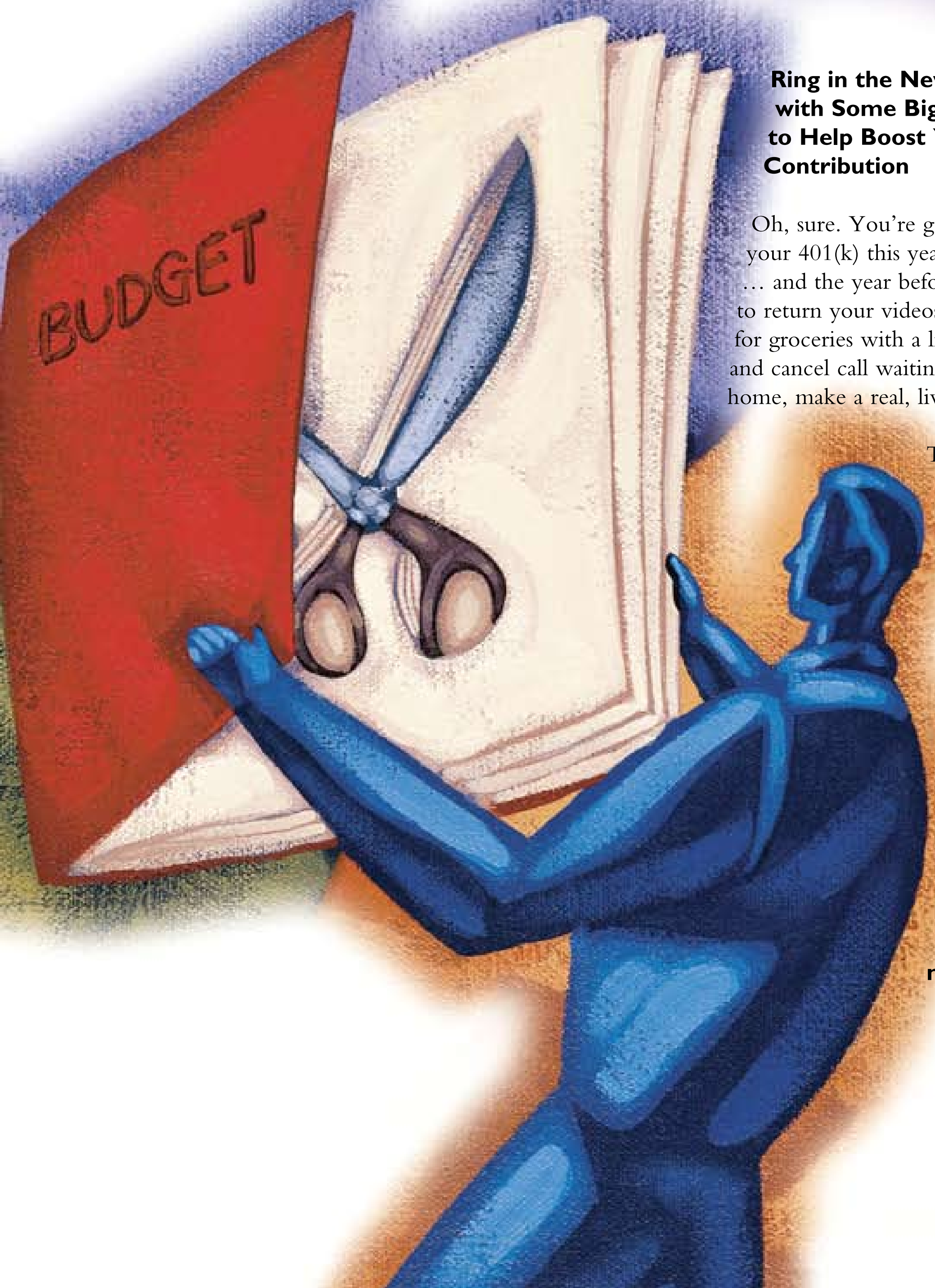
REINVENTING Retirement
YOUR RETIREMENT PLANNING NEWSLETTER
4th QUARTER 2002

# Radical Resolutions




**Ring in the New Saving Year with Some Big and Bold Ideas to Help Boost Your 401(k) Contribution**

**Many financial planners strongly advocate saving at least 10% of your pay toward retirement. What level are you currently at?**

Oh, sure. You're going to save more in your 401(k) this year. Just like last year … and the year before that. You're going to return your videos on time and shop for groceries with a list. You're going to brown bag it to work and cancel call waiting. You're going to leave the ATM card at home, make a real, live budget … and stick to it!

