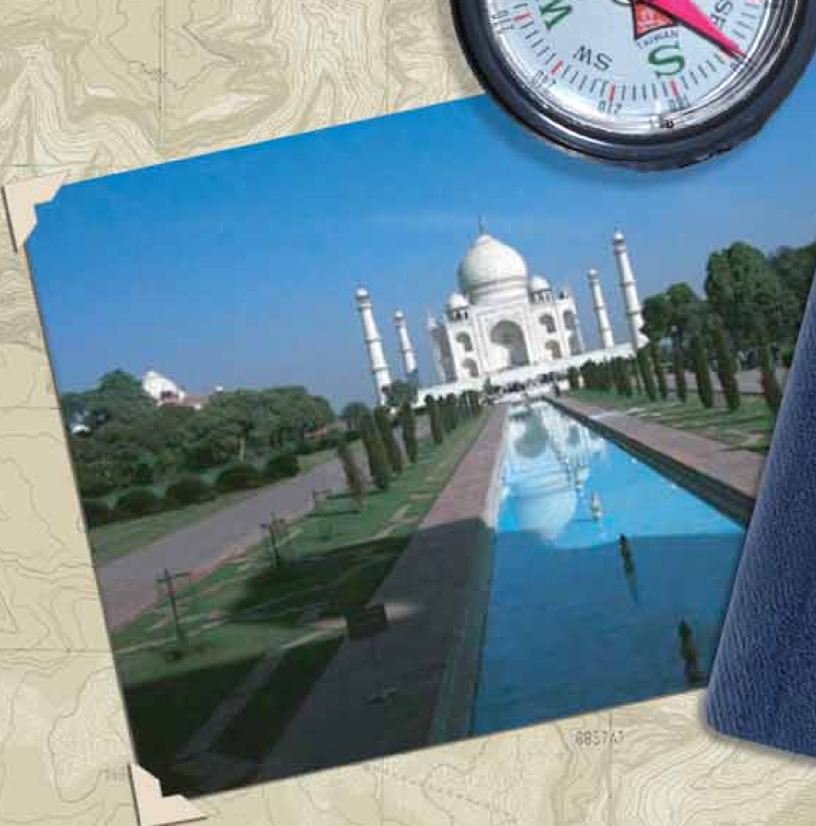
Investing is a Lifelong Journey

Using Your Retirement Plan Wisely



ABC Company
HR Department

Dear Paul,

We are proud to offer you the opportunity to join the ABC Company 401(k) Retirement Plan (the Plan). Our plan is a valuable benefit that can help you achieve financial independence and retirement security.

There are several advantages to being a participant in our Plan:

- Your contributions are tax deferred.
- ABC Company matches your salary deferrals, increasing your savings.
- The earnings on your retirement account are tax deferred.
- You have daily access to account information by phone or Internet.
- You have the ability to change your investments when you want to.

We know that investment decisions are never easy, so we have provided you with this brochure to help you get the most out of participating in the plan.

It's easy to join the plan:

- Complete the enrollment and beneficiary forms.
- Decide what contribution rate is right for you (see the worksheets).
- Congratulate yourself on the first step to financial independence.

At ABC Company we are committed to providing our employees the best possible retirement plan, so we have hired XYZ Company, professional retirement plan administrators, to service our Plan. You'll find information about this company and how to use their services on page ## of this booklet.

If you have any questions about the Plan, please contact the call center at 1-800-000-0000 or visit http://www.plansite.com.

Sincerely,

John Jones
Director, Human Resources

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Plan Highlights

The following is a brief overview of the Plan's key features. This is not intended to replace the Plan's Summary Plan Description (SPD), which is a legally required document that provides a more detailed discussion of the Plan's provisions. You can obtain a copy of the SPD from either your Human Resource department or the Plan Administrator.

Eligibility
You can participate in the Plan after you have completed six months of service with the Company.

Entry Dates
You can sign-up to participate in the Plan on the first of any month following six months of service.

Annual Salary Deferral Limits
Federal law permits you to defer any portion of your salary up to $15,000 in 2006. If you make the maximum contribution and are age 50 or older, you can also make a catch-up contribution of $5,000 in 2006. Your contributions plus any employer contributions made on your behalf may not exceed the lesser of 100% of your compensation or $44,000 in 2006. These limits may be increased in the future.

Changes in Salary Deferral Amounts
You may change your deferral amount at any time by calling the Plan Administrator's Hot Line or by going to its web site. The change will be effective as soon as administratively possible.

Year of Service
A year of service is defined as any year in which you work at least 1,000 hours.

Company Match
Your employer will contribute 50¢ for each $1 you defer.

Profit Sharing Contributions
The Company may make profit sharing contributions to the Plan on your behalf. The decision whether to make these contributions as well as their size will be made each year by the Company.

Rollover Contributions
Your 401(k) Plan will accept rollovers. These rollovers may come from tax deductible contributions and/or balances from other retirement plans in which you have participated or the earnings and tax-deductible or tax-deferred balances in IRAs. For specific information on what types of assets may be rolled into this Plan, please contact your Human Resource Department or the Plan Administrator.

Plan Vesting Schedule
The Plan's vesting schedule describes the portion of the money in your account that you own. Your salary deferrals, rollover money, and any investment earnings in those accounts are always 100% vested.

All company contributions made on your behalf, matching or profit sharing, vest after five years of service. This means that you must work at the Company for five years (at least 1,000 hours a year for 5 years) before you own all the contributions made by the Company during your first five years of full time employment. Once that five year period is met, all Company contributions will vest immediately.

Years of Service	Vested Percentage of Company Contributions
1 year	20%
2 years	40%
3 years	60%
4 years	80%
5 years	100%

Investment Changes

You may change the investment allocations of your existing account balances and/or change the investment selections for future contributions at any time and as often as you like. You may do this by calling the Plan Administrator's Hot Line or by going to the Plan's web site. The change will be effective as soon as administratively possible.

