REINVENTING Retirement
YOUR RETIREMENT PLANNING NEWSLETTER
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Spring Forward

Set your retirement clock ahead to help plan for your financial future

Spring forward. Each April, we renew our ritual of setting the clocks ahead one hour. Why not take some time now to set your retirement clock ahead—just temporarily—to catch a glimpse of the future? We'll take a brief look at what your income needs may be during retirement and where the money will come from. By setting your retirement clock ahead now, you can get a clear idea of how important your 401(k) savings will be in meeting your financial needs after you stop working.

Become Familiar With Your Bottom Line

First of all, just how much income will you need in retirement? Many experts suggest you will need 75-85% of your working income to live comfortably. Depending on your own personal situation, you may need more or less than this. Some of the major expense categories to consider during retirement include:

- Mortgage or rent payments
- Travel and entertainment
- Debt payments (credit cards, loans, etc.)
- Out of pocket medical expenses (including health, dental, and long-term care insurance premiums)
- Educational expenses (for children, grandchildren, yourself, or your spouse)
- Expenses to care for aging parents or relatives

For example, if you plan on having your home mortgage paid off by the time you retire, you may need less income during retirement than you did during your working years. If you plan to travel the world in style six months out of the year, you may need more!

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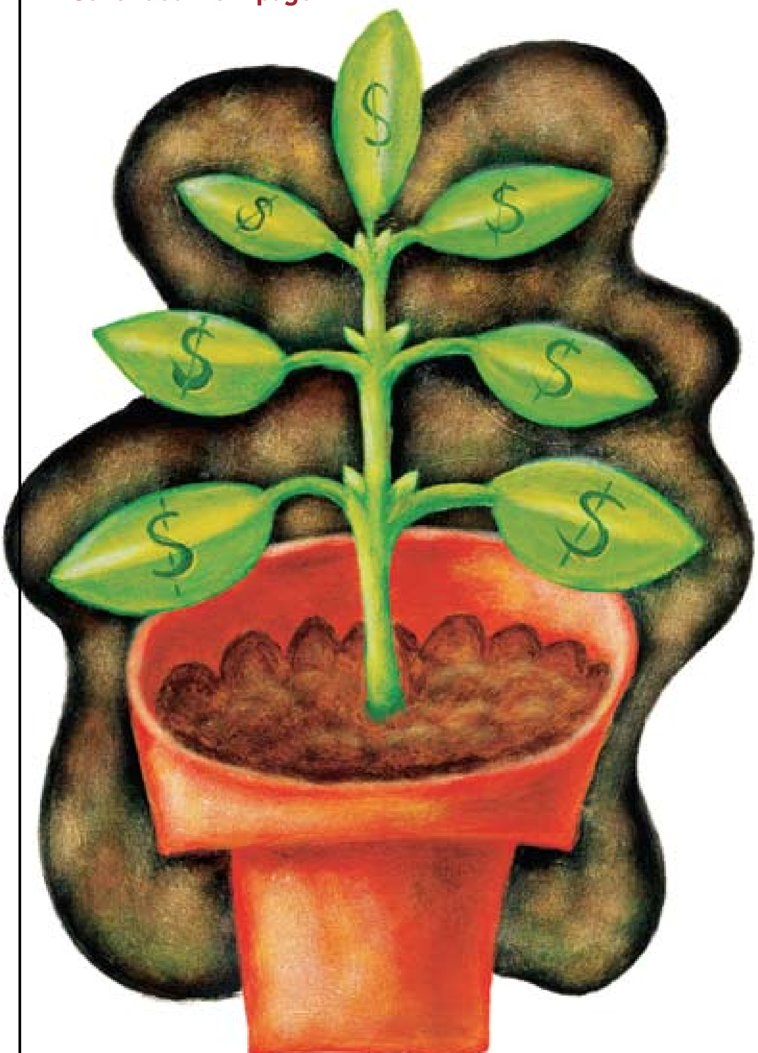

Use the following worksheet to make a general estimate of your retirement income needs:

A. Enter your current annual pay here: $______________

B. Enter the percentage of your current pay that you think you might need in retirement here: ______________%

(Example: enter .80 for 80%; your own estimate may be lower or higher than 75-85%)

C. Multiply A by B and enter the result here: $______________

(Example: $30,000 times .80 equals $24,000)

Get Your Due From Social Security

Now, let's take a quick look at how much you might expect in Social Security benefits. Match up the age and the current pay that are closest to your own. The point where they intersect is a general estimate of the annual amount you may receive from Social Security at full retirement age. Circle this amount.

