REINVENTING Retirement
YOUR RETIREMENT PLANNING NEWSLETTER
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I'll Take Prospectus Potpourri for $400, Alex.

Who says learning about a prospectus can't be fun?

For the average investor, the word prospectus conjures up a lot of images: Fancy words…mind-numbing tables and charts… numbers…followed by more numbers. Lawyers…more fancy words…and more lawyers. But think about it—would you make a major purchase such as a house or a car without reviewing the appropriate legal documents? With apologies to Alex Trebek, investing without reading the prospectus can put your financial future in real jeopardy.

Before you invest in a mutual fund, you should always make sure that you read and understand what is said in the prospectus (mutual fund companies publish their fund prospectuses on their Web sites). Although prospectuses can seem intimidating at first, keep in mind that the information presented is for your benefit. Here's a fun primer to help you get familiar with some of the key information sections found in a prospectus. In *Jeopardy* style, of course!

Match the following Jeopardy "Answers" to the Jeopardy "Questions" below

1. Seeks long-term capital growth
2. Purchasing blue chip stocks, for example
3. No such thing as a free lunch
4. Political upheaval in Latin America, for example
5. Past history is not an indicator of future results

A. *What is **Investment Objective?*** Answer #______

B. *What is **Investment Strategy?*** Answer #______

C. *What is **Risks?*** Answer #______

D. *What is **Performance?*** Answer #______

E. *What is **Fees and Expenses?*** Answer #______

After you fill in your answers, see page 2 for the correct answers and more information.

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Prospectus Potpourri: ANSWERS

Answers: 1-A; 2-B; 3-E; 4-C; 5-D

A ***What is Investment Objective?***
At the front of the prospectus should be a short statement of the fund's investment objectives. This section contains information about what the fund hopes to accomplish—for example, some funds might aim to produce income while others might focus on long-term growth. You should check to see whether or not the fund's objectives match your own personal investment objectives.

B ***What is Investment Strategy?***
The investment strategy section describes exactly how the fund plans to accomplish its investment objectives. For example, a mutual fund whose objective is long-term growth might adopt a strategy involving buying blue chip stocks, such as Coca-Cola or IBM. The prospectus does not, however, include a list of specific stocks or bonds in which the fund invests—it simply describes the types of assets that the fund purchases (corporate bonds or small cap stocks, for example).

C ***What is Risks?***
This is one of the most important sections of the prospectus. Here you can find out the level of risk that the fund takes with its investments. Although all investments in stocks and bonds (with perhaps the exception of U.S. Treasuries) involve some measure of risk, this section will tell you what risks are associated with the specific investments made by the fund. For example, if the fund invests in emerging markets, this section would include information about the risks particular to investing in such markets (such as political, economic and/or social instability).

D ***What is Performance?***
This section is usually entitled "Financial Highlights." It includes information about the fund's performance over the last 10 years (or less, if it hasn't been around that long). When looking at the fund's historical performance, it's important for you to remember that past performance is not necessarily an indicator of future results. Still, you can judge how well the fund has traditionally performed compared to an index, such as the S&P 500. You can also get some useful information from this section about the fund's volatility and any dividend payments that it makes.

E ***What is Fees and Expenses?***
Although mutual funds aim to make money for their investors, their ultimate goal, just like any other business, is to be profitable. In order to do so, funds charge their shareholders certain fees and expenses, all of which must be documented in the prospectus. A table in every prospectus contains a breakdown of the different fees and expenses, along with a hypothetical projection of how the fees would impact a $10,000 investment over a 10-year period.

Prospectuses contain a lot of other information, such as the background of the fund manager, as well as general account information (such as how to buy or redeem shares of your fund). Become a smarter investor today—by embracing the prospectus!

