TJ WOODS
Insurance Agency, Inc.

How Should I Manage My Retirement Plan

Employer-sponsored retirement plans are more valuable than ever. The money in them accumulates tax deferred until it is withdrawn, typically in retirement. Distributions from a tax-deferred retirement plan such as a 401(k) are taxed as ordinary income and may be subject to a 10% federal income tax penalty if withdrawn prior to age 59½. And contributions to a 401(k) plan actually reduce your taxable income.

But figuring out how to manage the assets in your retirement plan can be confusing, particularly in times of financial uncertainty.

Conventional wisdom says if you have several years until retirement, you should put the majority of your holdings in stocks. Stocks have historically outperformed other investments over the long term. That has made stocks attractive for staying ahead of inflation. Of course, past performance does not guarantee future results.

The stock market has the potential to be extremely volatile. The return and principal value of stocks fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Is it a safe place for your retirement money? Or should you shift more into a money market fund offering a stable but lower return?

And will the instability in the markets affect the investments that the sponsoring insurance company uses to fund its guaranteed interest contract?

If you're participating in an employer-sponsored retirement plan, you probably have the option of shifting the money in your plan from one fund to another. You can reallocate your retirement savings to reflect the changes you see in the marketplace. Here are a few guidelines to help you make this important decision.

Consider Keeping a Portion in Stocks

In spite of its volatility, the stock market may still be an appropriate place for your investment dollars — particularly over the long term. And retirement planning is a long-term proposition.

Since most retirement plans are funded by automatic payroll deductions, they achieve a concept known as dollar-cost averaging. Dollar-cost averaging can take some of the sting out of a descending market.

Dollar-cost averaging does not ensure a profit or prevent a loss. Such plans involve continuous investments in securities regardless of the fluctuating prices of such securities. You should consider your financial ability to continue making purchases through periods of low price levels. Dollar cost averaging can be an effective way for investors to accumulate shares to help meet long-term goals.

Diversify

Diversification is a basic principle of investing. Spreading your holdings among several different investments (stocks, bonds, etc.) may lessen your potential loss in any one investment.

Do the same for the assets in your retirement plan.

Keep in mind, however, that diversification does not guarantee against investment loss; it is a method used to help manage investment risk.

Find Out About the Guaranteed Interest Contract

A guaranteed interest contract offers a set rate of return for a specific period of time, and it is typically backed by an insurance company. Generally, these contracts are very safe, but they still depend on the security of the company that issues them.

If you're worried, take a look at the company's rating. The four main insurance company rating agencies are A.M. Best, Moody's, Standard & Poor's, and Fitch Ratings. A.M. Best ratings are based on financial conditions and operating performance; Fitch Ratings, Moody's, and Standard & Poor's ratings are based on claims-paying ability. You should be able to find copies of these guides at your local library.

Periodically Review Your Plan's Performance

You are likely to have the chance to shift assets from one fund to another. Use these opportunities to review your plan's performance. The markets change. You may want to adjust your investments based on your particular situation.

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If you would like to learn how your insurance company can assist you in retirement planning, please contact an agent at TJ Woods Insurance. We would be happy to assist you in creating the best possible future for you.

TJ Woods Insurance Agency is located at 20 Park Avenue in Worcester, MA. We offer personal and commercial insurance coverage to Massachusetts residents and businesses as well as financial services throughout New England.

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