



INVESTMENT REPORT FOR PLAN PARTICIPANTS

Time To Take a Break

The market was up 150 points today." "Prices on the New York Stock Exchange were down 4% in early trading." Investment news is everywhere — in the paper, on the radio, online.

Some of the reports may make you think you should rush to change investments to protect your retirement money or to get in on a growth opportunity. But normal market volatility shouldn't be a reason to change your investment mix.

Stay with Your Plan

As a retirement investor, it's important to stay focused on your goals. Avoid the temptation to react quickly to the daily ups and downs of the securities markets. With a well-diversified portfolio and a carefully constructed asset allocation, you should be able to take a break from the investment news and give your plan time to work.

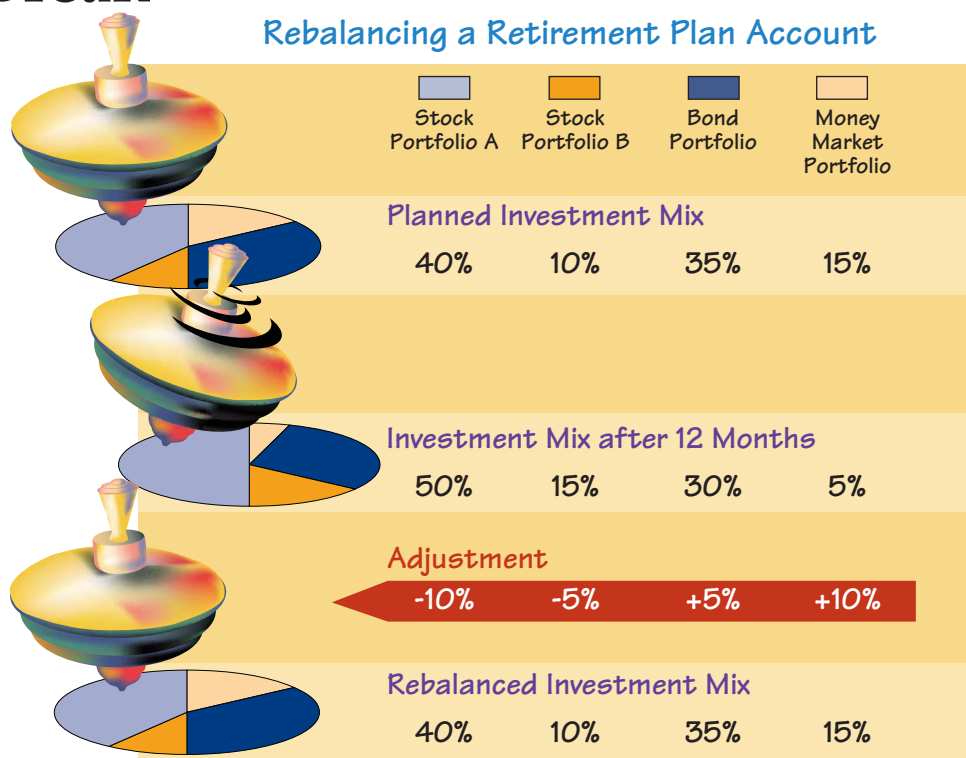
Contribute More

Remember, your retirement account has an important source of potential growth outside of investment earnings — plan contributions. The surest strategy for achieving a higher balance at retirement is to save more while you're working. And the sooner you increase your paycheck contributions, the better. If you're not sure how to make a change, check with your plan administrator.

Keep Tracking

Although it's wise to take a break from the news, don't ignore your

Rebalancing a Retirement Plan Account



This is a hypothetical retirement plan account. The changes in investment mix shown do not represent the performance of any specific securities. Source: NPI

investments. Check your account periodically to be sure your investment mix is still on target.

As the values of your investments change, the percentages you have invested in the different asset classes (stocks, bonds, and cash) may shift. When that happens, you might want to *rebalance* your investments to return your account to its original allocation percentages — either by transferring money between investment options or temporarily adjusting where you invest new contributions.

Start your break from the daily

barrage of market news today — and keep your investment strategy focused on the long term.

