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Participant Perspectives Newsletter

WHAT'S YOUR RETIREMENT PLAN?

Between Social Security and the savings in your retirement plan, affording a comfortable retirement should be a snap. Right? Maybe . . . maybe not. You might reach retirement age only to discover that the amount you have saved isn't enough to pay for the retirement you want, even with Social Security. What do you do? Keep working or scale back on your dreams?

The good news is that you *do* have options. Here are three strategies to help you work toward a financially secure retirement.

Save As Much As You Can

The odds are good that you'll be able to save more for retirement in the future than you are saving now. After all, you'll probably get regular pay increases and pay off some of your loans. These are ideal opportunities for you to increase the amount you contribute to your plan. Higher contributions can make a big difference in the long run.

Contribute Like Clockwork

By contributing every payday, you're steadily building up your account balance. If you stop making contributions, even for a year or two, this steady growth will be interrupted. Remember, the bigger your balance, the better boost you could be getting from compounding.

Compounding occurs when the money you earn on your retirement investments is reinvested so that you're potentially earning money on your savings and your earnings.

Invest for Growth

Investment growth is another way to add to your retirement account balance. Historically, stocks have performed better than bonds and cash equivalents over the long term. Stock returns have also beaten the inflation rate. While past performance does not guarantee future returns, financial planning experts generally recommend keeping at least some of your plan assets invested in stocks because of their greater potential for growth. Of course, stocks carry more investment risk than other asset types.

Turning your retirement dreams into a reality will take time and some effort. But it will all be worthwhile when you reach your goal.

THE EFFECT OF HIGHER CONTRIBUTIONS

MONTHLY PRETAX CONTRIBUTION	ACCOUNT BALANCE AT RETIREMENT AFTER 20 YEARS*	ACCOUNT BALANCE AT RETIREMENT AFTER 40 YEARS*
\$50	\$26,046	\$131,241
\$75	\$39,069	\$196,861
\$100	\$52,093	\$262,481
\$150	\$78,139	\$393,722

*Amounts are before taxes.

These are hypothetical examples involving a retirement plan participant who makes the same pretax monthly contribution throughout the time period and earns a 7% average annual total return, compounded monthly. It is not representative of a specific investment. Your investment returns will differ, and your contribution amount is not likely to remain the same over an extended period. Distributions from your account will be subject to federal income tax.

Source: NPI

UNDERSTANDING YOUR 401(k)

A large percentage of your postretirement income may come from your own investments, including your 401(k) plan. So, it's important to understand how your plan works and the advantages it offers. Understanding the basics can help you better prepare for a comfortable retirement.

How much do you know about your 401(k) plan? To find out, take the following True/False quiz.

Contributions are always subject to federal income taxes.

FALSE. Your pretax salary deferrals are not included in your current taxable income. The same is true of the investment earnings your deferrals generate. These tax benefits make the full amount of your contributions and earnings available for investment. Taxes won't be due until you begin receiving money from the plan, usually at retirement.

Participation in a 401(k) plan can reduce current taxes.

TRUE. Your contributions are deducted from your pay before federal income taxes are owed. This means you actually save more in the plan than you sacrifice in take-home pay. For example, if you are in the 15% tax bracket, you save 15 cents in taxes for every dollar you put into your plan, so your out-of-pocket cost is just 85 cents.

Federal law requires that all plan contributions belong to the participants as soon as they are made.

FALSE. The contributions you make to your plan are yours to keep from day one. However, if your employer contributes money to your plan, there may or may not be a "waiting period" before the contributions your employer makes become nonforfeitable. Your plan's "vesting schedule" spells out how this works.

Taxes and penalties always apply when 401(k) money is distributed from the plan.

FALSE. You may be able to avoid paying taxes and the 10% early withdrawal penalty (if applicable) on a distribution by rolling over your money to a new employer's plan that accepts rollovers or an individual retirement account (IRA). This strategy will allow you

to preserve the tax-deferred status of your account until you start making withdrawals. If you arrange for a direct transfer of your 401(k) money, the plan will not have to withhold federal income taxes from the distribution.

Stock investments have historically offered the best protection against inflation over time.

TRUE. While no investment return is certain, stock investments have had the best long-term record of generating returns greater than inflation. But, even though stocks have outperformed other asset classes in the past, there is no guarantee that this pattern will repeat itself.

An informed retirement plan participant makes for a more successful investor. That's a good reason for you to learn as much as possible about your 401(k) plan. Armed with this knowledge, you'll be better prepared to reach your retirement goals.

