



INVESTMENT REPORT FOR PLAN PARTICIPANTS

New Year's Opportunities for Retirement Savers

You now have more help when you decide to do more for your financial future. The tax law changes enacted last summer include three New Year's gifts for tax-deferred retirement plan savers.

New Tax Credit for Contributions

You may be eligible for a tax credit that will make saving for retirement easier because it will pay for part of your retirement plan contributions in 2002-2006. The maximum credit is \$1,000 — 50% of the first \$2,000 in con-

tributions (see the chart). Any credit you can claim would reduce the federal income taxes on your tax return.

Higher Deferral Limits

The maximum amount of pay that employees can defer to most retirement savings plans is \$11,000 in 2002 — \$500 more than in 2001. And the limit will increase by \$1,000 each year through 2006. Your plan may have other limits on contributions, and additional catch-up contributions may be allowed for individuals age 50 or older. Check with

your plan administrator for details about your plan's specific limits.

Lower Tax Rates

The tax law is also giving you a "raise." The tax-rate reductions now in effect and those scheduled for future years mean lower withholding on pay-days and, therefore, more net pay. A suggestion: Use some or all of the money to contribute more to your retirement savings plan.

Years of compound growth before you retire may turn your raise into a brighter long-term future. Saving just \$50 more a month, for example, could mean a plan account balance that's almost \$61,000 higher — if you continue for 30 years and earn a hypothetical 7% average annual investment return compounded monthly.

Will You Be Eligible for a Contribution Tax Credit?

Maximum annual contribution eligible for the credit is \$2,000. Credit is 50%, 20%, or 10% of your contribution — depending on your filing status and adjusted gross income (AGI)*, for example:

50% Tax Credit		
Applies when your AGI is:	If You Contribute	Your Credit Is
Joint — Up to \$30,000	\$2,000	\$1,000
Head of Household — Up to \$22,500	\$1,000	\$500
Single — Up to \$15,000	\$500	\$250
20% Tax Credit		
Applies when your AGI is:	If You Contribute	Your Credit Is
Joint — \$30,001-\$32,500	\$2,000	\$400
Head of Household — \$22,501-\$24,375	\$1,000	\$200
Single — \$15,001-\$16,250	\$500	\$100
10% Tax Credit		
Applies when your AGI is:	If You Contribute	Your Credit Is
Joint — \$32,501-\$50,000	\$2,000	\$200
Head of Household — \$24,376-\$37,500	\$1,000	\$100
Single — \$16,251-\$25,000	\$500	\$50

Up to You

As you can see, the tax law is on your side more than ever. The rest is up to you. Why not resolve to make 2002 the year you start doing more for your future?

*Some limitations apply. See your tax professional for information regarding your specific situation.
Sources: Internal Revenue Code and NPI

Looking Social Security in the Eye

Amid all the uncertainty about the future of Social Security, some facts are clear. And you should understand them — because your plans for retirement may be affected.

Pay as You Go

Social Security has always been a pay-as-you-go program. Current Social Security taxes pay for the benefits of those who are already retired.

By 2016, annual benefit costs are expected to be larger than the taxes being collected. The difference — small at first — will increase greatly over time. For example, the President's Commission to Strengthen Social Security estimates the annual shortfall will be \$318 billion by 2035 (stated in 2001 dollars).

The Trust Fund

What about the Social Security trust fund? Past Social Security tax increases were enacted to build up a surplus to be used for future benefits. But the trust fund isn't invested in assets that can be sold to raise cash. When the fund's surplus is tapped to pay benefits starting in

2016, the cash will have to come — *like all other government spending* — from current taxes or borrowing.