Million Dollar Baby

According to current life-expectancy figures, you could live 20 to 30 years after you retire at 65. In that time, the cost of living could double, not to mention the skyrocketing costs of healthcare you'll have to deal with. To make sure your savings lasts as long as you do, some financial planners generally recommend that you do not withdraw more than 4% to 5% annually from your nest egg.

At that rate, what do you think a million dollars would get you in retirement?

To Withdraw 4%		5%	You will need to have saved at least
$16,000	to	$20,000	$400,000
$20,000	to	$25,000	$500,000
$24,000	to	$30,000	$600,000
$28,000	to	$35,000	$700,000
$32,000	to	$40,000	$800,000
$36,000	to	$45,000	$900,000
$40,000	to	$50,000	$1 million
$50,000	to	$62,500	$1.25 million

This chart is for illustrative purposes only regarding a hypothetical portfolio. Withdrawals are based upon the life expectancy and retirement age information noted above. The chart does not show the effects of income taxes or inflation upon an individual's investment. The chart also is not intended to show the performance of any fund for any period of time or fluctuations in principal value or investment return. Contact your attorney or other advisor regarding your specific legal, investment or tax situation.

Of course, these numbers don't take into account any Social Security or pension income you may receive, but it should give you some incentive to save **early**, save **often**—and save **hard**!

Tug 'o War

Handling the challenge of competing financial goals

Should you save for retirement or save for your children's college tuition? For many working families, these two financial goals are constantly pulling at those hard-earned dollars. How do you keep from being neglected?

Step One: Evaluate Your Financial Situation
The first step is to evaluate your financial situation. Answering the following questions will help jump-start your planning process. There are Web-based financial calculators available to help you in the planning process as well. In addition to those available to you from your retirement plan provider, check out the calculators on the American Savings and Education Council's "Choose to Save" Web site: http://www.choosetosave.org/calculators/.

For Retirement

- How many years until you retire? ________
- Does your company offer an employer-sponsored retirement plan?_______
- Do you participate? ________
- If yes, how much do you contribute each year? $__________
- What do you estimate will be your account assets at retirement? $ ___________ (use Web calculator)
- Does your company offer a pension plan? ________
- If yes, how much is contributed each year on your behalf? $ ____________
- How much pension income do you estimate you will receive annually in retirement? $ ___________
- How much do you expect to receive annually in Social Security benefits? You can estimate this by using your Personal Earnings and Benefit Statement, now mailed every year by the Social Security Administration. Also, you can go to www.ssa.gov and use their calculators to get a rough estimate. $_____________
- What standard of living do you hope to have in retirement? Do you want to travel extensively and live the sweet life, or will you be happy to stay in one place and live more simply? ____
- Do you or your spouse expect to work in retirement? ________You _______ Spouse

For College

- How many years until your child starts college? ___________
- Will your child attend a public or private college? __________
- What is the expected cost for tuition? $___________
- Do you have more than one child whom you'll be saving for? _______
- Does your child have any special academic, athletic, or artistic skills that could lead to a scholarship? ________
- Do you expect your child to qualify for financial aid? _______

Step Two: Know Your Bottom Line
Once you know what your financial situation is, the next step is to determine what you can afford to put aside each month. To do so, you'll need to prepare a detailed family budget that lists all of your income and expenses. Keep in mind that the amount you can afford may change from time to time as your circumstances change. Once you've come up with a dollar amount, you'll need to decide how to divide up your funds.

Step Three: Multi-Tasking
Ideally, you want to try to pursue both goals at the same time. Even if you can allocate only a small amount to the college fund ($50 or $100 a month), you might be surprised at how much you can accumulate over many years. For example, if you saved $100 every month and earned 8 percent, you'd have $18,415 in your college fund in ten years (of course this is just a hypothetical example for illustration purposes, and does not represent a specific investment).

If you need help, you can consult with a professional financial planner. This person can also help you select the best investments for each goal. Remember, just because you're pursuing both goals at the same time, it doesn't mean that the same investments will be appropriate. Each goal should be treated independently.

