REINVENTING Retirement
4th QUARTER 2004
YOUR RETIREMENT PLANNING NEWSLETTER

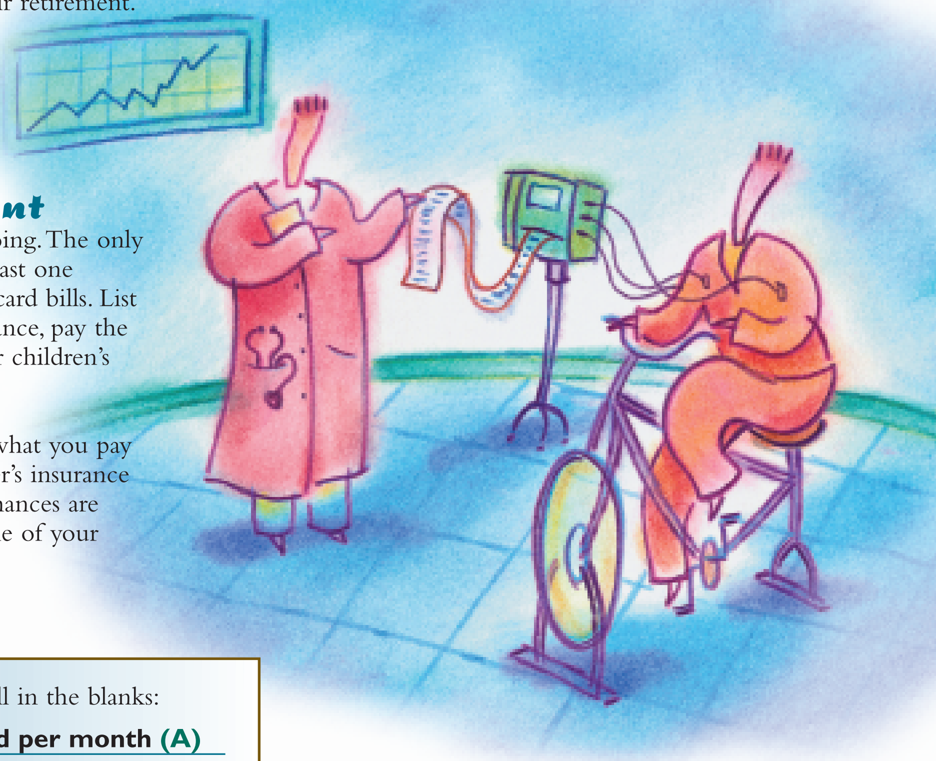
Get Fit

Charting a course to financial fitness

The new year is here and you've committed to increasing your 401(k) contribution, right? Right?

Many people have the best of intentions, but just can't seem to break the cycle of living paycheck to paycheck. They simply lack the confidence that they can afford to save more toward their retirement.

How about trying a new approach? One that looks at the big picture, and gets you thinking about the fast track to financial fitness? Ready … set … your fitness program starts NOW!



Take a "before" measurement

You have to get a handle on where all your money is going. The only way to do that is by keeping a spending journal for at least one month. Gather up receipts, utility statements and credit card bills. List everything, including what you give teenagers for allowance, pay the baby sitter and give to the charitable fund-raisers at your children's school.

You need to look at your pay stub or tax return to see what you pay in taxes. Also add up your car and homeowner's or renter's insurance premiums, medical expenses, gifts and entertainment. Chances are you'll be enlightened as to opportunities to redirect some of your spending to your retirement account.

Using the information from your spending journal, fill in the blanks:

Category	**Amount paid per month (A)**
Housing	$650 (Example)
Food	
Vehicles (includes gas and insurance)	
Entertainment (include baby sitter fees)	
Utilities	
Savings	
Medical	
Clothing	
Personal items (include teenagers' allowances)	
Charity	

Total $________________

Develop an exercise plan

Now you need to total up your monthly take-home pay and other income for a month:

Your monthly take-home pay plus any other monthly income: **$** ___________ **(B)** $2,000 (Example)

Now, when you allocate money from your monthly income according to the guidelines below, how do the results compare with the actual monthly results you recorded on Page 1?

