REINVENTING Retirement

YOUR RETIREMENT PLANNING NEWSLETTER

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TAKING STOCK IN THE FUTURE

Stock funds can play an important role in a long-term savings strategy

Here's some positive market news: despite the recent ups and downs of the stock market, the majority of plan participants appear to be staying the course with their chosen asset allocation for their retirement assets. Hewitt Associates, a consulting firm that tracks 401(k) money transfer activity, recently reported that most investors are sticking with a long-term investment stock strategy.

When compared to bond funds or money market funds, stock funds may offer potentially higher returns over the long term—but not without taking on a significantly higher level of investment risk. Still, many people continue to make stock funds a key component of their overall retirement savings strategy. What is it about stock funds that inspires such loyalty?

Professional management

Who among us has the time, resources or experience to evaluate stock investment opportunities on a daily basis? As a stock fund shareholder, you are relieved of the day-to-day tasks involved in the researching, buying and selling of stocks. The professional money managers sweat the details of when to buy or sell investments for the fund.

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Freedom of choice

Professionally managed stock funds can offer you a variety of investment objectives to best match your own financial goals, risk tolerance and time horizon. There are several general types of stock funds. Some stress growth, some income, and some a combination of the two. Every time you contribute money to a stock fund, you increase your shares of ownership in a fund that invests in a variety of companies which potentially fit that fund's objective. Money may be invested in several companies depending on a combination of factors, such as the company's size, earnings history, length of time it has been in business, type of product or service, specific industry and geographical location. It would be very expensive for you to invest in the stock of all these companies on an individual basis. Stock funds make it possible by pooling your money with that of other investors who have similar investment objectives.

Investing in a stock fund requires careful consideration of your tolerance for risk, time horizon and overall financial goals.

Diversification for your retirement savings dollars

Because the fund spreads its investments across a variety of companies, it could potentially lower the impact if one company does not perform well in a given year. To see this diversification in action, you can review the most recent fund profile for your stock fund(s) (check with your plan administrator). A typical fund profile will give you an idea of the kinds of companies that the fund manager is currently investing in.

A potential defense against inflation risk

By putting money into a stock fund, you can potentially offset the loss of purchasing power over the long term due to inflation. In fact, from January of 1927 through December of 2000, stocks in general have historically delivered an average annual return of about 11 percent, while inflation has averaged 3.1 percent.

Source: *Ibbotson; Index Funds Advisors, Inc.*

Speaking of inflation, here's a brief perspective on the rising cost of life's little necessities:

Inflation Unplugged

Item	1970	Cost Today	Projected Cost in 2030
Postage stamp	$.08	$ .34	$ .80
Cup of coffee	$.17	$ .75	$1.82
Gallon of gas	$.34	$1.50	$3.64
Cheeseburger Happy Meal®	$.56	$2.50	$6.07
Movie ticket	$1.69	$7.50	$18.20
Mid-priced car	$3,614.00	$16,000.00	$38,836.00

Sources: *1970 prices are based on the historical Consumer Price Index (U.S. city averages) updated through 12/5/2000. Today's prices are based on general averages. Projections for 2030 prices assume a 3 percent annual inflation rate.*

AVERAGE

Dollar cost average your way through the ups and downs

Dollar cost averaging is a fancy phrase that simply means investing the same amount of money on a regular basis, regardless of the fluctuating market value of your investments. Dollar cost averaging is a great long-term investing strategy because you don't have to guess whether the stock market is going up or down—you just continuously add to your account every pay period, regardless of fluctuating prices.

Your ability to recognize positive opportunities in a "down" market can go a long way in helping you reach your retirement goals. Staying the course with your chosen stock fund while share prices are lower allows you to buy more shares than when share prices are higher. And the more fund shares you can buy during your working years equals more shares available to sell for retirement income later. With the benefit of tax-deferred compounding and time, those shares you're buying today have the potential to be worth significantly more at retirement.

Keep in mind that dollar cost averaging does not assure a profit and does not protect against loss in declining markets; and you have to consider your financial ability to continue purchasing when prices are down. But it can certainly up the odds in your favor, provided your overall investment strategy fits your personal financial situation, goals, time horizon and appetite for risk. It's a smart and easy strategy to follow—particularly if you're in for the long term.

HISTORY

Making history

Past performance is no guarantee of the future—but it can add perspective to your retirement savings strategy.

Whether you're just starting to save in your 401(k) plan or you've been a loyal contributor for many years, one thing is certain: Investing for retirement is a long-term proposition. Keeping history in perspective can help you cope with the inevitable ups and downs of the market over the long haul. The important thing to remember is to start saving as much as you can as early as you can!

