Summer 2004

On Track

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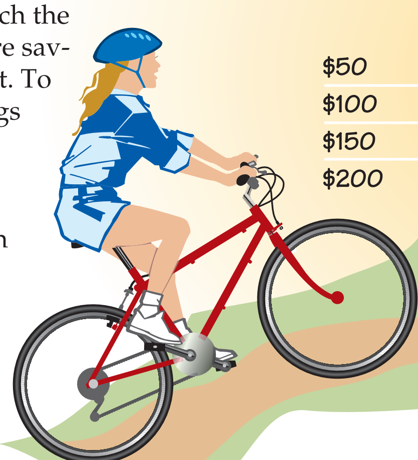
INVESTMENT REPORT FOR PLAN PARTICIPANTS

Riding to Retirement

When you're riding a bicycle, coasting along is fine — if you're not worried about where you're going or when you'll arrive. But to really move ahead, you need to keep pedaling. It's much the same when you're saving for retirement. To reach your savings goal, you'll need to keep making regular contributions to your plan throughout your working years.



Potential Long-term Growth of Different Contribution Amounts

Monthly Contribution	Total Contributed over 30 Years	Balance at Retirement
$50	$18,000	$60,999
$100	$36,000	$121,997
$150	$54,000	$182,996
$200	$72,000	$243,994

Over many years, an increase in the amount you save can make a big difference. These results assume a hypothetical 7% average annual total return compounded monthly. Your investment returns, contributions, and balance may be different. Source: NPI

The Right Speed

How much should you be contributing? That's your decision, as long as you stay within tax law and plan limits. Check with your plan administrator to find out the maximum amount you're allowed to contribute for 2004.

Your long range goal is a financially secure retirement. So you will want to have enough in your plan account by the time you retire to supplement Social Security and any other sources of income you expect to have.

A Clear Destination

To figure out how much you should be saving in your plan, you'll need to estimate:

- When you plan to retire
- Your future Social Security benefits and other sources of retirement income (pension, earnings from work)
- The personal savings and investments you may have outside the plan when you retire, if any
- What your retirement expenses will be

There are a number of tools that can help you set a savings target. Or ask a financial professional for help. Having a dollar figure to work toward will make it easier to reach your savings goal.

An Early Start

Contribute as much as you can to your plan as early as possible. That way, your savings have a longer time to benefit from potential investment growth — and you have a better chance of reaching your retirement goal.

Downsizing Your Cost of Living

Are your expenses increasing faster than your income? You may be surprised at how much you can cut your living costs with the following ideas. Just be sure you save the extra cash for something worthwhile, such as contributing more to your retirement savings plan.

Trim Housing Expenses

Fixed costs — the ones you pay month after month — are a prime opportunity for cost cutting if you do a little detective work. Maybe you can:

- Find a lower cost apartment that's as nice as the place you live in now
- Refinance your mortgage to cut your payment
- Reduce your utility bills by using heat, air conditioning, electricity, and water more carefully
- Find better deals on your telephone, cell phone, and Internet service

Reduce Insurance Premiums

Your homeowners (or renters) and auto insurance policies may offer more cost-cutting opportunities. You may be able to cut the premiums by:

- Raising the deductible amount — the part of a claim you pay before your insurance kicks in. Because you assume more of the risk, the premium is less.
- Consolidating your policies with one insurer
- Doing comparison shopping before renewal to be sure you're getting the best rate

Pay Less Interest

To reduce your credit card balances and, therefore, your interest costs:

- Target one credit card at a time to pay down. Make the largest payment you can on it and pay minimum amounts on the rest.
- When one card is paid off, go on to the next
- Use your credit cards less by paying more often with a debit card or cash

Cut Food and Clothing Costs

You'll pay less at the supermarket if you:

- Compare store and national brand prices and buy the lower priced item if the quality is acceptable
- Buy fewer prepared foods. Spending a little more time on preparing dishes can mean worthwhile savings.
- Always use a shopping list and stick to it

To pay less for clothing, make some changes in the way you shop. Try:

- Buying more of your clothes in the off-season
- Avoiding unplanned, impulse buying

Finding ways to reduce your living costs can really pay off in more money to save for your future.

