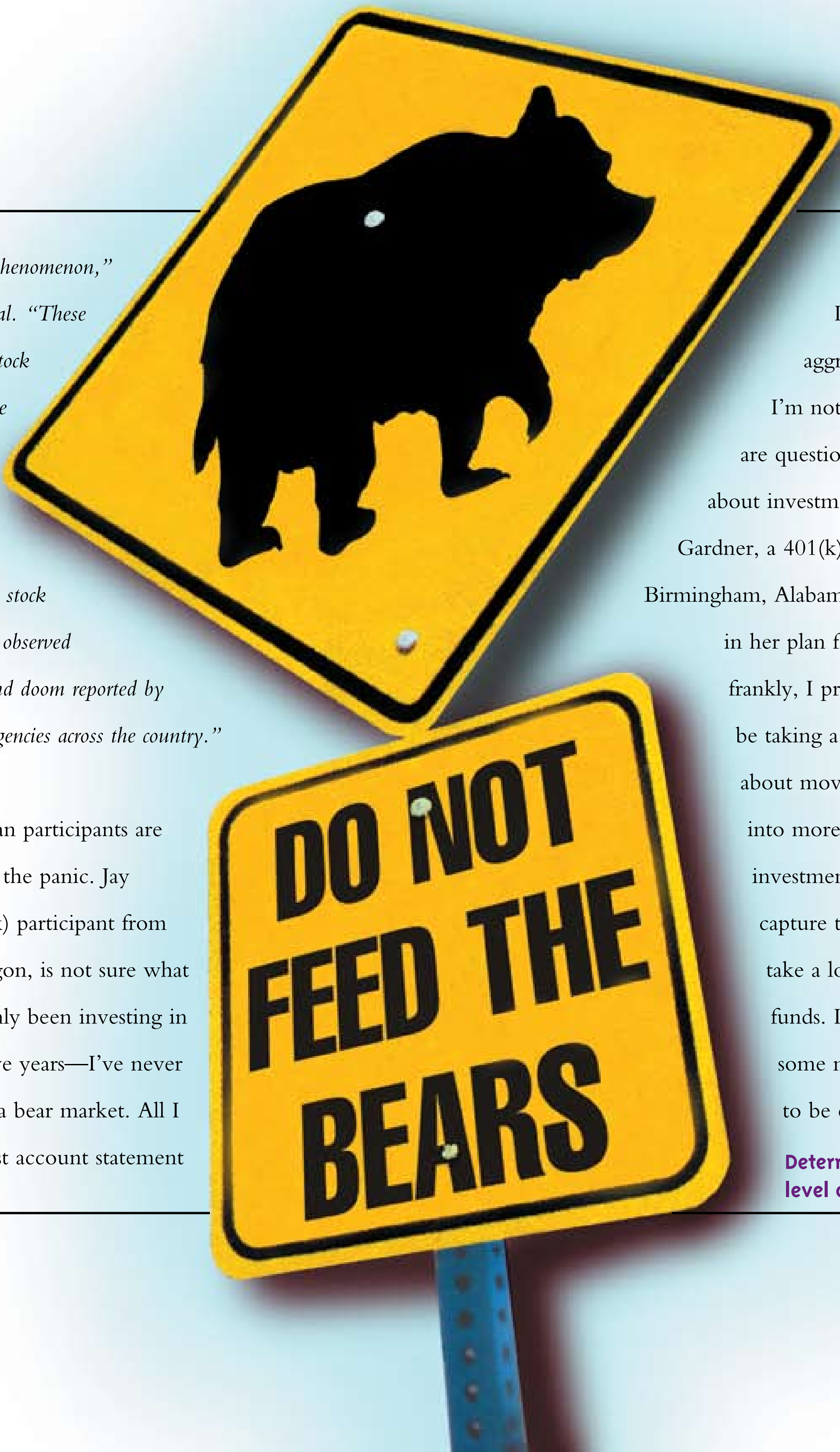
REINVENTING Retirement
YOUR RETIREMENT PLANNING NEWSLETTER
1st QUARTER 2001



"It's a strange phenomenon," reports one official. "These bears affect the stock market in strange ways. There can be long, drawn-out periods of falling stock prices. We have observed general gloom and doom reported by financial news agencies across the country."

Retirement plan participants are already feeling the panic. Jay Myers, a 401(k) participant from Portland, Oregon, is not sure what to do. "I've only been investing in my plan for five years—I've never even heard of a bear market. All I know is my last account statement kind of scared me. I thought I was an aggressive investor, now I'm not so sure." Others are questioning their feelings about investment risk. Colleen Gardner, a 401(k) participant from Birmingham, Alabama, has been investing in her plan for ten years. "Quite frankly, I prefer my bears to be taking a nap. I'm thinking about moving all my money into more conservative investments, until they capture this beast. Maybe I'll take a look at some bond funds. I might even shift some money into cash, just to be extra safe."

Determine your own comfort level on page 2

Are you feeling unsure about what to do? A downturn in the market causes many people to question their ability to handle investment risk. It's always a good idea to review your feelings toward investing on a regular basis. Answering the following questions can help you stay in touch with your long-term investment goals.

