

**RETIREMENT PLANNERS
& ADMINISTRATORS, INC.**
America's Premier Full Service Retirement Plan Provider
Since 1969

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INVESTMENT REPORT FOR PLAN PARTICIPANTS

A Bargain on Contributions

Everybody loves a bargain. When you contribute to your retirement plan, that's exactly what you get. You don't have to pay federal income tax on your contributions — or on plan investment earnings — until you eventually withdraw money from your plan. This is called "tax deferral." And it can really help make saving for your future more affordable.

Automatic Discount

Your employer subtracts your contribution from your pay *before* calculating federal income-tax withholding. This gives you an automatic discount on the cost of participating. For example, if your tax rate is 15%, each dollar

you contribute costs only 85¢ in take-home pay. The higher your tax rate, the bigger the discount, as the chart shows.

And Maybe a Rebate

You *may* also qualify for a rebate from Uncle Sam on some of your contributions. When you file your tax return, you could get a tax credit *if you meet the income requirements*. The credit is 50%, 20%, or 10% of contributions up to \$2,000.

For example, if you contribute \$1,800 to your retirement plan during the year, file a joint tax return with your spouse, *and* have \$30,000 or less of adjusted gross income, you'll get a \$900 credit (50% of \$1,800).

Don't Miss Out

Reaching your long-term savings goal will be easier if you take advantage of the tax deals on retirement plan contributions. Your plan administrator can give you information about increasing your contribution or enrolling in the plan.



Paying Attention to Cash

People don't usually ask "How are your cash equivalents doing?" In the investment world, stocks, and even bonds, are usually where the action is. Cash investments just aren't that exciting. Much of the time, they turtle along earning lower returns than stocks and bonds. But cash investments still may have an important role to play within a diversified investment portfolio.

What Are Cash Equivalents?

They're money market investments, U.S. Treasury Bills (T-bills), certificates of deposit, and other *short-term* securities. The market values of cash equivalents generally don't vary. So, most likely, you won't lose money if you invest in a fund or portfolio of cash equivalent securities. That makes cash equivalents a much less risky type of investment than stocks and bonds.

Steady Income

With cash equivalents, you won't earn any capital gains, but you will earn a steady income. How

much income? That varies with market conditions. But historically, cash equivalent returns have been close to the rate of inflation. That's a problem if you want the returns on your retirement savings to beat inflation.

Added Diversification

Despite the relatively low potential returns of cash equivalents, they can have a useful place in a well-diversified investment portfolio. Owning a range of investment types, *including cash equivalents*, is an effective strategy for reducing your portfolio's overall risk of loss. The reason is that returns from the cash investments may help offset losses on other types of securities.

In 2002, for example, the stock market lost 22.10% of its value, while cash equivalents gained 1.59%. In 1981, 1987, 1990, and 1994,* cash equivalents were the market leaders. Their returns were higher than both stocks and bonds. Although no one knows the investment future, stocks, bonds, or both will inevitably have future periods of poor performance. Cash equivalents *that hold their value*

and pay steady income should prove their worth if that happens again.

Planning Your Mix

How big a piece of your investment pie, if anything, should be allocated to cash? There's no set answer or rule. It's your decision. You have to base your allocation choice on your own tolerance for risk, your goals, and the length of time you have to invest. Plus, you should consider other factors, such as investments and assets that you may have outside your plan.

Most likely, cash won't win the long-term race with stocks and bonds. But cash equivalents have held their own at times when the returns of stocks and bonds have dropped. And that makes it worthwhile to pay some attention to cash when you're choosing investments for your retirement plan account.

*Stock investments measured by the S&P 500 index, an unmanaged index of the stocks of 500 major corporations; bonds by 20-year Average Maturity U.S. Treasury Bonds; and cash equivalents by 91-day U.S. Treasury Bills. Past performance does not guarantee future returns. Your investment returns will be different. Source: Russell Data Services.

The Hand in Your Cookie Jar

Inflation is always reaching into your income and helping itself. Sometimes the rate of inflation is high, and sometimes it's low. The average annual inflation rate was 2.38% over the ten-year period 1994 through 2003. If inflation averages the same 2.38% over the next 30 years, it would take an income of \$50,628 to match a \$25,000 salary today! Check the chart for more examples.