School's Out

If you still don't think you can juggle both goals, you may have to make some sacrifices. Here are some things you may have to consider in order to accomplish both financial goals:

- Postpone retirement. Or, you may consider working part time during retirement.
- You might be able to adjust your spending habits now in order to have money later. Or, you may want to consider cutting back in retirement.
- You might consider increasing your hours at your current job, finding another job with better pay, taking a second job, or having a previously stay-at-home spouse return to the workforce.
- If you have several years until retirement or college, you might be able to earn more money by investing more aggressively (but remember that there is a greater risk of loss).
- Expect your child to work to help pay for college. Student loans are an option as well.
- Send your child to a less expensive school. Don't feel guilty—not everyone can attend Harvard, and a lesser-known liberal arts college or a state university may provide your child with a similar quality education at a far lower cost.
- Think of other creative ways to reduce education costs. Your child could attend a local college and live at home to save on room and board, enroll in an accelerated program to graduate in three years instead of four, or defer college for a year or two and work to earn money.

Retirement in Motion

TIPS AND RESOURCES THAT EVERYONE CAN USE

Boomers on the Brink

Issues facing participants approaching retirement

According to Putnam Investments, this year there are 7 million previously retired Americans who are working for pay again after a short sabbatical. The average length of the short sabbatical was 1.5 years. This 7 million represents about a third of all U.S. retirees. Many people drastically underestimate the amount of money they will need to retire comfortably (or face unexpected health care expenses), and have to go back to work at least part time to help make ends meet. Others simply enjoy working and want to stay in the workforce, or perhaps start their own business. For information and articles about working during "retirement" you can check out the AARP (American Association of Retired Persons) Web site at www.aarp.org. For information on how work may affect your Social Security Benefits, go to http://www.ssa.gov/pubs/10069.html.

Tools & Techniques

Resources and ideas to guide you in your retirement planning efforts

Set it and forget it. Perhaps you are considering opening an IRA (Individual Retirement Account) to help augment your workplace retirement plan or pension. If you are looking for an investment strategy that's easy to manage, target maturity funds may be right for you. Target maturity funds offer the power of a diversified set of mutual funds in a single fund, with the added benefit of professional asset allocation. Investors pick the fund with a target retirement date closest to when they want to retire, and the fund's money managers perform the appropriate asset allocation along the way. Target maturity funds have an asset allocation mix that is more aggressive when you're younger and gets more conservative as you near retirement.

For more information, speak to an investment professional.

Q & A

Common questions asked by retirement plan participants

I'm interested in working with a financial planner, but I don't know where to start. Is there a resource where I can learn more about the profession? In particular, how are they paid, and what questions should I ask when choosing a prospective financial planner?

The Certified Financial Planner Board of Standards, Inc. is an excellent Web site. You can find answers to questions about the financial planning profession by visiting http://www.CFP.net/learn/. The consumer hotline is 888-237-6275.

Quarterly Reminders

- Summer is in full swing—it's a perfect time to find some hot money saving ideas to help fund your financial goals. Hold a yard sale and get rid of some of that clutter. Play golf less often, look for tee times when rates are reduced, or play at lower-cost public courses. Cool off in an air-conditioned theater—during matinee times when ticket prices are lower.
- And speaking of financial goals—if you are having trouble juggling the dual demands of saving for children's college as well as your retirement, make sure you answer the questions found in this quarter's "Tug 'o War" article. It may help you become better prepared for the future.

Corner on the Market

Basic financial terms to know

Sector Fund

A sector fund is a mutual fund that invests in a single sector, or market niche. Sector funds tend to be riskier and more volatile than the broad market because they are less diversified. Some investors choose sector funds when they believe that a specific sector will outperform the overall market, while others choose sector funds to hedge against other holdings in a portfolio. Some common sector funds include financial services funds, gold and precious metals funds, health care funds, and real estate funds.

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