REINVENTING Retirement 4th QUARTER 2005
YOUR RETIREMENT PLANNING NEWSLETTER

Show Me the Money

Tax-deferred compounding can mean significantly higher income during retirement

Participants in retirement plans everywhere hear about it over and over again: *Tax-deferred compounding. Tax-deferred compounding. Tax-deferred compounding.* It's almost like some kind of retirement savings mantra.

Participant educational materials and Web sites are full of fancy charts and graphs illustrating the significant advantage to be had by investing in an employer-sponsored retirement plan account (versus an after-tax account, such as a bank savings account). And depending on the hypothetical assumptions used in the graphs, the advantages of tax-deferred compounding can equal a couple hundred thousand dollars—or more.

Well, this newsletter is no different. You will be shown a fancy chart that shows off the significant advantage of tax-deferred compounding. But where most newsletters leave you hanging, this one will actually go one step further and show you how tax-deferred compounding translates into significantly higher income during your retirement years.

First, let's review the concept: with tax-deferred saving, money that is 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). With the added benefit of compounding, earnings on all contributions are reinvested in your account, where they have the potential to keep growing. Okay, that sounds pretty good so far. Now comes the fancy illustration.

Two hypothetical investors are making an annual salary of $30,000 and contributing 6% per year ($1,800 per year). One contributes to a taxable account (using after-tax dollars) and the other contributes to a retirement account (using pre-tax dollars). And by the way, it's no coincidence that our 2 hypothetical investors are the two main characters from the 1996 movie Jerry McGuire (starring Tom Cruise and Cuba Gooding, Jr.), which made the phrase "show me the money" famous!

Of course, in reality a sports agent and professional football player would be earning a little more than $30,000 a year—but let's not worry about that for now.

Jerry McGuire Taxable Account (After-tax contribution)	Years	Rod Tidwell Tax-Deferred Account (Pre-tax contribution)
$25,068	10	$27,442
$72,340	20	$88,353
$161,482	30	$223,554
$329,582	40	$523,651

This illustration is hypothetical and not intended to reflect the performance of any particular investment or investing strategy. Withdrawals from qualified plans prior to age 59½ may be subject to taxes and a 10% IRS penalty. Your investment is not guaranteed and may lose value. This illustration assumes an 8% annual rate of return in a tax-deferred account, with dividends and distributions reinvested, compounded monthly, with contributions made at the end of the month.

Continued from page 1

Okay. So in this example, tax-deferred compounding in a retirement plan account results in a potential nest egg of $523,651 at the end of 40 years, versus $329,582 reached by saving in an after-tax account. That's a difference of almost $195,000 dollars. Let's take a look at what that difference can make in terms of retirement income.

Assume that upon retiring, both Jerry and Rod decide to divide up their account balance into 20 equal annual withdrawals. They plan to take one withdrawal each year over a 20-year period. The number 20 reflects a common assumption that many people can expect to live at least that many years in retirement.

Jerry		Rod
$329,582	Account balance after 40 years	$523,651
$16,474	Annual withdrawal	$26,183
$0	Taxes to pay (15%)	($3,927)
$16,474	Money in pocket each year	**$22,256**

This illustration assumes a flat 15% federal income tax rate and does not take into account any state income taxes, annual earnings or losses that may accumulate on the remaining balance of their accounts over the years.

Rod has almost $6,000 more each year for pursuing his retirement dreams (approximately $500 a month). That's a significant chunk of additional monthly income!

So from now on, when you are thinking about your financial future, be sure to remember the retirement planning mantra: Tax-deferred compounding. Tax-deferred compounding. Tax-deferred compounding. Say three times. Repeat as necessary.

Show Me the Money II

Just because Jerry McGuire didn't get the sequel treatment from Hollywood doesn't mean this article can't have a sequel. In keeping with the spirit of "show me the money", check out these easy money savings tips that can help you find more money to save in your retirement plan.

- Consider dropping your land line phone at home. Your cell phone may be all you need and some come with free long distance services.
- If you own a house, consider a home-equity loan to pay off auto loans. The interest may be tax deductible (consult with your tax advisor to make sure).
- If your house down payment was less than 20%, cancel your private mortgage insurance once your mortgage balance is 80% or less of your home's value.
- Cut back trips to Starbucks or other premium coffee shops.
- Don't renew subscriptions to publications you don't have time to read.
- With the high cost of oil, those hybrid cars are looking more attractive all the time. Go to www.hybridcarguide.com for more information.

Admit One

If you happened to catch the film Jerry McGuire in the theater back in 1996, you likely paid around $4.50 for a ticket. The price of a movie ticket today is around $8.00. In 20 years that same ticket will likely cost you $14.45*. In 30 years, it will cost $19.42*. That's inflation at work.

Inflation is the rate at which the general level of prices for goods and services is rising, and, subsequently, purchasing power is falling. As inflation rises, every dollar will buy a smaller percentage of a good. For example, if the inflation rate is 3%, then a $1.00 pack of gum will cost $1.03 in a year.

When it comes to investing, you can help reduce the risk of inflation in your portfolio by keeping an appropriate portion of your money in growth-type investment options, such as stocks or stock mutual funds.

** Assumes a 3% annual inflation rate*

- Look for golf tee times when rates are reduced, or play at lower-cost public courses.
- If you see something in a catalog that you want to buy, wait a week before ordering to see if you still really want it.