Possibilities

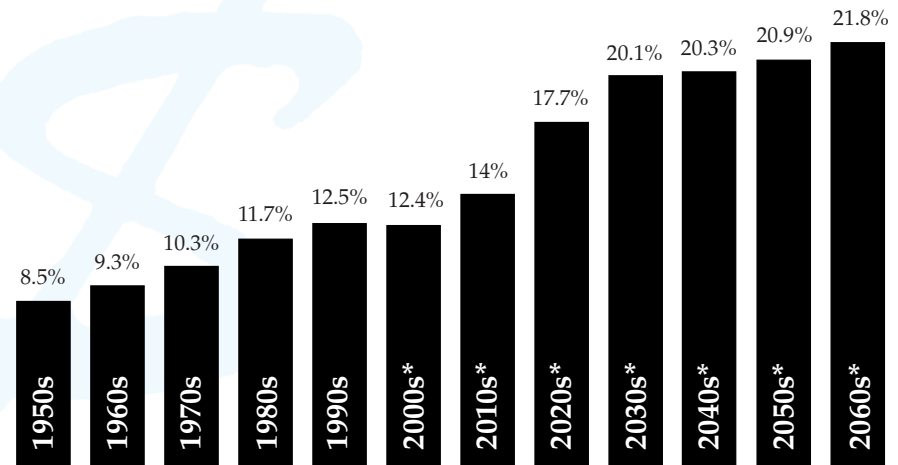
After 2016, Social Security taxes will cover less and less of the projected cost of benefits. The *possible* sources for paying the balance include reductions in other govern-

ment spending, higher taxes, increases in the national debt, or some combination of these. Or benefits may be cut.

Is there a crisis today? No. But funding Social Security is a problem that will have to be solved eventually. Meanwhile, it's smart to save as much as you can in your own retirement plan account.

Longer Lifespans Are Raising Social Security's Cost

Percentage of the Population Age 65 and Older



*Projected

Source: 2001 OASDI Trustees Report

Strategies for Financial Health

You need to think strategically if you want to improve your financial health. Here are four ways to help yourself become fiscally fit.

Avoid Non-mortgage Debt

Paying cash as you go is always cheaper than borrowing and slowly paying back a loan with interest. Consider this: Cut back on the use of credit cards and other borrowing and start building your own personal cash reserve. As it grows, you can use your reserve instead of credit to buy the extras you need or want.

Set a Cash Reserve Target

Your cash reserve will help you handle emergencies as well as expenses you anticipate. Decide how large a cash reserve you want to build based on the needs you foresee. Then, save a regular amount each payday.

Keep an Accurate Record

The key to controlling spending and having cash for extras is to keep a record of your expenses and income.

Tracking your spending will make setting priorities easier and let you

avoid "surprise" bills. Just list all your regular expenses plus any other spending needs you anticipate, your savings, and the income you expect. Then, make fact-based judgments about how to meet your financial obligations.

Invest for the Future

Finally, make sure you invest your long-term savings — your retirement plan money — in a way that gives you a realistic chance, within your risk tolerance, of achieving your target.

A Must-read: Your Summary Plan Description

The summary plan description (SPD) of your company's retirement plan isn't anyone's idea of entertaining reading. But your SPD contains many of the important things you need to know about your plan. It's definitely worth looking at when you have a little free time — or referring to if you have a question about how your plan works.

Key Plan Features

The full, official rules of your retirement plan are in the *plan document*, which is much longer and more complicated than the SPD. The SPD

summarizes the plan document's key information — your benefits, your employer's obligations, and your rights. Following are some of the items you'll find in your plan's SPD.

Eligibility — the plan's requirements for becoming an eligible participant and receiving benefits.

Contributions — the method used to calculate the amounts your employer and/or you may contribute to your plan account.

Vesting — the schedule defining when any employer contributions to your account become vested (nonforfeitable). You are always vested in

any contributions you make.

Withdrawal — the procedures for withdrawing money from your plan account if you retire or change jobs.

Loan and hardship withdrawal — the qualifications and application process you need to follow if one or both of these options is available.

You received the SPD when — or soon after — you joined your company's plan. And, you should receive an update if the plan changes.

Contact your plan administrator if you need a copy now.

Comparing Your Plan's Investment Options

Which of your retirement plan's portfolios or funds should you select? The best place to begin the decision-making process may be to look at your own investment goals and tolerance for risk. Once you know what you want to accomplish and have a good idea of how aggressive an investor you are, you're ready to examine and compare your plan's options.

Objectives and Risk

First, look at the description of each investment portfolio on your plan's list to determine its objective. Portfolio managers generally set a growth, income, capital preservation, or other overall investment goal.

To accomplish these objectives, a portfolio's managers invest in one or more types of securities, each with an associated degree of risk. For example, a portfolio with an *income* objective may be invested mostly in

high-quality bonds, which generally are less risky than the stocks that make up a *growth* fund. Similarly, a portfolio that focuses on capital preservation may be invested in various cash equivalent securities to minimize the risk of principal loss.

