need more guidance? Set up a meeting with your Hoosier S.T.A.R.T. Education Counselor, who can help answer any retirement-related questions or go over your plan options in greater detail.

Forgot or need your PIN to access your **www.hoosierstart.in.gov**[2] account online? Call KeyTalk® at **(877) 728-6738**[2] and follow the prompts so your PIN can be mailed to your address of record.[2] ■

Congratulations, Fee Holiday Participants!

We'd like to congratulate all the participants who qualified for and took action to receive a fee holiday! Approximately 3,500 participants received the fee holiday. These participants enjoyed a full quarter of no administrative fees (0.26% of account balance) in the first quarter. We encourage everyone to participate next year! ■

Managing "Good" and "Bad" Debt

A good rule of smart debt management is to minimize your "bad debt."

"Good debts" are loans that allow you to make purchases of long-lasting—and potentially increasing—value. A student loan, for example, lets you buy an education that can enhance your future earning power. A mortgage not only helps you buy a home for your family for many years to come, but it's also an asset, the value of which may grow over time.

By contrast, "bad debts" are loans used to buy something that disappears almost immediately—like a night out for dinner and a movie—or something that starts losing value as soon as you've bought it, such as a car or plasma TV. Of course, it's impossible to entirely avoid bad debts. But it's a good idea to try to minimize them. You don't want to be overly burdened paying for things long after their value has vanished.

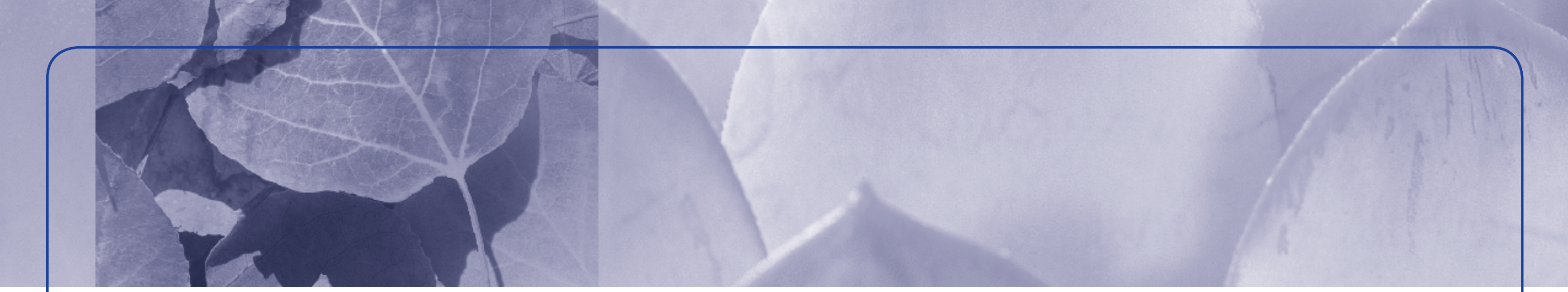
Pay it down

You'll save yourself a bundle—and free up extra cash to sock away for retirement—by making more than the minimum payment on your credit cards every month. Take a card on which you owe $6,000 and incur 15% interest, for example. Paying $50 more than the minimum each month is likely to eliminate your debt nearly 17 years faster and save you more than $4,000 in interest.[3] What a difference! ■

1 Rebalancing does not ensure a profit and does not protect against loss in declining markets.

2 The account owner is responsible for keeping the assigned PIN confidential. Please contact Great-West Retirement Services immediately if you suspect any unauthorized use. Access to KeyTalk and the website may be limited or unavailable during periods of peak demand, market volatility, systems upgrades/maintenance or other reasons.