Example: A person age 35 earning $40,000 can expect $16,836 in annual benefits during retirement; note that this would only replace 42% of his or her annual pay before retirement!

Current Annual Pay	Current Age 25	35	45	55
$20,000	$10,512	$10,476	$10,296	$10,128
$30,000	$13,716	$13,656	$13,380	$13,140
$40,000	$16,908	$16,836	$16,476	$16,512
$50,000	$18,888	$18,840	$18,636	$18,444
$70,000	$21,888	$21,828	$21,528	$21,228
$100,000	$24,132	$24,072	$23,724	$23,100

Source: Social Security Administration. The accuracy of these estimates depends on the pattern of your actual past and future earnings. Your actual benefit may be higher since these estimates are not adjusted for inflation. The ability of Social Security to maintain these same benefit levels in the future is uncertain.

If the number you circled seems low, remember that Social Security is intended to provide only a minimum level of retirement income to go toward covering the basic necessities: food, shelter, and clothing. It was never intended to be your only source of retirement income. The rest will be up to you!

Putting the Numbers Together

D. Enter the income needs amount you noted earlier in section C: $______________

E. Now, enter the Social Security amount you circled from the chart above: $ ______________

F. Subtract E from D to get your total: $ ______________

The total you figured is known as your retirement income gap. Your gap is the difference between what you expect to have and the amount that you will actually need for a comfortable retirement. Most people will need to rely on their personal savings to make up the gap. A big component of that will be your 401(k) savings!

As you "fall back" to present time, make a mental note to set your retirement clock ahead from time to time. It can help remind you of the important role your 401(k) will play in your financial future! Read on for a little more perspective on how your 401(k) can help you manage your retirement income gap.

This information is provided to you for general information and education purposes only. It is intended to be used as only one of many tools to assist you with determining your retirement income needs.

All For 1%

Make a Commitment to Increase Your 401(k) Contribution on a Regular Basis

What's the best way to manage your retirement income gap? That's simple. Start early and save as much as you can through your 401(k). How much are you currently contributing to your Plan? Unless you're contributing the annual maximum allowable by either the IRS (currently $11,000 for 2002), or by your plan, managing your gap also means a commitment to increase your 401(k) contribution regularly. After all, it can increase your chances of having enough income to support the lifestyle in retirement that you envision for yourself.

The following chart will give you an idea of what increasing your contribution just 1% can mean over the long term:

Annual Pay	Save This Much More Each Month (1% of Pay)	Have This Much More in Retirement*
$25,000	$20.83	$31,251
$30,000	$25.00	$37,507
$35,000	$29.17	$43,764
$40,000	$33.33	$50,005
$50,000	$41.67	$62,517

** Based on a hypothetical 8% annual rate of return (compounded monthly) for 30 years. This illustration assumes regular monthly contributions to a tax-deferred retirement plan. This illustration 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. Withdrawals made prior to age 59½ may incur a 10% IRS penalty.*

But Why Stop There?

Challenge yourself to do better than 1%. After all, Social Security benefits probably won't take you as far as you want to go in retirement. Here are a few suggestions on how you can save more:

- Save part of any raises you receive. A pay increase isn't just more money to live on—it's also a chance to increase money you put away for your future.
- Pay yourself after debt payments end. If you pay off a car loan or credit card account, keep making the same payment—to yourself. Redirect the money to your 401(k) account.
- Use money you avoid spending. Suppose you find a lower cost apartment, save money on auto insurance or finish paying off your child's college education. Any time you reduce a major expense, think about contributing part of the extra cash to your 401(k).

Thinking Cap

Market Capitalization Can Add a Measure of Diversification to Your Investment Strategy

Another way to manage your retirement income gap is through your investment strategy. Depending on your tolerance for higher risk, years to retirement, and financial goals, you may want to consider some growth-type investments (such as stock mutual funds) in your portfolio.