Big Picture Perspective

From January 1927 through December 2000:

- The stock market delivered an average annual return of about 11 percent.
- Bonds delivered an average annual return of about 5 percent.
- Cash equivalents delivered average annual return of about 4 percent.
- Inflation averaged 3.1% a year.
- And don't forget the not-so-long-ago 1990s, which offered investors an average annual return of 17.9 percent on equities.

Sources: *Index Funds Advisors, Inc.; Ibbotson; Economic History Services; Kmotion Research*

Summer Savings Camp

Add sizzle to your retirement savings strategy by increasing your contribution!

Summer is here and that means barbecues, lots of outdoor recreation and perhaps a vacation. Why not take advantage of your sunny mood and give some serious thought to increasing your current retirement plan contribution? Just look at the potential benefits of an increase:

Savings Temperatures on the Rise

	Amount of Monthly Increase			
Growth Potential	$25	$50	$75	$100
After 10 Years	$4,604	$9,208	$13,812	$18,416
After 20 Years	$14,824	$29,648	$44,472	$59,296
After 30 Years	$37,507	$75,014	$112,521	$150,028

Assumes an average annual rate of return of 8 percent (compounded monthly) in a tax-deferred account. This is a what-if scenario and is not based on (or predicting the performance of) any specific investment or savings strategy. Most 401(k) investments will move up and down with the market over time, producing better or worse actual returns for you. Your returns are not guaranteed.

Out of sight, out of mind

By contributing money automatically out of your paycheck each month, you're already "paying yourself first." This is one of the great rules of saving—what you don't see, you don't miss! And if you're not missing the money now, it's very likely that another 1 or even 2 percent won't be missed either. You can ease into it—for example, if things are tight, think about increasing your contribution by 1 percent every six months. And if you receive a raise, consider increasing your contribution as well.

End-of-summer blast

Make a personal goal to increase your contribution by 1 percent of your pay before Labor Day!

Enter your annual salary: ____________

Multiply by 1% (.01): ____________

Divide by 12: ____________

= extra dollars you need each month

Sunny savings ideas

- Buy used gardening tools instead of new.
- Buy used books and CDs for summer vacation enjoyment.
- Learn how to do your own basic landscaping projects.
- Take a camping vacation instead of an expensive trip.
- Have a yard sale.
- Drop the health club membership and exercise outside this summer.
- Brown-bag it to work (this one should be worth about $80 a month all by itself!).
- Walk or bike to work when possible.
- More picnics, fewer dinners out.
- Drink more water in the summer—stay away from the soda machine at work.
- Beat the heat at an air-conditioned movie matinee—during economy hours.

Percentage of workers who are currently saving who say they could save another $20 per week: 69%

Percentage of current savers who say they would not have to give up anything to do so: 19%

Source: *Employee Benefit Research Institute, Retirement Confidence Survey 2000*

Retirement In Motion

A REGULAR SPOTLIGHT
FOR PARTICIPANTS APPROACHING RETIREMENT

Checkbook challenge

"The greatest financial pleasure in retirement is telling your children how much you enjoy spending their inheritance."

—**Jonathan Pond,** financial advisor and author of the book *Your Money Matters*

Have you given any thought to what your monthly budget will look like during retirement? Many people adopt a "wait and see" or "crossing that bridge when we come to it" approach.

The simple worksheet below can help you develop a starting point to budget your hard-earned and hard-saved nest egg dollars. What's the catch? Well, you'll need a calculator, a pencil and your checkbook register! Simply record what you currently spend. Most experts say that you'll need 70% of your current spending while in retirement. See what that comes out to below.

Category	Current Monthly Spending $	Retirement Monthly Spending $
Food		
Housing		
Utilities		
Clothing		
Transportation		
Health		
Entertainment		
Misc.		
Insurance		
Taxes		
TOTAL:		

Today's average retired couple spends the following per month:	
Food	$287
Housing	$409
Utilities	$202
Clothing	$48
Transportation	$352
Health	$426
Entertainment/Misc.	$374
Insurance	$67
Taxes	$89
TOTAL	**$2,254**

Sources: *U.S. News and World Report (6/5/2000); U.S. Department of Labor Consumer Expenditure Survey, 1998.*

The subject matter in this article is presented only as a general and very basic exercise for use in retirement planning and does not address the effects of inflation, which has historically averaged 3.1 percent per year, or your life expectancy. Please consider consulting a financial advisor or financial planner when planning for your long-term needs during retirement.

Coming next quarter:

What's the best approach for managing your income, expenses and other financial affairs during retirement? Perhaps you can benefit from the help of a financial planner. In next quarter's newsletter, we will briefly explore the world of financial planners—what they do, how to choose one, questions to ask and other helpful resources.