Historical Performance

Past performance does not predict future results. That's a basic investment fact. But you can get an idea of a portfolio's future growth potential by looking at the past performance of the types of investments a portfolio holds and at the portfolio's own track record.

For example, over the long term, stocks have outperformed bonds. In 75% of the years from 1981 to 2000*, stock returns beat bond returns. But the trade-off for stocks' greater potential returns is higher risk — stock values are much more volatile than bond values.

You cannot expect that a portfolio's recent results will be repeated. High performers in one year have often performed poorly in subsequent years. Still, a record of consistent success relative to a market index that measures comparable securities would indicate that a portfolio has quality management.

Strategy

Because you cannot always predict which of your plan's portfolios will perform the best, it makes sense for two reasons to choose a diversified mix of portfolios that invest in *different* types of securities. With a range of investments, you'll have the opportunity to gain from the securities types that do well in the future, and you'll limit your exposure to the types that perform poorly.

*Source: Profit Sharing/401(k) Council of America

Don't Let Feelings Be Your Investment Guide

Basing investment decisions on the way you *feel* is easy. But if you rely on feelings instead of facts, you may find that disappointing results come just as easily.

Pain

Psychological studies have shown that, for investors, the pain of losing money is much stronger than the joy of making a profit. A desire — conscious or not — to minimize negative feelings may cause you to invest emotionally, concentrating on avoiding short-term losses instead of achieving long-term results. For example, you might invest too much of your retirement account in low-risk choices and too little in higher-risk investments that offer greater potential returns. The danger: Over the long run, your account may not grow enough to meet your goals and overcome inflation.

Impatience

Exercising the self-control to wait patiently for results can be difficult — and closely tracking daily market changes may lead you to switch investments frequently. But, if you chase returns by investing wherever recent returns have been the highest, you will usually be playing catch up — invest-

Emotional Investing

SYMPTOM	CURE
Fearing risk	Remember, time is on your side. The longer you have before retirement, the more time the market has to recover from declines in investment values.
Downplaying risk	Keep in mind: A <u>potential</u> return is not a promise. You may not achieve large returns on risky investments. Make sure you are comfortable with the overall risk of your plan account.
Expecting too much	Don't count on large returns from an investment type with a history of low returns, or on a future without periods when investment values decline.
Focusing on individual fund or portfolio results	Track your overall performance, too. Gains of some portfolios may help compensate for the disappointing results of others if you invest in a range of different portfolios.



ing *after* the big gains have already been made. You may achieve better results by choosing a carefully planned mix of investments and letting time work for you.

Denial

It's only natural to assume that present conditions are going to continue. That instinct may lead you to invest as if the stock market's recent performance is not going to change.

For example, many investors who paid very high prices for technology stocks during the late 1990s — anticipating that the stocks' growth would continue — experienced large losses when the upward trend of technology stock prices suddenly reversed itself in the spring of 2000.

If you avoid investing in stocks when market prices have dropped, you may be making the same assumption: that conditions won't change. When the market begins its recovery, you may miss out on large gains, which have often come during short periods, as the chart to the left shows.

Facts Not Feelings

You can let your feelings rule your investment decisions — by basing choices on tips, assumptions that recent performance will continue, or just your gut reaction. Or, you can use facts — by setting goals and a time frame, and comparing the potential returns, quality, and risk of different investment choices.

There are no guarantees in investing, but it's easy to get lost if you are just *feeling* your way.

The Cost of Avoiding Stocks 1996-2000



Period Invested	Average Annual Total Return*	Growth of \$10,000 Investment
Entire Time	16.47%	\$21,436
All except the stock market's:		
• 10 Best Days	11.66%	\$17,358
• 20 Best Days	7.51%	\$14,364
• 30 Best Days	3.39%	\$11,816
• 40 Best Days	-0.94%	\$ 9,540
• 60 Best Days	-11.50%	\$ 5,429

*If investment returns matched the S&P 500 Index, an unmanaged index of stocks of 500 major corporations. Past performance does not guarantee future results. Your investment returns will be different. Investment cannot be made in an index. Source: Commodity Systems Inc.