Saving

The single most important decision individuals can make about retirement is to take responsibility for funding it themselves. Living expenses, health care costs, Social Security, pensions and future employment are all uncertain. But saving today is one way to prepare for a more stable tomorrow.

Common misconceptions

"I've already started saving a little – I should be okay."

- In 2012, only 42% of workers (and/or spouses) have tried to calculate how much money they will actually need to save for a comfortable retirement.*
- Use the retirement savings checkpoint chart to see if you are on track to reach your goals. Page 16

"Retirement is so far away – I have plenty of time to think about it."

- The sooner you begin, the more time you have to maximize the power of compounding. Page 17
- Start saving early and regularly. Early withdrawals, loans and missed contributions can result in lower savings, less compounding and fewer assets at retirement. Page 19

*Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2012 Retirement Confidence Survey.

Retirement savings checkpoints

Current age	$50,000 Checkpoint (x Current Salary)	$75,000 Checkpoint (x Current Salary)	$100,000 Checkpoint (x Current Salary)	$150,000 Checkpoint (x Current Salary)	$200,000 Checkpoint (x Current Salary)	$250,000 Checkpoint (x Current Salary)	$300,000 Checkpoint (x Current Salary)	$400,000 Checkpoint (x Current Salary)
30	0.4	0.6	1.0	1.7	2.0	2.2	2.4	2.8
35	0.7	1.1	1.5	2.3	2.8	3.0	3.3	3.7
40	1.2	1.6	2.2	3.2	3.7	4.0	4.3	4.9
45	1.7	2.3	3.0	4.2	4.9	5.3	5.7	6.3
50	2.4	3.1	3.9	5.5	6.3	6.8	7.3	8.1
55	3.3	4.2	5.2	7.2	8.1	8.8	9.4	10.4
60	4.4	5.5	6.7	9.2	10.4	11.2	11.9	13.1
65	5.7	7.1	8.6	11.6	13.2	14.1	15.0	16.6

Model assumptions:

Pre-retirement investment return: (60% S&P 500/40% BarCap Agg)	7.0%
Post-retirement investment return: (30% S&P 500/70% BarCap Agg)	5.0%
Retirement age:	65
Years in retirement:	30
Wage growth rate (inflation):	2.5%
Confidence level represented:	80%
Assumed annual contribution rate:	5%

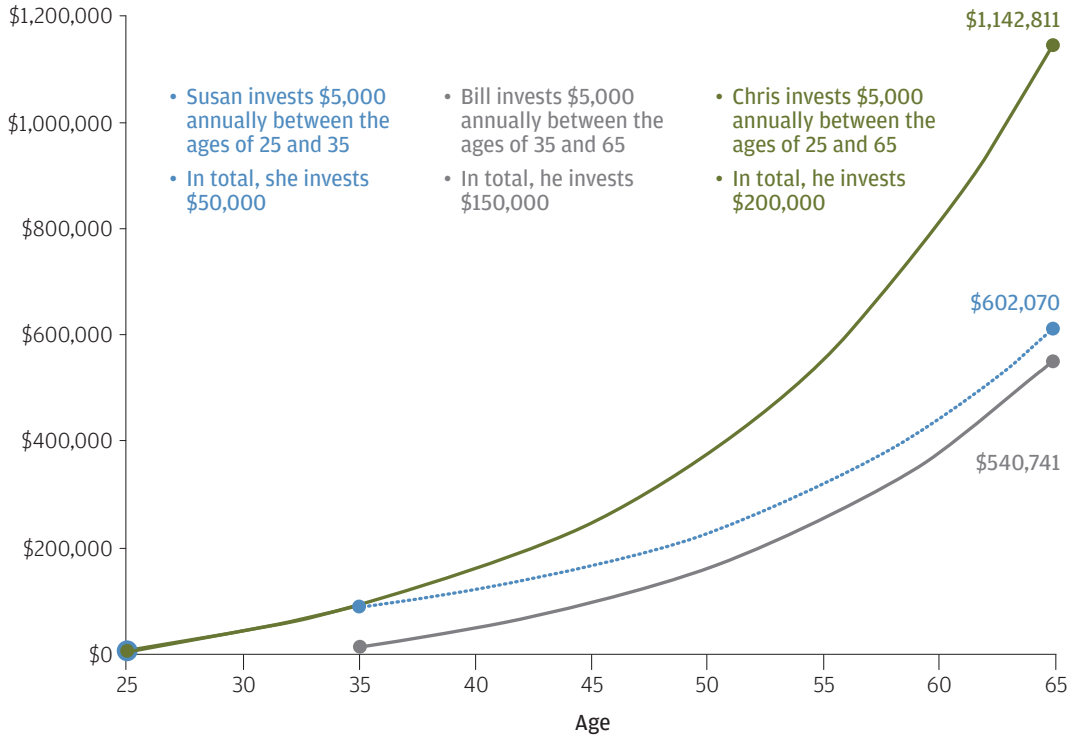
How to use:

