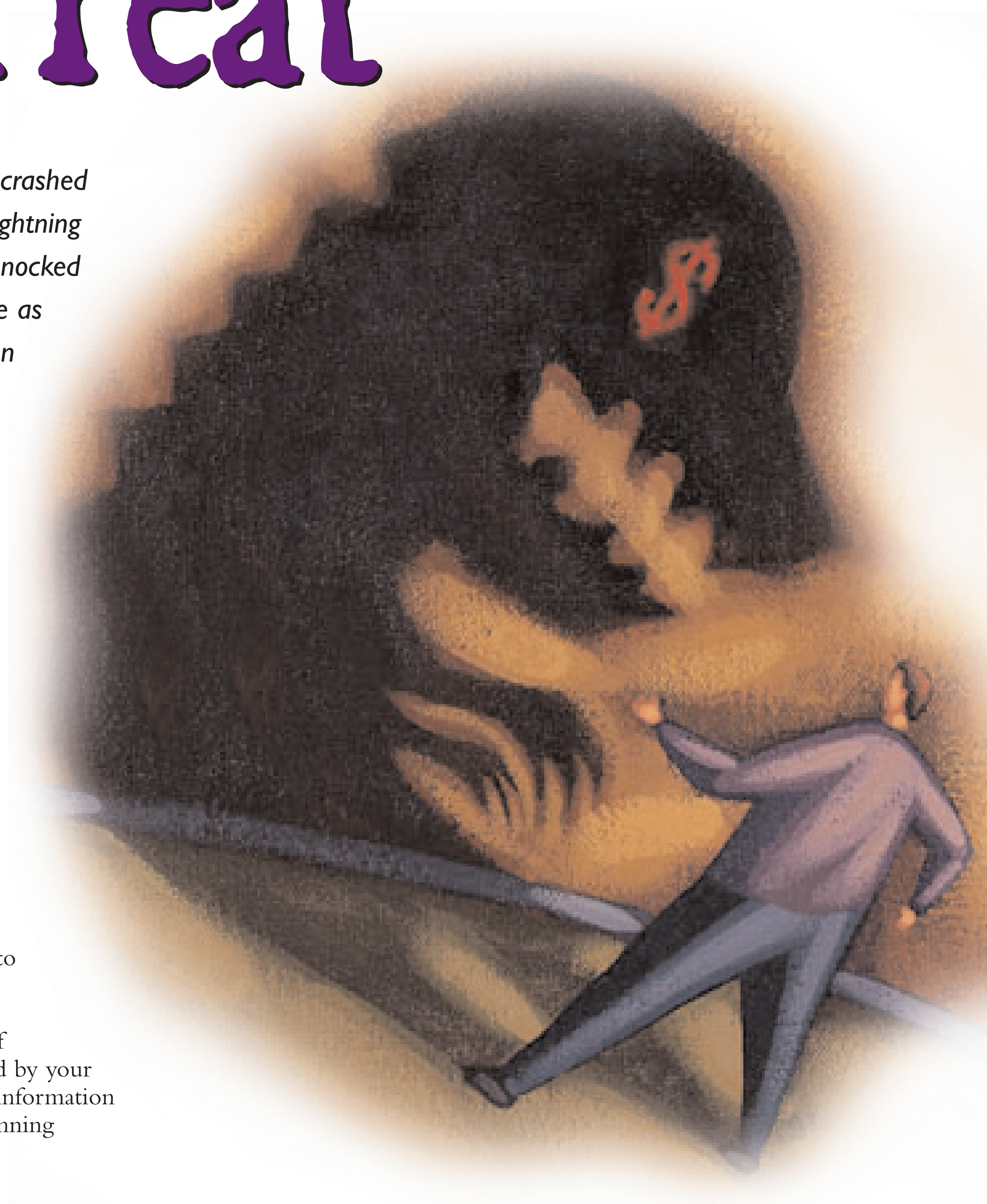
REINVENTING Retirement

YOUR RETIREMENT PLANNING NEWSLETTER

FALL 2004

Trick or Treat

When it comes to managing your 401(k), don't let bad decisions haunt you!



It was a dark and stormy night. The rain crashed down on the old house as thunder and lightning filled the skies. The electricity had been knocked out hours ago. A hush fell over the house as the last candle burned away. A faint moan began to emanate from somewhere down in the cellar. Suddenly, the stairs began to creak…

Okay, so now that you're in the mood for Halloween, how about a quick primer on managing your 401(k)? After all, avoiding bad decisions can help make your financial future less scary!