This year, why not think **BIG**? Maybe it's time for something **DRASTIC**. Maybe it's time to make some **RADICAL SAVINGS RESOLUTIONS**! *After all, it's a sure-fire way to sieze back some retirement planning momentum considering the state of the financial markets recently.*

## Jump Start Your 2003 Savings Resolutions

First, some brief words of warning: The ideas that follow represent potential savings of over **$10,000** a year (after all, these are radical ideas!). These ideas will certainly take some **work and commitment** on your part—and a willingness to **shake things up a bit**. You will need an **open mind** and (most importantly) an **open heart**.

**Just say "eBay."** Over the years, how many of us bought a Juiceman®, a bread-making machine, or one of those exercise contraptions that folds away neatly under your bed (and stays there)? Whether it's in the basement, attic, or garage, chances are you've got enough to put on an auction (or at least a huge garage sale). Cast a critical eye on the stuff way in the back of your closets and cabinets. If you haven't used it in six months, chances are you can do without it. Most people could probably come up with at least $1,000 worth of items to sell.

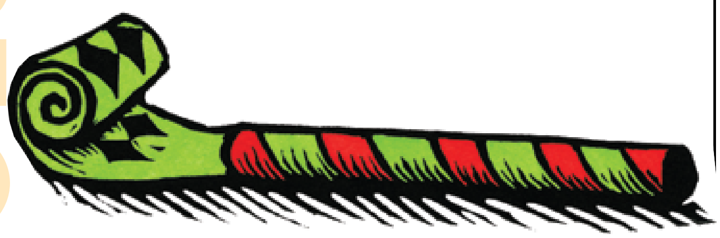
**Take a slice out of vice.** Whether it's a pack of cigarettes or a double eggnog latte, our daily vices can put a real drain on our cash flow. If you smoke and decide to quit, that's about $5 a day saved—or about $1,800 per year that can go into your 401(k) account instead. Not to mention what it saves you on insurance and health care! And foregoing that daily dose of fancy caffeine can save over $400 a year.

**Become a homebody.** At just over $720 a year on average, the average consumer's entertainment spending can quickly eat through most budgets. Consider the library for books, music, and movies. Also, consider eating out less often. The average person spent about $840 a year eating out in 2000. Try cutting your spending in half on both these areas for annual savings of $780.

**Go on border patrol.** If you've got an extra room in your home, consider renting it out to someone (a student, for example, if you live near a college or university). The average housing costs per person in 2000 were just over $12,300. In metropolitan areas such as Seattle, rooms easily go for $400 a month. Figure about $20 of that goes to increases in utility costs, and you're still looking at potential annual savings of $4,560 before any income taxes.

**Put some Formula 401 in your tank.** In other words, carpool or use public transportation. This saves on gas, insurance, and maintenance costs. To get an estimate of how much your daily commute to work is costing you, you can use the IRS's 2002 mileage reimbursement rate of 36.5 cents per mile. Let's say that you have a 25-mile round-trip commute for 50 weeks a year. That's $2,281. You could save $1,141 a year by driving just half the time.

**Clip and save.** If you're like the average American with at least one credit card, you probably have close to $8,419 in credit card debt. At an average APR of 14.4% it could cost you over $1,000 a year in interest alone. So be bold and cut up your credit cards—and commit to a fast-track schedule for paying them off. Go to www.bankrate.com/msn/calc/creditcardpay.asp to access a calculator that can help you set up a payment schedule.



## The Bottom Line

All of these ideas can help you find the money to increase your contribution. And maybe you've even implemented a few of them. For most of us, however, time keeps on ticking away—but our contribution rate never seems to shift into high gear. If just a few of these ideas click for you, it could all be very worthwhile!