Pay Attention to the Fed

When the Federal Reserve's Board of Governors meets, sometimes it makes a decision to raise interest rates. Sometimes it decides to cut them. And sometimes it chooses to stand pat. You may not think the Fed's interest rate decisions make that much of a difference to you — but they might have a bigger impact than you imagine.

How? Interest rates affect the strength of the U.S. economy, which in turn affects the investment markets. When the Fed raises interest rates, it usually does so to slow economic growth, which helps lower inflation. When the Fed cuts rates, it is generally trying to boost a slowing economy.

When Rates Rise

If the Fed decides to raise interest rates, banks have to pay more to borrow from the Fed, and banks charge each other more for overnight loans.

A domino effect follows. The prime rate, the rate banks charge their best customers, goes up. Banks also raise the rates they charge businesses that want to expand and consumers who want to buy homes and cars.

When borrowing becomes more expensive, businesses and individuals generally become less willing to take on debt. With less borrowing and spending, the economy shrinks, inflation pressures ease — and stock values often decline as well. The full impact of a rate increase can take months to work its way through the economy.

When Rates Drop

The domino effect changes direction when the Fed cuts interest rates. Banks cut their lending rates because they are paying less to borrow from the Fed and from each other. Borrowing by businesses and consumers generally increases because it's less expensive. And credit-based

spending expands, boosting the overall economy and, often, the stock market as well.

No Guarantee

Although lower interest rates have often been good for stock values and rising rates have often been bad, you can't count on either outcome. The reason: Stock prices rise or fall daily because of the *individual* buying and selling decisions of thousands of investors. And many other factors besides interest rates affect their decisions, including reports of higher or lower company earnings, expectations of increasing or decreasing inflation, other positive or negative economic news, and political news worldwide.

So, no one can be sure in advance whether any Fed rate decision — when combined with all of the other factors that influence stocks — will ultimately be good or bad for the stock market.

Two Little Excuses That Lead to Big Future Problems

You won't have your regular paycheck coming in after you retire. That's why you're contributing to your retirement savings plan. But are you contributing enough? You don't want to find yourself close to retirement without enough money to fund your "golden years" because by then, it may be too late to fix the problem. So try not to make excuses for not contributing more to your plan now. Here are two to avoid.

I'll Make It up Later

There is stiff competition for your money. So it's tempting to think that

you can skimp on contributions now and make up for lost time by saving more later. Yes, increasing your retirement plan contribution always helps — no matter how far down your career path you may be. But the numbers are increasingly against you as the amount of time you have to contribute dwindles.

Consider this hypothetical example. It takes annual contributions of \$1,002 *starting at age 25* to build a balance of \$200,000 by age 65, assuming a 7% average annual investment return. *Starting ten years later* at age 35, the annual contribution needed to

achieve the same \$200,000 goal (assuming the same return) is \$2,117 — about two times greater.

I'll Get It from the Government

It's also tempting to think that Social Security will provide most of the income you'll need. But that's simply not true. The current average Social Security benefit is less than \$900 per month. Your own benefits will depend on your age when you retire and your earnings history. But remember that Social Security is meant to supplement your retirement income, not be your only source.

A Simple Plan for Saving More

Saving money for your long-term and short-term goals doesn't have to be an exercise in complex budgeting. There's a very simple way of making sure that you "pay" yourself first by putting some money into savings *before* you divide your paycheck between everyday living expenses, bills, and fun money. A slight adjustment of your spending habits is all it takes to succeed.

Take It off the Top

What if you simply pretend that your take-home pay is less than the actual amount of your check — and scale back your spending accordingly?

Arrange to put whatever percentage you want to save into your retirement plan and other savings account *first* and then live on the remaining income. You might, for example, decide to contribute 8% to your retirement plan and make automatic deposits of another 2% into a savings or money market account that can serve as your emergency fund and the source for future large purchases, such as appliances and furniture.