Witches Brew

Cooking up an asset allocation without identifying your investor type

Investing isn't about throwing a bunch of mysterious ingredients together and hoping for some magic. It's about taking the time and trouble to get to know yourself as an investor. Many people fail to realize that this is critical to developing an investment strategy.

As a start, you need to determine what type of investor you are and which investments offered by your retirement plan may suit your needs. Use this information in combination with any other investment planning educational materials available to you.

Boil, Boil, Trouble and Toil

Please read the following statements. Rank yourself on a scale from 1 to 5 as to whether you agree or disagree with the statement. **Circle your choice.**

1- strongly disagree **3 = neutral** **5 = strongly agree**
2 = disagree **4 = agree**

A. To obtain above-average returns on my investments, I am willing to accept above-average risk of investment losses.

1 2 3 4 5

B. Staying ahead of inflation is more important to me than maintaining stable principal values.

1 2 3 4 5

C. If an investment loses money over the course of a year, I can easily resist the temptation to sell it.

1 2 3 4 5

D. I do not plan on withdrawing my retirement money for major expenses before I retire.

1 2 3 4 5

E. I consider myself knowledgeable about economic issues and personal investing.

1 2 3 4 5

Now, add up the numbers you circled and see where your score falls on the Investor Profile below. Remember, neither the five statements nor your total score is meant to tell you which investments to choose. Rather, the questionnaire may help you better understand your objectives and feelings about risk so you can select investments that are right for your situation.

Investor Profile

5	10	15	20	25
Conservative		Moderate		Aggressive

Conservative Investor types enjoy safety and stability for their money (money market funds, stable asset funds and some bond funds are popular investment choices). 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 (the rise in the cost of living) may have on your investments.

Moderate Investor types prefer some balance between lower-risk and higher-risk investments (bond funds and balanced funds, which invest in a mix of stocks and bonds, are popular investment choices). They are comfortable with some market volatility. Review your situation at least once a year to make sure you're still comfortable with how you're allocating your money to various investment options.

Aggressive Investor types are comfortable with taking on the higher risk associated with the chance for higher returns (stock funds as well as international and sector funds are popular investment choices). You're comfortable knowing that your investments can lose significant value at times as you pursue higher returns over the long term. Review your situation at least once a year and keep in mind how much time you have until retirement.

Curse of the Werewolf

Creating an investment strategy that fails to address all the potential risks

Knowing what kind of investor you are will help you figure out the types of investments you are most comfortable with. But your investment plan will be seriously cursed if you don't identify all the potential risks involved with investing—and formulate a strategy for managing them.

Avoiding Full Moon Fever

There are five common types of investment risk and practical strategies to minimize the risk from each investment:

Business risk is the risk that an investment may lose value because a particular company or industry hits the skids. The technology stock crash of 2000 is a good example. To minimize this risk, invest in mutual funds that focus on different industries, and limit the amount of any individual stock you own, such as company stock.

Market risk is the chance that the value of your investments will decrease in the financial markets. Keeping a portion of your money in non-equity investments such as bonds or stable value funds helps minimize this risk.

Inflation risk is the likelihood your investments won't keep pace with inflation (the rise in the cost of living). Historically, the consumer price index has risen an average of 3% each year or so. This risk is best countered with an asset allocation weighted with stock funds, which historically have outpaced inflation.

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Interest rate risk is a common risk faced by bond investors, who may see a drop in the value of their investments when interest rates rise. Again, keeping some of your money in stock funds can help counteract this risk.

International risk is faced by foreign or global fund investors who may see the value of their investments decline in the face of political, economic or currency instability in foreign markets. Minimize this risk by investing in multiple foreign markets, in addition to the U.S. markets.

Vampire's Bite

Taking an early cash distribution

Cashing out—or taking a full distribution from a retirement savings plan account—is one of the biggest mistakes individuals can make with their retirement savings. Cashing out a retirement plan results in federal income tax and carries a 10 percent penalty tax for those under age 59 1/2. That can take a real bite out of your financial future! And it's even worse if you have a state or local tax to deal with as well.

Count Dracula Strikes

Hypothetical Withdrawal:	**$10,000**
Less: Federal Income Taxes @ 25%*	(2,500)
Less: State Income Taxes @ 5%	(500)
Less: Early Withdrawal Penalty @ 10%	(1,000)
Net Proceeds:	**$6,000**
	(and loss of tax-deferred compounding advantage)

Is your financial future worth only $.60 on the dollar?

