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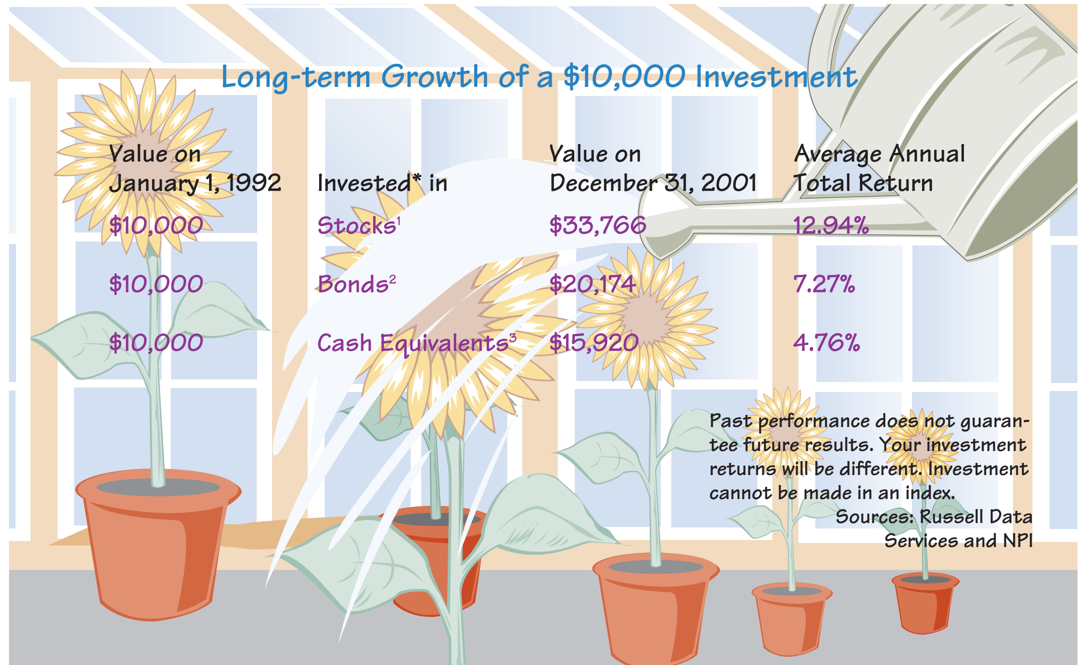
Retirement Planners & Administrators, Inc.
America's Premier Full Service Retirement Plan Provider
Since 1969
7639 Leesburg Pike - 2nd Floor
Falls Church, Virginia 22043
Phone 703.893.7322

INVESTMENT REPORT FOR PLAN PARTICIPANTS

Get Real about Retirement Savings

When investment markets are thriving, it's easy to think that your retirement savings plan can make you rich *fast*. If the markets are down, it may be just as easy to think that your plan isn't helping you get ahead at all. Either way, you'd be wrong. The *reality* is that over a long period, saving regularly in your plan is an advantageous way to prepare for your retirement. Here's why.



Long-term Growth of a $10,000 Investment

Value on January 1, 1992	Invested* in	Value on December 31, 2001	Average Annual Total Return
$10,000	Stocks[1]	$33,766	12.94%
$10,000	Bonds[2]	$20,174	7.27%
$10,000	Cash Equivalents[3]	$15,920	4.76%

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

Real Benefits

First, your plan eliminates the need for willpower. You don't have to decide each payday whether or not to save part of your earnings for retirement — it happens automatically. Whatever amount you've chosen to contribute is invested in your retirement plan account before you're tempted to spend the money.

Second, your plan provides income-tax benefits. The tax deferral on your contributions makes saving for your future more affordable. And the tax deferral on investment earnings lets your balance grow faster than it would if you had to pay taxes all along. You will owe taxes when you eventually withdraw money from the plan, but until then, your money stays sheltered.

Potential Growth

Your plan offers you an opportunity to invest in a mix of professionally managed investment funds or portfolios. Over the years, the investment markets will have downs as well as ups. Expecting to get rich fast isn't realistic. But neither is thinking that a declining market will never recover. Past investment performance never predicts future performance. Still, in the past, strong investment markets have followed weak markets, giving stocks and bonds a history of long-term growth.

If you have many years to go before you retire, your retirement plan *really* can help you save much more for your future.

*Investment returns measured by: [1]S&P 500 Index, an unmanaged index of the stocks of 500 major corporations; [2]Lehman Brothers Government/Credit Bond Index, an unmanaged index of investment grade corporate and government bonds with maturities of one year or more; [3]Merrill Lynch 3-Month T-Bill Index, an unmanaged index that measures returns of three-month Treasury Bills.