Check Your Stock of Investing Facts

The more you know about investing, the better prepared you'll be to manage your retirement plan account. Here's a quiz to see how well you know some of the basics.

Looking back over the past 20 years, which investment type was the best* long-term *performer?

☐ **Bonds** ☐ **Stocks** ☐ **Cash equivalents**

Stocks. For the 20-year period 1984-2003, the average annual total return of stocks[1] was 12.99%. Bonds[2] earned 9.38% during the same period, and cash equivalents[3] earned 5.24%.

Which investment type is the riskiest (i.e., has the most volatile prices)?

☐ **Bonds** ☐ **Stocks** ☐ **Cash equivalents**

Stocks. Between 1984 and 2003, stocks had four years with losses. Bonds had two losing years, and cash equivalents gained in every year. The stock losses were much larger than the bond losses.

Which portfolio would be less risky overall?

☐ **A mix of stocks, bonds, and cash equivalents** ☐ **A portfolio of all stocks**

The mixed portfolio. A well-chosen mix of different investment types would be less volatile than an all-stock portfolio, and its potential returns would be higher than a portfolio of bonds and cash equivalents.

Past performance does not guarantee future results. Your investment returns will be different. Investment cannot be made in an index. Investments measured by: [1]S&P 500 Stock Index, an unmanaged index of the stocks of 500 major corporations; [2]Lehman Brothers U.S. Aggregate Index, an unmanaged index of U.S. government, corporate, and mortgage-backed securities with maturities up to 30 years; [3]3-Month T-Bill Index, an unmanaged index that measures returns of three-month Treasury Bills.

Sources: Russell Data Services and NPI

Looking at Investment Returns

When it comes to investments, the "total return" is a key number to know. It combines any dividend or interest income, capital gains, and the change in the investment's market value over a specified time period.

When you know the amount of your investment's total return, you can easily compare it to the total return of other investments — and with the performance of a benchmark market index. That lets you see at a glance how well your investments are doing.

Change in Buying Power

Total return isn't the whole story you need to know, however. The *real* growth of an investment is the amount of its return *after* subtracting the inflation rate. That number is called the "real return."

For example, a retirement plan investment may earn a 7% total return during a year. If the inflation rate during that same period was 3%, the real return of the investment is 4%. In terms of buying power, the investor has gained only 4%.

Timing Differences

Here's something else you should know about your investment returns. The return you earn on a particular retirement plan investment isn't always the same as the total return that's reported for the same investment.

The difference is timing. Instead of investing a lump sum at the start of the reporting period, you invest gradually by contributing each payday. So, the total amount you've invested in a fund during the reporting period changes. As a result, your *personal* total return may be different from the fund's reported total return for the same period.

Give Yourself a Financial Tune-up

If your car isn't running well, having the engine tuned up can restore smooth performance and improve your gas mileage. With your finances, a tune-up can really help, too, and it's something you can do by yourself. Think about following these simple suggestions.

Save More

Your employer's retirement plan is a great way to prepare for your financial future. Saving is much easier when the money is automatically deducted from your paycheck. Start your tune-up by reviewing the amount you're contributing to your plan.

Are you really saving as much as you can afford *now*? If your income has increased since you set your contribution amount, you may be able to do more for your future without straining your budget.

Review Your Progress

Reviewing your financial progress from time to time is important. That's because achieving long-term financial goals takes many years, and you need to make steady progress while you are working. So, make a date with yourself once or twice a year to:

- Look at the returns of the funds or portfolios in which you invest your retirement savings and
- Compare the results of your investments with appropriate market benchmarks.

If your review makes you decide that you want to make a change in your account's investments, but you're not sure how to do it, just ask your plan administrator.

Control Debt

Finally, look at your debt situation to see whether you can cut the amount of interest you're paying.