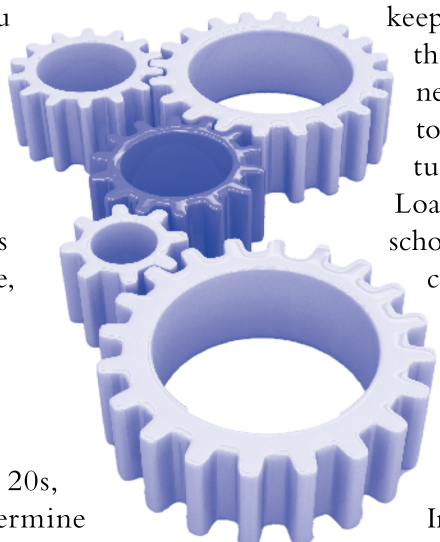
3 www.bankrate.com (Feb 2011)



Saving and Investing at Every Stage

Let's face it: There's always a tug-of-war between your present needs and your future goals. The trick is to strike a balance that allows you to begin building a retirement account today by saving and investing wisely, and still have enough ready cash to pay for things like home repairs—and maybe even a wedding.

If you've got your retirement savings plan in place, good for you; but if sticking to that plan has you financially strapped day-to-day and year-to-year, it's time to take a step back. Remember, there are other important priorities you may want to plan for, such as building an emergency fund and saving to send your kids to college. And there should be rewards for your fiscal discipline, like taking a vacation.



Gearing up: The early years

When you're in your 20s, 30s and 40s, first determine how much you can save in your workplace retirement plan, being sure to leave enough money in your budget for the here and now. Build an emergency stash—experts recommend three to six months' salary held in an easily accessible account.

Once you've built an emergency fund, consider increasing contributions to your workplace retirement account annually, and keep a "hands-off policy." Remember: Your retirement plan is the cornerstone of your future.

Go for growth

Be sure to tailor your retirement investments to suit your needs. The longer you have until retirement, the more money you may want to consider investing in stock funds to fuel growth in your portfolio. Although they may be subject to greater swings than other categories such as bond funds and cash investments, stock funds historically have greater long-term growth potential: Between 1926 and 2009, stocks averaged 9.8% in annual returns, compared with 5.3% for bonds and 3.7% for cash.[4,5]

Prepare for other key goals on an individual basis. For example, you might set up a college savings account for your children—keeping in mind that you won't necessarily have to foot the whole tuition bill yourself. Loans, grants, scholarships and your children's part-time jobs can help lighten the load.

Prime-time planning

In your 50s and beyond, start to focus on yourself by visualizing life beyond the 9-to-5 workplace. Determine if you're on track to maintain the style of living you want. As expenses like mortgage payments and college tuition wind down, use this freed-up cash to pump up your retirement plan.

Dialing down

Next, consider a more moderate mix of investments as you get closer to the time when you'll begin drawing from the funds. You'll want a mix that adequately preserves your capital, provides regular income, and maintains the long-term growth potential needed to finance a retirement that may last 20 to 30 years.

Figuring out how to pay for the present and invest for the future is as much a personal decision as it is a financial one. That's why it's important to come up with a strategy that will allow you to be prepared for life's challenges and also enjoy your life—both now and during retirement. ■

Stay in Your Plan

Why you shouldn't cash out

If you're strapped for cash, you may have considered tapping your retirement account. But hold off if you can. Cashing out interrupts the potential growth of your nest egg—and may result in a big tax bill.

The cost of early withdrawals

Your Hoosier S.T.A.R.T. Plan may allow hardship withdrawals if you can show that you have no other resources to pay for a need that the Internal Revenue Service deems essential, such as preventing foreclosure on your house. But there's a price to pay: You'll owe income taxes on the money you take out. There's also a 10% early withdrawal penalty if you're under 59½ years old for most plans except the 457.

So, if you're age 40 and your combined federal and state income tax bracket is 25%, it will cost you $3,500 to take a $10,000 withdrawal. That's $2,500 in taxes plus $1,000 in an early withdrawal penalty.

What if change jobs?

Leave your money in your former employer's retirement plan (if your balance is $5,000 or more[6]). Your assets and any earnings will continue to grow tax-deferred, and you may be able to transfer them into a new employer's plan. ■

4 Morningstar, Inc. Ibbotson® SBBI® 2010 Classic Yearbook.

5 Past performance is not a guarantee or prediction of future results.

6 If your balance is between $1,000 and $5,000, your former employer may either maintain your account or require you to transfer it to an IRA. If it's below $1,000, your account may be automatically cashed out. Taxes and early withdrawal penalties may apply.