A Supporting Player for Your Plan Account

Stocks are the stars of the investment world. They're always in the news and are often the topic of conversations. But you seldom hear much about cash equivalents. They are investing's supporting players.

Steady and Dependable

Cash equivalents include money market investments, U.S. Treasury bills (T-bills), certificates of deposit, and other short-term securities. Because cash equivalents generally don't fluctuate in value, they are less risky than stocks and bonds. You are not likely to lose principal when you invest in cash equivalents, and you will earn steady income.

Limited Real Growth

The downside of cash equivalents is their return potential. No long-term investor can afford to ignore the fact that inflation reduces purchasing power. In most years, the returns of cash equivalents have been lower than the returns of stocks and bonds and also *close to the rate of inflation*. Do you want to achieve long-term growth that beats inflation? If you do, investing all of your money in low-risk cash equivalents would most likely be a mistake because of their relatively low potential for growth.

Offsetting Losses

But casting cash equivalents in a supporting role may be a good strategy for your retirement plan account. For example, you might invest part of your account in cash equivalents and part in other investment types, such as stocks and bonds, that offer the potential for higher returns (and also involve more risk). The reason: During the inevitable future periods when stocks, bonds, or both investment classes perform poorly, your cash equivalents should retain their value and provide returns that help to offset possible losses on your other investments. In other words, including some cash equivalents in your plan account's investment mix may be a way of reducing your overall risk.

Choosing Your Investment Mix

How much of your retirement savings should you invest in cash equivalents? That is a decision you alone can make, based on your own tolerance for investment risk, your own investment goals, and your own investment time frame. The size of the part that you decide to give to cash equivalents within your retirement plan account should balance the risk that cash equivalents may earn low returns with the chance of experiencing losses, which is greater with other types of investments.

Is It Smart To Run from Falling Prices?

Anyone who invests in stocks can expect to experience good times and bad. Eventually, periods of lower prices follow periods of sustained gains. What should you do if your shares in stock funds or portfolios are worth less than you paid for them?

You could move your stock investments into less volatile investments. After all, selling the stock would at least preserve the money that's left. But, before you run from the stock market, think about two things.

First, after major past declines, the stock market has recovered and gone on to new gains. Of course, past investment performance never predicts future performance, and there's no guarantee. Sometimes, recovery from a period of declining prices has taken many months or even a few years. But recovery eventually came. That argues for patience when prices are dropping and hope in the economic future. If you have many years remaining before you'll need your retirement funds, there's a good chance you'll have enough time to ride out temporary market declines.

Second, what if you do sell your stock investments? To take advantage of potential future growth, you'd probably want to reinvest when prices start to recover. But you can't know for sure whether prices have really reached bottom. You might reinvest only to watch prices continue to fall.

Unless your retirement is near, you have time on your side. You don't need to try matching your investment decisions to market ups and downs. The best strategy may be to invest consistently through automatic contributions to your retirement plan, because you'll always be ready to take advantage of potential market gains.

Targeting Your Retirement Date

Are you thinking about when to retire? Planning a firm date for your retirement may not be simple. While age 65 has been the traditional retirement age, that's changing. If you can afford it, you might choose to retire earlier, as many of today's retirees have. Or, you may need or choose to keep working past age 65.

Income

Your year of birth determines when you'll be eligible for "full" Social Security benefits. People born in 1937 and before are eligible for full benefits at age 65. The qualifying age gradually increases to 67 for those born between 1938 and 1960. You can begin receiving reduced Social Security benefits any time after age 62. If you decide to keep working past your normal retirement age, you can qualify for increased benefits up to age 70.

The money you've saved in your employer's tax-deferred retirement plan account will probably be an important source of income after you retire. If you're eligible for other retirement benefits, check to see what they are and when they'll be available.

Health

Your health may force you to retire earlier than you might otherwise choose. Or, continuing good health may allow you to keep working into your late sixties or beyond.

Something To Do

Many workers today expect to work part time after they eventually "retire." And often, the reason isn't money. They want something interesting and useful to do. How will you fill all the free time you'll have when you retire? That's another important question you'll want to answer as you plan for your future retirement.

Check Your Investment IQ

You don't need professional investment skills to choose funds or portfolios for your retirement plan account. But it certainly helps to know a little about investing. Here's a *True or False* quiz you can use to check your investment knowledge.

Bonds are the investment type that has the best history of beating inflation.

