MoneyWise101: Lessons for Financial Freedom

Thinking about retirement

Fine-tuning your savings and investment strategy

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PENNSYLVANIA TREASURY
Earn. Learn. Invest.

Your financial goals

- Saving for retirement.
- Helping your parents and your children.
- Affording health insurance.
- Paying off debt.
- Planning your estate.

What will your retirement look like?

The retirement income rule of thumb is to replace 75% to 85% of your current income.

How might your expenses change in retirement?

- Going up
  - Health care
  - Hobbies
  - Travel
  - Dining out
- Going down
  - Taxes
  - Work-related expenses
  - Saving for retirement
  - Housing

Some things to think about

- What do you want to do in retirement?
- How long will you live in retirement?
- Where your income will come from, including:
  - Retirement plans.
  - Pension plans.
  - Social Security.
  - Other personal savings.

Longer life expectancies

Year	Men	Women
1900	46	48
Today	75	80

Source: Centers for Disease Control and Prevention, data for 2007.

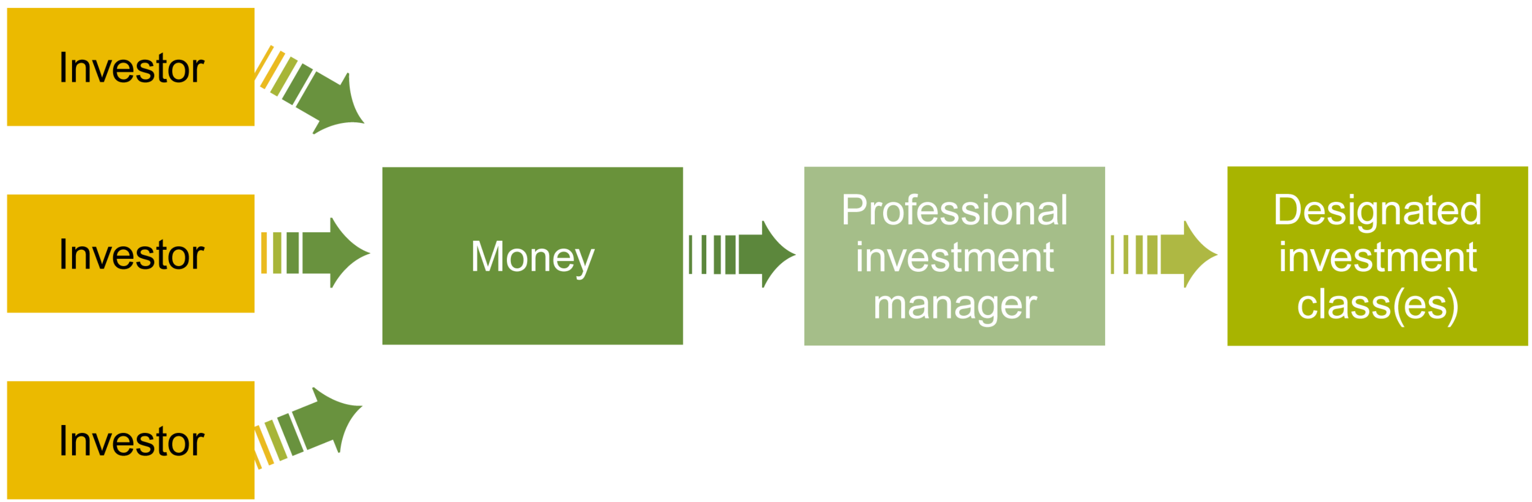
How much should you save?

- Factors to consider:
  - Desired retirement lifestyle.
  - Years until retirement.
  - Current retirement savings.