Distributions

Plan distributions can occur only for the following reasons: separation from service, permanent disability, death, or retirement on or after you reach age 65. At age 59½, even if you are still employed, you are permitted to take distributions from your salary deferral account. Any distributions you receive prior to age 59½ may be subject to a 10% early withdrawal penalty.

When you retire or terminate employment, you may receive your account balance in a single lump sum payment or installment payments. You may also request that the plan trustee transfer your account balance to an IRA of your choice or to your next employer's plan (assuming it accepts rollovers).

All money distributed from the plan is generally taxed as ordinary income in the year you receive it. If all or a portion of the distribution is rolled over to an IRA or another qualified plan, taxes will be deferred until a later date. The taxation of distributions should be discussed with your tax advisor.

Loan Option

You may borrow no more than 50% of your vested account balance up to $50,000. The minimum loan amount is $1,000, and you may have only one outstanding loan at anytime. If after establishing your initial loan, you find that you must increase your borrowing, you can restructure the existing loan. For the exact amount available for a loan, call the Plan Administrator's Hot Line or go to the plan's web site.

Loan amounts paid to you are not taxable if they are repaid in a timely manner. The loan's maximum length can be 5 years; 10 years if the money is used to purchase a primary residence. Loan repayments are made through salary deduction each pay period on an after-tax basis.

Hardship Distributions

A "financial" hardship is defined as a heavy and immediate financial need that cannot be satisfied by other resources available to you, including taking a loan from the vested portion of your 401(k) plan account. Hardships include: preventing eviction from or foreclosure of your primary residence; paying for post-secondary education for you or an immediate family member; paying for unforeseen medical expenses; or purchasing a primary family residence. For the exact amount available for a hardship withdrawal, call the Plan Administrator's Hot Line or visit to the Plan's web site.

Hardship distributions made prior to your attainment of age 59½ may be subject to a 10% penalty and will be taxed as ordinary income in the year received.

Investing is a Lifelong Journey

"All aboard!"

A Guide to Investing

Like any other journey, you must have a destination (your retirement goals) and a road-map (a plan) to get there. This booklet will help you develop your plan. It covers many of the issues you'll want to consider, and it gets you started on your way toward financial independence and retirement security.

Among other things, you will learn:

- how the Federal government helps you invest for the future;
- how participating in the plan will affect your take home pay;
- the size of the retirement nest-egg you will need;
- some important investment concepts;
- what risks you face during your journey to financial independence and retirement security;
- how to sign up for the plan.

The plan helps you achieve your goals

Congress established company sponsored 401(k) plans to help American workers invest for retirement. Participants have their own accounts into which they may defer a portion of their salaries. Investing in the plan offers many advantages.

Tax advantages- Uncle Sam is helping you save!

No Federal income taxes are paid on the money you put into the plan or on the money your employer contributes on your behalf. Your salary deferrals are called "pre-tax" or "before-tax" investments.

Additionally, all the money in your account grows tax sheltered. Taxes are paid only when you withdraw money from your account.

What are the plan's other advantages?

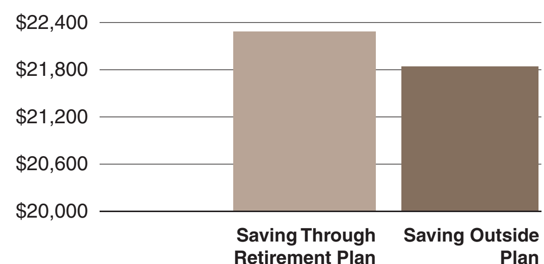
- Your employer's match is an immediate return on your contributions.
- You can take your vested account balance with you if you retire or change employers. Your money can be transferred to a rollover IRA or your new employer's plan without your having to pay any taxes.
- Furthermore, these investment options are professionally managed. Your employer has carefully selected and continuously monitors the investment options.

How does participating in the plan affect my take home pay?

Let's use Mary as an example. She has an annual salary of $30,000 and wants to invest 10% of her pay or $3,000 in a mutual fund. The table to the right shows the advantage of before-tax investing. By investing through the Plan rather than investing with after-tax dollars directly in a mutual fund, Mary's federal income taxes are reduced, actually increasing her take-home pay.

*This chart takes into account only Federal taxes and does not consider state or local taxes. Taxes are based on the IRS 2006 Tax Rates for a single filer plus 2006 OASDI and Medicare taxes. The 2006 standard deduction of $5,150 and one exemption ($3,300) have been applied in calculating the Federal taxes. Withdrawals made prior to age 59½ may be subject to a 10% Federal tax penalty and are subject to plan restrictions. Taxes are due upon withdrawal from a tax-deferred account.

Take Home Pay



	Saving Through Retirement Plan	Saving Outside Plan
Gross Annual Salary	$30,000	$30,000
Retirement Contribution	$3,000	0
Taxable Income	$27,000	$30,000
Federal Taxes*	$4,700	$5,150
After-Tax Savings	0	$3,000
Take Home Pay	**$22,300**	**$21,850**
Increase in Take Home Pay	**$450**	

I know little about investing. Where do I start?

The first step is to define your goals and income needs during retirement. The accompanying worksheets will help you do this. The worksheets also show, based upon your assumptions, how much you should be investing.

To use the worksheets, you'll have to make assumptions about your:

- life expectancy;
- replacement ratio;
- annual salary increases;
- Social Security benefit;
- post-retirement inflation rate;
- pre- and post-retirement investment growth rates.

What is my life expectancy?

If you are 65 and in good health, you have a life expectancy of about 18 to 20 years. You may want to be conservative and assume that you will live to 90 or beyond. You don't want to run out of money.