* *Based on 2004 Federal Tax Rates for married couple filing jointly, earning $60,000 together.*

The Young and the Restless

How younger workers can get ahead in the personal finance game

Maybe you're a new college grad just starting out in your career. Or perhaps you've decided to skip college and start establishing yourself in the work world right away. No matter which group you belong to, here are some valuable financial tips to help you along the way.

Respect the cash. Enjoy the money you make, certainly. Use it to make your life easier. But don't abuse it. Always pay your bills on schedule!

Pay yourself first through your 401(k). Invest in yourself by starting early (subject to your Plan's minimum age requirements). Depending on your current age, you may have over 45 years to invest—that's a huge amount of time to have your money working for you! Retirement may seem like a far off concept, but think of it this way: by saving just $100 per month for the next 45 years, you could have over half a million dollars saved by the time you retire. And a $200 per month savings plan could potentially grow to over $1,000,000. (Assuming a hypothetical annual rate of return of 8%, compounded monthly).

Establish credit. By all means, get a credit card. But carry only one card with the lowest possible annual percentage rate you can get. Pay off your bills in full and on time and you'll establish credibility as a borrower.

Buy renter's insurance. This is protection worth having. Premiums usually don't cost much, averaging $10 to $12 a month for $30,000 in property coverage and $100,000 in liability coverage. Replacing your TV, stereo and iPod due to burglary or fire could set you back a lot more.

Consider buying disability insurance. Younger people without dependents don't really need life insurance, but disability insurance is another matter. Your greatest asset is being able to earn a living. What if that were to disappear? Employers frequently offer disability insurance at a discounted rate. If yours does, take advantage!

Toss the ATM card. ATM cards are keys to a cash machine, which can be very dangerous. Use a debit card instead, which is prepaid with money from your checking account. Debit cards can help you control your spending and keep within a budget—an extremely valuable habit to get into when you are young.

Retirement in Motion

TIPS AND RESOURCES THAT EVERYONE CAN USE

Boomers on the Brink

Issues facing participants approaching retirement

Most retirees want to live in their homes during retirement. And the same holds true for pre-retirees age 50 to 65, says the *Future of Retirement Living*, a study conducted by the MetLife Mature Market Institute with AARP Health Care Options. 90% of pre-retirees surveyed say they want to age in place during retirement and a similar number expect to do so independently. However, pre-retirees are increasingly open to the possibility of living in adult retirement and 55-plus communities after they retire. Check out the Mature Market Institute Web site at: **http://www.mature-market-institute.com**

Q & A

Common questions asked by retirement plan participants

Can creditors of my company have access to the money in the company's 401(k) plan savings plan?

Employee assets (including those of company officers who are plan participants) cannot be reached by the employing company or the company's creditors, no matter what the financial crisis, including bankruptcy. Individual accounts are also immune from the creditors of individual employees.

Tools & Techniques

Resources and ideas to guide you in your retirement planning efforts

Answer the following question to see how accurate your retirement planning is:

I plan to work:

- ☐ **Until I'm 65**
- ☐ **As long as I can**
- ☐ **Only until I can afford not to**

Most people still talk about 65 as the "right" retirement age and, these days, more than half of workers (54%) expect to work to age 65 or older, while more than two-thirds (68%) say they plan to work "after" retiring. However, the average retiree today leaves the workforce at age 62—and 37% of those retirees quit working earlier than they had planned and, in some cases, earlier than they wanted to. More than a third said health problems or a disability resulted in an early departure, while 28% said the early exit was the result of changes at their employer. Survey results taken from the *2004 Retirement Confidence Survey* (published by the Employee Benefit Research Institute and Matthew Greenwald & Associates).

Quarterly Reminders

Complete a retirement needs calculation by going to www.asec.org and filling out the "Ballpark Estimate" worksheet. To make managing your investment strategy easier, think about rolling over any retirement plan assets from prior employers into your current account (if allowed). Check with your plan administrator for details.

Corner on the Market

Basic financial terms to know

Cyclical Stock.
This is a term used to describe a stock that rises quickly when economic growth is strong, and falls rapidly when growth is slowing down. An example is the automobile market, because as growth slows in the economy, consumers have less money to spend on new cars. Non-cyclical stocks would be companies that are in industries like health care, where there is constant demand through good times and bad.

Kmotion, Inc., P.O. Box 55095, Portland, OR 97238