Your RETIREMENT Matters

Summer 2007

Social Security Sandtrap

You're happily playing a weekend round of golf when suddenly your ball goes into a sandtrap that you couldn't see when you took the shot. This hidden hazard probably will hurt your score — and may keep you from making par.

Social Security is the sandtrap of your retirement planning. Not saving as much as you can in your employer's plan because you're counting on income from Social Security could keep you from enjoying a comfortable retirement lifestyle.

Not a Hole in One

Social Security isn't designed to provide *all* of a retiree's income. The average monthly Social Security retirement benefit is only $1,044 — $12,528 a year. Current benefits represent less than half of the income of older Americans. Future benefits may be less because of the way the system works.

Benefit Bogey

Social Security is essentially a "pay-as-you-go" system with today's taxpayers paying the benefits of today's retirees. With people living longer, fewer workers will be paying the benefits of more beneficiaries in the future. Currently, there are 3.3 workers for each beneficiary. By 2031, the Social Security Administration estimates there will be only 2.2 workers for each beneficiary. Unless changes are made to improve Social Security's financial health, your benefits could be dramatically lower than currently projected.

Go for the Green

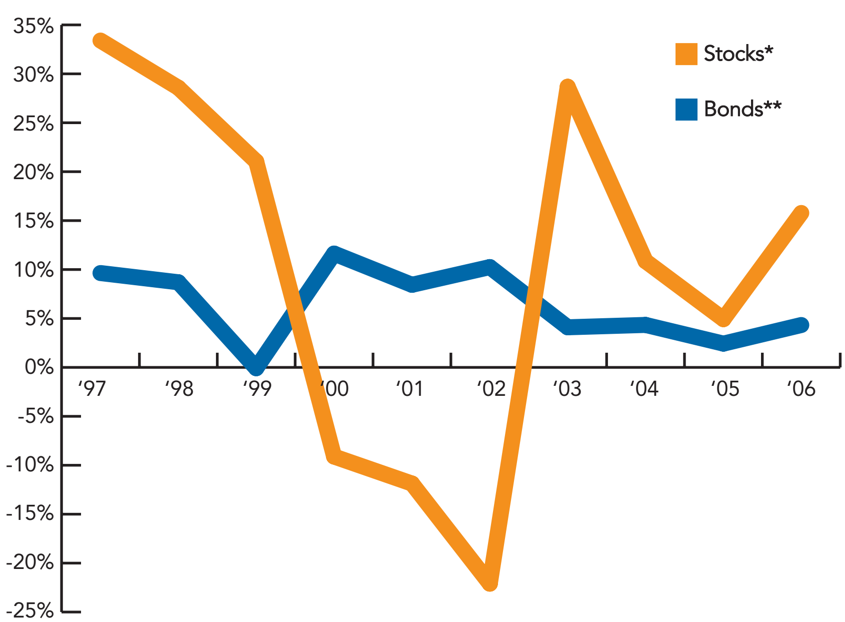
Participating in your employer's retirement plan is an easy, effective way to save for the future. Contribute as much as you can and choose investments that have the potential to help you reach your financial goals. Since Social Security benefits will most likely not be enough to live on, the savings in your retirement plan can improve your financial situation — and help you make par with your retirement savings.

Bond Basics

Has it been awhile since you checked your retirement account's asset allocation? If you find that your exposure to stocks is getting high, you may want to add more bond investments to your portfolio. Bonds help diversify your portfolio and may cushion it against major losses if the stock market drops.

A Brief Look Back

Bonds have tended to perform well during years that stocks performed poorly, and vice versa. By including *both* stock and bond investments in your portfolio, losses in one asset class may be offset by gains in the other.



* Stocks are measured by the S&P 500 Index, an unmanaged index of the stocks of 500 major U.S. corporations.

** Bonds are measured by the Lehman Brothers U.S. Aggregate Index, an unmanaged index of U.S. government, corporate, and mortgage-backed securities.

Investments cannot be made in an index.

Source: Russell Data Services

How Bonds Work

Bonds are basically IOUs. Corporations borrow money from investors for expansion and other capital needs by issuing bonds. The federal government and various other governmental entities also issue bonds to raise money for day-to-day operations and various projects.

Each bond has a maturity date on which the issuer agrees to return the bond's face value to the investor. While the bond is outstanding, the issuer pays the investor interest on the loan.

Bond Risk

Like all investments, bonds do have risks. For example, bond prices vary depending on current market interest rates. This is called "interest rate risk." When interest rates rise, the prices of existing bonds with lower interest rates typically fall. Investors who sell their bonds before maturity can lose money. Conversely, when interest rates drop, the prices on bonds with higher rates tend to rise.

Bonds with a maturity date of over 10 years are referred to as long-term bonds and tend to be riskier than bonds that have shorter terms. Long-term bonds are riskier because they are more sensitive to interest rate changes than short-term bonds.

Another risk of investing in bonds is default risk. This is the risk that the issuer will be unable to pay interest or repay the investor when the bond

An Even Keel

The cargo in a sailboat's hold has to be properly balanced. Otherwise, the boat will list to one side and have difficulty sailing smoothly. If the load shifts during rough seas, then it should be rebalanced. Similarly, after experiencing the ups and downs of the financial markets, your investments may need to be rebalanced so that your portfolio can continue to sail in the direction you've planned.