What is a replacement ratio?

Your replacement ratio is the percent of your annual salary that you will need during retirement. Conventional wisdom says that you should strive for a replacement ratio of at least 80% of your salary.

Don't forget, however:

- Your salary will likely increase between now and retirement.
- You must factor in the effect of inflation on your income.
- Medical expenses not covered by insurance will likely drive up your income needs.

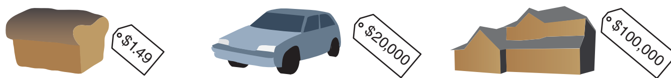
Without a good map, you might not reach your destination.

Can I realistically predict how much my salary will increase each year or what inflation will be in 2 years let alone 30 years from now?

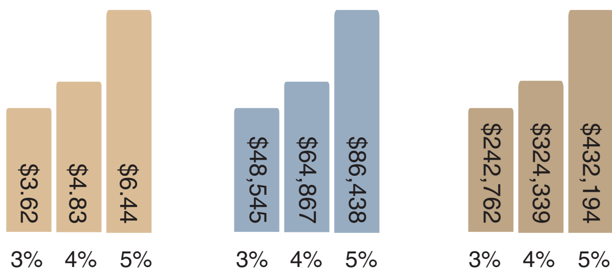
Of course you can't. The chart at the right shows what a $30,000/year salary will grow to over 30 years at three different growth rates.

The chart below demonstrates what three different inflation rates will do to the price of a loaf of bread, a car, and a home.

Price Today



Price in 30 Years



How much should I plan on getting from Social Security?

Each year the Social Security Administration will send you a Social Security Statement. You can also request one at any time by calling the number or visiting the website shown at the right.

The Social Security Administration Web site also provides calculators for estimating your benefit.

- 1-800-772-1213
- www.ssa.gov/retire2/walkthru.htm

The financial landscape is always shifting.

How do we go about getting "guesstimates" for the pre- and post-retirement investment growth rates?

There is no easy answer to this question because no one knows if the future performance of the stock and bond markets will resemble the past. If it does, what portion of the past will it look like? How long of a historical period should you look at (e.g., five years or thirty years)? If you decide to analyze five-year periods, which five-year period should you emphasize?

For example, if you invested $100 in large company stocks (S&P 500) at the beginning of 1995, five years later—at the end of 1999—you would have had $350 (a compound annual return of 28.6%). Meanwhile, if you had invested in bonds (Intermediate-term US Government Bonds) during this time period, you would have had only $140 (a compound annual return of 7.0%).

On the other hand, if you invested $100 in large company stocks at the beginning of 1998, five years later—at the end of 2002—you would have had only $97 (a compound annual return of –0.6%). If you had invested in bonds during this time period, your $100 would have grown to $148 (a compound annual return of 8.2%).

If you are a long-term investor, however, the short-term unpredictability of the stock market may not concern you. You might want to concentrate on longer historical periods, like thirty years.

If we divide history from 1926 through 2002 into overlapping thirty year time periods, we find that the annualized compound return of stocks (S&P 500) ranges from a low of 8.5% (in the period 1929-1958) to a high of 13.7% (in the period 1970-1999).

Bonds, on the other hand had an annualized compound return of only 8.7% even in their best thirty year period (1969-1998) and 2.2% in their worst thirty year period (1940-1969).

In other words, even when comparing the best thirty years of bond performance to the worst thirty years for stocks, bonds had only a slightly higher return. Moreover, when comparing the results in each individual thirty year time period, we find that stocks outperformed bonds in every one.

Are there other important concepts of which I should be aware?

There are. Volatility, time horizon, asset allocation, and diversification are all important considerations.

What is volatility?

Volatility refers to the changes in the price and/or total return of an investment from one period to another. Certain investments are more or less volatile than others. In fact, investment returns are more volatile over shorter periods of time than over longer ones. Listening to the daily news reports on the financial markets and reviewing your quarterly and annual reports will easily convince you of this.

Does this mean that if I am a long-term investor, I should emphasize stock mutual funds in my account?

If history repeats itself, the answer is yes. The potential long-term returns of stock mutual funds should outweigh any poor short-term performance. Furthermore, in a capitalist economy like the United States, investors should make more money owning companies (buying stocks) than lending them money (buying Certificates-of-Deposit or bonds.)

It's easy to panic when a you encounter a volatile situation.

What is an investment time horizon?

An investment time horizon is the number of years over which you want to accumulate a sum of money and/or the number of years over which you will consume that sum of money.

For your purposes, the time horizon has two phases. The first (accumulation) phase ends when you retire. At that point, the second (consumption) phase begins.

If you are a few years away from retirement, consider avoiding a heavy emphasis on stock funds because you might not have enough time to recover possible short-term losses. Don't forget, however, that just because you are nearing retirement doesn't necessarily mean all your money should be invested with a short-term focus. Remember, you could easily live 30 years after retirement.

What is asset allocation?

Asset allocation is the process of splitting your 401(k) investments (both contributions and accumulated balances) between stock, bond, and money market mutual funds. It is the process of choosing investments that match your goals, such as the need for growth (emphasis on stocks) versus current income (emphasis on bond and money market and stable value funds). The allocation for your current contribution can be different from the one for your accumulated balance.

I have been told that I should diversify my investments. Is diversifying the same as coming up with an asset allocation?

They are different. Diversification means not putting all your eggs in one basket. It is spreading your money among different investments in order to generate a more stable return by reducing volatility. The ups of one fund offset the downs of another.

You are diversifying somewhat just by investing in a fund (which, in turn, invests in many individual stocks and/or bonds) instead of a single stock or bond. You can increase diversification by investing in more than one fund.

Getting your bearings is very important.

What are the risks I face during my journey to financial independence and retirement security?

Risk is often measured in terms of volatility (i.e., how much the returns bounce around from year to year).

