A PLAN TO REACH YOUR GOALS

Want to give yourself a really valuable and lasting present? How about a financial plan? Promise yourself that once the holidays are over, you’ll take time to thoroughly review your finances — and come up with a strategy for reaching all your goals.

BEGIN WITH A BUDGET
Do you know where your money goes? Developing a spending plan means you have to know exactly how much money you have coming in each month and how much you’re paying out toward bills and other expenses. Although this task takes some time and effort, the result may be better control of your finances. Make sure you leave room in your budget for your retirement plan contributions and other savings. If you have trouble coming up with the extra cash, look for ways to cut your spending.

CHOOSE SUITABLE INVESTMENTS
When it comes to investing, everyone is different — even members of the same family. Spouses may not be willing to take the same amount of risk or feel comfortable with the same kinds of investments. So, it’s important for spouses to talk over their feelings about risk. The investments you choose should reflect your goals, time frame, and risk tolerance. Remember, too, that you want your investments to earn returns that will beat inflation, especially if you’re investing for a long-term goal.

THINK ABOUT RETIREMENT
It’s generally easier to save money if you set a goal. So you’ll want to estimate how much money you’ll need for retirement. How do you know how much you’ll need? Think about the retirement lifestyle you want. Staying active and involved may help you feel happy and healthy. Traveling, volunteering, pursuing hobbies, and spending time with family and friends are activities that may interest you. In any case, compare your anticipated expenses with your current expenses to see how much you’re likely to need.

The next step is to figure out where the money to pay those expenses will come from. Consider how much you can expect from your employer’s retirement plan, any pensions and outside investments you have, and Social Security. If your income from these sources will fall short of your goal, find ways to put more money aside while you’re still working to make up the difference.

PREPARE FOR THE UNEXPECTED
If you were to die or become disabled, would your family be able to maintain its standard of living without your paycheck? Disability and life insurance coverage can replace lost income and allow your loved ones to continue their current lifestyle.

Plan today to build a solid financial plan for your future. Doing so may be the best present you get!

YOUR QUESTIONS ANSWERED:
HOW CAN I SIMPLIFY MONEY MANAGEMENT?

Setting up a system to keep your financial paperwork organized can help you save time, reduce stress, and avoid late fees and missed opportunities. Here are a few ideas to help you streamline your money management.

Use direct deposit and electronic payment. Choose to have your paycheck deposited directly into your bank account(s) and recurring bills paid automatically from your checking account. And do your banking online. These steps can save time and reduce the amount of paperwork you have to deal with.

Deal with the paperwork you do have promptly. As soon as you receive a bill or financial document, decide whether it needs to be paid, filed, or discarded. Don’t just put it in a pile to be dealt with later. Organize the documents you do save into groups, such as tax records in one group and bank statements in another.

Budget in real time. Keeping track of how much you spend, save, and owe has never been easier. Various tools allow you to set up a budget and sync all your financial accounts so you have a real-time snapshot of your finances. You’ll be able to monitor your progress. And if a cash crunch is coming, you can make necessary adjustments.
Potential tax advantages are one of the built-in benefits of your employer’s retirement savings plan. Just by participating in the plan, you have the opportunity to make pre-tax contributions, which may enable you to benefit from tax-deferred compounding interest. Plus, you might qualify to claim a tax credit for your contributions. These potential tax advantages, combined with your plan’s other great features, can help you achieve your retirement goals.

**Pre-tax Contributions**
The amount you contribute pre-tax is deducted from your pay before federal (and, possibly, state and local) income taxes are taken out. Contributing on a pre-tax basis reduces the amount of income taxes you currently pay on your earnings. You won’t owe federal income taxes on your pre-tax contributions until they are distributed from your plan. Increasing the amount you contribute to your plan can further increase your tax savings.

**Tax-deferred compounding**
Any income you earn from investing your contributions is also tax-deferred. Compounding can occur if your plan contributions generate earnings and those earnings are then added to your balance and reinvested. Over time, tax-deferred compounding can have a big impact on your account balance.

**Roth Distributions**
Note that if your plan offers a Roth contribution option, such contributions don’t provide immediate tax savings. You will be taxed on that money in the year you earn it. However, unlike pre-tax contributions and earnings, qualified distributions of Roth contributions and earnings aren’t subject to any federal income taxes if you meet certain tax law requirements.

**The Saver’s Credit**
You may be eligible to claim the “saver’s credit” on your tax return for contributions to your employer’s retirement plan. Your income and tax-filing status determine whether you’ll qualify for this credit and your credit rate. If you do qualify, the credit is 10%, 20%, or 50% of your contributions up to $2,000 ($4,000 if married filing jointly). To claim the credit, you must be age 18 or over and not a full-time student, and you can’t be claimed as a dependent on another person’s return.

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**2018 Saver’s Credit**
Adjusted Gross Income Ranges*

<table>
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<tr>
<th>CREDIT</th>
<th>MARRIED FILING JOINTLY</th>
<th>HEAD OF HOUSEHOLD</th>
<th>SINGLE, MARRIED FILING SEPARATELY</th>
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</thead>
<tbody>
<tr>
<td>50%</td>
<td>$38,000 or less</td>
<td>$28,500 or less</td>
<td>$19,000 or less</td>
</tr>
<tr>
<td>20%</td>
<td>$38,001 – $41,000</td>
<td>$28,501 – $30,750</td>
<td>$19,001 – $20,500</td>
</tr>
<tr>
<td>10%</td>
<td>$41,001 – $63,000</td>
<td>$30,751 – $47,250</td>
<td>$20,501 – $31,500</td>
</tr>
<tr>
<td>0%</td>
<td>over $63,000</td>
<td>over $47,250</td>
<td>over $31,500</td>
</tr>
</tbody>
</table>

* Income ranges are for 2018, and amounts may be adjusted for inflation in future tax years.  
Source: www.irs.gov
FOCUSING ON INVESTMENT STYLES

Style-conscious investors may have an edge when it comes to making decisions about the investments in their retirement accounts. Does that mean wearing designer clothes and driving a sports car will make you a better investor? Of course not. But paying attention to the investing styles that fund and portfolio managers follow can be helpful.

