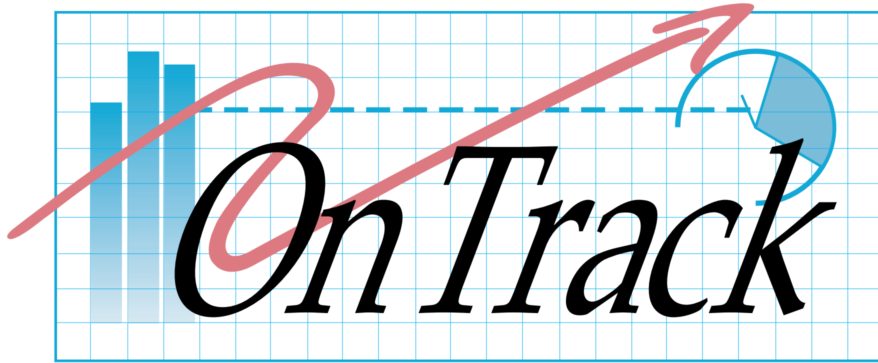
Fall 2003



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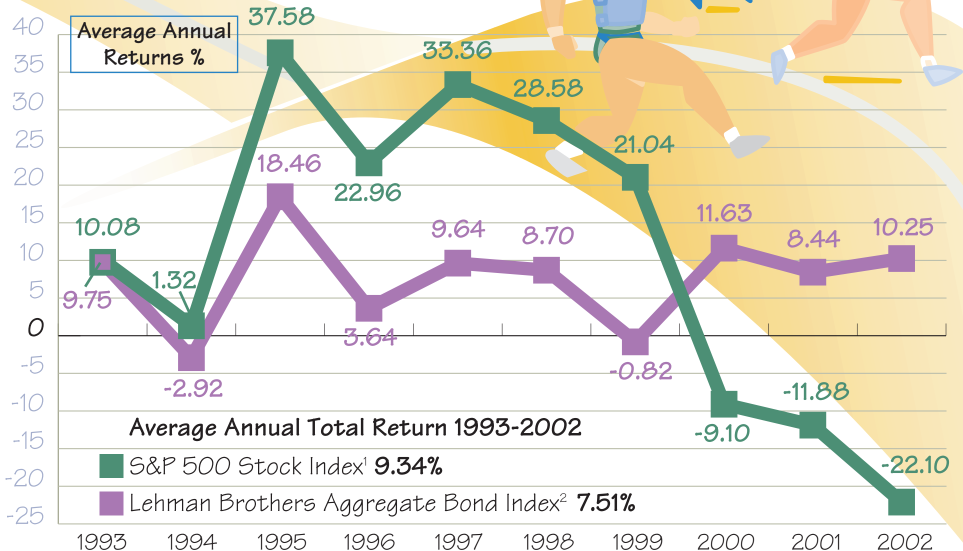
INVESTMENT REPORT FOR PLAN PARTICIPANTS

Running the Investment Marathon

If you've ever watched Olympic running events, you've seen that an athlete's strategy for winning depends on the goal. Sprinters run as fast as they possibly can. They can't win their short races with a distance runner's slower, energy-conserving pace. Similarly, a marathon or other long-distance runner can't win using a sprinter's maximum-effort, go-all-out strategy.

When you invest your retirement savings, you're in a marathon event that will last your entire career. Your goal is to be able to afford a comfortable retirement, and your best chance for success is to use an investment strategy that can successfully go the distance — by taking advantage of long-term investment growth trends.

Long-term Investing Has Overcome Poor Short-term Performance



Investment returns measured by the [1]S&P 500 Index, an unmanaged index of the stocks of 500 major corporations; [2]Lehman Brothers Aggregate Bond Index, an unmanaged index of U.S. government, corporate, and mortgage-backed securities with maturities up to 30 years.

Past performance does not guarantee future results. Your investment returns will be different. Investment cannot be made in an index. Sources: Callan Associates and Russell Data Services

Sprinting's Problem

What happens if you invest like a sprinter instead of a marathoner? You move your savings around as the markets shift. When an investment is down, you jump out of it and switch your money into whatever investment happens to be performing well at the time. If you're really focused on short-term results, you might even decide to reduce or stop your retirement plan contributions until the markets improve.

The problem with sprinting after better returns is that you need to time your moves just right. Even professional investors have great difficulty doing that consistently. Whenever you bail out of an investment, you risk missing out on future gains if the investment turns around again. Meanwhile, the value of your hot new investment might peak soon after you jump in. History shows that major stock market advances have often occurred during just a few trading days, and being out of the market during those unpredictable times greatly reduced returns.

Going the Distance

With a long-term strategy, you don't have to sprint in and out of shifting markets. By remaining invested with a well-diversified asset mix for many years, you'll position yourself to gain, regardless of *which* investment type is winning the short-term race.

The Snowball Effect of Reinvested Earnings

When you roll a small snowball down a hill that's covered with wet snow, you'll end up with a very large snowball at the bottom. Your retirement plan account balance may achieve the same sort of growth during the course of a long career — simply because your investment earnings are reinvested over and over.