But aren't there other forms of risk?

Of course, depending where you are along the road to retirement, some of these risks may be of greater concern to you than volatility. These risks include:

- keeping up with inflation;
- not having enough time to recoup losses;
- running out of money (consuming your nest-egg too quickly);
- assumptions not working out;
- unanticipated needs;
- inadequate diversification;
- not having control over your emotions.

What do my emotions have to do with investing?

When it comes to money, all of us act emotionally. For example, our tendency to procrastinate causes us to delay making decisions regarding our 401(k) plan, such as determining our retirement income goals and the payroll deductions necessary to achieve them. Such procrastination causes us to lose both valuable time and employer contributions.

Also, our feelings of regret and our pride cause us to hold onto poor performing mutual funds. We simply don't want to admit that we invested in a loser and that our best chance to recoup the loss is to replace the current poor performer with another fund. After all, do we have a reason to believe that the new fund is going to do any better than the current loser? The desire to avoid emotional pain ends up creating financial pain.

Achieving financial independence and retirement security is truly a lifelong journey.

Yes it is. You will encounter both financially good and bad times. At times you will be filled with overconfidence.

Then, when the market heads south, you will worry about recovering losses. But, if you control your fear during those times (bear markets) and your greed during good times (bull markets), you maximize your chances of reaping the rewards of financial security and independence.

You must be prepared for unexpected obstacles.

A Closer Look at Risk

Looking at risk early in your career

Losing money is certainly a risk that everyone wants to avoid. But depending on your age, seeing your account balance drop in value may or may not be a significant risk. A much more significant risk might be investing too much of your account in funds with relatively low growth potential. Doing so may essentially guarantee that you will incur the ultimate risk in retirement investing—not having enough money to retire when you want with the lifestyle you desire. (Don't forget that you could be retired for almost as long as you worked.)

How can you say losing money is not a big risk?

When you invest for growth, such as in stock funds, you should expect to see your account bounce around quite a bit. This up and down movement, known as volatility, is the nature of the stock market. Bond funds can also be volatile. In general, however, they do not bounce around nearly as much as stock funds do.

Why did you say that volatility might not be a big deal? It's this roller coaster movement that keeps me up at night.

How important volatility is to your financial well-being is a function of your investment time horizon. When you invest in the capital markets, you must be willing to live with volatility—daily, weekly, and yearly. In spite of the markets' ups and downs, over most longer time periods, the up periods (positive performance) greatly outnumber the down periods (negative performance). What this means is that in spite of volatility stocks have been good, some would argue the best, investments for the long term.

Are you saying that, if we have time on our side, losses are usually recouped?

That's right. Furthermore, you don't lose any money until you actually sell your investment. Until a fund is sold, all you have is a paper loss, not a real loss. Over the long haul, it's a good bet that most paper losses will be recouped.

Another important concept to remember is that when the market heads south, and stock values decline, buying opportunities occur. You can buy more shares for a given investment when prices are low than when they are high. And the more shares you have, the more growth you can achieve when the market rebounds.

The figure below illustrates the differences between paper and real losses. $1,000 was invested in XYZ fund at the beginning of year 1. At the end of year 1 the fund's value was down $200. Since the fund was not sold, the $200 loss is a paper loss. The fund was not sold until the end of the tenth year. At that time the $1500 of paper gains were converted into $1500 of real gains.

End of Year...	Value of XYZ Stock Fund	Paper Gain (+) or Loss (-) During the Year	Paper Gain (+) or Loss (-) from Initial Investment	Real Gain or Loss
1	$800	-$200	-$200	$0
2	$1,300	+$500	+$300	$0
3	$900	-$400	-$100	$0
4	$1,200	+$300	+$200	$0
5	$1,700	+$500	+$700	$0
6	$1,400	-$300	+$400	$0
7	$1,800	+$400	+$800	$0
8	$2,300	+$500	+$1,300	$0
9	$2,100	-$200	+$1,100	$0
10	$2,500	+$400	+$1,500	$1,500

Why shouldn't I just put my money into investments with either no or low volatility?

The answer is simple. Over most longer time periods, these low or non-volatile investments (such as bond, money market, and stable value funds) have had returns that were much lower than the returns of stock funds.

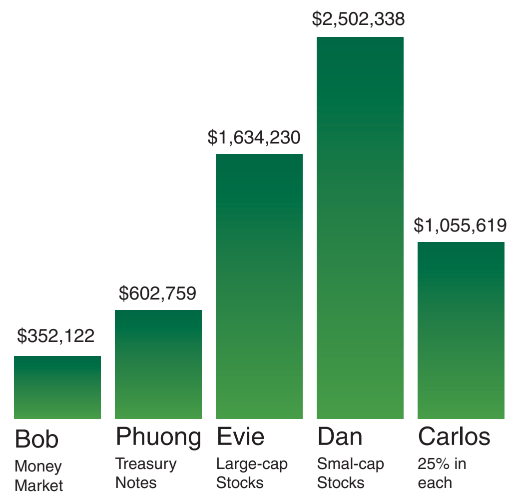
Although no one can guarantee the future, a good rule of thumb is that in a capitalist economy such as ours, investing in stocks should generate much higher returns than investing in bonds.

Aren't lower returns a good trade-off for lower volatility?

For long term investors the greatest risk they face is not accumulating enough wealth to fulfill their goals. In the case of retirement, the goal should be accumulating enough money to have a comfortable inflation-adjusted income. Unfortunately, in all too many cases, the amount you have to invest in a bond, money market, and stable value funds in order to achieve the necessary retirement nest-egg is much more than the average participant can afford. The investments that seem the safest, those with the least volatility, may in fact be the riskiest. Learning to deal with volatility, then, is simply part of the game.