False. Stocks are the winner by far. For example, from 1992 through 2001, stocks posted an average annual total return of 12.94%[1] while bonds returned 7.27%[2] and cash equivalents 4.76%[3]. The annual rate of inflation averaged 2.51%[4] for the period.

The U.S. stock market has lost money in each of the last four years.

False. The S&P Stock Index[1] lost 11.87% in 2001 and 9.10% in 2000. But it gained 21.04% in 1999 and 28.72% in 1998. Short-term stock returns are very volatile. Over a longer period, it's a different story. The returns have been very positive — despite many years when stocks performed poorly. Past investment returns don't predict future performance. Still, time is on your side when you invest in stocks for the long term.

The power of compounding increases over time.

True. The compounding of investment returns can produce powerful results over a long period of time. Here's a hypothetical example. A $1,000 investment earning a 6% average annual total return grows to $1,338 after 5 years, $1,791 after 10 years, $3,207 after 20 years, $5,743 after 30 years, and $10,286 after 40 years — without investing one additional penny of principal. But notice how much of the growth occurs after many years have passed. You get the greatest advantage from potential compound investment growth when you invest for a long period.

An investor can't lose money by investing in a bond fund or portfolio.

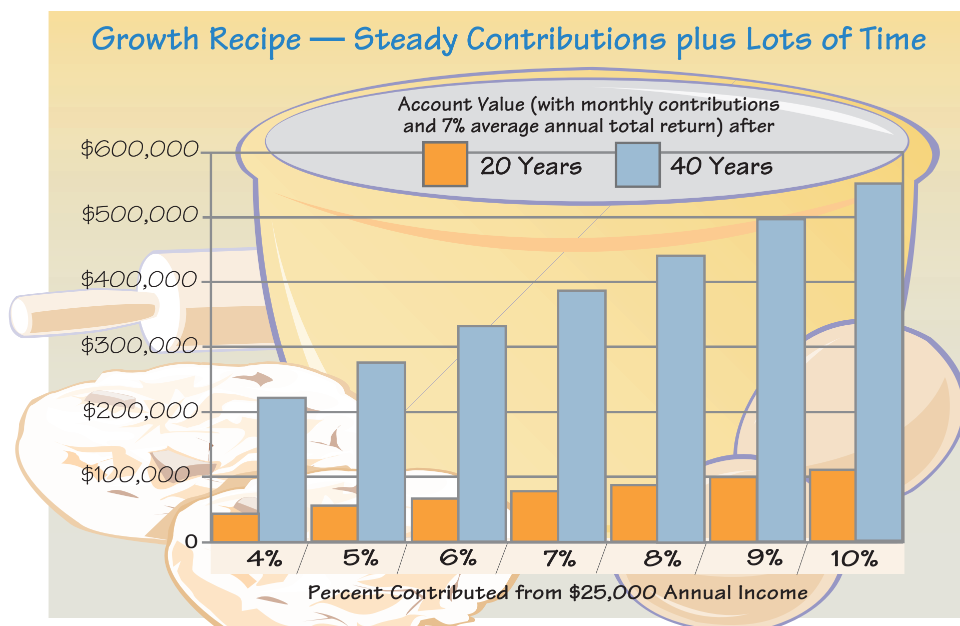
False. The market values of outstanding bonds change when market interest rates change. Rising rates drive bond prices down, and falling rates have the opposite effect. An investor who redeems his or her investment in a bond fund or portfolio after prices have dropped can lose money.

Investments measured by: [1]S&P 500 Index, an unmanaged index of the stocks of 500 major corporations; [2]Lehman Brothers Government/Credit Bond Index, an unmanaged index of investment grade corporate and government bonds with maturities of one year or more; [3]Merrill Lynch 3-Month T-Bill Index, an unmanaged index that measures returns of three-month Treasury Bills; [4]U.S. Consumer Price Index, a monthly measure of the rate of inflation for consumer goods. *Past performance does not guarantee future results. Your investment returns will be different. Investment cannot be made in an index.*

Sources: Russell Data Services and NPI

Mistakes That Can Ruin the Recipe for Your Future

Cookies that you bake won't be very good if you forget to include the sugar when you mix the ingredients. You also want to avoid making basic mistakes with your retirement savings account — because you'll pay for them *after* you retire.



This is a hypothetical example with investment returns compounded monthly. Your investment returns will be different and your pay may not remain the same. Source: NPI

Not Adding Enough

The biggest mistake may be not including enough ingredients in your mix. Low contributions lead to a low balance at retirement. But how much of your income should you be contributing to your plan?