Initial Investment	*Account Balance after 10 Years*	*20 Years*	*30 Years*	*40 Years*
$1,000	$2,010	$4,039	$8,117	$16,311

Hypothetical example assuming a 7% average annual investment return compounded monthly. Your investment return may be different. Source: NPI

Getting Started

First, you buy shares of an investment fund or portfolio. The fund earns income in the form of dividends or interest from the securities it holds, or as capital gains when fund managers sell securities at a profit. Of course, losses are also possible when securities are sold. Once a year or more often, all the dividends, interest, and capital gains that the fund has earned during the period are distributed to the fund's shareholders. Usually, when a fund's shares are held in a retirement plan account, the distributions are automatically reinvested in more shares of the same fund.

Gathering Momentum

That really gets the ball rolling. The additional fund shares in your plan account generate more distributed income, which buys *still more* shares. When this reinvestment cycle continues for many years, an account balance — like the snowball at the bottom of the hill — may grow very large.

You can see an example above of how a $1,000 account could grow over time from reinvestment alone — without any additional contributions. Notice how the benefit of reinvestment increases as the investment period lengthens.

Winning Strategy

Your retirement plan investments may earn more or less than the 7% shown in the example, but the reinvestment (also called *compounding*) of any return you earn should steadily build your balance *beyond* the growth from regular plan contributions. Giving your retirement money more time to grow is a winning strategy. So, start the ball rolling by contributing as much as you can as early in your career as possible.

Putting a Raise To Work

Seeing some more money appear in your paycheck is always sweet — but putting a raise to good use may be even sweeter in the long run. What are the possibilities?

Spend More

You could just increase your spending. After all, a raise is your reward, and it's natural that you want to use it to do more for yourself.

Trim Debts

Reducing your debts would be a smart move. As you pay off your credit card balances, you'll cut your interest costs and make more money available for other uses. It's smart to pay down your credit cards and car loans before any student loans because student loan interest is deductible (up to $2,500 per year) for most taxpayers.

Save More for Retirement

Saving more for your long-term future may ultimately be even more worthwhile than reducing your debt. No one knows what the investment future will bring. So, it makes sense to help secure your future in the most reliable way you can — by increasing your retirement plan contributions. Plus, your contributions are tax deferred, which means your retirement savings will grow faster than taxable savings earning the same rate of return. By the time you retire, that extra growth should put you ahead of where you would be with taxable savings, even after you pay the income taxes that will be due when you begin making withdrawals.

All of the Above

Happily, using a raise wisely doesn't have to be an all-or-nothing situation. Why not do all three? Spend some of your raise, use some to reduce your debts, and increase your retirement plan contributions. And each time you get a raise in the future, do the same thing.

Will Your Mortgage Retire When You Do?

Financial advisors usually refer to a mortgage as "good debt," unlike high-interest credit card balances. With a mortgage, you pay a reasonable interest rate and you get a place to live while you repay the loan. You also get to deduct your interest if you itemize your federal income-tax deductions. Plus, in some cases, you can use a mortgage loan to pay off other debts that charge a lot more interest.

An Income Drain

The closer you come to retirement, however, the less "good" your mortgage debt becomes. One reason is that your retirement income won't stretch as far if you're still making your monthly mortgage payments. Also, if you decide to sell your home and move to a place that's smaller and less expensive, the amount you owe on your mortgage will reduce your cash from the sale, which you could use to pay for other retirement expenses.

Paying Faster

Even if you can't pay off your mortgage before you retire, it's still smart to try to increase your equity. The easiest way to do that is by paying extra principal each time you make a mortgage payment. If you can afford the additional principal payments, you'll pay off your mortgage faster.

Here's another easy idea. When you take out — or refinance — a mortgage, try to match the term of your loan to the amount of time that's remaining before you will retire. If you are refinancing at age 50 and plan to retire at age 65, for example, think about a 15-year instead of a 30-year loan.

You'll give yourself a big *thank you* later for making the effort *now* to have your mortgage retire at the same time as you do.

Measuring Your Investment Performance

Scoring just one run in a baseball game usually isn't much of an achievement — unless the other team doesn't score at all. In sports, the true measure of performance is the margin over the competition. That also applies to your retirement account's investment funds or portfolios.

By itself, a fund's return doesn't tell you whether the fund's performance was poor, average, or outstanding. To judge *how well* the fund performed, you need to compare your fund's return to the returns of similar investments *during the same period.* Using a market index of *comparable* securities as a benchmark makes the comparison easy.

Relative Results

Comparing your fund with a benchmark shows the *relative* performance, which may put the fund's poor returns in the proper perspective. For example, a fund that lost 5% of its value may actually be a strong performer if the overall market dropped 10%. Or, a negative return might be less troubling when a fund's comparable index also dropped by a similar percentage. On the other hand, even positive fund performance may be disappointing if it is relatively weak. For example, you wouldn't be pleased to see that your fund grew only 5% during a period when an appropriate benchmark rose 15%.