- Go to the intersection of your current age and your closest current salary.
- Multiply your salary by the checkpoint shown to get the amount you should have saved today, assuming you continue annual contributions of 5% going forward.
- Example: for a 40-year-old making $100,000: $100,000 x 2.2 = $220,000

This chart is for illustrative purposes only and must not be used, or relied upon, to make investment decisions. J.P. Morgan's model is based on J.P. Morgan Asset Management's (JPMAM) proprietary long-term capital markets assumptions (10 – 15 years). The resulting projections include only the benchmark return associated with the portfolio and do not include alpha from the underlying product strategies within each asset class. Post-retirement volatility assumption is 6.3%. Salary replacement rates are derived from Aon Consulting's 2008 Replacement Ratio Study data, which assumes individuals receive Social Security payments in retirement. Calculations assume an individual earning $50,000 at retirement will need to replace at least 30% of their pre-retirement income; individuals earning $75,000 will need to replace at least 37%; individuals earning $100,000 will need to replace at least 45%; individuals earning $150,000 will need to replace at least 61%; individuals earning $200,000 will need to replace at least 69%; individuals earning $250,000 will need to replace at least 74%; individuals earning $300,000 will need to replace at least 79%; and those earning $400,000 will need to replace 87%. Allocations, assumptions and expected returns are not meant to represent JPMAM performance. Given the complex risk/reward trade-offs involved, we advise clients to rely on judgment as well as quantitative optimization approaches in setting strategic allocations. References to future returns for either asset allocation strategies or asset classes are not promises or even estimates of actual returns a client portfolio may achieve.

Benefit of saving early

Growth of savings accounts



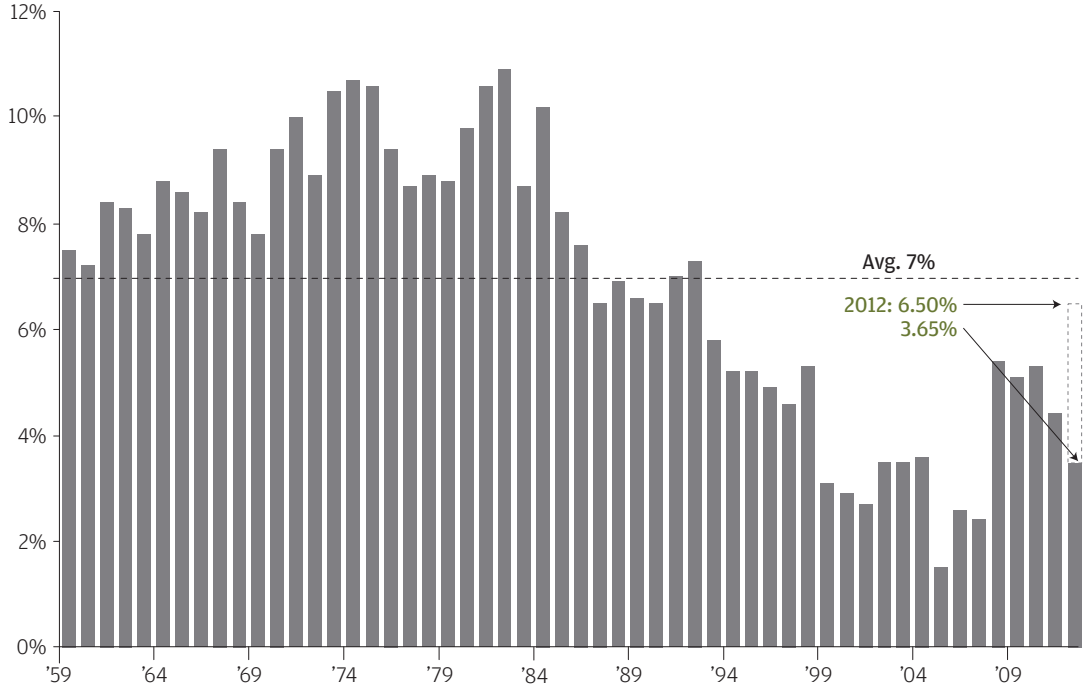
Saving fundamentals: Harnessing the power of compounding can greatly impact the amount of savings over the long term.

