REINVENTING Retirement
YOUR RETIREMENT PLANNING NEWSLETTER
2nd QUARTER 2005

This is Your WAKE UP Call

When it comes to planning for your retirement, are you asleep at the switch?

Most financial planners estimate that you'll need between 70 percent and 90 percent of your pre-retirement income to live comfortably in retirement. A lot of people figure that they'll eventually get around to saving a few bucks here and there, and that Social Security will take care of the rest. That's kind of like believing in a fairy godmother!

The reality is, most people always find a way to spend money rather than save it. And Social Security was only meant to provide a modest percentage of your retirement income (40% on average—and its future is very uncertain). Seriously, folks, where is the money going to come from?

Don't Hit the Snooze Button on your 401(k)

If you still don't fully understand how your 401(k) plan can help, it's time for a wake up call. You don't want to sleep through the financial deal of a lifetime. It might just help you avoid the nightmare of not having enough money to live on in retirement!

To help put it in perspective, think about the process you went through to find the right job. The research you did before purchasing your home or car. Not to mention the time and effort spent cruising garage sales in the hopes of reaping riches on the PBS series Antiques Roadshow. Why wouldn't you put forth the same amount of effort getting to understand all the benefits of your 401(k)?

Your 401(k) is an automatic savings plan. It doesn't get any easier than this. With your 401(k), money goes right out of your pay and is deposited in your account, before you get your paycheck. This automatic payroll deduction helps make saving your number one priority. You don't see the money, so you won't be tempted to spend it!

(Continued)

Continued from page 1

Your 401(k) helps you save on taxes. What's really cool is that money is taken out of your pay before Uncle Sam gets his hands on it…and it's all perfectly legal! Since Uncle Sam will now be taxing a smaller amount of your pay, you'll obviously be paying less in taxes today, although the money is still taxed later when you withdraw it. This money you save in taxes can partially offset the actual out of pocket expense of your 401(k) contribution. Here is an example of how that works:

	Contributing to 401(k)	Not Contributing
Annual pay:	$30,000	$30,000
Less: 401(k) contribution of 6%	–$1,800	0
Taxable pay:	**$28,200**	**$30,000**
Federal Income Tax (25%)	–$7,050	–$7,500
State Income Tax (3%)	–$846	–$900
Less: Total taxes	**–$7,896**	**–$8,400**
Net take home pay:	$20,304	$21,600

This illustration is hypothetical and is for informational purposes only. The illustration is based on 25% federal tax rate for a single filer; State income tax is a hypothetical average. This illustration does not include Social Security or other typical payroll deductions.

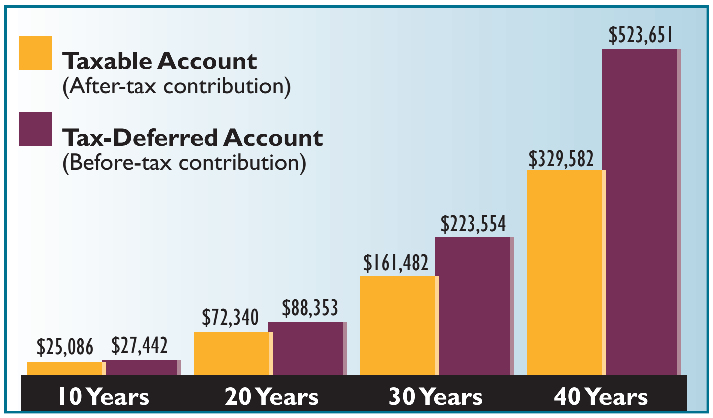
In this example, the person who is not contributing to their 401(k) has overall taxes of $8,400. The person who is contributing has overall taxes of $7,896. That's $504 less in taxes! This tax savings offsets their contribution of $1,800, which means the true cost of their contribution is really only $1,296 ($1,800 minus $504). Another way to prove this is to compare the two take home pay amounts above. You can see that the person contributing $1,800 to their 401(k) only has $1,296 less in take home pay versus the person not contributing at all ($21,600 minus $20,304).