PASSIVE INVESTING
This investing style is based on the theory that it’s difficult to “beat the market” so investors might as well “buy the market.” Passive fund managers aim to mirror the performance of a specified market index.* Funds that use this approach hold the same stocks in the same proportions as the indexes they follow. Limited trading means that index funds have relatively low expenses. However, passively managed funds generally don’t outperform the indexes they follow because market indexes don’t have expenses, whereas index funds and portfolios do. And when the market is down, there’s not much passive fund managers can do to avoid losses.

ACTIVE INVESTING
Active fund managers try to outperform a market index and use different methods to try to achieve this goal. Note that actively managed funds typically have higher expenses and fees than passively managed funds. And, if the manager makes poor investment choices, the fund’s performance may suffer relative to its benchmark index.

Some fund managers follow a growth style investing strategy, favoring the stocks of established companies that typically deliver above-average growth in earnings and profits. These companies are generally large, stable firms that reinvest their earnings, a sign they intend to keep growing.

Some fund managers prefer a value style. The goal is to look for undervalued stocks that managers feel may be poised for a comeback.

Value stock prices may be low for a number of reasons; they may reflect a company’s current or potential earnings, the stock may be temporarily out of favor, or the entire industry or sector may be troubled.

Some funds focus on company size, which is known as market capitalization, or "market cap." It refers to the total dollar value of a company’s outstanding stock at a specific point in time. Historically, large-cap stocks have sustained relatively slower growth with lower risk, while small caps offer relatively higher growth potential and higher risk. The dollar ranges to determine market cap aren’t set in stone, but there are general definitions:

** Mega cap — market cap of at least $200 billion; typically, industry leaders
** Large cap — market cap of $10 billion to $200 billion; well-known companies; considered relatively stable
** Mid cap — market cap of $2 billion to $10 billion; more volatile than large caps
** Small cap — market cap of $300 million to $2 billion; generally, new or young companies

STYLE DRIFT: A CHANGE IN STRATEGY
Sometimes, the manager or management team of an actively managed fund or portfolio will add investments that don’t fit with the fund’s objectives or investment style. This is called “style drift” and can happen for a number of reasons.

One reason is disappointing returns. The manager of a small-cap stock fund may add some large-cap stocks to the fund to try to boost performance, for example. Style drift also can occur when the fundamentals of a fund’s underlying investments change. A small company might grow into a mid-sized company, for example. Or a value stock might turn into a growth stock.

Does style drift matter?
If one of your investments “drifts” from its stated style substantially, it could create overlap or duplication without your knowing it. In turn, that could change your portfolio’s exposure to investment risk and its potential return. It’s important to be aware of changes in the investments you hold. If the changes aren’t compatible with your investment strategy, you may want to make some adjustments.

GO AHEAD AND MIX IT UP
Understanding the different investing styles can help you select investments that diversify your retirement account.** Although mixing fashion styles might be a no-no, mixing investment styles can be a good thing.

* An index is a measure of the value of a hypothetical portfolio of securities that is representative of the market (or market segment) it tracks. Indexes are unmanaged; no securities are bought or sold in an attempt to increase the value of the index. An investor cannot invest directly in an index.

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

When you get your retirement plan statements, pay attention to the section that provides total return information. It’s important because it gives you the bottom line on how your investments are performing.

THE BASICS
In investing, the word return refers to the amount of money you earn on an investment. For example, if you invest $100 and earn $15 of interest, your return is $15, or 15%. To calculate your total return, you also need to include how much the investment gains or loses in value. So, if that same investment lost 5% of its initial value, its total return would be 10%. Average annual total return takes compounding and the length of time you hold an investment into account.

INSIDE FUND RETURNS
An investment fund or portfolio’s total return has three components:

- **Share Price Appreciation/Depreciation** — the increase or decrease in the market value of the fund’s shares.
- **Income** — any interest or dividends earned by fund investments.
- **Capital Gains** — the profits earned from the sale of investments in the fund’s portfolio.

The components of a fund’s total return may be different depending on the types of securities the fund holds. For example, aggressive growth funds generally don’t invest in stocks that pay dividends. However, growth and income funds often do include dividend-paying stocks in their portfolios.

COMPARING TOTAL RETURNS
Knowing a fund’s total return (or average annual total return) helps you compare it to other investments. You also can compare a fund’s return to a benchmark index that tracks the performance of similar investments. For example, the S&P 500® tracks the stocks of 500 large U.S. companies. To get some perspective, compare a fund’s returns to its benchmark index over different time periods.

Investments may have periods when they do not perform as well as similar investments or a relevant index. As a long-term investor, you may be able to ride out a short-term period of underperformance. The investment may soon recover. But if an investment does take a long-term turn for the worse, it might be time for a change in your portfolio.

The next time you receive a plan statement, be sure to review the total return information to get to the bottom line on how well your investments are performing.

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