STAGES

Enjoying today. Preparing for tomorrow.

Fidelity Investments® | Spring 2004

THIS ISSUE ESPECIALLY FOR INVESTORS NEARING RETIREMENT

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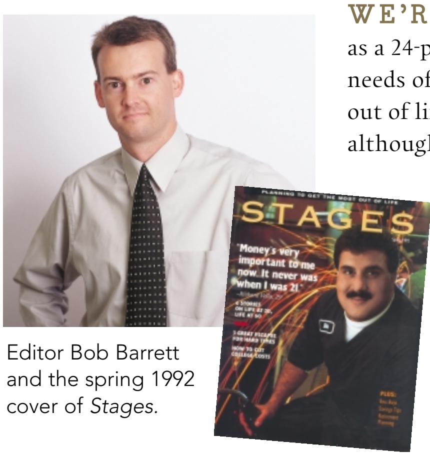
STAGES | EDITOR'S NOTE



Editor Bob Barrett and the spring 1992 cover of *Stages*.

WE'RE STILL LISTENING In 1992, *Stages* debuted as a 24-page magazine that promised to address the financial needs of 401(k) investors who were "Planning to get the most out of life." Twelve years later, that remains an apt description, although the magazine has greatly evolved from both a visual and content standpoint. Thumbing through my only copy of the premier issue, I noticed that it included an insert card to solicit feedback from readers. What's the biggest financial decision or problem you face in the next five years? What do you like or dislike about this issue? What kinds of stories would you like *Stages* to provide?

Sound familiar? As you may recall, my note in the autumn 2003 issue posed similar questions and encouraged you to reply via an online survey. More than 1,100 readers responded, providing valuable insight into your expectations for *Stages*, your readership habits, and the magazine's relevance to your lifestage and financial goals. Nine in 10 readers either strongly agreed or agreed that *Stages* is informative and useful. Within one week of receiving the autumn 2003 issue, 94% of respondents had read or looked through it. Our new look and design was a big hit with 87% of readers. And your suggestions for future articles covered the full range of personal finance topics, some of which are included in this issue.

A sample of other responses is presented on the next page, in place of our customary letters from readers. While the online survey is no longer available, your comments and opinions are always welcome at stages@fmr.com. Thanks for your feedback, and I hope you enjoy this issue.

Bob Barrett

FIDELITY | RESOURCES

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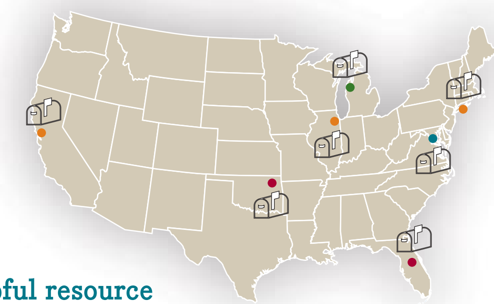
feedback

***Stages* readers share their thoughts and opinions**



More than passing interest

I thoroughly enjoy *Stages* and always look forward to receiving it in my mailbox. I even keep back issues for future reference. In my opinion, there is no better financial publication that packs so much relevant and useful information into a nice, concise 24-page magazine. Thank you for the valuable knowledge you provide.

Brian Penn, Naperville, Ill.

I am a strong believer in investing in my 401(k) plan and I am an avid reader of *Stages*. If I can't start reading it the night it comes, it is the first thing I read at the next opportunity. It is one of the most informative magazines I have put my hands on when it comes to investing for retirement, and I look forward to receiving each and every issue.

Barbara Hollenkamp, San Carlos, Calif.

I enjoyed reading the autumn 2003 issue of *Stages*. It was very clear, concise, and to the point. The issue also had a variety of educational and interesting articles. I look forward to the next issue.

Barbara Soeyadi, Lake Grove, N.Y.

Strong support for Real People

Your use of Real People stories helps average people such as me relate to money. *Stages* has helped me greatly over the years.

Scott E. Stevens, Tulsa, Okla.

Stages helps me plan for my future and it also motivates me. The articles about Real People prove that you do not have to make or have lots of money to get on the right track to save and invest.

Kimberly DeCambre, Orlando, Fla.

I enjoy sitting in my easy chair, with a cup of coffee at hand, while digesting each page of *Stages*. I especially like the Real People profiles because they allow me to compare my present financial condition with others who have similar goals.

Robert M. Hughes

A helpful resource

I referred to several pages from your autumn 2003 issue as I was reviewing my investments. One article helped me check on my exposure to international investments. Another was a good resource for ensuring my various portfolios are not "doubled up." Good information even for the seasoned investor, which I, most assuredly, am not. Overall, I am eager to receive the next issue.

Charles E. Block, Bel Air, Md.

I hope to retire in 10 years so I appreciate what I perceive to be an emphasis in *Stages* on baby boomers such as myself.

Joe Page, Stuttgart, Germany

How about…

…some articles for the workers who will gross only $25,000–$30,000 a year. Not much left over after housing, food, insurance, and taxes. What do we do when we retire with less than $100,000 in savings?

Brian Hodge, Empire, Mich.

…an article about people who don't want to retire early, or even on time. Or people who tried retirement, and then chose to go back to work.

Keith Montague

Older and wiser

I have been reading *Stages* for about three years now. Of course, some of the articles are way below my investing knowledge, but they weren't three years ago! Overall, I feel that *Stages* can positively influence the investment decisions made by everyone from beginners to those who are on the brink of retirement.

George Vidmar

CALLING ALL REAL PEOPLE

Would you like to be featured in *Stages*? If you think you're a good candidate, please drop us a line to tell us your story.