Setting Sail

When you joined your employer's plan, you decided how to divide your money among the different asset classes: stocks, bonds, and cash equivalents. The asset allocation you chose reflected your goals, risk tolerance, and investment time frame.

Rough Seas

Over time, your asset allocation may shift based on how your investments perform. For example, suppose your stock investments decrease in value during a bear market. Instead of representing 60% of your portfolio, they now represent only 40%. Your portfolio has become unbalanced and may need readjustment.

Regaining Balance

To rebalance your portfolio, you can sell investments in the asset classes that have become too big and buy investments in the asset classes that have gotten too small. Another way to rebalance is to invest new plan contributions in underweighted asset classes until your portfolio is back in balance.

Rebalancing your investments can help your retirement portfolio stay on course.

	Anchors Away	Choppy Waters	Readjust Cargo	Balanced Voyage
Stocks	60%	40%	+ 20%	**60%**
Bonds	30%	55%	- 25%	**30%**
Cash Equivalents	10%	5%	+ 5%	**10%**

This sample allocation is an illustration only. In applying any asset allocation model to your individual situation, you should consider your other assets, income, and investments (for example, your home equity, IRA investments, savings accounts, and other retirement accounts) in addition to the balance in this plan.

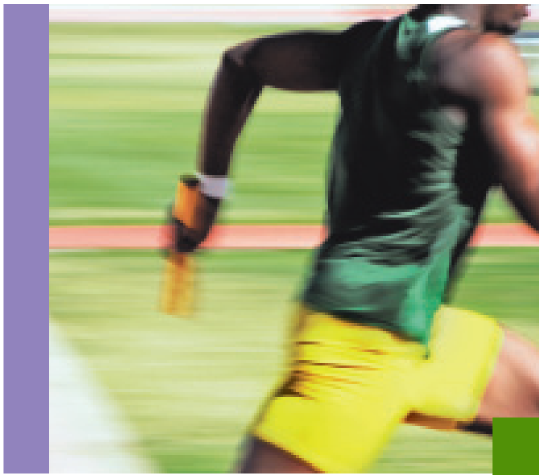
Source: NPI

matures. Bond rating services, such as Standard and Poor's and Moody's, rank bonds as either investment grade or below investment grade.

A corporate bond's rating depends on the financial health of the company. Low-quality corporate bonds (known as junk bonds) typically offer high yields, but carry a greater probability of default. In contrast, U.S. Treasury bonds have next to no risk of default because they are backed by the full faith and credit of the federal government.

Diversification does not ensure a profit or protect against loss in a declining market.

Including bond investments in your retirement portfolio may help you diversify your investments and reach your long-term retirement goals.



On Your Mark!

Retirement planning is like a long race. To reach your savings goal and cross the finish line, you'll need to keep saving regularly throughout your working years. You can jump-start your planning by starting to save more in your employer's plan *now*.

Speed Up the Savings

You already know that increasing your contribution amount will help build your account balance. But did you know that *when* you start saving more can make a big difference? The earlier you increase the amount you are investing, the more time your investments will have to generate potential compound growth.

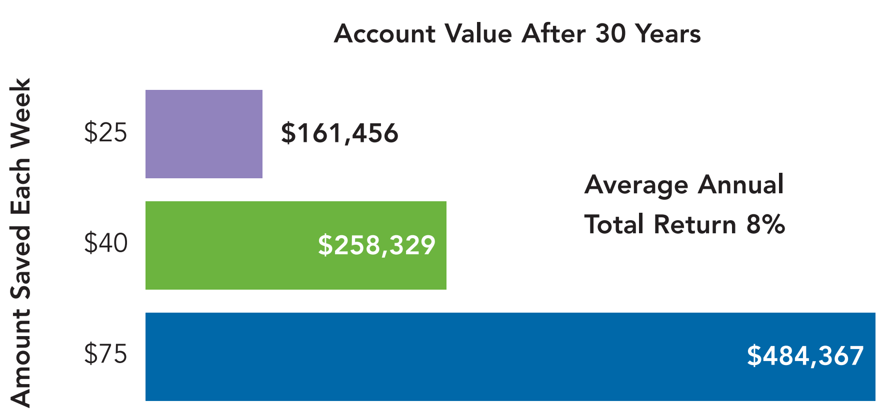
Compounding is the reinvestment of investment earnings to produce more earnings. So don't wait until the kids are done with college or the house is paid off to increase your plan contributions.

Dig Deep To Reach Your Goals

When you already have a lot of expenses, it's tough to come up with extra money to save for retirement. But making a few simple lifestyle changes can help you free up a few more dollars in your budget each week. For example, consider going out to dinner less often and renting DVDs instead of seeing movies in a theater. Saving a little bit more in your plan account can make a big difference in the amount you have when you retire.

Race to Retirement

Over time, saving a little bit more can make a big difference in your account value at retirement.



This is a hypothetical example used for illustrative purposes only. Monthly compounding is assumed. It is not representative of any particular investment vehicle. Your investment results will be different. *Source: NPI*

