# Retirement Investment Products

Investment products for your retirement years should be chosen with your objectives, financial resources, and risk tolerance in mind. Another consideration is your marginal tax bracket. If you are in a higher tax bracket, you may earn a far greater return using tax-exempt investment products such as municipal bonds or bond mutual funds. An additional important strategy in picking products for your retirement investments is to diversify your investments among several types of products. This reduces the risk of making a poor selection or other considerations beyond your control.

According to one investment firm (T. Rowe Price), a diversified portfolio (evenly divided among money market instruments, bonds, stocks and real estate) earned an average annual return of 12 percent between the years 1978 and 1987. This was the result compared to no diversity returns of 15.3 percent for stocks during this same period, 13.5 percent for real estate, 9.7 percent for bonds and 9.4 percent for money market funds. Of course, over the past ten years these numbers have changed dramatically.

Diversification is the number one consideration for all portfolios. A well-balanced portfolio will, over time, produce greater yields more consistently than any one area alone. You will enjoy less risk, less volatility, more consistent yields, and less stress about the ups and downs of any one investment product or the nation's economy.

Retirement nest eggs can be accumulated through a number of investment possibilities reviewed below. To understand the investment options, see the chapter on Investing For Your Future.

## Tax-Advantaged Retirement Products

For anyone saving for the future, there are certain kinds of tax-advantaged products that must be emphasized for retirement savings. "Tax-advantaged" means that earnings will grow on a tax-deferred basis and in some cases you may also take a tax deduction when you initially invest. If you are saving for the future, the longer you can defer taxes, the larger your ultimate nest egg will be due to compounding.

## Employer-Sponsored Retirement Plans

One of the simplest ways to set aside tax-deferred savings for your retirement is through an employer-sponsored retirement plan. Through automatic payroll deductions, the plans allow you to make voluntary contributions to the plan by setting aside part of your before-tax salary. Not only are the earnings tax-deferred until withdrawal, but the contributions reduce your taxable income.

## Cash Equivalents / Money Markets

Basically, investments can be divided into four major groups, ranging from the more conservative to the more aggressive. Cash equivalents and money markets can be a conservative option for the investor. These are short-term, high-quality securities that pay dividend income with principal value remaining stable.

## Income Investments

These are primarily taxable corporate and government bonds or tax-free bonds which can generate high, current dividend yields, but are subject to price fluctuations with interest rate changes.

## Growth Investments

Considered more aggressive, these funds typically invest in stocks with the objective of showing growth in assets over the long term. They have greater upside appreciation potential, but also present much more risk. Your particular retirement investment strategy will depend on a few personal choices. What kind of risk are you willing to take? Are you a conservative, moderate or aggressive investor? How much time do you have until retirement? Are you close to retirement or many years away? What kind of investment vehicle are you interested in? Are you seeking income, growth or a combination of both?

## Annuities

These may be purchased as a single investment or a series of investments over a period of time. Earnings are tax-deferred until withdrawn and annuities may provide the additional guarantee of a stream of income over your lifetime. There is no limit on the amount you can invest.

## Mutual Funds

Mutual funds are diversified portfolios of stocks, bonds or money market instruments. Managed by investment specialists, mutual funds are available with objectives to meet most levels of risk and investment strategies.

Since most investors should diversify their portfolios, mutual funds provide an easy way to buy shares in diversified pools of investment instruments—without having to purchase high-cost, individual securities.

Here are a couple of basic guidelines. The closer you are to retirement, the more conservative and income-oriented you are likely to be. The longer you have until retirement, the more aggressive you may want to be in investing for long-term growth, because you have more time to ride out the ups and downs of the stock market.