That's Life

Life insurance plays a key role in the financial planning process

Life insurance has come a long way since the days when it was known as burial insurance and used mainly to pay for funeral expenses. Today, life insurance is a key part of a solid financial plan. You can use it to leave much-needed income to your survivors, provide for your children's education, pay off your mortgage, and simplify the transfer of assets. It can also be used to replace wealth lost due to the expenses and taxes that may follow your death, and to make gifts to charity at relatively little cost to you.

There are two basic types of insurance: temporary and permanent. There are many variations within each type as well.

Temporary (term) Insurance

As a general rule, people purchase term-insurance policies to insure their families for a given period of time, usually no longer than 15-20 years. For instance, term insurance is often purchased by homeowners carrying a mortgage or by parents of young children. Term insurance is also called pure insurance — it consists of a death benefit only. It's inexpensive in comparison with other types of life insurance products.

Permanent Insurance

If your insurance needs are longer than approximately 20 years, it's usually more cost effective to use a "permanent" life insurance policy. Whole life, universal life and variable life are common types of permanent life insurance. These types of products contain an investment component, and can allow you to accumulate savings on a tax-deferred basis. Some allow you to borrow against any cash value you have built up in the policy.

There are many different types of life insurance products to fit your own personal needs and situation. Check out the following resources to learn more. In addition, you may want to retain the services of a professional financial planner to help you determine your life insurance needs.

Life Insurance Learning Resources

Insurance for Dummies,
by Jack Hungelmann

National Insurance Consumer Helpline (NICH)
1-800-942-4242

The Life and Health Insurance Foundation for Education (LIFE) http://www.life-line.org/life.html

Insurance Information Institute
http://www.iii.org/individuals/life/

Typical life insurance considerations at different life stages

Age 30	**Age 55**
Factors to consider in the early years:	**Factors to consider in the later years:**
✔ *Young children*	✔ *Children in college*
✔ *High debt*	✔ *Lower debt*
✔ *House mortgage*	✔ *Reverse mortgages*
✔ *Loss of income would be devastating*	✔ *Retirement income needed*
✔ *Childrens' education*	✔ *Gifts to charity*
✔ *Income replacement*	✔ *Simplify transfer of assets*

Once in a Lifetime

Go to: http://www.life-line.org/life_how_ineeds.html to access an interactive calculator that will help you determine a ballpark estimate of your life insurance needs. In addition, have your spouse or significant other perform the same exercise. Enter the information here for future planning purposes:

My total life insurance needs: $________________

My spouse or significant other's life insurance needs: $______________

Retirement in Motion

TIPS AND RESOURCES THAT EVERYONE CAN USE

Boomers on the Brink

Issues facing participants approaching retirement

This is not your father's retirement. According to a recent RBC Dain Rauscher study, baby boomers appear more interested in prolonging their free-spending lifestyles as long as possible, instead of rushing off as their parents did to a relaxed schedule of golf and cruises. Doing so means they will be working later in life than any generation in U.S. history. But working later won't necessarily mean working harder. The study suggests that they will aim to work only 30 percent of full time.

Q & A

Common questions asked by retirement plan participants

Will my 401(k) account affect my Social Security benefits?

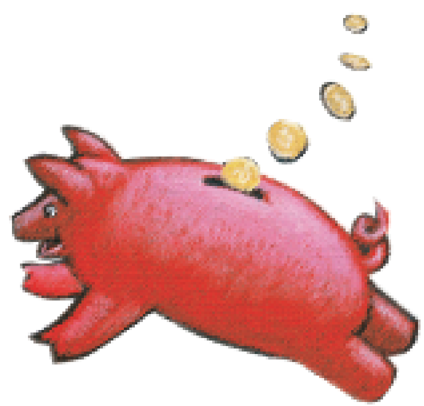
Your 401(k) account will have no effect on the amount of Social Security benefits you will be able to receive. However, it is important to remember that Social Security is not intended to provide your entire income during retirement. It is meant to serve as a supplement to other income sources, such as your 401(k). For example, if your current income is $30,000* per year, the benefit you receive from Social Security will be approximately 40% of this, or $12,000 per year (this percentage varies according to your income).

** This is based on a 35 year old today who will retire at age 67 in 2037. The $12,000 is based on today's dollars. Source: www.ssa.gov, December, 2005.*

Tools & Techniques

Resources and ideas to guide you in your retirement planning efforts

Successful investing is all about balancing the potential for earning returns against the risk of losses. For example, if you choose only low-risk cash equivalent-type funds, your investment returns may be too low to meet your future needs. But if you put all your money in high-risk stock funds that offer higher potential returns, you risk big losses in a market downturn. The smart move is to diversify by carefully choosing a mix of different investment types, such as stocks, bonds and cash equivalents. Better returns from one investment type may help to offset any poor returns from another.



Quarterly Reminders

- Start out the New Year right by completing a retirement needs calculation. It can help you determine whether you are currently saving enough to reach your retirement nest egg goal. You can go to the American Savings and Education Council's Web site at: www.asec.org and fill out the "Ballpark Estimate" worksheet.
- As mentioned earlier in this newsletter, make sure you visit http://www.life-line.org/life_how_ineeds.html and perform an insurance needs calculation. Consider utilizing the services of a financial planner to help with your estate planning efforts.

Corner on the Market

Basic financial terms to know

Expense Ratio

The percentage of total fund assets that is used to cover expenses associated with the operation of a mutual fund. This amount is taken out of the fund's assets and lowers the return that share-holders achieve. These expenses include management fees and operating expenses. The management fee is the fee that is charged to the fund by the portfolio manager, and it is often a fixed percentage. The operating expenses are the expenses that the fund incurs through operation and this can include brokerage fees, taxes, investor services, and interest expenses. The expense ratio can be found in the fund prospectus.