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Making the most of your retirement plan • Summer 2012

The economy: Fiscal cliff or slow ascent?

James Paulsen, Chief Investment Strategist, Wells Capital Management, shares his perspective on the economy in an interview conducted in April 2012.

There is a lot of buzz in the news about the possibility of the U.S. going over a "fiscal cliff" in January 2013. Although it's mostly fear mongering, journalists can't pass up the sensationalism, and politicians can't pass up the chance to point fingers across the aisle. But don't be overly influenced by the headlines.

What's the fiscal cliff?

According to some analysts, the combined impact of the following three factors could potentially send us back into recession:

1) Sunsetting of the Bush-era income and capital gains tax cuts at the end of 2012,
2) Expiration of the temporary FICA payroll tax cut at the end of 2012, and
3) Automatic federal spending cuts scheduled to take effect in mid-January 2013.

However, I don't believe our legislative bodies want to repeat the past. Although the likelihood of real tax and spending reform is slim, there's a good chance they'll extend the tax cuts once again. There are also positive signs in the economy that put us on stronger footing than a year or two ago.

Self-healing wounds

Some politicians and economists point to the federal deficit as our biggest economic problem. However, we've already made dents in the problem. What has been largely ignored is that the federal government has been in deficit about 86% of the time since 1965, and yet we still manage to produce growth and jobs. Even very slow growth will gradually help solve some problems. For example, when

continued on page 3 ...

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Learn more about the costs associated with retirement investing

Your retirement plan statement now includes new information to help you better understand your plan and the costs associated with retirement investing, including:

- An expanded performance section showing how your plan's investments have performed over time as compared to their benchmarks for the same time period.
- Total annual expenses for the funds in your plan.
- Detailed information about any fees charged during the previous quarter.

In addition, once a year your statement may include a separate informational table that shows fees that may be charged by your plan.

Keep in mind that the fees and expenses aren't new. Rather, the information has been expanded to help you become more informed about the costs associated with your retirement plan.

A narrated online tour is available on the Wells Fargo Retirement Plan Website that walks you through the new statement information and the resources available to help you learn more.

Improving your credit score

You may already know that your credit score affects your ability to get a loan. What you might not know is a low credit score can also damage your ability to get an apartment, obtain affordable homeowners or car insurance, or even get a job. It may be worthwhile to check on your credit score and take steps to improve it if it's not up to par.

Credit reports vs. credit scores

Credit *reports* include information about your payment history, number of outstanding accounts, outstanding balances, cancelled accounts, etc. The three major credit reporting agencies collecting this information are Experian™, TransUnion®, and Equifax®.

Credit *scores* are statistical summaries of the information in your credit reports. FICO®, the largest and most well-known consumer credit scoring agency, uses the information in credit reports to tabulate credit scores ranging from 300 to 850. The higher the score, the more creditworthy you are in the eyes of banks and other lenders.

Why scores matter

When you apply for credit, the lender will check your credit score. If you have a low score, you may be unable to obtain a loan or credit card at all.

But even an average score may hurt, because many lenders base the rate of interest you'll be charged on your score. For example, according to FICO, someone with a credit score of 600 who wants to borrow $15,000 for a three-year auto loan may be charged an interest rate as high as 16.004% APR.* For the same loan amount and term, a borrower with a credit score of 850 might be charged only 3.577%.* That translates to a loan payment of $527 a month versus $440 month — or more than $3,000 in additional interest payments over the life of the loan.

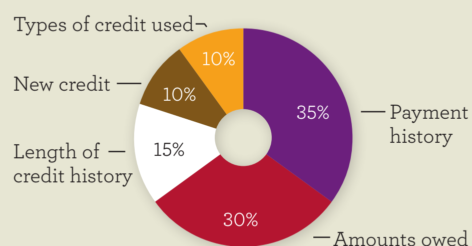
5 ways to help improve your score

1) **Obtain a copy of your credit reports and check for errors.** Notify the credit reporting agency immediately if there are inaccuracies.
2) **Pay bills on time.** If you have debt, be sure to pay at least the minimum on each account every month to help avoid late or missed payments.
3) **Keep outstanding balances low.** Too much outstanding debt — even if your payment history is good — may lower your score.
4) **Think carefully before closing old accounts.** Even if you aren't using the account, having the available credit limit and not using it may help, not hurt, your score.
5) **Don't apply for many new accounts at once.** This can look like you plan to borrow a lot of money, which could stretch your finances too thin.