The chart at the right shows just how large the differences in returns of various investments can be. Bob and Phuong invested annually $3,000 in so-called safe (relatively little or no volatility) investments. Evie and Dan invested their $3,000 each year in stocks. Carlos divided his annual investment evenly among each of the 4 investment categories.

Bob and Phuong felt that they ended up on the "short end of the stick." Their retirement nest-eggs were way too little for their needs. Evie and Dan, as can easily be imagined, smiled all the way to the bank. Emotionally speaking, Carlos was somewhere in between.



This chart assumes that each participant invested $3,000 annually from 1970 through 2005.

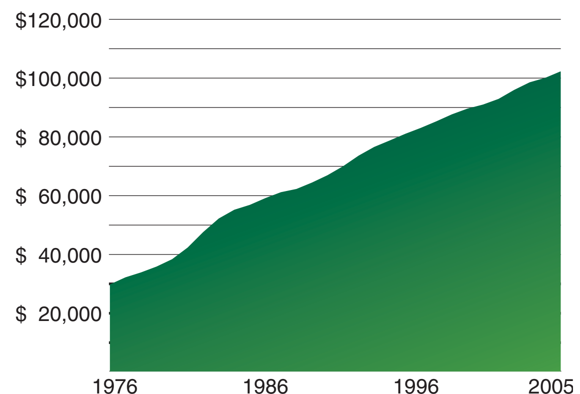
Looking at risk closer to retirement

How you define risk changes as you get older. When you are young, your primary risk is that you will choose investments which don't generate enough long-term growth. As you get closer to retirement, however, this risk becomes less important, and the risk that your account might drop in value becomes more and more important.

On one hand, you are still a long-term investor because you may be retired for thirty or forty years. In addition, each year as inflation drives up prices, you will need more income.

The graph to the right shows the need for an inflation-adjusted income. To maintain the same lifestyle you had in 1976 in 2005, you needed over 3 times your 1976 income. If someone lived comfortably on $30,000 in 1976, she would need $103,153 in 2005 to maintain the same lifestyle.

On the other hand, once you stop working, you are probably not going to be making any (or at least many significant) new investments. You are also going to be living off (that is, depleting) your retirement nest-egg. What this means is that you, or your advisor, or a fund manager will have to generate an inflation-adjusted retirement income stream that will enable you to have the lifestyle you desire.



* This chart shows the effects of inflation in each year between 1976 and 2005. The overall annualized inflation rate for that time period was approximately 4.2%.

If all your investment projections work out, it might not be all that difficult to fulfill your income goals. Unfortunately, seldom does anything work out as desired in the world of investing. If investment returns are poor for a few years you can prematurely consume a large portion of your nest-egg. This simply increases the risk that you either will run out of money or will have to drastically alter your lifestyle. As you get older, then, volatility is a major, if not the most important, concern. Yes, keeping up with inflation is important, but having an income, even a reduced one, is even more important.

The next two figures clearly demonstrate the uncertainties in planning for retirement. Both charts represent identical scenarios with one exception, the date withdrawals start from the account. The scenario is as follows: A participant retires with $200,000 in his account. 60% of the account is invested in bonds (Lehman Brothers Government/Corporate Index) and 40% is invested in stocks (S&P 500 Index).

Beginning at retirement the participant withdraws annually from the account an amount of money that is equivalent to $15,000 adjusted for a 3% annual inflation rate. Each chart shows how the account changes over time with this withdrawal as well as a withdrawal of just $15,000 (not adjusted for inflation). In Chart A, the withdrawals start in 1973, while in Chart B, they begin in 1980. In Chart A, the participant runs out of money, while in Chart B, he lives happily ever after on his inflation-adjusted withdrawals.

The differences in length of the inflation-adjusted income stream stems primarily from the poor performance of the stock market in 1973 and 1974. In 1973 the S&P 500 was down almost 15% and in 1974 it lost another 26% of its value. Poor performance at the wrong times can upset even the best retirement plans.

Stock market performance affects your financial security.

Chart A. Withdrawals start in 1973

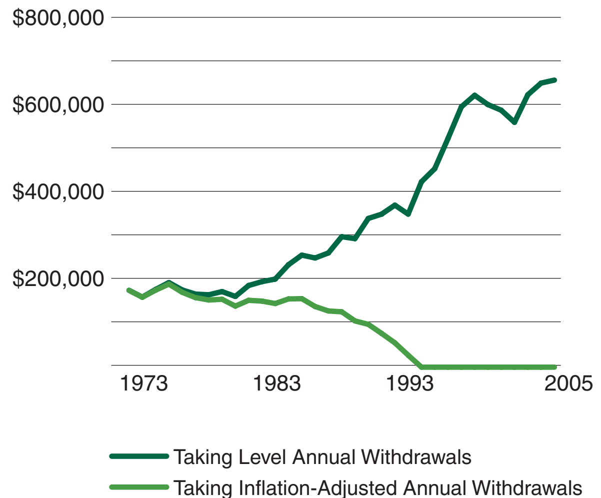
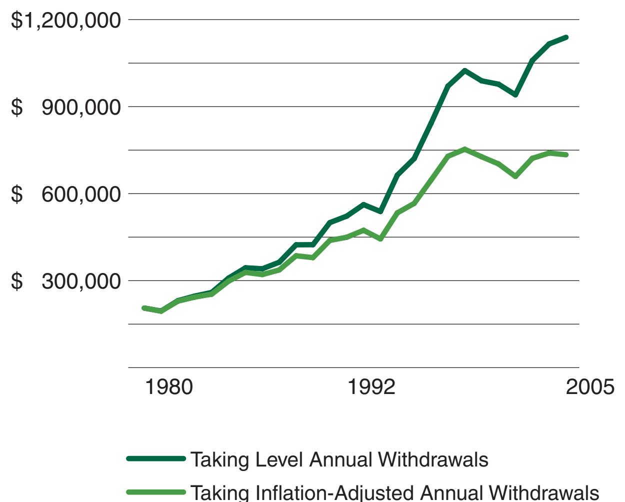


Chart B. Withdrawals start in 1980



In the next few pages, you will find tables and worksheets that will help you determine where you are along the road to retirement. These tables and worksheets will also help you stay on track!

