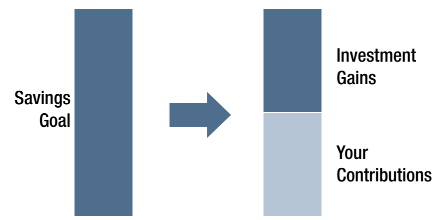
INVESTMENT
Basics

INVESTING OVERVIEW

Why We Invest

You're more likely to achieve your savings goal if you invest your money than if you hold it in a traditional bank account. By investing your contributions, you can expect to have more than just the dollars you set aside. These are known as your investment gains.



Investment Returns

Your money can be invested in a variety of assets. In other words, your invested funds are helping to back a specific industry, company or country and in exchange you're getting a share of the value of that industry, company or country.

Types of Asset Classes

An asset class is a group of investments that have common characteristics and are subject to the same laws. There are three major types of asset classes: cash, stocks, and bonds.

Cash: Cash is used when you are ready to spend your money and not looking for investment returns. It is a more stable investment typically with very little gain or loss.

Stocks: When a company needs money to expand or grow their business, they can sell **stock** to the public. Stocks always represent ownership. If they do well, your returns will be reflective of their success.

Bonds: When a company needs money to fund a project, rather than selling a portion of their business, they can ask for a loan. Instead of going to a bank (like you might do for a car), they ask the general public for money. When you buy a **bond**, you are lending money to a company that you will get back at the end of the bond duration. In return, you will receive regular interest payments throughout the lifetime of the bond.

Diversification

Diversification is a tool used to spread investment dollars among various asset classes to get the best of both worlds – higher returns from riskier stocks and stability from lower risk bonds. With diversification you can invest in a mixture of stocks and bonds. Having a diversified portfolio allows you to gain exposure to higher returns of stocks, while reducing your potential of losses through bonds.

To decide how much of each asset class you want, you must first determine how comfortable you are with risk. In other words, how much can you afford to lose?

Take our free Risk Tolerance Quiz in your myMERS account.

Investment Basics

MERS Municipal Employees' Retirement System

COST OF INVESTING

Types of Investment Costs

Whether you invest your savings in a retirement account, a bank or a brokerage account, there are costs that could come in the following types of charges:

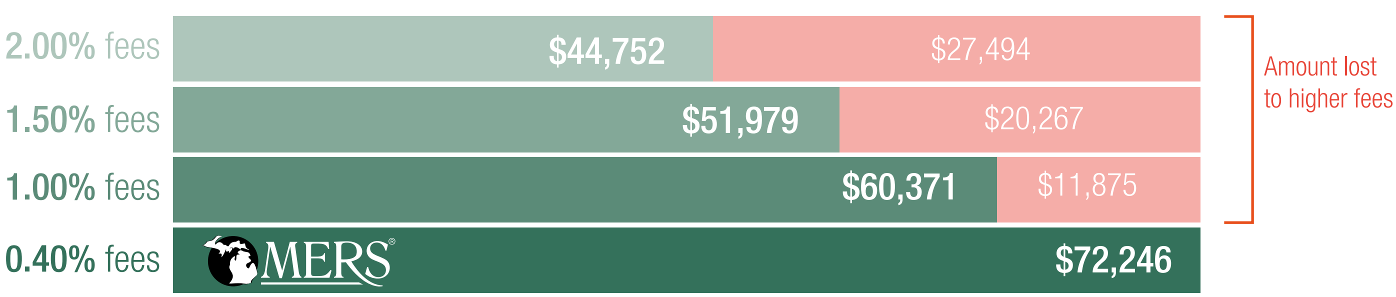
- **Administration Costs** cover the expenses companies incur providing statements, a call center, and educational seminars.
- **Investment Management Costs** are used to pay for the experts who select which investments are held in your fund.
- **Recordkeeping Costs** are used to establish an investment account, track the value of investments, and provide you with easy online access to evaluate and manage your investments at any time.
- **Transaction Costs** are used to pay for an exchange of one investment to another. Typically, investors may see these charges when they use a brokerage account where they select an individual stock or bond instead of using a fund.

How Costs Can Be Charged

- **Percentage of Assets Cost** may be charged. For example, if there is a 1% charge, someone with a $1,000 balance would pay $10 and someone with a $10,000 balance would pay $100. This fee varies based on your investment allocation.
- **Account Costs** are a regular flat dollar amount regardless of your account balance. MERS products do **not** have these fees.
- **Per-Service Costs** cover specific transactions and is charged as it is used. Some examples may include requesting a loan, splitting your account from a divorce, or buying and selling an investment in a brokerage account.

How Costs Can Impact Your Account Balance

Growth of $10,000 over 30 Years (After Fund Expenses)



This hypothetical example illustrates the effect fees can have on $10,000 growing for 30 years, at an **annual return of 7%**, before the different investment costs are considered.

SAVING FOR RETIREMENT – ARE YOU ON TRACK?

Adequate Savings Rate

To maintain your current standard of living, it is generally recommended that you have enough saved to spend **80%** of your pre-retirement income each year in retirement.

Additionally, couples on average should plan to spend at least **$15,000** per year on out-of-pocket health care expenses in retirement.