*Sources: Kmotion Research; U.S. Bureau of Labor Statistics Consumer Expenditure Survey (Published December 2001); CardWeb.com (June 30, 2002).*

# IN THE (k)NOW

## Recharge Your Knowledge of Your 401(k) with this Short Quiz

**1.** What is the maximum pretax dollar contribution you can make to your 401(k) plan during 2003?
a) $10,000
b) $11,000
c) $12,000

**2.** If you are over age 50, how much in additional pretax dollar contributions can you make to your 401(k) plan in 2003?
a) $500
b) $1,000
c) $2,000

**3.** When it comes to the power of compounding, which of the following is most important?
a) The rate of return
b) The amount of time you are invested
c) The amount of money you have invested

**4.** True or False: Your 401(k) contributions lower your income taxes.

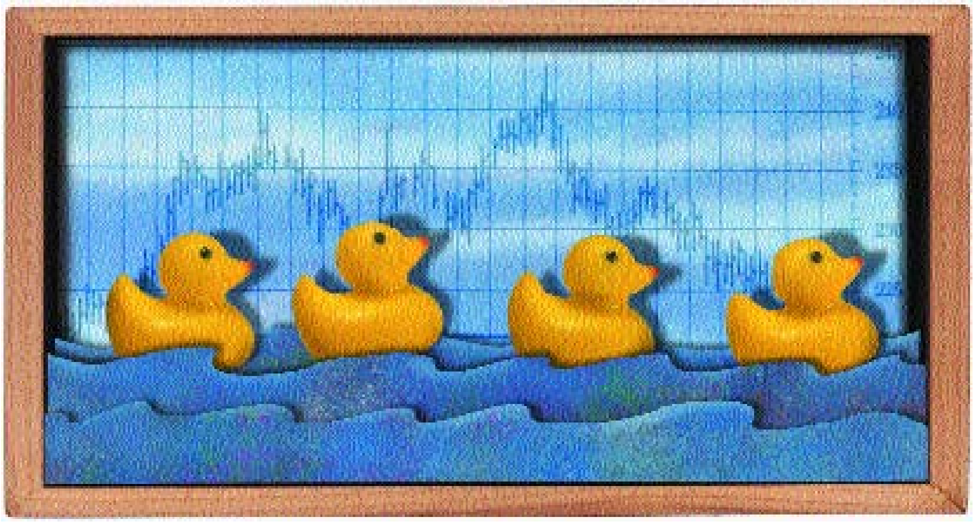
**5.** True or False: The majority of your retirement income needs will be met by Social Security benefits.

**Answers:**

1. c ($1,000 increase from 2002)
2. c ($1,000 increase from 2002)
3. b. Start a 401(k) savings plan or increase your contribution as early as possible!
4. True. Contributions to your 401(k) reduce your income taxes because the amount you contribute isn't reported as income on your W-2 form to the IRS.
5. False. On average, Social Security will only replace around 40% of a person's preretirement income. The majority of your retirement income will come from personal savings, such as your 401(k).

# REGULAR INVESTING

## Helps Absorb Market Shocks



At the heart of every bumpy stock market period lies potential opportunity for patient, risk-tolerant investors. Called dollar-cost averaging, the more volatile the market, the better dollar-cost averaging works. It can help investors overcome the volatility of the market and sometimes even profit from the market's roller coaster periods. And happily, dollar-cost averaging is a built-in aspect of your retirement savings plan.

### It's about shares

Many people don't realize that when they buy into mutual funds, they are buying shares of ownership. In the same way that a farmer's wealth might be expressed in acres of land owned, your retirement plan wealth is represented by the number of shares you own (times the price of each share). All else being equal, owning more fund shares is better. One way to wind up owning more shares is to take advantage of share price declines (bad markets).

### Dollar-cost averaging makes a smoother ride

Dollar-cost averaging simply means that a person invests a fixed dollar amount on a regular basis over time, such as your automatic contribution to your 401(k). With stock prices moving unpredictably, chances are that next payday when you make your 401(k) contribution, prices may be down. Therefore, your contribution may be able to buy more shares when the market dives and mutual fund share prices fall. In that moment you'll be enjoying the potential benefits of dollar-cost averaging. When you invest the same amount at regular intervals, you automatically buy more shares when prices are low, and when prices are up, you buy slightly fewer of those "expensive" shares. Over time, the greater the market's volatility, your avarage cost per share tends to be lower.

*Patient investors who hold tight and continue to invest regularly should have more shares.*

### Buy your shares on sale

In fact, the more volatile the market and the more extreme the price fluctuations, the more you may benefit in the long run from dollar-cost averaging. It may sound crazy at first, but the more often prices make large shifts, the more frequently you will have the opportunity to buy at low prices. And with dollar-cost averaging, you avoid trying to time the market (a risky practice). You can avoid the worry of how to avoid a market correction, and reduce the risk that you'll invest all your money right before a market downturn.

