Make a commitment.

How your **retirement plan** can **help you** save.

On the previous page, you saw why it's important to save for retirement. Now let's look at a couple of reasons why your employer-sponsored retirement plan is a great way to save.

You pay less in taxes.

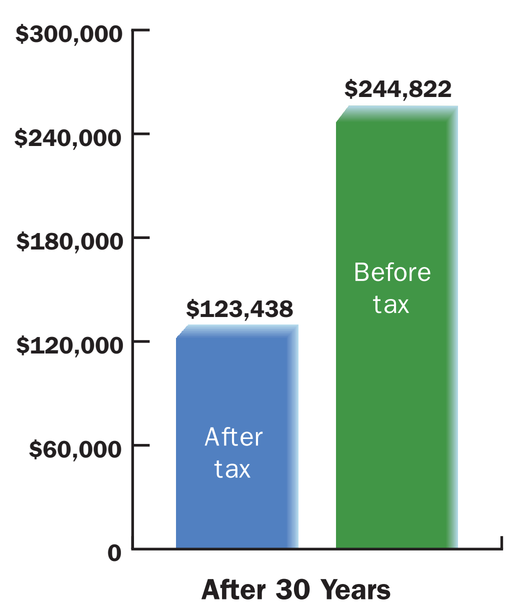
Every dollar you contribute to your traditional 401(k) plan account is deducted directly from your salary before taxes are taken out. Because your contributions reduce your taxable income, they can reduce the taxes you may owe.

Tax deferral accelerates your savings.

The money in your plan has the potential to grow tax-free until you withdraw it. The money you don't pay in taxes can continue earning interest through the years. Take a look at the chart below—it shows just how big a difference tax deferral can make over time.

The power of tax deferral

$2,500 annual contribution



Assumes 7.2% annual return and 28% annual tax on all deposits and gains in the before-tax example. See general assumptions on inside back cover.

Big difference tomorrow. Hardly any today.

Saving for your future in a tax-deferred retirement plan impacts your take-home pay less than if you tried to save the same amount after taxes are taken out of your paycheck. Since your contributions reduce your taxable income, you'll pay less in taxes, and may actually keep more of the money you earn! Note the comparison of two employees—one who doesn't contribute and one who does.

	Employee 1 Not Contributing	Employee 2 Contributing
Annual Salary (Gross Income)	$35,000	$35,000
Employee 401(k) Plan Contribution Rate	0%	3%
Employee Retirement Savings	$0	$1,050
Gross Income Reported on W-2 (gross income minus total 401(k) plan contribution)	$35,000	$33,950
Federal Income Tax paid ($4,220 plus 25% of amount over $30,650 tax bracket)[1]	$5,308	$5,045
Summary:		
Total Retirement Savings	$0	$1,050
Total Reduction in Paid Income Tax	$0	$263

The chart above shows that by choosing to participate in a company's 401(k) retirement plan, Employee 2 was able to save a total of $1,050 towards her retirement savings and pay $263 less in federal income taxes. [1]This is a hypothetical example based on the 2006 federal tax schedule, filing single status, and does not include any other payroll taxes or deductions. This is an illustration only; your circumstances will differ from this example.

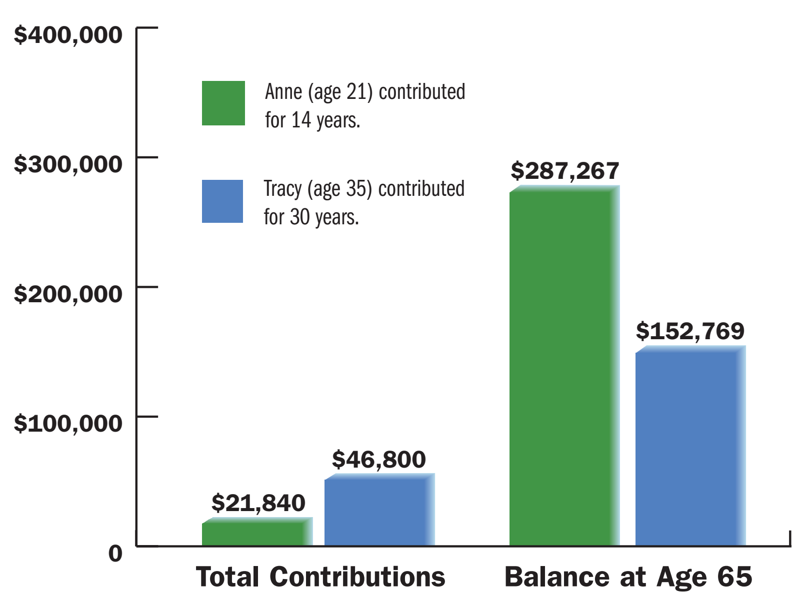
Why you need to enroll today.