Retirement Needs Worksheet

(A) ______________________ Your current annual income.

(B) ______________________ What you'll need each year during retirement.
(*Typically 80% of (A), or multiply (A) times (O) from the Budget Worksheet.*)

(C) ______________________ Adjust your income needed during retirement for inflation by multiplying (B) by the Inflation Factor. (*See Table 1.*)

(D) ______________________ How much income do you think you'll get from Social Security and other sources such as a defined benefit pension or outside investments?
(*Estimate your annual Social Security benefit from Table 3.*)

(E) ______________________ Subtract (D) from (C) to figure out your yearly income shortfall.
(This is the amount of income your retirement plan will have to provide.)

(F) ______________________ How much would you need at retirement to give you the yearly income in (E)? Multiply (E) by the Retirement Factor. (*See Table 2.*)

(G) ______________________ What is your current plan balance plus your balance in IRAs and other retirement plans?

(H) ______________________ How much do you expect your current balance to grow to by retirement? Multiply (G) by the Current Balance Factor. (*See Table 1.*)

(I) ______________________ Subtract (H) from (F) to find our how much you'll need to save.

(J) ______________________ How much will you need to save each year if you hope to reach your retirement goal? Divide (I) by the Investment Factor. (*See Table 1.*)

(K) ______________________ Here's what you'll need to save each month toward retirement.
Divide (J) by 12.*

*This example assumes that funds will not be withdrawn before retirement.

Table 1. *Inflation Factor, Investment Factor, Current Balance Factor*

Number of Years Until Retirement	5	10	15	20	25	30	35	40
Inflation Factor (3% inflation)*	1.16	1.34	1.56	1.81	2.09	2.43	2.81	3.26
Investment Factor (8% return)*	5.98	13.97	24.67	38.99	58.16	83.80	118.12	164.05
Current Balance Factor (8% return)*	1.47	2.16	3.17	4.66	6.85	10.06	14.79	21.72

Table 2. *Retirement Factor*

Number of Years in Retirement	5	10	15	20	25	30	35	40
Retirement Factor (3% inflation, 8% return)*	4.55	8.11	10.90	13.09	14.80	16.14	17.19	18.02

*The 3% rate of inflation and 8% investment return underlying these factors are hypothetical and presented for illustrative purposes only. The hypothetical 8% return is not intended to reflect the performance of any particular investment, including those offered in this retirement plan. Your investment experience will likely be different and cannot be predicted in advance.

Table 3. *Estimate of Annual Social Security Benefit*

Age in 2005	Low Earnings	Average Earnings	High Earnings
25	$41,244	$71,652	$95,820
30	$34,008	$59,076	$78,996
35	$27,960	$48,540	$65,028
40	$22,896	$39,588	$53,340
45	$18,624	$32,004	$43,536
50	$15,108	$25,716	$35,472
55	$11,688	$19,584	$27,492
60	$9,240	$15,252	$21,252

This table provides an estimate of your annual Social Security benefits based upon your age and wages in 2006.

This table assumes that you retire at a "Normal Retirement Age." This age varies from 65 to 67, depending on when you were born.

Average Earnings is defined as earnings equal to the National Average Wage Index. Low Earnings equals 40% of the National Average Wage Index. High Earnings is defined as 160% of the National Average Wage Index.

Source: Social Security web site calculator (www.ssa.gov)

Budget Worksheet

This worksheet will help you determine your replacement ratio.
Enter the amounts you would spend on each expense if you were retiring today.

Primary Home Mortgage/Rent	(A)	________
Secondary Home Mortgage/Rent	(B)	________
Utilities	(C)	________
Primary Vehicle(s)	(D)	________
Secondary Vehicle(s)	(E)	________
Credit Card Payment(s)	(F)	________
Other Loan Payment(s)	(G)	________
Insurance	(H)	________
Food/Clothing/etc.	(I)	________
Entertainment/Travel	(J)	________
Income/Property Taxes	(K)	________
Other Expenses	(L)	________
Total (Sum of lines A through L)	(M)	________
Current Monthly Income	(N)	________

Divide (M) by (N) to determine your replacement ratio*

________ ÷ ________ = (O) ________
(M) (N)

Your replacement ratio from this calculation is expressed in decimal form. To convert it to a percentage, just move the decimal two places to the right. (Example: .75 converts to 75%)

Notes

Glossary of Investment Terms

Active (versus Passive) Management
An "actively managed" mutual fund is one in which the fund managers choose which individual stocks or bonds to buy and sell. A "passively managed" fund, on the other hand, invests in the same (or a scientifically selected sample of the) stocks and bonds in a particular index.

Asset Class
An asset class is a type of investment. For example, stocks are an example of an asset class. Bonds are another, and money market investments are a third.

Some asset classes can be broken down into smaller subclasses. For example, large- and small-cap stocks are often considered as separate asset classes. Government and corporate bonds are also usually considered to be two distinct asset classes.

Asset Allocation
Asset Allocation is how you divvy-up the money in your account among different investment options. For example, if you have $10 and invest $6 in Stock Fund A and $4 in Bond Fund B, your asset allocation would be "60% stocks and 40% bonds."

Bond
A bond is basically an I.O.U. By buying a bond, you lend money to the bond's issuer (a company or government entity).

In return, the issuer agrees to pay you a predetermined stream of interest payments and repay the amount borrowed (the principal) on a predetermined date (the maturity date).