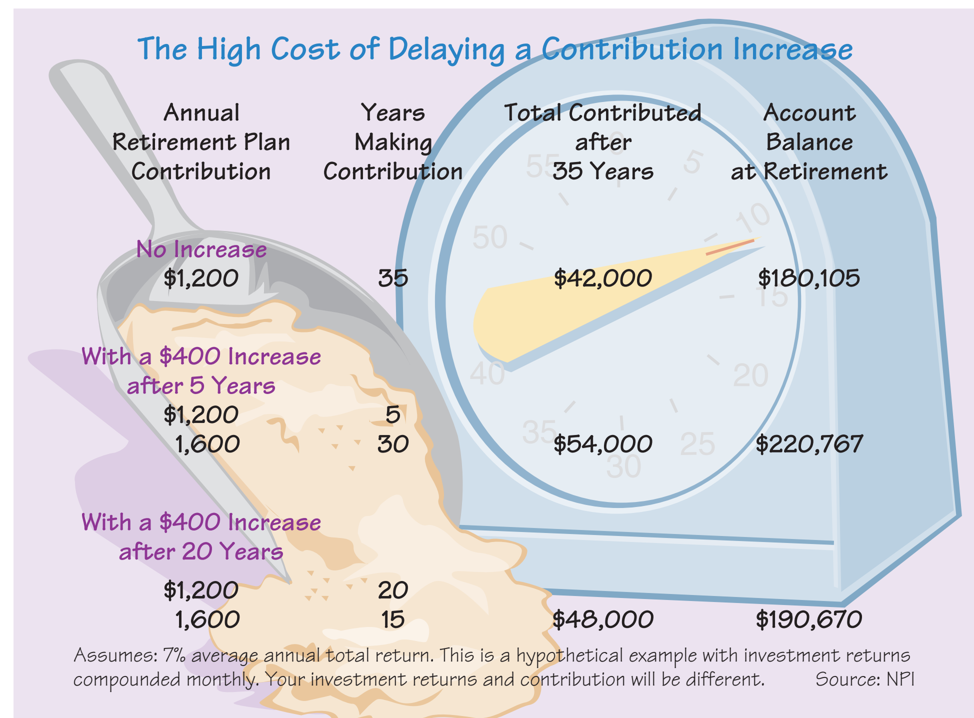
To decide, work from a goal — the amount you'll need to supplement your Social Security benefits and any other retirement income sources. Then, estimate the annual contribution that may be necessary to build that amount. Any estimate is a guide, not a guarantee. But making the effort can show you what it may take to have a realistic chance of reaching your goal.

You'll certainly be better off with *more* money in your retirement account than with less. It makes sense to contribute as much as you can reasonably afford *now* based on your own financial circumstances. You may want to gradually increase your contribution until you reach your plan's maximum. And remember to reexamine your contribution amount if your financial situation or goals change.

Using Unfamiliar Ingredients

With your retirement plan, it's easy to choose investments that may belong in your recipe for the future. But don't make the mistake of selecting an investment fund or portfolio based only on its name or short description. More information is readily available to you about each of your plan's investment choices. Before you invest, you should know:

- The type of securities the portfolio holds
- How risky the portfolio is
- The portfolio's investment goals and performance history



The High Cost of Delaying a Contribution Increase

Annual Retirement Plan Contribution	Years Making Contribution	Total Contributed after 35 Years	Account Balance at Retirement
No Increase			
$1,200	35	$42,000	$180,105
With a $400 Increase after 5 Years			
$1,200	5		
1,600	30	$54,000	$220,767
With a $400 Increase after 20 Years			
$1,200	20		
1,600	15	$48,000	$190,670

Assumes: 7% average annual total return. This is a hypothetical example with investment returns compounded monthly. Your investment returns and contribution will be different. Source: NPI

Not Watching Results

Once you decide your contribution amount and investment mix, nothing makes you keep paying attention to your retirement plan account. But you're making another basic mistake if you don't check your progress periodically. After all, those cookies will burn if you don't take them out of the oven as soon as they're done. You should follow the performance of your investments and make any adjustments you think are needed because of changes in your situation or goals, the economy, or the investment markets.

For a successful financial future, the essential ingredients are carefully choosing your contribution amount and investments, plus tracking your progress throughout your career.

This newsletter is designed to provide useful information about retirement plans and investing your plan account savings. While the investment performance information contained herein was obtained from reliable sources, it cannot be guaranteed as to completeness or accuracy. Before acting on any of the information provided, consult your professional advisor.
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