Stock funds are sometimes identified as large-cap, mid-cap, or small-cap. That's because these funds are designed to invest in companies of different sizes, as measured by their market capitalizations, or market caps. Market cap measures a company's size by multiplying the number of shares outstanding by the stock's price.

For example, if a company has 10,000,000 shares outstanding and a price of $50 per share, the company's market cap is equal to $500,000,000.

Understanding how "cap" investing works can play an important role in creating a well-diversified investment plan to help manage your retirement income gap! Here's an overview of the three market cap categories:

Large-Cap

Over $9 Billion
Large-cap companies, such as General Electric, Ford, and IBM, are well established and generally pay steady shareholder dividends. Their vast size and maturity typically make them less responsive to market conditions and slower growing; however, their stability typically can make them well positioned to weather inevitable economic downturns and the resulting market volatility.

Mid-Cap

$1.4 Billion to $9 Billion
Mid-cap companies are generally established yet innovative and responsive companies with the potential for continued, healthy earnings growth. Their larger capitalization base tends to make them less risky than smaller-cap stocks, though typically with slightly lower long-term historical returns.

Small-Cap

Less than $1.4 billion
Small-cap companies have the potential for rapid acceleration in earnings and growth. However, small-cap investing entails special risks. These stocks tend to be more volatile and drop more in down markets than large-cap stocks. This may happen because small companies may be limited in term of product. Many small-cap companies effectively respond to market changes, but they may also have difficulty weathering economic downturns.

Source: Morningstar, as cited in Money Magazine, Fall 2001 Special Report.

Retirement In Motion

**A REGULAR SPOTLIGHT
FOR PARTICIPANTS APPROACHING RETIREMENT**

Prime Time

"The New Face of Retirement," a 1999 national survey of Americans ages 50-75, found that only 28% of Americans in this age group view retirement in the old terms—as a time to take it easy and focus on recreation. Instead, 65% want to stay active, take on new challenges and begin a new chapter in life. This makes a lot of sense. After all, with a little help from your 401(k) savings, you will hopefully have the financial freedom to reinvent yourself, maybe even more than once!

What will it be for you? Antique dealer? Fishing guide? Travel agent? Small business owner? For many, retirement will offer the chance to get paid for doing something you've always wanted to do but never had the time, right circumstances, or financial resources.

If you are considering working past your full retirement age, you may also want to consider postponing your receipt of Social Security benefits (if you can afford it). By doing so, you could actually increase the amount you will receive when you do apply for your benefits. Here's how:

- Each additional year you work adds another year of earnings to your Social Security record. Higher lifetime earnings may result in higher benefits when you really retire.
- For each year that you delay taking your full benefit, the benefit is increased by a certain percentage:

Year of Birth	Yearly Rate of Increase
1935-36	6.0%
1937-38	6.5%
1939-40	7.0%
1941-42	7.5%
1943 or later	8.0%

Source: Social Security Administration (www.ssa.gov). You should consult with a financial advisor regarding your own personal situation.

Depending on the year you were born and your earnings history, working even just one extra year could add anywhere from $100-$200 per month in additional Social Security benefits when you begin taking them.

For many others, retirement will offer a chance to fully explore meaningful volunteer opportunities. The Experience Corps, for example, is a national program mobilizing older Americans on behalf of children and schools. Operating in 18 cities across the country, its volunteers dedicate 15 hours a week or more to mentoring children, getting more parents involved in schools, and helping build support for public education.

If you're interested in exploring volunteer opportunities during retirement, the following groups can help:

- **The AARP Volunteer Center**
  202-434-3200
  Email them at volunteer@aarp.org
- **Big Brothers Big Sisters of America**
  215-567-7000
  www.bbbsa.org
- **Experience Corps**
  415-430-0140
  www.experiencecorps.org
- **Peace Corps**
  800-424-8580
  www.peacecorps.gov
- **RSVP—Retired and Senior Volunteer Program**
  202-606-5000
  www.cns.gov/senior
- **SCORE—Service Corps of Retired Executives**
  800-634-0245
  www.score.org

Kmotion, Inc., P.O. Box 6798, Portland, OR 97208; (503) 225-9600; www.kmotion.com