Unfortunately, you can't stop inflation. You can't even predict if it will be high or low in the years to come. So it's difficult to know exactly how much money you'll need when

you retire — unless that day is already very close. What you *do* know is that a major portion of your retirement income will have to come from your retirement savings. And what you *can* do is make sure you're *saving as much as you can right now* for your retirement. Plus, you can choose investments for your account that offer the *potential* for enough compound growth to beat future inflation.

If you decided how much to contribute to your plan more than a

year or so ago, it's time to revisit your decision to see if you can increase your contribution. The best way to deal with the financial unknowns in life — *including future inflation* — is to save as much as you can.

Present Income	How Inflation Increases the Need for Income			
	If the annual rate of inflation averages			
	2%	3%	4%	5%
\$15,000	\$27,170	\$36,409	\$48,651	\$64,829
20,000	36,227	48,545	64,868	86,439
25,000	45,284	60,682	81,085	108,049
30,000	54,341	72,818	97,302	129,658
50,000	90,568	121,363	162,170	216,097

Equivalent Income Need 30 Years from Now
Source: NPI

Keep the Window Closed

Many retirement plans allow participants to borrow from their accounts. If your plan does, be sure you consider *all* the consequences before you take a loan. Unless you have a really good reason to borrow, you might be better off keeping the loan window tightly shut.

Pros

Arranging to borrow from your plan may seem like a great idea. You're borrowing your own money. The interest rate is usually relatively low, and the interest you pay goes into your account. And, if your loan payments are automatically deducted

from your paycheck, you won't have to worry about missing any of them.

And Cons

But borrowing from your retirement plan also has drawbacks. Most importantly, taking money from your account means you'll have less invested while the loan is outstanding. If the financial markets go up before your loan is repaid, there will be less money in your account to potentially benefit from the increase. Many studies have shown that a large percentage of stock market gains occur on a few isolated trading days. If part of your balance is out on

loan during one of those times, you could miss out *big time*.

Here's something else to think about. If you have a loan from your retirement plan and then decide to change employers, you'll usually have to repay your loan when you leave. If you don't have the cash, you'll have to pay income taxes — and usually a 10% early withdrawal tax penalty — on the outstanding loan balance. Ouch!

If you find that you need to borrow some money, you'd be wise to consider other alternatives before opening that plan loan window.

Tearing Down Barriers to Retirement Savings

When spending and saving compete for your income, choosing to save may be the better choice, but it isn't the easier one. To save more, you have to spend less. And you probably don't have much room to maneuver. You *have* to pay basic expenses like housing, utilities, gasoline, and food. But you *can* do something about two barriers that may be keeping you from saving more for your retirement.

Too Little in Reserve

Some living expenses are too big to pay easily out of one paycheck. If you don't have enough cash, you have to choose: Either delay your purchase or use a credit card, which may be expensive in the long run.

You can keep your large expenses from becoming a problem by building a cash reserve. The idea is to create a fund that you can add to gradually. That way, you'll have extra cash when you need it.

Start by looking ahead and identi-

fying the large items you know you're going to need. For example, you may anticipate having to replace your washing machine and dryer in a year or so.

If you gradually put some money aside out of each paycheck, you'll be able to use it to pay cash for the appliances when the time comes. Having a cash reserve can also help you to pay for unexpected expenses, like car repairs, *without having to tap a credit card*.

Too Much Debt

You lose financial flexibility when you have to use a lot of your income to pay your credit card and other debts. The monthly burden can squeeze the money you have left after paying your other bills. That gives you much less freedom to do the things you want.

If you want more control of your finances, stop borrowing *and* start paying down the amounts you owe. Buy with a debit card instead of your

credit cards. You'll find a debit card is just as convenient to use, but you can't overspend.

When you buy something, you use money you have in your checking account instead of adding to your credit card debt. There are no interest charges and no monthly payments to make.

Reducing your current debt load isn't the easiest thing to do. But here's a plan to think about that's both practical and simple. Start systematically paying down your credit balances. Take it one payday and one step at a time. Work on one balance until you pay it off. Then move on to the next.

You Can Do It

You really *can* take back more control of your finances by breaking down the barriers to savings. Resolve to build a reserve for big expenses and work to pay down your debts. Once you do, you'll be able to move faster toward your long-term goals, including saving more for your retirement.

You're in the Driver's Seat

You don't have to know how to tune up the engine to drive a car. And you don't have to be an investment pro to take charge of your retirement savings. All you have to do is decide how much to contribute, choose how to invest your contributions, and track your results. That said, remembering a few investment basics will help you steer your account in the right direction.