Best Benchmarks

Fund descriptions (which are available from your plan administrator or on your account statements) usually identify a comparable index to use as a benchmark. For stocks, a widely used performance measurement is the Standard & Poor's 500 Index (S&P 500). This index tracks variations in the market values of the stocks of 500 leading companies in all major industries, that together represent a significant portion of the U.S. stock market's total value.

Because the S&P 500 is a good indicator of the market's overall performance and trends, it is often used as the benchmark for diversified, large-company stock funds. Similarly, the Lehman Brothers Government/Credit Bond Index — an unmanaged index of investment grade corporate and government bonds with maturities of one year or more — is frequently a benchmark for the overall performance of the U.S. fixed-income market.

When you use a market index to evaluate investment performance, remember that the index has built-in advantages over investment funds. An index doesn't have the expenses — management, trading, and administration fees — that funds have.

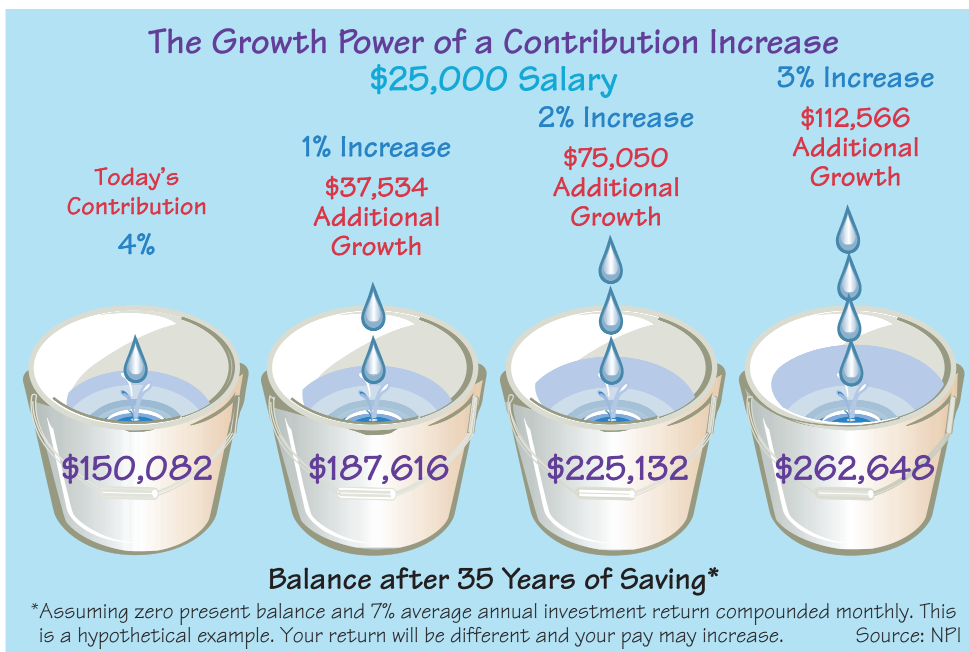
Let Uncle Sam Help You Plan Your Financial Future

If you're 25 or older, the federal government mails you a "present" every year about three months before your birthday. It's a personalized projection of your future Social Security benefits. Reviewing this statement may not be a high priority unless you're close to retirement. But it should be, because your Social Security statement can help you plan your financial future.

Project Total Income

Your statement estimates the monthly income you can expect to receive from Social Security at different retirement ages. You may be surprised to see the amount. Social Security currently replaces *less than half* of an average worker's preretirement income.

Using your estimated Social Security benefit as a base, you'll need to plan where the rest of your retirement income will come from. Your tax-deferred retirement savings is likely to be a very important income source. You also may have other investments or savings and possibly a company pension.



*Assuming zero present balance and 7% average annual investment return compounded monthly. This is a hypothetical example. Your return will be different and your pay may increase. Source: NPI

Maximize Your Savings

The more money you are able to save before retirement, the more income you'll be able to withdraw during your retirement years. So, regardless of your current age, your plan should be to maximize your retirement savings. How to do that is partially a question of budgeting: *Can you make room in your budget for increased retirement savings?* It's also an investment question: *Where should you invest your savings to achieve the gains you need?*

To find more room in your budget for savings, try tracking your spending for a few months. List and prioritize your needs, and then decide how you can best fit your obligations, including saving for retirement, within your income. Once you take a close look at your current financial situation, you're likely to discover some practical ways to free up the extra money.

Your retirement savings belong in investments that offer both the potential for long-term gains and a level of risk that you are comfortable with. Your best strategy for achieving long-term growth may be a careful mix of your retirement plan's investment options.

Track Your Progress

With your plan in place, when you receive your annual birthday message from Social Security, make it a reminder: Check to see if you're making progress toward your savings goal — and consider making changes in your strategy if you're not.

How Much of Your Income Might Social Security Replace?

Annual Income Preretirement	Percentage Paid as Social Security Benefit*
$30,000	53%
$50,000	44%
$70,000	35%
$90,000	28%

*Assumes one wage earner retiring at age 65 with a spouse who is age 62.
Source: Aon Consulting/Georgia State University Retirement Income Replacement Ratio Study, 2001

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