*Consider saving **12% to 15%** of your pay for retirement, including any contributions your employer might make.*

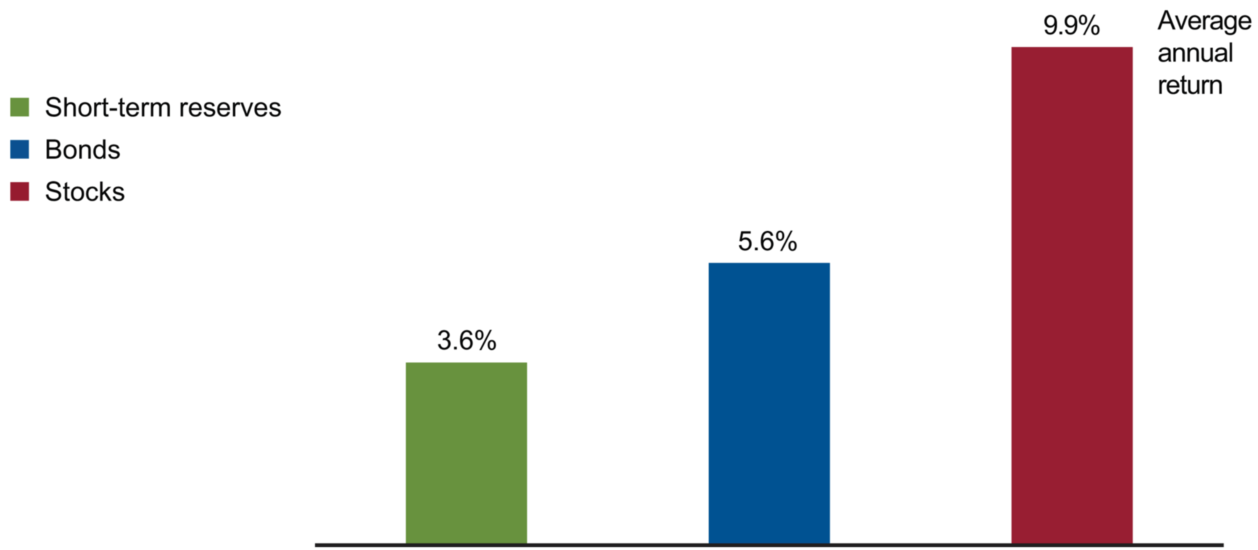
Your investment plan

How mutual funds work



Average annual returns

1926–2011



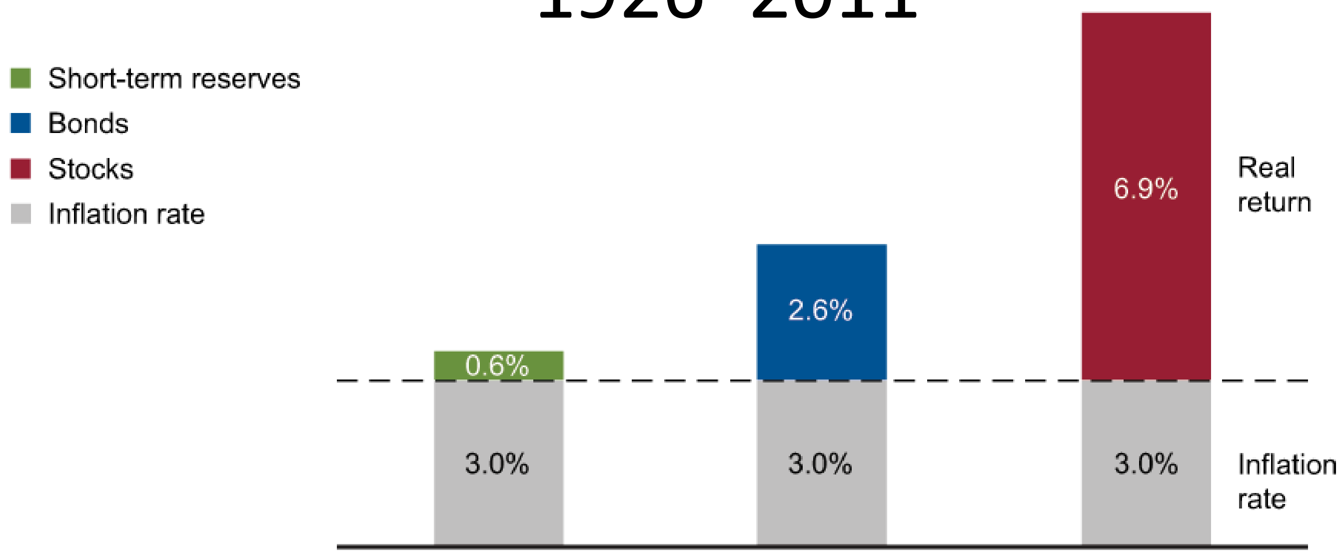
The performance data shown represent past performance, which is not a guarantee of future results. When determining which index to use and for what period, we selected the index that we deemed to fairly represent the characteristics of the referenced market, given the available choices. For U.S. stock market returns, we use the Standard & Poor's 90 Index from 1926 to March 3, 1957; the Standard & Poor's 500 Index from March 4, 1957, to 1974; the Wilshire 5000 Index from 1975 to April 22, 2005; and the MSCI US Broad Market Index thereafter. For U.S. bond market returns, we use the Standard & Poor's High Grade Corporate Index from 1926 to 1968; the Citigroup High Grade Index from 1969 to 1972; the Lehman Brothers U.S. Long Credit AA Index from 1973 to 1975; the Barclays Capital U.S. Aggregate Bond Index from 1976 to 2009; and the Spliced Barclays U.S. Aggregate Float Adjusted Bond Index thereafter. For U.S. short-term reserves, we use the Ibbotson U.S. 30-Day Treasury Bill Index from 1926 to 1977, and the Citigroup 3-Month Treasury Bill Index thereafter. Unlike stocks and bonds, U.S. Treasury bills are guaranteed as to the timely payment of principal and interest. Index performance is not illustrative of any particular investment because you cannot invest in an index.