Risk and Return Ride Together

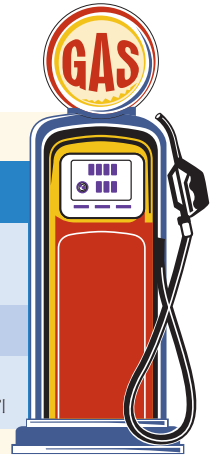
Some investment types are riskier than others. Higher potential investment returns usually accompany the higher risk. Investments with high risk have more growth potential than medium-risk investments and much more growth potential than low-risk investments.

Growth Variations from Performance Differences

A retirement plan account's total value after 30 years of \$150 monthly contributions

Average Annual Total Return	7%	5%	3%
Total Value	\$182,996	\$124,839	\$87,411

These are hypothetical examples. Your returns and contribution amounts will be different. Source: NPI



Stocks Often Lead

Although past performance doesn't predict future returns, historically, stocks have performed better than bonds and cash equivalents over the long term. Yet, at times, bonds and cash equivalents have outperformed

stocks. Stocks are also much more volatile than bonds and cash equivalents, so investors should be prepared for ups and downs and the possibility of losing money.

Bonds Usually Run Second

Bonds have historically been much less volatile than stocks, with long-term returns that have been in between stocks and cash equivalents. Like stocks, bonds have recorded some years with poor returns or losses. Generally, bond values drop when interest rates rise. And the bond market gains when interest rates fall.

Cash Is Slow but Steady

Cash equivalent returns have usually been lower than stock and bond returns. The risk of losing money by investing in cash equivalents is also low. The steady returns of cash equivalents can help to compensate for times when stocks or bonds perform poorly.

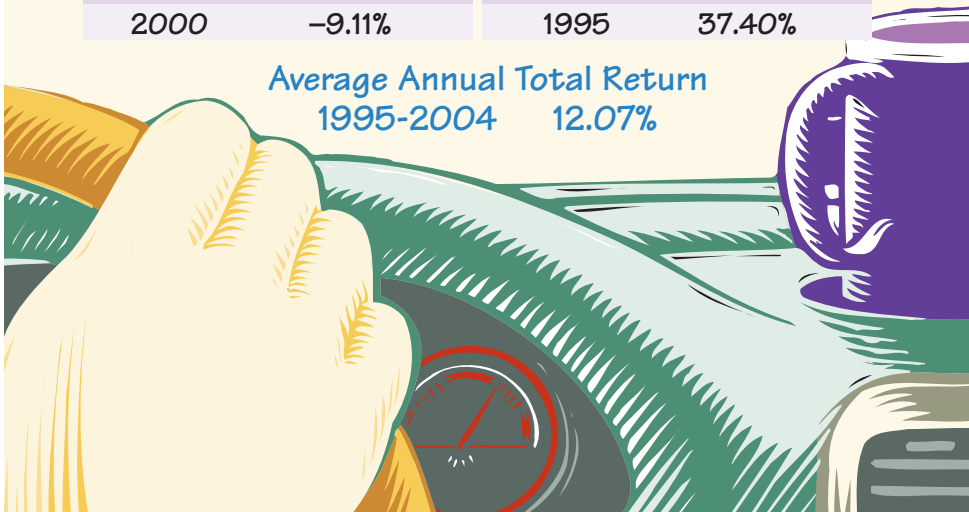
Diversification Adds Risk Control

If you invest in a diversified mix of different investment types and one investment type drops in value, only *part* of your portfolio is affected. Diversification doesn't ensure a profit or protect against loss in a declining market. Still, it's a key strategy that you can use to manage investment risk on the road to reaching your long-term goals.

Short-term Stock Market Volatility Versus Long-term Returns

Year	Annual Return*	Year	Annual Return*
2004	10.86%	1999	21.04%
2003	28.68%	1998	28.58%
2002	-22.10%	1997	33.40%
2001	-11.87%	1996	23.07%
2000	-9.11%	1995	37.40%

Average Annual Total Return
1995-2004 12.07%



*Measured by the S&P 500 Stock Index, an unmanaged index of the stocks of 500 major corporations. Stocks, whose value will fluctuate with market conditions, represent shares of ownership in a corporation. Future returns may or may not be enough to overcome possible annual declines. Past performance does not guarantee future returns. Your investment returns will be different. Source: Russell Data Services