The above example is for illustrative purposes only and not indicative of any investment. Account value in this example assumes a 7% annual return.
Source: J.P. Morgan Asset Management.

Compounding refers to the process of earning return on principal plus the return that was earned earlier.

Savings rate

Personal savings rate
Annual, % of disposable income



Source: J.P. Morgan Asset Management, The Bureau of Economic Analysis. Personal savings rate is calculated as personal savings (after-tax income – personal outlays) divided by after-tax income. Employer and employee contributions to retirement funds are included in after-tax income but not in personal outlays, and thus are implicitly included in personal savings. Savings rate data as of December 31, 2012.

Remember retirement: Ongoing low savings rates could have negative effects on the retirement preparedness of Americans.

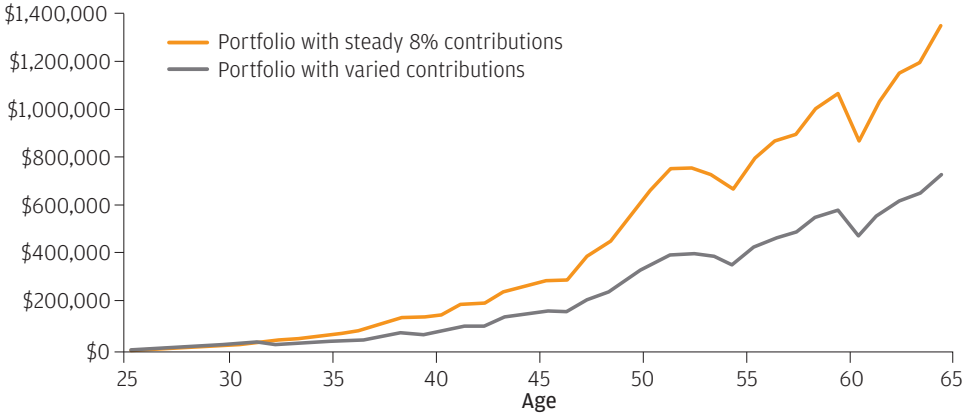
- As of January 23, 2013 the personal savings rate was reported as 3.65%. On January 31, this number was revised to 6.5% mostly due to an enormous increase in personal income as dividends and early bonuses were paid out before year end to avoid the tax increase.

RETIREMENT INSIGHTS

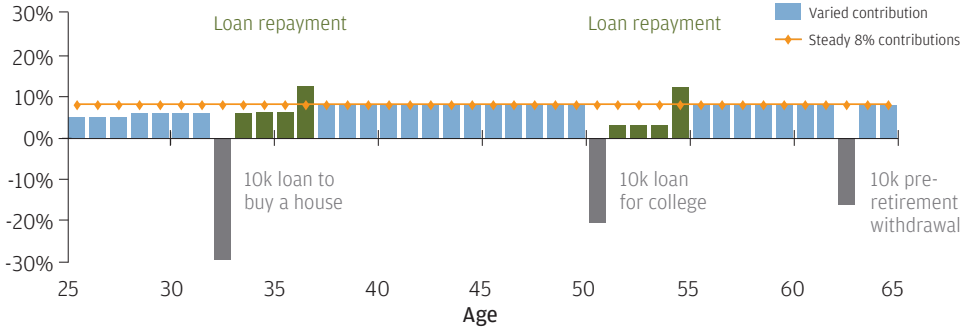
The toxic combination of varied savings and loans or withdrawals

Saving

Growth of a 401(k) investment



Assumed 401(k) contributions



Source: J.P. Morgan Asset Management. For illustrative purposes only. Hypothetical portfolio is assumed to be invested 40% in the Barclays Capital U.S. Aggregate Index and 60% in the S&P 500 Total Return index from 1973 – 2012. Starting salary of $30,000 increasing by 2% each year.

Avoid temptation:
Consistent saving can help you meet your retirement goals.

- Taking loans and early withdrawals from a 401(k) account can drastically impact your total savings.
- Investing with a steady contribution rate over time may ensure maximum growth potential.

J.P.Morgan
Asset Management