### Sit back and relax

As a long-term investor, it's smart not to get too anxious when the value of your funds drop over a few months' time. In fact, looking back in history, some bad markets last for years. But eventually all market cycles end, bad ones too. When fund values begin to climb again, as they historically have over time, the patient investor who held tight and continued to invest regularly may have more shares (thanks to low prices for awhile and dollar-cost averaging) to enjoy the market's next push upward. So the next time you hear that the markets fell, or the Dow is down, remember dollar-cost averaging. Your next 401(k) contribution will be scooping up more shares for your retirement account.

*Keep in mind that dollar-cost averaging can't guarantee a profit or protect against a loss in a declining market. Be sure you feel comfortable investing under all market conditions.*

# Retirement in Motion

**A REGULAR SPOTLIGHT**
**FOR PARTICIPANTS APPROACHING RETIREMENT**

## IRAs – Allow You to Save More for Retirement

It's that time of year again, tax season. As you know, contributing to your 401(k) is an excellent way to save for your future and at the same time limit the amount you pay this year in taxes.

What you may not know is that you (and your spouse) may be able to save even more for retirement and enjoy additional tax advantages by contributing to an OppenheimerFunds IRA or Roth IRA — even while you are active in your employer's retirement plan.

In a Traditional IRA, your contributions can grow tax-deferred and, for many people, are tax-deductible, depending on your adjusted gross income. You pay taxes when you withdraw your money in retirement. Tax-deferral allows your money to grow faster than it would if it were taxed each year. In a Roth IRA, your contributions can grow tax-deferred but they are not tax-deductible. However, there are no taxes due when you withdraw your money in retirement.

**You have until April 15, 2003 to make your IRA contribution for 2002.**

You and your spouse's eligibility to contribute to IRAs and deduct them from your taxes depends upon your income and tax-filing status. For more information about your eligibility, you can review the charts, talk with your financial advisor.

**Traditional IRA Deductibility Schedule for the 2002 Tax Year**

| If your filing status is: | And your Modified Adjusted Gross Income* is: | Then your allowable IRA Deduction is: |
|---|---|---|
| Single | Up to $30,999 | Full amount |
| | $31,000–$40,999 | (Difference of $41,000–modified AGI) x 20** |
| | $41,000 and above | No deduction |
| Married/Joint | Up to $50,999 | Full amount |
| | $51,000–$60,999 | (Difference of $51,000–modified AGI) x 20** |
| | $61,000 and above | No deduction |

* Modified Adjusted Gross Income—determined before reduction for any deductible contribution to an IRA.
** If the result is not a multiple of $10, round it to the next highest multiple of $10. If the result is less than $200, your deduction equals $200.

**Income Limits for Roth IRA Contributions**

| If your filing status is: | And your Modified Adjusted Gross Income* is: | Then your allowable Roth IRA contribution is: |
|---|---|---|
| Single | Up to $94,999 | Full $3,000 contribution |
| | $95,000–$109,999 | Partial contribution:<br>$3,000–[$3,000 (MAGI–95,000)]<br>$15,000 |
| | $110,000 and above | No contribution |
| Married/Joint | Up to $149,999 | Full $3,000 contribution |
| | $150,000–$159,999 | Partial contribution:<br>$3,000–[$3,000 (MAGI–$150,000)]<br>$10,000 |
| | $160,000 and above | No contribution |

Singles with earned income below $95,000 or married couples filing jointly earning below $150,000 are eligible to make a full contribution to a Roth IRA. The maximum contribution that can be made phases out for singles with MAGI between $95,000–$110,000 and joint filers with MAGI between $150,000–$160,000.

* Modified Adjusted Gross Income–determined before reduction for any IRA deductions.

### IRAs – When You Retire or Change Jobs

When you retire and when you change jobs, one of your options is to roll your employer-sponsored retirement plan money to an IRA. Many people take advantage of this to consolidate all of their retirement assets in an IRA for investment and distribution planning convenience. To learn more about your options, talk with your financial advisor.

Kmotion, Inc., P.O. Box 55095, Portland, OR 97238; (503) 225-9600, www.kmotion.com