It may take some time to improve a credit score, but using credit responsibly and taking a disciplined approach to paying it off may help you obtain credit in the future when you need it.

What's in your score?

There are several credit scoring agencies, but FICO® is one of the most well-known. In most cases, FICO calculates credit scores based on five different categories, with payment history having the greatest weight.



Source: myFICO.com.

How to check your reports and scores

By federal law, you are entitled to one free credit report from each of the three major credit rating agencies each year. You can request your free report — for all three — at *www.annualcreditreport.com*, or by calling **1-877-322-8228**.*

In most cases, you will have to pay a fee to receive your credit score. You may purchase your credit score at the time you request your credit report.

* Wells Fargo neither endorses, monitors, nor guarantees the accuracy of information of third-party websites. Third-party websites may not follow the same privacy, security, or accessibility standards as Wells Fargo's website. Wells Fargo is not responsible for the security, content, or availability of third-party websites or any reliance thereon.

* APR = annual percentage rate. Source: myfico.com, accessed June 5, 2012. Loan amounts are based on the national average interest rate as of June 5, 2012, on a 36-month auto loan. Rates are for example only and do not represent the actual rate an individual will be charged for a loan.

Do your investment choices suit you?

Choosing from among the investment options in your employer-sponsored retirement plan takes a bit of self-knowledge as well as some research. For example, determining whether you are a conservative, moderate, or aggressive investor will help you create your asset allocation — the way you divide your plan investments among stocks, bonds, and stable value investments.

The research part involves getting to know the kinds of investments available in your plan. For example, your plan may offer asset allocation options — funds that invest in a mix of stocks and bonds. With these types of investments, the asset allocation and diversification are built in.* Or, your plan may offer single-style funds. Some will invest only in stocks, some only in bonds, and others in stable value investments. This is more of a do-it-yourself option, in which case you need to choose a mix of stock, bond, and stable value funds to create an appropriate asset allocation.

If you're considering single-style stock funds, you may also want to look at a mix of market capitalization funds (for example, small-cap, mid-cap, and large-cap stock funds), different types of bond funds, or perhaps growth and value styles. You may even want to consider adding some foreign funds to the mix to add more diversification.*

What about management styles?

The most important decision you'll make is to choose investments that are suitable for your target asset allocation and provide adequate diversification. However, if you're selecting single-style investments and your plan offers a choice, you may also want to look at the pros and cons of actively and passively managed funds. With actively managed stock funds, such as a typical small-cap fund, the fund manager actively buys and sells securities within the fund with the intent to beat either the whole market or a particular segment. With an actively managed bond fund, the manager tries to anticipate changes in interest rates and buys and sells bonds within the fund accordingly.

With passive management, instead of trying to *beat* the market, the fund attempts to *match* market performance by investing in all or a predetermined number of companies or bonds (depending on whether it is a stock fund or bond fund) in a particular index.** The fund manager generally would buy and sell only in reaction to changes within the index. An example of a passively managed fund is an S&P 500 index fund.

In general, passively managed funds have lower costs than actively managed investments. However, they have less flexibility than actively managed funds both in selecting securities for the fund and reacting to price declines within the fund.

Review your investment choices

Once you determine your asset allocation and learn more about the investment options in your plan, it's time to review your investment choices, and make changes if necessary. If you'd like to make changes to the investments in your account, visit your plan's website or contact your plan sponsor for more information.

* Diversification cannot guarantee a profit or protect against loss in a declining market.

** Individual investors cannot invest directly in an index.

The economy: Fiscal cliff or slow ascent? *...continued from page 1*

employment inches up, tax receipts go up and need for government support goes down.

Although European fears will flare from time to time, measures have been taken to provide more liquidity to banks. Greek bondholders have agreed to take a loss in return for new securities. At the time of this commentary (April), the issue has moved from imminent calamity to a chronic problem that may be manageable.

Positive forces at work

Corporate profits are still high and consumer spending is also up, reflecting better job conditions and more consumer confidence. Corporations have about $2 trillion on their balance sheets, a powerful engine for future growth. Eventually they will be tired of earning nothing on their money and start to invest.

Despite the assumption that the stock market has been a high-risk, low-reward environment, it actually returned more than 125% from its bottom in March 2009 through early April 2012.* For those who can ignore the fear mongers and take a long-term view, the market may provide opportunities for growth. If we don't fall off that fiscal cliff (and I don't think we will), people will start to think they're missing out and start scooping up equities.

The bottom line: Don't be concerned about what will happen tomorrow or the next quarter. Consider investing for the long-term and make sure your asset allocation is appropriate for your goals, timeline, and risk tolerance.