Bear Market Survival Tip

1. When you become aware that the stock market has dropped 10% or more, how do you react?

a) You become very, very stressed out. (5 points)
b) You give it some thought but try not to let it ruin your day. (3 points)
c) You don't even pay attention to it. (1 point)

2. Which of the following best represents your feelings toward losing money over a short period of time?

a) "It's the worst thing I can imagine." (5 points)
b) "I'm not happy about it, but I can live with it." (3 points)
c) "Not a problem. I'm in this for the long haul." (1 point)

3. What's most important to you regarding your retirement plan?

a) Protecting all of your hard-earned money (5 points)
b) Protecting most of your money, and taking on some risk with the rest (3 points)
c) Willing to take on greater overall risk for potentially higher returns (1 point)

4. When do you plan to retire?

a) Less than 10 years (5 points)
b) 10 to 20 years (3 points)
c) 20 or more years (1 point)

Score Yourself:

Based on how you answered each question, total up your points. Use the following as a guide to understanding what type of an investor you may be:

14-20 Points: Okay, so you're not all that fond of bears. Most likely, you're an investor who prefers safety and stability for your money—and that's fine! You may be more comfortable investing only a small portion of your retirement savings in riskier investments, such as stock funds. But remember: not having enough money when you retire is a big risk too! Keep in mind how much time you have until retirement and the effect that inflation may have on your investments.

8-13 Points: You're not crazy about bears, but you can live with them—up to a certain point. Most likely, you're an investor who prefers some balance between lower-risk investments and higher-risk investments. You may be more comfortable keeping no more than half of your retirement savings in riskier investments, such as stock funds. Keep reviewing your situation at least once a year to make sure you're still comfortable with how you're investing your money.

Less than 8 points: In the grand scheme of things, bears don't frighten you. You're an investor who understands that riding out downturns in the market is the price you pay for potentially higher returns. You may be comfortable investing the majority of your retirement savings in riskier investments, such as stock funds. Review your situation at least once a year, keeping in mind how much time you have until retirement.

The above noted questionnaire should only be used as a tool to evaluate your risk tolerance; there are many other considerations. It is not intended to offer any investment or financial advice. Please consult with your financial professional.

Feeding the 401(k) Plan

Born: **1981** *Age:* **20**

Number of 401(k) participants in 1984: **7,500,000**
Number of 401(k) participants today: **42,000,000**

Number of 401(k) plans in 1984: **17,303**
Number of plans today: **327,364**

Dow Jones Industrial Average at birth of the 401(k): **900**
Dow Jones Industrial Average at year-end 2000: **10,787**

Total assets in 401(k) plans today: **$1.83 trillion**

Source: Employee Benefits Research Institute, Dec 2000; CNNfn.com, Jan 2001

Getting the Monkey Off Your Back

These days, reducing your credit card debt may be your best investment

Psst. Hey, you! Over here. I'm talkin' to you. I'm in your wallet. I'm in your purse. I'm everywhere you want to be! Stock market got you down? I can make you feel better. You want to take me out and have a little spending spree? Come on, just one little purchase. Who's it gonna hurt?

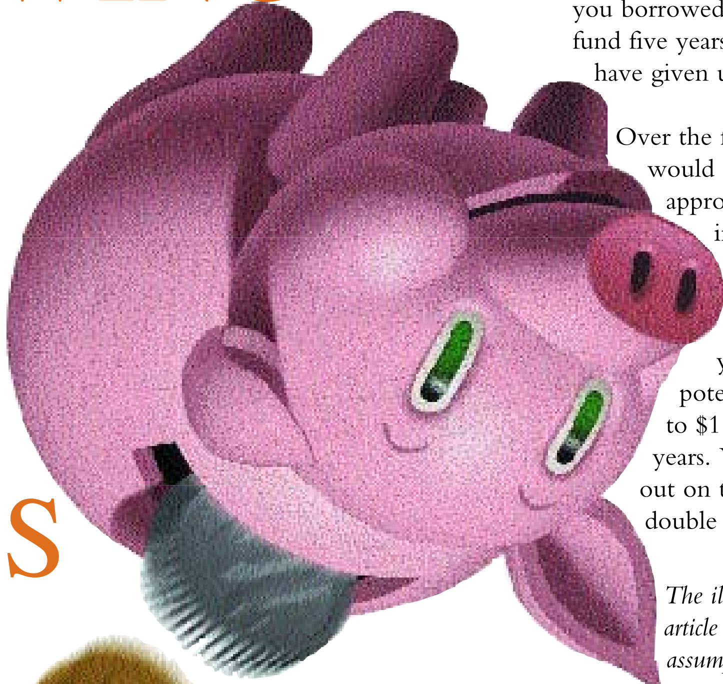
We all hear that voice from time to time. The temptation to take out the credit card again, even though you haven't come close to paying off the balance. But if the current market downturn has you concerned, here's an investment tip that's a real winner: Pay off the card!