Forget Complicated Budgeting

What are the advantages of this simple plan? For one thing, you save a set amount of money each pay

period, which helps you achieve your financial goals. And you don't have to track your spending every pay period to make sure you have enough left over to put into savings. All you have to do is decide on a target amount that you want to save and act *as if you don't earn it*.

Increasing the amount you save may require you to make some changes in your spending habits. And most likely, there will be some tradeoffs between spending now and saving for your future financial well-being. But, once you get used to living on less, saving should become a lot less painful.

Learning from Investment History

A rearview mirror can't show the road ahead of your car, any more than an investment's performance record can predict its future returns. But, just as a look backward helps drivers, a look at the historical performance of different investment classes can be useful.

Stocks — The Long-term Winner

The stock market's history includes a long record of overall growth interrupted by many periods when the market lost money or had low returns.

- During the last 20 years (1983-2002), the stock market¹ had 16 years with gains. The highest annual return during those up years was 37.50%. The lowest was 1.33%.
- The market showed a loss in four of those 20 years. The largest annual loss was -22.10%, while the smallest was -3.19%.
- The average annual total return for the entire period was 12.71%.

What does this tell us? Stock values have been volatile, with a wide

range of price advances and declines. But, over longer time horizons, the stock market has rewarded investors with solid returns.

Bonds — Second in Both Returns and Volatility

The bond market has had fewer losing years, but also generally lower returns than stocks.

- Between 1983 and 2002, the bond market² gained in 18 years, with a range from 2.75% to 22.13%.
- Bonds had only two losing years in the same period: -2.92% in 1994 and -0.82% in 1999.
- During the 20 years, the bond market's average annual total return was 9.59%.

The message? Despite occasional losing years, the bond market has a positive long-term record — with less volatility, but lower gains overall than stocks.

Cash Investments — Steady but Limited Potential

Cash investments were third in

overall performance — showing no years with losses, but also no years with very high gains.

- Cash investments³ had gains in all 20 years from 1983 through 2002. The highest annual return was 9.80%; the lowest was 1.59%.
- The average annual total return for the entire 20-year period was 5.63%.

What's the lesson? No losses means low risk, but the comparatively low returns show a limited opportunity for long-term gains.

As you look at investment history, keep in mind that past performance can never guarantee future results. You should base your allocation choice on your goals, time horizon, and risk tolerance.

Market returns measured by: ¹the S&P 500 index, an unmanaged index of the stocks of 500 major corporations; ²the Lehman Brothers Aggregate Bond Index, an unmanaged index of U.S. government, corporate, and mortgage-backed securities with maturities up to 30 years; ³91-day T-Bills.

Red and Green Lights for Retirement Savings

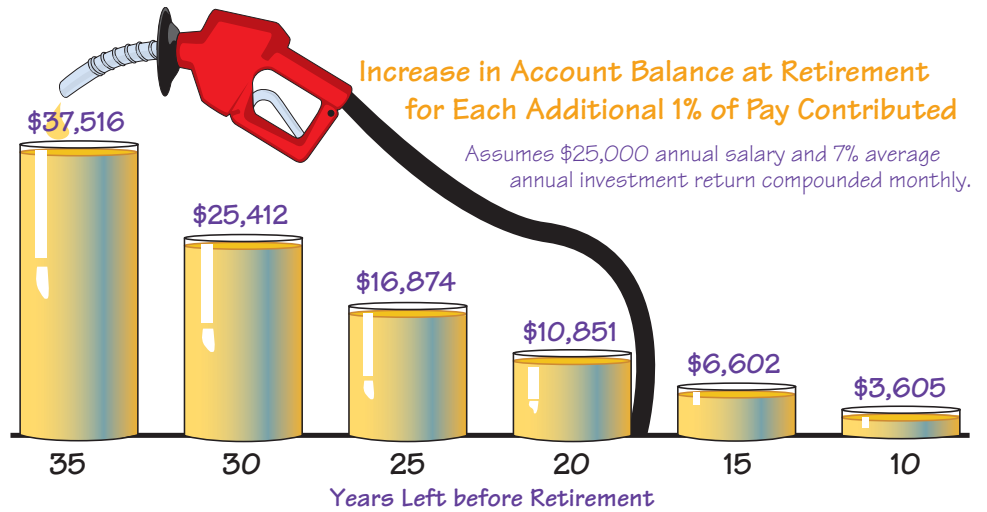
A driver who runs a red light invites an accident. So does a driver who stops at a green light. To get where you're going, it's important to obey the rules of the road. The same holds true when you are managing your retirement account. Here are some red and green lights that may help you reach your savings goal.

