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Six Steps To Improve Your Retirement Planning

Once you've established a retirement savings target, you then have to create an investment strategy that reflects your retirement time line and attitude toward investing.

Whatever retirement planning stage you're in, the following steps may help focus your overall strategy.

Step 1 — Get an Early Start. Obviously, the sooner you begin saving for retirement, the better. An early start gives you more time to save. You also have more opportunity to take advantage of *compounding* — the earning of interest on interest produced by portfolio earnings, or growth. (Note, however, past performance does not guarantee future returns.)

Step 2 — Know Your Investment Horizon. To create a strategy that makes sense for your goals, understand your *investment horizon* — the number of investment years you'll have before using the money at and throughout retirement. Generally, a *short-term* horizon applies to any investment goal between one and three years away, an *intermediate-term* horizon to a goal between three and 10 years away and a *long-term* horizon to a goal 10 or more years away.

Knowing your investment horizon will help you shape an appropriate investment strategy. For instance, for a short-term goal you wouldn't want to put too much money into stocks (equities), since a sustained market downturn could deplete — or even eliminate — your principal. But for a long-term goal like retirement, you'd want to increase your equities investment percentage, since equities have historically outperformed other asset classes. (But, remember, past performance does not guarantee future results.)

Retirement is generally considered a long-term investment goal, even for those who've already retired. This is because retirees' life expectancies are continuously increasing and nowadays are easily longer than 10 years. As a result, you may need your savings to last several decades.

Step 3 — Understand Your Tolerance for Risk. Your *risk tolerance* — or ability to handle portfolio value declines — will also affect how you'll want to allocate your funds. Generally, if you have a low risk tolerance, you'll want to allocate less to higher risk investments, such as equities, and probably emphasize more stable investments, such as guaranteed and real estate accounts. Conversely, if you have a higher risk tolerance, you'll be more comfortable committing more funds to equities than an investor who has a lower risk tolerance.

Step 4 — Invest by Asset Class. An *asset class* is a category of securities, or investments, such as stocks or bonds, that have similar financial characteristics. When creating a portfolio, it's more

advisable to diversify your savings across different asset classes instead of relying exclusively on individual securities within a single asset class.

If over time market performance causes your original asset allocation to deviate significantly, it may be appropriate to rebalance your portfolio to restore your initial allocation strategy.

Step 5 — Seek Objective Advice. A successful savings strategy begins with personalized, fully independent, objective recommendations that are based on your needs and investment risk tolerance. If you seek financial advice from professionals, ask if they work on commission and how their compensation may influence their advice to you.

Step 6 — Shop Smart. Become an informed investment shopper to become a better investor. Chasing investment fads, focusing on short-term returns, choosing expensive investments and trying to “time the market” can result in costly mistakes that can hurt the realization of your long-term goals. You can become more savvy if you:

- Don't chase past performance
- Have a long-term view (unless your goal is short-term)
- Seek low-cost investments
- Stay fully invested

For more on jump-starting or developing your retirement portfolio and accessing our planning tools, guides and seminars, visit www.tiaa-cref.org.

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