All investing is subject to risk. Investments in bond funds are subject to interest rate, credit, and inflation risk.

Source: Vanguard.

The impact of inflation

1926–2011



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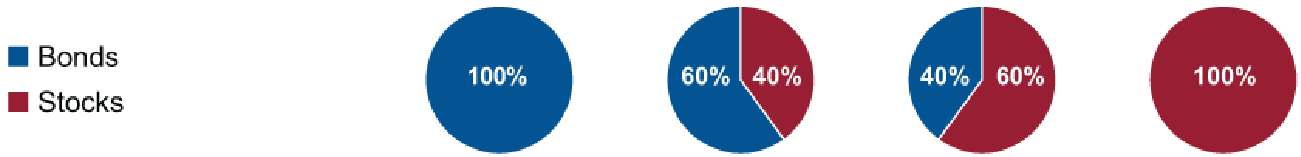
Find the right mix

1926–2011



Average annual return	5.6%	7.8%	8.7%	9.9%
Worst one-year return	–8.1%	–18.4%	–26.6%	–43.1%
Best one-year return	32.6%	27.9%	36.7%	54.2%

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Source: Vanguard.

Review your mix of stocks and bonds

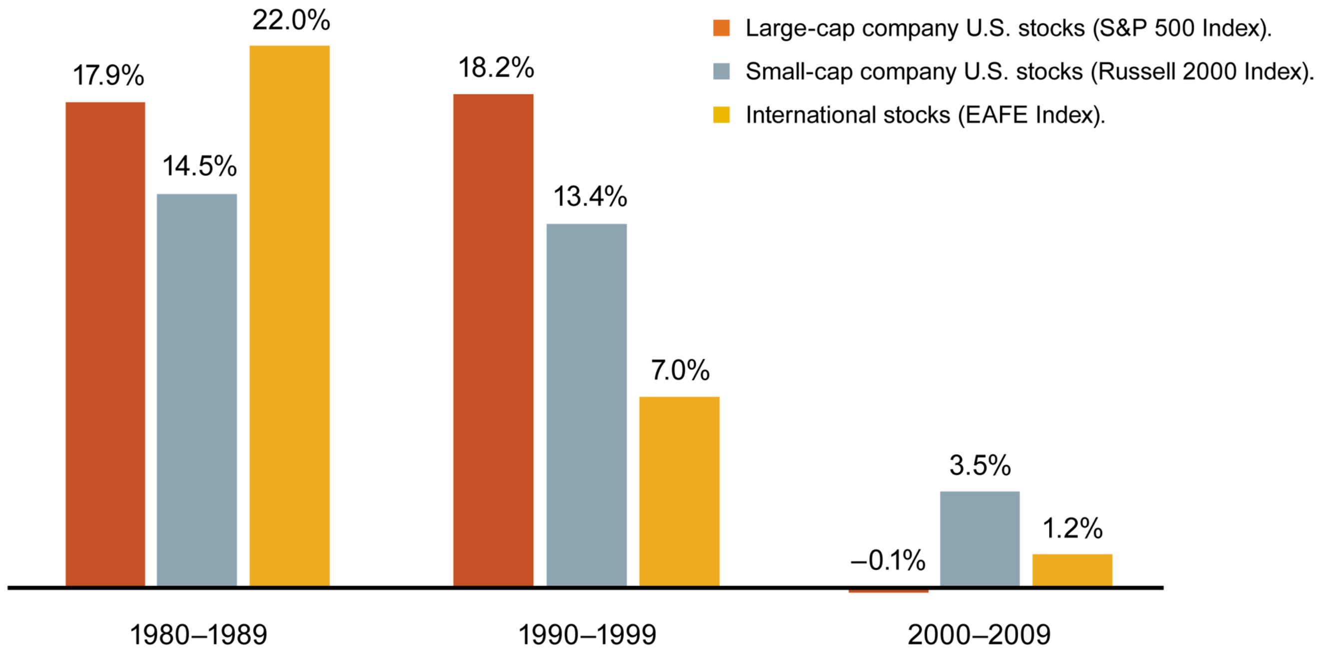
- Consider reducing market risk as you approach retirement.
- Consider investing for the long term with some of your assets.
- Avoid the temptation to try to make up for lost time with excessive market risk.