Red Lights

Spending a lump sum. If you change jobs, don't take the money from your retirement savings plan in a lump sum and spend it. Making up for retirement money you've already spent is very difficult. Plus, you'll have to pay income taxes and maybe a 10% penalty on the amount you withdraw.

Instead, make sure you'll have money when you *really* need it by rolling over your balance into an individual retirement account (IRA) or your new employer's tax-deferred savings plan. If you arrange for a direct transfer, federal taxes won't be withheld from the distribution. (You also may be able to leave your money in your present plan.)

Contribution Increase: Sooner Beats Later



These are hypothetical examples that assume the same pay and investment return are earned throughout each growth period. Your return, pay, and time frame will be different. Source: NPI

Borrowing from your account.

Don't think of your retirement savings as a line of credit. Borrowing from your retirement account — if your plan allows it — is an option you should avoid if you possibly can. Why? First, you'll have to repay the loan with after-tax money. Then, you'll pay taxes on it again when you receive distributions at retirement. And, if you leave your job before retirement, you'll probably have

to repay the loan immediately — or else owe income taxes and possibly a penalty on the unpaid amount.

Green Lights

Contributing more.

Are you really contributing as much as you can to your plan? If you take a

hard look at where your money is going, chances are good you'll find ways to save more for your future.

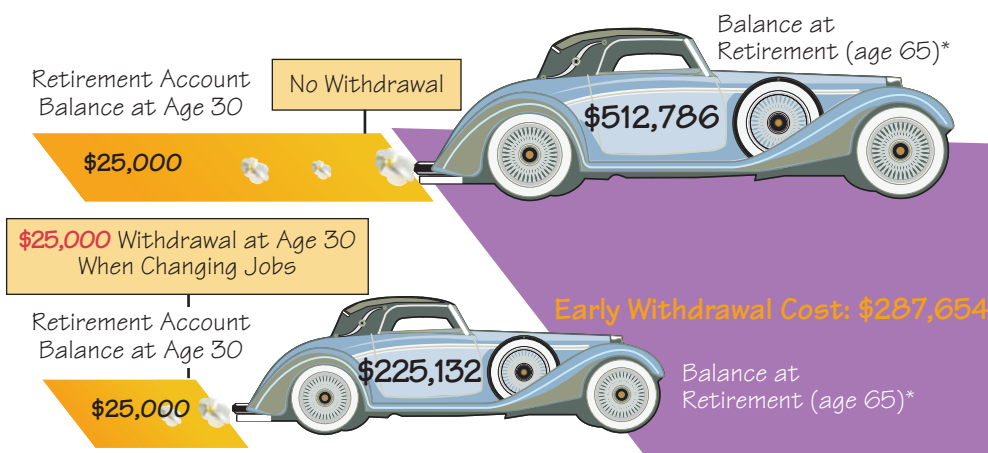
Reviewing your mix of funds.

Your mix of retirement investments should reflect your risk tolerance and time horizon. Regularly reviewing your asset allocation — and rebalancing if necessary — will help keep you on the path toward your goals.

You're Driving

Meeting your financial goals by the end of your road to retirement depends on the choices you make along the way. To improve your chances of success, obey both the red and green lights: Hang on to your retirement money. Contribute as much as you can. And stay on top of your results.

The Cost of Withdrawing a Lump Sum



*Assumes \$125 monthly contributions and 7% average annual investment return between ages 30 and 65.

Withdrawals are subject to income taxes and a possible 10% penalty. This hypothetical example doesn't reflect these costs. Your investment returns and contributions will be different. Source: NPI