*Money*Talks

Wisconsin Deferred Compensation Program

Life Stage: Keeping up with Your Allocation

Seek growth while moving toward retirement

Enrolling in the WDC is the first step toward retirement, but once you are enrolled, how should you invest? The way you allocate your contributions among the major asset classes—stock funds, bond funds and cash equivalents—is one of the most important factors in determining your long-term investment return goals.

Why it matters

An allocation that's too cautious could leave you with insufficient funds to last through a long retirement. And an allocation that's too aggressive could lead to losses at precisely the moment you want access to your money. Stock funds, for example, have historically produced the biggest gains over the long term, but a stock fund's value will tend to experience more short-term fluctuations than a bond fund. There is no single asset allocation that's right for every investor; yours should have enough growth potential to sustain you through your years of retirement, but shouldn't be so risky that it causes sleepless nights.

To create an asset allocation strategy that is appropriate for your situation, you'll want to consider several factors, including your various financial goals, when you'll need the money, and your tolerance for risk. Then, consider these age-based guidelines:

In Your 30s

Because you have many years until retirement, you may be able to tolerate market fluctuations. Since you're likely to rely on your savings for several decades in retirement, you'll need them to grow while you're working—so consider keeping the majority of your investments in stock funds. Possible allocation: 80% stock funds, 15% bond funds and 5% cash equivalents.

In Your 40s

You may now have additional financial responsibilities—like saving college tuition money for your children— but try to put your retirement savings needs first. Remember that there are loans, financial aid and scholarships to help with college costs, but only ***you*** can finance your retirement. Make sure you're saving as much as you can. Growth is still important, but perhaps consider a slightly more conservative allocation. Possible allocation: 70% stock funds, 20% bond funds and 10% cash equivalents.

In Your 50s

Retirement is approaching, and you may be eligible to make catch-up contributions to your WDC account. That means you could potentially save up to $20,500 in 2008. You'll begin withdrawing your savings soon, so consider shifting the allocation toward less-risky investments. But remember, you are likely to be retired for several decades, so your portfolio will still need to have some growth potential. Be sure to keep stock funds in your profile. Possible allocation: 60% stock funds, 25% bond funds and 15% cash equivalents.

No matter where you are on the path to retirement, try to save as much as you can through the WDC. Be sure to review your investments annually to make sure they're on track to sustain you through decades of retirement. Your portfolio may gradually become more conservative as you age, but remember that long-term growth is essential. Steady saving, tax-deferred compounding and prudent asset allocation can help increase and maintain your nest egg.

For illustrative purposes only. Intended to illustrate possible investment portfolio allocations that represent an investment strategy based on risk and return. This is not intended as financial planning or investment advice.

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