Diversification
Diversification means not putting all of your investment eggs in one basket. It is spreading your money among different investments. Diversification helps to reduce volatility because the ups of one investment help offset the downs of another.

Index (Benchmark)
An index is a tool for measuring the performance of the stock or bond markets. Some indexes measure how the various portions of the markets are doing. For example, the S&P 500 is an index which measures how stocks of large U.S. companies are doing.

Similarly, the EAFE index measures how stocks in European, Australian, and Far Eastern countries are doing.

Indexes are used as benchmarks against which an actively managed fund's performance is compared. If you invest in a large-cap stock fund, for example, you could compare the performance of your fund to the performance of the S&P 500.

By doing so, you can see how well the fund has done compared to the market in general. Thus, indexes act as yard sticks to measure fund performance.

Index Fund
An index fund tries to duplicate the performance of a specific index (e.g., the S&P 500). These funds invest in either all of the stocks in an index or a scientifically selected sample of them. Index funds are often called "passively managed" funds because the fund managers do not actively pick and choose which stocks (or bonds) to buy.

Inflation/Buying Power
Inflation raises the prices of things you buy. As a result you need more money to buy the same amount of goods and services. For example, remember when candy bars cost 35 cents? Now they cost 70 cents or more. That means that you need twice as much money to buy a candy bar today as you once did.

The amount of goods and services you can buy with your money is called your buying power. Because inflation erodes buying power, as the years go by you need more money to buy the same stuff.

Money Market

Money Market investments are very short-term fixed income investments. Because they have such short maturities (see the definition for bonds), money market investments are not very risky. Thus, they offer only relatively low returns.

Mutual Fund

Mutual funds pool money from many investors and invest it all at once. The benefits you get by investing in a mutual fund rather than in individual stocks and bonds are twofold:

1. Your money is managed by professional investors.
2. You get much greater diversification.

Portfolio

Your portfolio is all of your investments. For example, if you invest half of your money in Fund A and half in Fund B, then your portfolio includes Fund A and Fund B.

How you spread your money among the different investments in your portfolio is called your asset allocation.

Return

Returns are the amount of money an investment gains or loses expressed as a percentage of the amount invested. For example, if you have $100 invested in Fund A and it has an annual return of 10%, you gain $10 during that year. (10% of $100 = $10)

Nominal vs. Real Returns

The return in the above example is called the nominal return. The real return is the nominal return minus inflation. Instead of measuring how much money you gained or lost by investing in a fund, the real return measures how much buying power you have gained or lost.

Annualized Compound vs. Mean Returns

Mean and compound returns are both statistics used to measure the performance of investments over long time periods.

An investment's mean return is its average annual return.

An investment's annualized compound return, on the other hand, equals the constant annual return which would have resulted in the same growth as the investment actually had.

For example, assume an investment has an annual return of 6% one year and 14% the next. The investment's mean return during that two year time period was 10%. The investment's annualized compound return, however, was only 9.9%. This is because an investment that earned 9.9% in both years would have grown to the same amount as the investment that earned 6% in the first year and 14% in the second.

Remember, it is an investment's annualized compound return, not its mean return, that tells you how much that investment grew over a given period. In addition, an investment's annualized compound return is always lower than its mean return.

For example, during the 1930s, the S&P 500 had a mean annual return of 5.34%, but had an annualized compound return of -0.05%. This means that, although the S&P 500 had a positive mean return during the 1930s, you would have lost money had you invested in the S&P 500 during this period.

Risk

Many people think of risk only in terms of having negative returns and losing money. Losing money is only one type of risk we face in investing for retirement, however. Moreover, for those of us with a long time to go until retirement, the risk of losing money

isn't as important as it might seem. The reason is that, over the long term, the stock market has historically always more than made up for its losses.

In reality, risk is actually the chance that you will not meet your retirement income goals. This can happen for one of several reasons. Three of the most common are:

1. Many people don't contribute enough to their retirement plan while they are working;
2. Many people invest only in "safe" investments such as stable value and bond funds which historically have not provided enough long-term growth;
3. People often forget that inflation will erode their buying power during retirement, causing them to need more annual income.

Sharpe Ratio

The Sharpe ratio provides a risk-adjusted measure of return (i.e., it measures the amount of return per unit of volatility). A bigger Sharpe ratio indicates a greater amount of return relative to the level of risk. This ratio can give you an idea of whether a fund's return was the result of the type of investments the fund buys, the skills of the fund's managers, or just plain luck.

Different people calculate this ratio in slightly different ways, but they all boil down to dividing the return by the standard deviation. (Sometimes the "risk free" rate—often defined as the interest rate on T-bills—is subtracted from the investment's return before dividing by the standard deviation.)

Stable Value Fund

This type of fund invests in a diversified portfolio of investment contracts issued by banks and insurance companies. The fund is designed so that plan benefits and withdrawals can be made at book, rather than market, value.

Standard Deviation

The standard deviation is a measure of the volatility of a fund's returns (i.e., how much the returns bounce around from year to year.) The higher the standard deviation, the greater the volatility of the returns.

Many people think of volatility when they think of risk. Thus, the standard deviation is often thought of as a measure of a fund's riskiness. In fact, however, volatility is only one type of risk. (And, if you are young, it is probably not the most important form of risk you face. See the definition of risk above.)

Stock

Stock represents ownership of a company. If you buy stock in ACME company, for example, then you become one of ACME's many owners.

As a stockholder, you share in the profits and losses of the company.

Volatility

Volatility refers to the ups and downs in the value of an investment (market value fluctuations). Volatility occurs because investments are traded among investors. Because investors often change their mind about how much they are willing to pay for investments, the prices of investments go up and down.

FUND FACT SHEETS

The following pages will allow you to gain a greater understanding of the individual fund options. For more information on each of your investment options, contact the call center (1-800-000-0000) or go to our web site (www.planwebsite.com).