Let's say you've got a credit card charging you 12 percent interest (and these days, that's pretty good!). Paying it off is like finding an investment with a guaranteed return of 12%! You would actually need to find an investment that was earning around 17%, to net 12% after paying taxes.* And the higher your tax bracket, the higher return you would need on your investments to justify keeping high-interest credit card debt.

And just think … no prospectus to read!

**Based on a tax rate of 28%.*

BORROWING FROM THE $AVINGS



Should you take a loan from your retirement plan?

Immediate cash available!
No credit check required!
No IRS penalties!
Convenient repayment plan!
Reasonable interest rates—paid to yourself!

Does this sound like a late night infomercial? Guess again. It just so happens that these are the typical advantages of borrowing money from a retirement account.

Many retirement plans allow employees to borrow money from their accounts, subject to certain limits. And depending on your plan's particular rules, you may be able to borrow money for any reason. If you've got a major home improvement project, an upcoming trip to Disney World, or any number of short-or medium-term cash needs, taking a loan from your retirement account can be tempting.

However, borrowing from your retirement future to satisfy today's financial needs may cost you more than you think. A closer look at the numbers can help you make a well informed decision.

The Borrowed Cost

A typical plan loan may charge the prime rate plus one or two percentage points—these days that's 10.5% or 11.5%. The interest you pay is actually to yourself and it goes right back into your account. In a way, it may seem that you are borrowing the money "for free." The reality is, the money in your account may be able to earn more if you leave it invested—even though you're paying yourself interest.

For example, suppose the money in your account is invested in a S&P 500 Index fund. During the past five years, the S&P 500 Index (a tracking index of 500 of the largest companies) has averaged more than 18%. If you had borrowed money from your account during this time, you would have missed out on all the potential growth! Even though you are paying interest to your account, the 18% would have been the real cost of your loan. And remember: The interest you pay is with after-tax dollars. When the interest goes back into your account, it will be taxed again when you withdraw it at retirement!

The Cost to Your Retirement Future

In general, most retirement plans have a five-year window for repaying loans. If you borrowed $5,000 from your stock fund five years ago, what would you have given up in tax-deferred growth?

Over the five-year period, you would have been paying approximately $1,964 in total interest on the $5,000 loan (That's $1,964 out of your own pocket!). If you had left the $5,000 in your S&P Index Fund, it potentially could have grown to $11,600 at the end of five years. You could have missed out on the chance to more than double your money!

The illustrations used in this article incorporate the following assumptions:

- *S&P 500 average total return was 18.33% from 1996 through 2000. (Source: Wall Street Journal)*
- *Loan interest calculations assume the current prime rate (8.5% as of 2/28/2001), plus one percent.*
- *Calculations are compounded annually.*
- *Past performance is no guarantee of future investment results.*

Borrower Beware

Keep in mind that if you leave your job for any reason, most plans require you to repay any outstanding loan balance within 30 to 90 days. If you can't pay the money back, your loan will be considered in default. The outstanding balance will be treated as a taxable withdrawal, subject to income taxes. In addition, if you are under age 59 1/2, you will be subject to the 10% IRS penalty for early withdrawals.

(Not all plans have a loan feature, check with your plan administrator.)

Retirement In Motion

A REGULAR SPOTLIGHT
FOR PARTICIPANTS APPROACHING RETIREMENT

DON'T DROP THE EGG!

"The *nest egg* is sacred!"
—Albert Brooks, actor-comedian, in the movie *Lost In America*.

As anyone approaching retirement knows, that stash of money you've saved in your company's retirement plan will be known as your *nest egg*. And whether you decide to retire early, late, or right on time, you will need to decide what to do with this hard-earned money. It's a major decision that can significantly affect your lifestyle during retirement.

Here is a general summary of your options:

Option 1: Leave your nest egg with your former employer
Subject to any eligibility requirements, you may be able to leave your money with your former employer. Your money can continue to grow tax-deferred in the investments that you have become familiar and comfortable with.

Option 2: Egg Roll
You can rollover, or transfer your nest egg from your current tax-qualified plan into an Individual Retirement Account (IRA).

Rolling over your nest egg dollars into an IRA allows your money to continue to grow tax-deferred until you begin taking withdrawals. You avoid current taxes and penalties for taking early withdrawal before age 59½.

IRAs offer a wide range of attractive investment options. In fact, many of the investment options you had in your former employer's plan may be available to you through an IRA. You can set up an IRA at any financial institution, such as a bank or brokerage firm. Once you initiate the process, the money is rolled directly from your former employer's plan to the financial institution you have chosen.

Option 3: Take the nest egg and run
Tempting, but very costly. All cash distributions are automatically subject to 20% tax withholding, even if you roll over your funds to an IRA within 60 days. Amounts withheld are credited against taxes you will owe on the distribution. In addition, you may owe state and local taxes on the distribution. Looking at it another way, in only one day you immediately lose the entire accumulation of tax-deferred growth that you have been enjoying over the many, many years that you have been saving. Please note: depending on your situation, if you take a cash distribution prior to age 59½, you may be subject to an additional 10% tax penalty on the distribution.

Please be sure to consult both your plan administrator and a financial representative prior to making any decisions.