Types of stock funds

- Market capitalization:
  - Large-capitalization.
  - Mid-capitalization.
  - Small-capitalization.
- Investment style:
  - Value.
  - Growth.
- Investment focus:
  - Domestic.
  - International.

All investing is subject to risk. Prices of mid- and small-cap stocks often fluctuate more than those of large-company stocks. Foreign investing involves additional risks including currency fluctuations and political uncertainty.

Three decades, three dramatically different results



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Choose your investments

- Identify your goals and time horizon.
- Choose your investment mix.
- Select your funds.
- Monitor your investments.

Retirement considerations

Withdrawal strategies

- Taxable assets first.
- Consider managed payout funds.*
- Spending accounts.
  - Money market funds.
- Consult with a professional.
  - Certified Financial Planner™, tax advisor, etc.

*The Managed Payout Funds are not guaranteed to achieve their investment objectives, are subject to loss, and some of their distributions may be treated in part as a return of capital. The dollar amount of a fund's monthly cash distributions could go up or down substantially from one year to the next and over time.

Prepare for retirement

- Review your investment mix.
- Calculate your savings needs.
- Understand your distribution options.

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Please note that the Managed Payout Funds may not be appropriate for all investors. For example, depending on the time horizon, retirement income needs and tax bracket, an investment in a Managed Payout Fund might not be appropriate for younger investors not currently in retirement, in IRAs or other tax-advantaged accounts for those investors under 59½, or for participants in employer-sponsored plans. Investors who hold a Managed Payout Fund within a tax advantaged retirement account should consult their tax advisors to discuss tax consequences that could result if payments are distributed from their core account prior to age 59½ or if they plan to use the Managed Payout Funds, in whole or in part, to meet their required minimum distribution (RMD) obligations. Distributions from the Managed Payout Funds are unlikely to precisely match an investor's IRA RMD obligations. In addition, use of the Managed Payout Funds may be restricted in employer-sponsored plans by the terms of the governing plan documents and/or at the discretion of the plan administrator. Review the information carefully with your financial advisor before deciding whether a Managed Payout Fund is right for you.

Before investing, consider the Managed Payout Funds' investment objectives, strategies, risks, fees and expenses. Contact Vanguard for a prospectus containing this information. Read it carefully.

The Vanguard Financial Plan is provided by Vanguard Advisers, Inc., a registered investment advisor.

For more information about any fund, including investment objectives, risks, charges, and expenses, call Vanguard at 800-523-1188 to obtain a prospectus. The prospectus contains this and other important information about the fund. Read and consider the prospectus information carefully before you invest. You can also download Vanguard fund prospectuses at vanguard.com.

An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although a money market fund seeks to preserve the value of your investment at $1 per share, it is possible to lose money by investing in such a fund.

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Contact Information:

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