FUND FACT SHEET

Note:

This fund fact sheet and 'How to read fund fact sheets' section is included within this booklet to show how they would fit into a complete enrollment booklet.

We can include prepared fund fact sheets (such as Morningstar) or design a customized version based upon your specifications.

Enrollment Form

Use the forms in this section to apply to participate in the Plan or to change your salary deferral amount or Investment Selections. Please return the signed, completed forms to your Plan Administrator. If you have any questions concerning your eligibility to participate in the plan, please contact your Plan Administrator.

PARTICIPANT NAME ____________ SOCIAL SECURITY NUMBER ____________ ☐ M SEX ☐ F

ADDRESS ____________

CITY ____________ STATE ____________ ZIP ____________

HOME TELEPHONE NUMBER ____________ EMAIL ADDRESS ____________

DATE OF BIRTH ____________

Salary Deferral Agreement

Complete this section if you are enrolling in the plan or want to change the amount of your salary deferral. By completing this section, you agree to contribute a portion of your pay to the plan.

Select one of the following:

☐ I wish to defer $ ________ or ______ % of my compensation per pay period

☐ I wish to change my deferral to $ ________ or ______ % of my compensation per pay period

☐ I do not wish to participate

Do you want to increase your 401(k) plan contribution by 2% each time to you get a pay raise? ☐ Yes ☐ No

What if I change my mind?

You can stop participating in the plan, increase or decrease your salary deferral, or change your investment selections by submitting another copy of this form (with the updated information filled in) to your Plan Administrator.

You can also enroll in the plan or make these changes via the voice response system by calling 1-800-000-0000 or via the Web at http://www.website.com/retirement.

See the Plan Highlights section of this booklet for information regarding the allowed timing of changes.

(Continued on back)

Investment Selection

Complete this section if you are enrolling in the plan or want to change the allocation of your future plan contributions

FUND NAME	PERCENTAGE OF FUTURE CONTRIBUTIONS	PERCENTAGE OF CURRENT BALANCE	FUND NAME	PERCENTAGE OF FUTURE CONTRIBUTIONS	PERCENTAGE OF CURRENT BALANCE
	______ %	______ %		______ %	______ %
	______ %	______ %		______ %	______ %
	______ %	______ %		______ %	______ %
	______ %	______ %		______ %	______ %
	______ %	______ %		______ %	______ %
	______ %	______ %		______ %	______ %
	______ %	______ %		______ %	______ %
	______ %	______ %		______ %	______ %
	______ %	______ %		______ %	______ %
	______ %	______ %		______ %	______ %

Authorized Signatures

I acknowledge that I have read and understand all the plan provisions as outlined above.

PARTICIPANT SIGNATURE ______________________ DATE ____________

SIGNATURE OF NOTARY OR PLAN OFFICIAL ______________________ DATE ____________

What happens if I do not submit investment selections?

If you indicate that you want to participate in the plan by entering a salary deferral above, but do not fill out the investment selection section on the back of this form, your Plan Contributions (Salary Deferrals) will be invested in the default investment option selected by your Plan Administrator (often a money market or stable value fund).

If you were previously enrolled in another plan that has been taken over by this plan, the balances you had in the funds in your previous plan will be moved (mapped) into similar funds in this plan.

Beneficiary Form

Complete this form to if you are enrolling in the plan or want to change your primary or secondary beneficiary. To designate multiple primary or secondary beneficiaries, use duplicate copies of this form. Make sure to include the percent of benefit each one should receieve and that the sum totals 100%.

PARTICIPANT NAME

SOCIAL SECURITY NUMBER

ADDRESS

CITY

STATE

ZIP

HOME TELEPHONE NUMBER

EMAIL ADDRESS

DATE OF BIRTH

DATE OF HIRE

Marital Status

☐ I am **married** and I understand that if I wish to name a beneficiary other than my spouse, I must complete the Spousal Agreement section below.

☐ I am **not married** and I understand that if become married, my spouse will become my primary beneficiary.

Primary Beneficiary

BENEFICIARY NAME

ADDRESS

CITY

STATE

ZIP

HOME TELEPHONE NUMBER

DATE OF BIRTH

SOCIAL SECURITY NUMBER

RELATIONSHIP

PERCENT OF BENEFIT

Secondary Beneficiary

BENEFICIARY NAME

ADDRESS

CITY

STATE

ZIP

HOME TELEPHONE NUMBER

DATE OF BIRTH

SOCIAL SECURITY NUMBER

RELATIONSHIP

PERCENT OF BENEFIT

Authorized Signatures

PARTICIPANT SIGNATURE

DATE

SIGNATURE OF NOTARY

DATE

Spousal Agreement

I hereby acknowledge and accept my spouse's designation of a plan beneficiary other than me. I understand that, as a result of signing this form, I may not receive monetary benefits (upon my spouse's death) to which I would have otherwise been entitled. I also understand that I cannot revoke the consent I am giving hereunder in the future.

SPOUSE'S SIGNATURE

DATE

What is a Beneficiary?

Your primary beneficiary is the person who will inherit your retirement account if you still have a balance when you die (whether that is before or after you retire). You must also name a secondary beneficiary who will inherit your account if both you and the primary beneficiary die. For example, many people name their spouse as their primary beneficiary and their children as their secondary beneficiary.

What happens if I do not submit a beneficiary form?

If you die and have not designated a beneficiary, your account will be distributed in accordance with the laws in effect in your state at that time. Usually, if you have a surviving spouse, the proceeds go to him or her.

Can I change my beneficiary?

You can change your beneficiary by submitting a new beneficiary form to your Plan Administrator.

Paul Paulson
555 Street Ave, Apt 5
Cititown, ST 10000

Your Logo Here

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