DIRECTNEWS
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It's All About the Asset Allocation Mix

A delicious bowl of soup or yummy batch of cookies doesn't just happen. It takes the right mix of ingredients. Professional chefs and novice cooks all know that too much of this or too little of that can affect the whole dish. The same can be said about your retirement investments.

Your Original Recipe

When you initially set up your retirement account, you chose a certain mix of investments -- your original asset allocation.[1] But because investment values are always changing, the way your account is allocated also changes. Over time, variations in the way your investments perform can cause your asset allocation to shift. The investments that have been outperforming the others will grow to represent a greater portion of your account. So even though you haven't initiated any changes, your account is no longer allocated the way you originally intended, as illustrated in the table below.

Measures of Risk

Changes in your asset allocation affect the level of risk in your account. Take stocks, for example. Since they are inherently riskier than the other major asset classes, when the portion of stock investments in your account grows, so does your exposure to risk. Alternatively, if the portion of your retirement portfolio invested in stocks declines, the resulting asset allocation is more conservative than you originally planned. Your exposure to risk is lower, but so is your potential for future gains, although past performance is no guarantee of future results.

Back in Balance

You can restore your original asset allocation and return your investments to a more comfortable level of risk by *rebalancing*. There are two ways to rebalance: Either sell some investments in the overweighted asset class and buy investments in the underweighted asset classes or change the way your new contributions are invested until your original asset allocation is restored.

[1]Asset allocation does not guarantee a profit or protect against losses.

[2]The information in the table below is hypothetical and used for illustrative purposes only. When choosing an asset allocation, you should consider your other assets, income, and investments (for example, your home equity, individual retirement account investments, savings accounts, and other retirement accounts) in addition to the balance in this plan.

[3]Cash alternatives are short-term securities that can be readily converted to cash, such as U.S. Treasury bills. They may not be federally guaranteed or insured, and it is possible to lose money by investing in cash alternatives. Returns on cash alternative investments may not keep pace with inflation, so you could lose purchasing power.

What's in the Mix?[2]

In the beginning	Now	After rebalancing
15% Cash alternatives[3]	11% Cash alternatives[3]	15% Cash alternatives[3]
25% Bonds	24% Bonds	25% Bonds
60% Stocks	65% Stocks	60% Stocks

Carrying a Mortgage Into Retirement:

Should You or Shouldn't You?

According to recent research, housing debt is a large component of debt for families age 55 plus. Among older homeowner households, the percentage of those with mortgage debt was 56% for the 55-64 age group and 38% for the 65-74 age group.[1] Is it a good idea to have a mortgage obligation after you retire? Here are some pros and cons to ponder.

Consider Keeping Your Mortgage If . . .

You're carrying a lot of consumer debt. Why? When it comes to paying down debt, the general rule is to tackle the debt with the highest interest rate first. Since mortgage interest rates are usually lower than rates on consumer debt, you're probably better off putting your available cash toward your credit card balances than trying to pay off your mortgage. Ditto for any consumer loans you have. Put your money toward the debt with the higher rate.

Here are some other situations that may favor carrying your mortgage into retirement:

- Your cash reserves are limited and you don't have a way of replenishing them.
- You can potentially earn more by investing your money than using it to eliminate your mortgage interest payments.
- The money may be better spent diversifying your investments (rather than tying it all up in real estate).[2]

Consider Prepaying Your Mortgage If . . .

It might be better to have your mortgage paid before you retire. Here are some circumstances that favor that option:

- Your retirement income will be limited and won't accommodate a mortgage payment.
- There's no prepayment penalty and you can save a significant amount of interest in the long run by paying off your mortgage early.
- You just don't want to worry about it.

[1]Ann C. Foster, "A closer look at spending patterns of older Americans," *Beyond the Numbers: Prices and Spending,* vol. 5, no 4, U.S. Bureau of Labor Statistics, March 2016 (based on 2014 data).

[2]There is no guarantee that a diversified portfolio will enhance overall returns or outperform a nondiversified portfolio. Diversification does not ensure against market risk.