Your 401(k) contributions grow on a tax-deferred basis. Now things really start to get interesting. With tax-deferred saving, the money that was taken out of your pay can grow without being reduced by taxes along the way (you don't have to pay taxes until you withdraw the money during retirement). And with the added benefit of compounding, earnings on all contributions are reinvested in your account, where they have the potential to keep growing.

Money Never Sleeps

Many of the investment options in your company's 401(k) plan are mutual funds. By investing in mutual funds, you place your money in the hands of a highly experienced team of investment professionals, who work behind the scenes to provide in-depth research and analysis on thousands of companies, securities and other investment opportunities.

Let's check out the potential growth for a person making an annual salary of $30,000 and contributing 6% per year ($1,800 per year) and compare it with the same contribution to a taxable investment (such as a bank savings account).



The illustration above is hypothetical and is not intended to reflect the performance of any particular investment or investing strategy. This illustration assumes an 8% annual rate of return in both the tax-deferred and taxable accounts, compounded monthly, with contributions made at the end of the month. A 25% federal tax rate for a single filer is assumed for the taxable account. ***Withdrawals prior to age 59½ are generally subject to a 10% IRS penalty. Withdrawals may also be subject to federal income taxes.***

Your 401(k) may include a company match. Some companies offer a match as an incentive to join a company retirement plan. That means the company will contribute a certain amount to your account for every dollar that you contribute, up to a certain limit. Plan to contribute at least enough to get the full match from your employer (if offered). For example, suppose your employer matches $.50 on the dollar, up to 6% of your salary. By contributing 6% of your salary on your own, you get an additional 3% from your employer.

Current Salary	Your 6% Contribution	3% Employer Match	Total Monthly Contribution	Total Value if Invested for 25 years
$30,000	$150	$75	$225	$213,981
$40,000	$200	$100	$300	$285,308
$50,000	$250	$125	$375	$356,635
$60,000	$300	$150	$450	$427,962

The illustration above is hypothetical and is not intended to reflect the performance of any particular investment or investing strategy. Your investment is not guaranteed and may lose value. This illustration assumes an 8% annual rate of return in a tax-deferred account, compounded monthly, with contributions made at the end of the month. Not all 401(k) plans include an employer match. Some matching programs require that you work a specified number of years. Please check with your Plan Administrator for details. ***Withdrawals prior to age 59½ are generally subject to a 10% IRS penalty. Withdrawals may also be subject to federal income taxes.***

Bodies in Motion

Inertia.
Noun.
1) (physics); The tendency of a body to maintain its state of rest or uniform motion unless acted upon by an external force.
2) Resistance to motion, change or action.

Like terms: inactivity; passivity; laziness; lethargy.

Source: www.dictionary.com and www.merriamwebsteronline.com

Inertia is one of the most basic laws of physics. When you think about it, the same could be said for retirement planning. Retirement industry surveys indicate that overcoming inertia is one of the biggest challenges faced by retirement plan participants. Many workers say they spent more time in the past year planning for holidays and social events than planning for retirement. While planning for upcoming events may be easier, more enjoyable and provide a more immediate payoff, it doesn't have to come at the expense of your future.

Overcoming inertia in your retirement planning

One of the most important exercises you can go through is determining a rough estimate of how much you will need to maintain your lifestyle in retirement. In fact, according to the Employee Benefit Research Institute's Annual Retirement Confidence Survey, 40 percent of those who tried to "do the math" and calculate their retirement needs made changes to their savings rates and began saving more.

Try the following quick exercise to get a rough estimate of your retirement needs.

