



# CITY OF AURORA-POLICE MONEY PURCHASE PENSION PLAN

## retirement report



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### stock market declines during tough economic times prompt many investors to change their approach

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With the downturn of the economy and its negative impact on retirement plan accounts, no wonder investors are pessimistic about increasing their voluntary investment contributions. Investors' challenges during difficult economic times like these are to set aside the distraction of pessimism and to seize the opportunities. In order to gain the long-term benefits these opportunities include:

- Bargain purchasing through Dollar Cost Averaging;
- Time and compounding;
- Investing for growth.

Retirement planning has a long-term focus, and taking advantage of opportunities like these can make a dramatic difference in your retirement.

#### Bargain Prices

As consumers of products, we know that a great sale means that it is a wonderful opportunity to buy. The securities markets work much the same way. However, what tends to happen is the opposite; in difficult times investors sell their stock investments and move into cash. Fear drives this herd like and damaging behavior to sell when prices are cheap. In the meantime, buying opportunities are not being seized. Increasing your retirement savings through Plan Sponsor retirement plans enables you to do several productive things: pay yourself first through automatic payroll deductions, lower your taxable income, receive an immediate return on your investment if there is an employer match, and take advantage of dollar cost averaging.

Dollar Cost Averaging is a method of reducing your average cost per share by making systematic investments (i.e. each paycheck) regardless of current market conditions. When the market is performing positively and shares prices are increasing, you purchase fewer shares with the same amount invested. Likewise, when share prices decrease, you purchase more shares with the same amount. Ultimately, this process enables you to reduce your average cost per share, which is important because your profit from mutual fund investments is the difference between the purchase price of your shares and their value at the time of redemption (sale). The table below illustrates the process of dollar cost averaging.

#### Dollar Cost Averaging

Month	Share Price	Investment	Shares Purchased
1	\$20.00	\$500	25.00
2	\$20.50	\$500	24.39
3	\$21.50	\$500	23.26
4	\$19.00	\$500	26.32
5	\$16.50	\$500	30.30
6	\$15.00	\$500	33.33
7	\$14.00	\$500	35.71
8	\$13.50	\$500	37.04
9	\$14.00	\$500	35.71
10	\$14.50	\$500	34.48
11	\$16.00	\$500	31.25
12	\$17.50	\$500	28.57
Totals	\$202.00	\$6,000	365.37
Avg. Price	\$16.83	Avg. Cost	\$16.42

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# what should investors do when markets are unstable?

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The same amount (\$500) is invested each month for one year. The price of each share varies from month to month, so a different number of shares are purchased each month. The average *price* per share was \$ (total of monthly share prices divided by 12 months). However, the average *cost* per share \$ was lower than the average price.

## Time & Compounding

When it comes to investing, time is a very important commodity because it can't be replaced. The more time you have to invest, the longer your investment has to increase in value called compounding. With compounding, interest earnings are added to your principal investment, forming a larger base on which interest is earned. Therefore, as your retirement savings increases, you have a larger amount of interest earnings. The sooner you begin investing, the larger the ultimate benefit. For example, Mary begins to save \$200 a month at the age of 25 and Jim begins saving \$400 a month at the age of 45. Both earn a rate of return of 8% each year. At the age of 65, both Mary and Jim have put away \$96,000. However, Mary's investment would be worth over \$698,000 and Jim's is worth about \$235,600. Even though the same amount of money was invested, Mary has the benefit of 20 extra years of compounding. In this example, it is also important to remember that consistent savings is at work too. As we consumers try to squeeze everything we can out of a penny, it is critical to remain steadfast in our savings. Again, time is precious, and, once it is gone, it is gone.

## Invest for Growth

There is no guarantee that investing in stocks will provide the 8% rate of return used in the example above. However, we know how stocks have historically performed. Over a 20-year span, stocks have averaged about 11% return -- well over the inflation rate. When participants have stopped or decreased their contributions, the inflation rate has continually increased. Inflation is the increase in the cost of living from

year to year. It represents the rate at which the real value of your investment is eroded and the loss of spending power over time. For example, if you purchase a hamburger for \$5 and inflation is 10% this year, then next year that same hamburger will cost \$5.50. Inflation can have a negative impact on your savings by eroding your assets. Investing your money only (or primarily) safe investments runs the risk of earning less than inflation. And if your investments don't grow ahead of inflation, you could fall short of meeting your retirement income needs. Investing for growth requires some of your money being invested in stocks (more risk). Over the long-term you should have a bigger nest-egg.

## Conclusion

In the midst of these difficult economic times, investors have some great opportunities to improve their long-term retirement planning. Retirement goals define the retirement lifestyle we hope to achieve through our savings. Increasing our contributions, no matter how small or large, will impact the nest-egg accumulated, which in turn will affect the retirement lifestyle you are able to afford. Contribution amounts impact the number of shares being bought, and at today's bargain prices, the number of shares purchased could be much higher. For those fortunate enough to still have a long time horizon, larger contributions help grow the size of the nest-egg base. But the real growth comes through the earnings on that base over time since the investments would compound over a longer time period. So, no matter what part of the lifecycle you're in, it is challenging to find the right balance in saving for retirement, saving for college, and providing basic needs for the family. Adjusting your budget, paying yourself first, increasing savings when possible and having a goal in place are the sacrifices today for tomorrow's benefit. Patrick Henry Hughes said it best:

*"We do what we have to  
to do what we want to."*

### who do I call for help?

### account information

- > balances
- > investment changes
- > change personal info

contact : Milliman

866.343.8601 | [www.apmppp.org](http://www.apmppp.org)

### investment questions

contact: Rick Rodgers, CRC  
Innovest Portfolio Solutions  
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