- A home equity loan usually costs less in interest than credit cards and auto loans. So, if you're a homeowner, paying off your other balances with money from a home equity loan may put you ahead — provided you're able to resist running your other debts back up.
- Look into refinancing your mortgage or car loan at a lower rate.
- Pay more than the minimum amount on your credit cards whenever possible.

Keeping your savings, investments, and debts well tuned should lead to a stronger financial future. It's an effort that may really pay off.

A User's Guide for Retirement Savers

We're living in the "information age." But too much information can be overwhelming, especially when it comes to financial matters. If you're suffering from information overload, here's a simple "user's guide" to saving and investing for your retirement.

Concentrate on Your Target

The basic reason you're saving and investing in your plan is to build assets you can draw on after you retire and your paychecks stop. So it's important to focus on your account's overall, long-term growth. Contributing regularly to your plan is essential. And try to ignore the daily ups and downs of the investment markets. In the big picture, the long-term performance of your investments is what really counts.

Spread Out Your Investments

There's no way of knowing in advance which of your investments will perform well and which will not. But *diversification*, choosing a mix of different investments, is a tried and true investment strategy that can help. With a diversified account, returns from investments that perform well may balance out disappointing returns from other investments. Diversifying should help you:

- Even out the volatility of your plan account
- Limit the damage from investments that perform poorly
- Share in the success of investment types that perform well*

Hold Your Allocation Steady

The way you divide up your retirement account between the different investment types is called your *asset allocation*. Over time, some investments will perform better than others, causing a shift in your asset allocation. It's smart to check your asset mix from time to time and to rebalance your portfolio if your allocation no longer reflects your goals, risk tolerance, and time frame.

Protect Your Buying Power

You invest with the goal of earning investment returns that, over time, will increase your plan account balance. But to increase your buying power, your returns must beat the rate of inflation. Consider including investments that have the potential to earn inflation-beating returns in your investment mix.

Pay Down Your Debts

How much of your income goes to paying off credit cards and other debts? More debt means less money available to save and invest for your retirement. When you are working toward long-term financial security, it's important not to take on more debt than you can comfortably manage.

Recent Performance Variations

Annual Return % of Different Asset Types**

Year	Stocks[1]	Bonds[2]	Cash Equivalents[3]
1999	21.04	–0.82	4.74
2000	–9.10	11.63	5.99
2001	–11.87	8.44	3.43
2002	–22.10	10.25	1.59
2003	28.68	4.10	1.03

How Diversifying Asset Types Affected Long-term Returns**

Investment	1999-2003	1994-2003
All Stocks[1]	–0.57	11.07
All Bonds[2]	6.62	6.95
All Cash Equivalents[3]	3.34	4.18
60% Stocks / 20% Bonds / 20% Cash Equivalents[4]	1.82	9.18

Average Annual Total Return %

[4]This is a sample asset mix for illustrative purposes only.

*Diversification doesn't assure a profit or protect against loss in a declining market.

These returns are for illustrative purposes only and don't reflect the returns of any specific investment or the returns the various kinds of investments may earn in the future. Stocks — measured by the [1]S&P 500 Stock Index**, an unmanaged index of the stocks of 500 major corporations — represent shares of ownership in a corporation. Bonds — measured by the [2]**Lehman Brothers U.S. Aggregate Index**, an unmanaged index of U.S. government, corporate, and mortgage-backed securities with maturities up to 30 years — are debt obligations. The value of both stocks and bonds will fluctuate with market conditions. The U.S. government insures the timely payment of principal and interest of Treasury bills (T-bills), unlike stocks and corporate bonds. T-bills — measured by the [3]**3-Month T-Bill Index**, an unmanaged index that measures returns of three-month Treasury Bills — are short-term money market instruments. All three indexes are unmanaged, carry no expenses, and you cannot invest directly in them.

Past performance does not guarantee future returns. Your investment returns will be different.

Sources: Russell Data Services and NPI