	YOU	EXAMPLE
Your current salary, rounded to next whole $5,000	$__________	$30,000
Estimate percentage needed in retirement	x .20	x .20
(To keep it simple, let's assume that 80% of your income needs will be replaced by Social Security, any pension you may have, and other income, leaving 20% you must make up through your retirement savings account.)	$__________	$6,000
Multiply by 20 *(average number of years in retirement)*	x 20	x 20
	$__________	$120,000
Multiply by Savings Factor *(see chart at right)*	x______	x .05
Amount you should save per year	$__________	$6,000

SAVINGS FACTOR

Years to Retirement	Annual Savings Factor
3 to 8	.20
9 to 14	.075
15 or more	.05

This calculator provided above is for general information and educational purposes only. The calculator is intended to be used as only one of many tools to assist you in identifying information and issues to be considered in planning for your retirement objectives.

Of course, this simplified calculation amount doesn't take into account the growth of your investments or inflation, but it does give you a starting point. And if the amount you calculate seems intimidating or causes stress, take a deep breath. The important thing is to take positive action towards overcoming your inertia. Any action is better than none!

Retirement in Motion

TIPS AND RESOURCES THAT EVERYONE CAN USE

Boomers on the Brink

Issues facing participants approaching retirement

In January of this year, Social Security paid an average of $955 to an individual retired worker and $1,574 to a retired couple (both former workers). The future of Social Security is uncertain, and there has been much debate over potential solutions, such as individual private accounts. AARP (American Association of Retired Persons) has been very involved in evaluating potential alternatives. Although many people question the long-term viability of Social Security benefits, Marie F. Smith, the current president of AARP, says "Social Security today is not going broke. The trust fund will be large enough to pay 100 percent of promised benefits through 2042, when the youngest of the baby boomers will be 78 years old. Beyond then, 70 percent of benefits could be paid, even if no changes are made." You can visit their Web site at www.aarp.org for more information and analysis regarding the future of Social Security benefits.

Q & A

Common questions asked by retirement plan participants

Does it make sense to invest toward my retirement when I'm still paying down a mortgage?

While everyone's financial situation is different, the answer for most people is YES. When saving for retirement, time is your greatest ally, since your money can grow without being taxed over many years. If you wait until your mortgage is paid off before you make a commitment to saving for retirement, your money will have far less time to grow. For most people, the most advantageous strategy is to work on both goals at the same time. Contribute to your retirement plan on a regular basis and pay down your mortgage over time (the mortgage interest that you can deduct on your income tax return is a financial advantage as well).

Tools & Techniques

Resources and ideas to guide you in your retirement planning efforts

The transition to retirement offers opportunities and challenges in a number of different areas, including work, dealing with change, wellness, travel, relationships, and, of course, money. Whether you are close to retirement or a long ways off, there are a number of new books that might be useful to gain some perspective. Check these out at your favorite book store: *"The Career Mystique"*, by Phyllis Moen and Patricia Roehling; *"Too Young to Retire: 101 Ways to Start the Rest of Your Life"*, by Marika and Howard Stone; and *"Self-Renewal: The Individual and the Innovative Society"*, by John W. Gardner.

Quarterly Reminders

- Don't forget to review the key benefits of saving in your company's 401(k) plan as highlighted in this newsletter. Find out if a company match is offered. If so, make a goal to contribute at least enough to capture the full match that is offered. It's free money!
- Summer is here—how about coming up with some hot savings ideas? Your savings ideas can translate into an increased contribution into your 401(k) account! Hold a garage sale. Buy used gardening tools versus new. Take the family on more picnics instead of dining out. Brown bag your lunch, and make sure to include plenty of watermelon!

Corner on the Market

Basic financial terms to know

Standard & Poor's 500 Index (S&P 500®)

The S&P 500 Index is an unmanaged index that is not available for direct investment, of the common stock prices of 500 widely held large cap U.S. stocks. The index reflects changes in the market prices of these stocks, including the reinvestment of dividends, as a way to track the performance of the stock market in general. An index does not reflect the fees and expenses that are deducted from mutual funds.

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