* As measured by the S&P 500. Past performance is not an indication of future results.

Systematic investing programs cannot guarantee a profit nor protect against loss in a declining market. Wells Fargo cannot guarantee results under any savings or investing program, including a regular investment program, and cannot guarantee that you will meet your retirement savings goal.

This article is the opinion of the commentator based on information available at the time of the interview.

The ins and outs of Roth accounts

Do you want your tax break now or later? That's the basic decision for most investors choosing between traditional and Roth accounts. With traditional employer-sponsored retirement plans and individual retirement accounts (IRAs), earnings in the account grow tax-deferred until withdrawal at retirement.* When you start taking distributions, you'll pay ordinary income taxes. The main advantage of tax-deferred earnings is — especially with long-term compounding — the account may grow more than a taxable account earning the same rate of return, because the balance is not reduced by taxes each year.**

In addition, if you contribute to a traditional employer-sponsored plan, your contribution is taken out of your pay *before* taxes are deducted. That may lower your current tax bill. If you contribute to a traditional IRA, you may be able to deduct your contribution when you file your taxes, also potentially lowering your current tax bill (see chart).

When you contribute to an employer-sponsored Roth account or a Roth IRA, there is no current tax break. Contributions are made on an after-tax basis. However, potential earnings grow tax-advantaged and are tax-free as long as you have held the account for at least five years and you are at least age 59½ when you start taking distributions.***

Comparing traditional and Roth accounts

	401(k)	Roth 401(k)	Traditional IRA	Roth IRA
Who is eligible?	Employees whose employers offer the plan	Employees whose employers offer the plan	Anyone with earned income under age 70½, and spouses of income-earners	Anyone with earned income under IRS-specified limits, and spouses of income-earners
Tax treatment of contributions	Pretax	After-tax	Tax-deductible if not covered by an employer-sponsored plan; otherwise determined by income	After-tax
Limits on contributions (2012)	Up to $17,000; $22,500 if 50 or over with catch-up contributions. Plan limits may be lower.	Up to $17,000; $22,500 if 50 or over with catch-up contributions. Plan limits may be lower.	Up to $5,000; $6,000 if 50 or over with catch-up contributions	Up to $5,000; $6,000 if 50 or over with catch-up contributions
Distributions without tax penalties (Other exceptions may apply. See your tax advisor.)	• Leaving job after age 55 • Death or disability • Payments after age 59½ • Rollover to other qualified plan or IRA	• Age 59½ and hold account at least five years • Death or disability • Rollover to other designated Roth account	• Age 59½ • Rollover to other qualified plan or IRA • Death or disability	• Contributions at anytime • Earnings available age 59½ and hold account at least five years • Death or disability • Rollover to another designated Roth account
Required minimum distributions	Age 70½, unless still working and not a 5% owner	Age 70½, unless still working and not a 5% owner	Age 70½	No required distributions during original owner's lifetime
Tax treatment of distributions	Ordinary income tax	Tax-free if qualified distributions	Ordinary income tax	Tax-free if qualified distributions

So which is better?

There is not one answer for everyone — the choice depends on your current and anticipated financial and tax situations. If you think your tax bracket will be lower in retirement than it is now, a traditional plan with its current tax break may make more sense. If you think your tax bracket will be the same or higher in retirement, a Roth might be better.

Some employer-sponsored retirement plans offer a Roth option. If your retirement plan does offer a Roth option, you may want to explore whether it is appropriate for you. If not, you may want to look into opening a Roth IRA through a bank, credit union, or brokerage firm if you would like to add some tax diversification to your retirement planning strategy.

* Withdrawals are taxed at ordinary income tax rates. Withdrawals made prior to age 59½ (age 55 with an employer-sponsored plan if leaving your job) may be subject to a 10% tax penalty. The 10% penalty does not apply to 457 plans.

** Wells Fargo cannot guarantee results under any savings or investing program, including a regular investment program, and cannot guarantee that you will meet your retirement savings goal. Taxes will be due at ordinary income tax rates upon withdrawal from an employer-sponsored retirement plan. Premature withdrawals (generally, those made before age 59½ or age 55 if leaving your employer) may be subject to a 10% tax penalty, too (does not apply to 457 plans).

*** Withdrawals from Roth employer-sponsored retirement plans and Roth IRAs are tax-free if the account has been held at least five years and the account holder is at least age 59½. Nonqualified withdrawals are subject to ordinary income tax rates and a 10% tax penalty.

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