Item	% of Take-Home Pay* (C)	Suggested Guideline Amount (B) above x (C)	Actual Amount (A) from page 1	Difference (+/-)
Housing	30% (.3)	$600 (Example)	$650 (Example)	-$50 over (over guideline amount)
Food	15 to 20% (.15 to .2)			
Vehicles	15% (.15)			
Entertainment	15% (.15)			
Utilities	10% (.1)			
Savings	10% (.1)			
Medical	5% (.05)			
Clothing	5% (.05)			
Personal Items	4% (.04)			
Charity	4% (.04)			

** The figures are based on approximate portions of take-home pay that financial planners suggest families should be spending on key categories. Because of the variables in each family's spending, the categories add up to more than 100%. Source: Kmotion Research.*

How did you do? Are your actual numbers over, under or generally within the suggested guidelines? In general, you'll need to make adjustments according to your family's individual variances. And not everyone will spend in all of the categories listed. Your exercise plan should be to try and stay within these target ranges each month.

Customize your workout

Once you've got your basic exercise plan in place, you can customize it to make it more interesting. Financial planners recommend that you enlist a partner in your efforts, such as a spouse, significant other or even a co-worker. You should also make a point of telling your children what you're doing, as well. Tell them, "We only have $100 a week for food; where are we going to get $75 for shoes?" Chances are, your children will respond. When you share the utility bill with them, chances are they will stop taking three showers a day and leaving all the lights on.

You may also need to scale back in certain areas. Rent and mortgage payments are hard places to cut, unless you decide to rent a room or get a roommate. Usually, the food category is the most likely target. You should count eating out as entertainment. Try to eat in more and avoid prepared convenience foods. Make more of an effort to plan a menu, use leftovers, cook your food yourself and take your lunch to work.

You also need to address debt. Stop using your credit cards and start paying balances you're carrying by targeting the highest interest rate cards first. Avoid paying the minimum payments. In fact, try to pay at least double the minimum payment on your highest-rate card. Once that is paid off, double the payment on the second-highest rate card, and so on.

And last but not least, aim for saving 10 percent of your take-home pay, but start slower if needed. Make sure you have an emergency fund for those times when the furnace goes out or the car's transmission tanks. You should have a savings cushion of at least a couple months in case you lose your job or become disabled.

Once the emergency fund is established, set your sights on increasing your 401(k) contribution. You are committed to increasing your 401(k) contribution this year, right? Right?

Disciplined Personal Trainer Says:
Families that say they don't have enough money to save or that think they can't afford to contribute to a 401(k) or other retirement account need to think harder, sharpen their pencils and make reductions elsewhere to find money to save and invest. The whole point of this exercise is to free up your money and give you more chances to do something worthwhile with it.

Continued from Page 2

Strength test

Identify key areas to improve upon in your overall financial fitness

The following quiz can help you assess the current level of your overall financial fitness. It will give you some clear direction about what you need to do to improve your situation … and your personal trainer will love you for it!

How many times during the last six months did you pay a bill late?
a) None **b)** One to five **c)** Six or more

If you lost your job or main source of income, how long could you provide for your basic needs and meet your financial obligations?
a) Three or more months **b)** One to two months **c)** Less than one month

What percentage of your income do you save each month?
a) 10 percent or more **b)** Less than 10 percent **c)** None

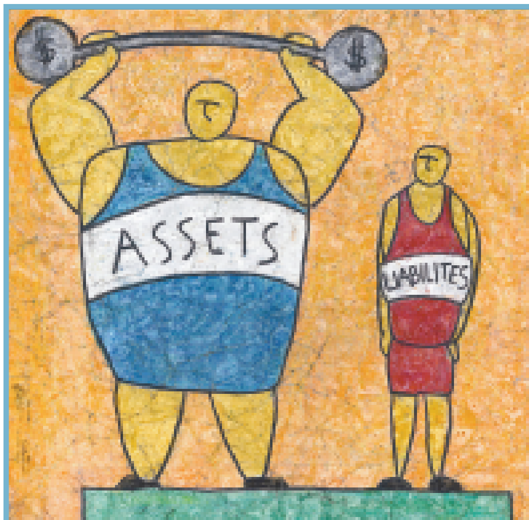
How many credit cards or store cards do you have that are carrying a balance?
a) Three or fewer **b)** Four to six **c)** Seven or more

If you need to come up with money quickly to pay for a major home repair or an emergency, what source would you use?
a) Funds already on hand **b)** Funds from available credit lines
c) No funds available

How often do you use a monthly budget to track and limit your spending?
a) Almost always **b)** Sometimes **c)** Never

Most of your major purchases are:
a) Planned in advance **b)** Planned even though the funds aren't always there to pay for them
c) Unplanned or spontaneous

When you think about your ability to meet future financial obligations, you feel:
a) Completely relaxed **b)** Moderately stressed **c)** Very concerned



Disciplined Personal Trainer Says:
If you answered most questions with an **"a,"** you're already in great financial shape. If you answered mostly **"b,"** you're off to a good start but could stand some improvement. If you answered mostly **"c,"** you need to work harder to develop better financial habits. No matter what your answer is, now is a good time to sit down and examine your financial situation. Write down your financial goals—get out of debt, save for your child's college education, or have a buffer for emergencies—and plan how to accomplish them.