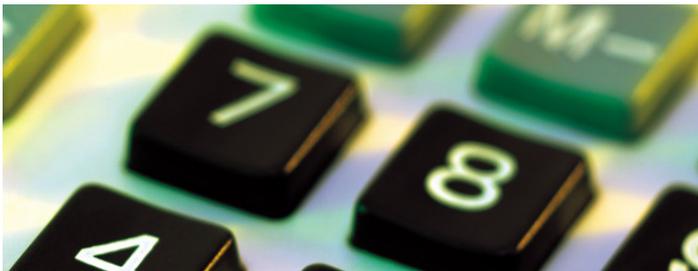


DOWNSIZE YOUR RETIREMENT COSTS

Do your plans for retirement include paring down your expenses? Looking for places to reduce costs is a good way to boost your spendable income. With a little effort, you could find substantial savings.

Get Out of Debt

Eliminating credit card and other personal debt is an important goal at any stage of your life, but it's especially important as you head into retirement. Even if you can't pay off all your debts before you retire, start by getting rid of the debts with the highest interest rates. Reducing high-interest-rate debt can potentially save you a substantial sum of money.



Go Smaller

Once your kids are out on their own, your home and yard may be bigger than you need. Moving to a smaller house or a less expensive area can save you money on upkeep, heating costs, and property taxes. You might also want to investigate relocating to a state with lower taxes and a lower cost of living.

Retire Your Mortgage Payments

Even if moving isn't on your agenda, you can still reduce homeownership costs by paying off your mortgage before you retire. Owning your home free and clear can reduce your monthly expenses by a significant amount.

Review Your Insurance

You may be able to cancel certain types of insurance coverage once you retire. Unless you plan to continue working, you won't need disability insurance. And, if you purchased a life insurance policy specifically to replace your income or pay off your mortgage, you may not need the coverage after retirement or once you no longer have a mortgage.

COORDINATION COUNTS

The recent recession has reminded many investors that holding just one asset type is potentially riskier than including a diversified* mix of assets in a retirement plan portfolio. It's a good idea to make sure that your investments are diversified overall. And that means any individual retirement accounts (IRAs) and other investments you have outside your plan, too. And, if you're married, don't forget about your spouse's investments.

Duplication Implications

Do you even know what types of investments are in your spouse's portfolio? If you each joined your plans before you married, it's likely you don't. What about other investments you may own? Are they the same kinds of investments you have in your retirement plan account? If you are duplicating investments, you could be "overinvested" in one company, industry, or asset class. This could lead to an increased exposure to risk. Or it could mean that your accounts are so conservative that your investments may not achieve your long-term goals.

Full Financial Awareness

Review *all* your investments to get a complete picture of your current risk exposure. Study their objectives, charges, risk, expenses, and past performance and determine how each fits into your asset allocation. Your *overall* asset allocation — the way your assets are divided up among stocks, bonds, and cash equivalents — should reflect your risk tolerance, investing time frame, and goals. Diversifying within each asset class also can be important. So, for example, you might want to include funds (or portfolios) that invest in small companies as well as funds that invest in large companies in your stock investments.

When your investments are coordinated, they can work together more effectively to help you reach your financial goals.

**Diversification does not ensure a profit or protect against loss in a declining market.*

THINK TWICE BEFORE BORROWING FROM YOUR PLAN

The money in your retirement plan account ideally should stay in the plan until you're ready to retire. However, there may come a time when you want to access your account funds early. Once you know the drawbacks of a plan loan, you may want to consider other sources.



A Simple Solution?

When you need cash quickly, your retirement plan may be a tempting source. If your plan allows you to borrow from your account (some don't), it may seem easier than getting a traditional loan. You probably won't need a credit check, and repayment is simple since

the money is taken right out of your paycheck through automatic payroll deduction. And, typically, you'll pay the interest and principal back to your plan account. However, there's more to borrowing from your plan than simplicity.

Loans of Last Resort

Plan loans have a number of downsides. First, the money you borrow will no longer be invested and benefiting from potential tax-deferred growth. This could cost you in foregone investment earnings. Over time, through compounding, that opportunity cost can be significant and may affect your standard of living during retirement.

A second downside is the fact that you'll have to pay income taxes first on the earnings you use to repay the loan. This means your money will be taxed twice — once when you earn it and pay back the loan and again in the year you receive taxable distributions from your plan.

Another downside: You may not be able to afford to repay the loan and continue to contribute to your account. Plans typically require you to pay back most loans within five years. If you don't make contributions to your plan during that time, you could reduce your ability to meet your financial goals during retirement.

Finally, if you leave your employer for any reason, the outstanding loan balance likely will be due and payable immediately or in a relatively short period of time after separation. If not repaid, the outstanding loan balance will be subject to income taxes and possibly a 10% penalty.

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A MCCOLL BROS. LOCKWOOD COMPANY

1017 East Morehead Street
Charlotte, NC 28204

Luther Lockwood
704.335.4522

Luther.Lockwood@mbl-advisors.com

Abe Early
704.335.4518

Abe.early@mbl-advisors.com

Gene Meyers
704.335.4536

Gene.Meyers@mbl-advisors.com

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