For some people, retirement may seem a lifetime away. But don't be tempted to put off saving, because each year it becomes more and more difficult to make up for lost time. The key is to start as early as possible, as shown by the following example.

At age 21, Anne and Tracy were hired for similar jobs at the same time and salary. Anne immediately began investing $30 per week. After 14 years, she stopped contributing but left the money in her plan to grow for the next 30 years. Tracy did not begin contributing until age 35, when she started saving $30 per week like Anne had. Tracy contributed for 30 years, putting in over twice as much as Anne. Because Anne started early, she had nearly twice as much as Tracy at retirement.

The importance of starting early

$30 contribution per week



Assumes 7.2% annual return. See general assumptions on inside back cover.

Planning works.

Plan your investment strategy.

Now that you understand the benefits of saving in your 401(k) plan, you probably have questions about how to invest your contributions. So let's begin by first learning about the three major asset classes. Understanding the asset classes will provide a foundation for helping you to develop an investment strategy that works for you.

Understanding Asset Classes

All of the investment options available to you through your retirement plan will fall into one, or a combination of three broad asset classes. Asset classes are categories of investments, grouped according to their objectives and what they invest in. In general, different types of investments react differently to the same market conditions.

Understanding how stocks, bonds and cash investments work, will help you form the basis for developing an investment strategy that meets your needs. As shown in the following chart, different types of investments have different rates of return over time. Here are the three main types of investments:

- **Stocks** are shares of ownership in a company. Over the past 25 years, stocks have returned an average annual return of about 12%.[1]
- **Bonds** represent the loan of money to a company or government. Bonds have returned an average annual return of about 10% over the past 25 years.[2]
- **Cash** equivalents seek to maintain the value of your investments. Over the past 25 years, they've returned an average annual return of 6%.[3]

Historical asset class performance

Growth of $1,000[4]

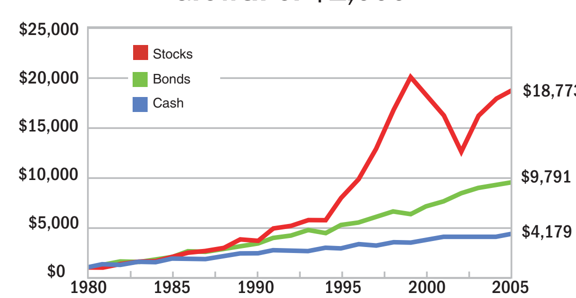


Chart assumes $1,000 invested in December 1980 through December 2005.
Source: Calculated by Transamerica Retirement Services using data from Russell/Mellon Analytical Services (1980-2004) and Morningstar, Inc. (2005).

[1]Based on average annual total returns of the S&P 500® Index over 25 years from December 1980 - December 2005. Source: Russell/Mellon Analytical Services (1980-2004) and Morningstar, Inc. (2005). [2]Based on average annual total returns of the Lehman Brothers Aggregate Bond Index over 25 years from December 1980 - December 2005. Source: Russell/Mellon Analytical Services (1980-2004) and Morningstar, Inc. (2005). [3]Based on average annual total returns of Citigroup 3-month U.S. Treasury Bill Index over 25 years from December 1980 - December 2005. Source: Russell/Mellon Analytical Services (1980-2004) and Morningstar, Inc. (2005). [4]Stocks are represented by the S&P 500® Index, an unmanaged index generally considered representative of the stock market. Individuals cannot invest in an index. Bonds are represented by the Lehman Brothers Aggregate Bond Index. Cash is represented by Citigroup 3-month U.S. Treasury Bill Index. Past performance does not guarantee future results. The current performance may be lower or higher than the performance data quoted.