Happy Birthday

If you reach any of the following ages in 2005, they have some key implications with regard to your retirement planning efforts.

Turning 50 … if you are a widow or widower you may be eligible to collect Social Security retirement benefits earned by your deceased spouse. In addition, catch-up contributions to your plan for individuals aged 50 or over are increased from $3,000 to $4,000, if offered by your plan.

Turning 55… If you leave your job after you turn 55, you may be eligible for a penalty-free lump-sum withdrawal from an employer-sponsored retirement plan, such as a 401(k). This option is not available for IRAs.

Turning 59 1/2… You may begin taking withdrawals from your retirement plan or traditional IRA without being assessed the IRS early withdrawal penalty of 10%.

Turning 60 … If you're a widow or widower and not disabled, you may be eligible to collect Social Security benefits if you've not remarried. However, you will receive less than 100 percent of the benefit your spouse would have received upon reaching full retirement age.

Turning 62 … You can begin collecting the Social Security benefits you've earned yourself or through your spouse (or former spouse). But if you choose to collect now instead of waiting until you reach your full retirement age, you permanently lose up to 20-30% of your monthly benefit (Source: Social Security Administration).

Turning 65-67… You've reached your full retirement age! You can begin collecting full retirement benefits from Social Security. You can visit www.ssa.gov for more details on collecting your benefits.

Turning 70 1/2 … If you turn 70 1/2 this year, then you must start taking required minimum withdrawals from your traditional IRAs (and possibly your employer-sponsored retirement accounts—check with your plan administrator) by April 1 of 2006. It's a good idea to confirm a beneficiary before you begin the withdrawals.

Retirement in Motion

TIPS AND RESOURCES THAT EVERYONE CAN USE

Boomers on the Brink

Issues facing participants approaching retirement

According to American Demographics magazine, at least one in three Baby Boomers has already started a second career. Many of the boomers surveyed by the magazine said that they just don't see retirement as a near-term option.

Of those Boomers in new careers, many are working as consultants that leverage the expertise they developed during their earlier years of employment. Ten percent are working in personal-service jobs such as chef, hair-stylist, tax preparer and financial planner. They are typically self-employed, which is in line with Boomers' desire for independence, the magazine says. You can learn more at **http://www.demographics.com.**

Q & A

Common questions asked by retirement plan participants

Do employers guarantee 401(k) accounts? Employers never guarantee 401(k) accounts. They are instead considered "fiduciaries" of 401(k) plans. That means they are legally responsible for supervising, not guaranteeing, the money you invest. Under federal law, this supervisory relationship obligates the employer to protect your financial interests by choosing reputable and competent plan trustees, administrators and investment managers.

Tools & Techniques

Resources and ideas to guide you in your retirement planning efforts

Inflation is the loss of a dollar's buying power over time, and it can have an adverse affect on the real growth of your retirement account. For example, say that you have a $25,000 balance today and the rate of inflation averages 3% a year for the next 20 years. You'd need $43,153 in 2025 just to match the buying power of your $25,000 today. It's important to invest in a mix of your plan's funds or portfolios that provide the potential for long-term real growth that keeps you ahead of inflation. After assessing your risk tolerance, make sure you consider a portfolio that includes an appropriate allocation of growth-type investments (such as stock funds).

Quarterly Reminders

Start the new year by completing a retirement needs calculation. Go to: **www.asec.org** and fill 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.

Don't forget to take the Strength Test in this newsletter; make a plan to take it again at midyear to chart improvement.

Corner on the Market

Basic financial terms to know

Common Stocks

When people talk about a company's stock, they usually mean common stock. When you own common stock in a company, you share in its success or failure. As part owner, you vote on important policy issues, such as picking the board of directors. If the company does well, you may get part of the profits, in the form of dividends. Also, the value of your share of the company may go up. Common stock generally has the most potential for growth. However, that value also can drop if the company does poorly, and if it goes bankrupt, common stockholders are the last to receive any payment.

Kmotion, Inc., P.O. Box 1456, Tualatin, OR 97062; www.kmotion.com