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It's never too soon

Estate planning basics for preretirees

Spring is a great time to review your estate plan or, if you haven't put one together, get it started. While you may be spooked by the mere thought of an estate plan, it remains the best way to ensure that the wealth you've worked so hard to accumulate over a lifetime gets passed on to family, friends, or your favorite charities.

Order in the house

Regardless of how complicated your estate is, a good first step is to collect and organize all related paperwork and documentation. Check to ensure that you've designated a beneficiary on your 401(k)s, IRAs, and other retirement accounts. Be sure that the beneficiary listed on the account matches your will or trust.

Taxes, taxes, taxes

With a maximum federal estate tax rate of 48% in 2004, it's easy to see how Uncle Sam can gobble up a huge chunk of the money you hope to pass on to your heirs. In 2004, all estates valued at less than $1.5 million are exempt from this tax; in 2006 the exemption rises to $2 million, then to $3.5 million in 2009. There's still much wrangling in Congress over the estate tax, so it's a fluid situation worth monitoring and, even better, planning for.

At least have a will

Some estate plans can be elaborate, employing trusts and other devices to avoid estate taxes and probate (the legal process for settling an estate). A will, which can be put together quickly and inexpensively, is a good initial estate plan, and sometimes all you need. A will can, at the very least, ensure that your assets go to the people of your choosing and should designate an executor to carry out your wishes.

TOP VALUE

Quality work

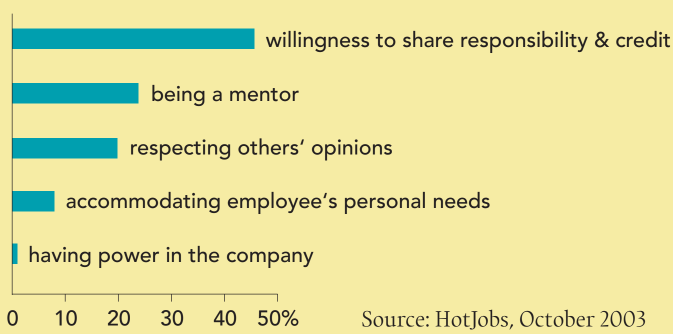
POLL EXAMINES BOSS–EMPLOYEE DYNAMICS

Next time you want to impress your boss, try exhibiting your dedication to quality work or your willingness to be a team player. What may not be as impressive is your ability to think "outside the box," according to an October 2003 survey conducted by HotJobs to determine the qualities managers most value in their employees.

What do employees look for in a boss? The most important quality, according to 46% of the workers surveyed, is a willingness to share responsibility and credit.

What do managers most value in their employees?

What do employees look for in a boss?



Source: HotJobs, October 2003

Illustration by Todd Gilmour

Asset management

Taking stock of your personal possessions

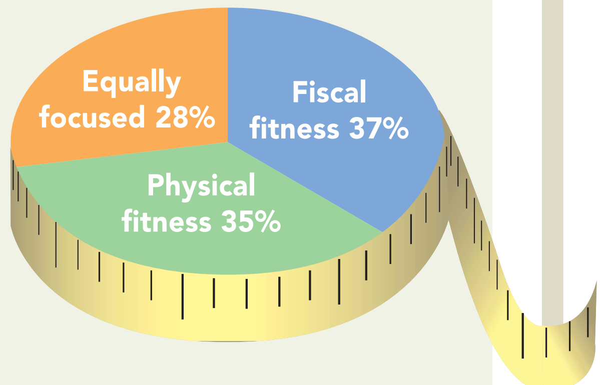
When was the last time, if ever, you compiled a list of your belongings? "Everyone should have an up-to-date inventory of his or her personal assets," says Steve Anderson, a consultant and speaker with the Independent Insurance Agents and Brokers of America. While homeowners' policies generally cover personal property at 40%–50% of its value, many limit coverage for jewelry, silver, and antiques. That's why creating a personal asset inventory is the first step to making sure your special "stuff" is covered in the event of fire, theft, or other loss.

Start by making a list of *all* your valuable and meaningful items, from granny's dishes to Disney lithographs. Anderson suggests making note of the date (or at least the year) you got the item, where you got it, how much you paid, and its current value. Software may make the job easier, but a spreadsheet or handwritten list will work just as well, as will a narrated videotape. "Walk around your house with a video camera, talking about certain items — when you got them and how much you paid," suggests Anderson. Be sure to mention heirlooms, like silver service and hand-stitched quilts, and their appraised value.

As a next step, stash your own copy in a lock box or fireproof safe and send a copy to your insurance agent. Discuss your need for extra coverage for special collections such as stamps or rare books. When you update your inventory (annually, at least, according to Anderson), be sure to send a copy to your insurance agent.

Lose weight, gain money, or both?

Question:
In 2004, are you more focused on improving your physical fitness or your fiscal fitness?



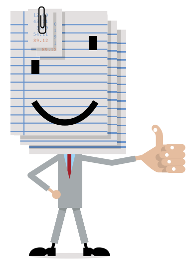
Source: RoperASW poll commissioned by Bankrate, Inc., December 2003.

Beware the "phishing" scam

With identity theft on the rise, Fidelity wants customers to have all the information currently available to avoid becoming victims. There is a new form of identity theft, called "Web phishing," targeting financial institutions and their customers. The scam is relatively simple: The Web "phisher" replicates a legitimate company's electronic communications with the intention of getting customers to submit their Social Security numbers, account numbers, and passwords. For example, a customer might receive an e-mail that appears to have been sent from Fidelity requesting personal information. Alternatively, the phisher could create a replica of Fidelity's Web site and then send an e-mail asking a customer to click through and log in to the fake site.

To help distinguish legitimate Fidelity e-mails from potential scams, we want our customers to know that whenever Fidelity requests any personal information electronically, we also ask customers to go through our standard authentication process. This process requires customers to enter their user ID and personal identification number, or PIN, prior to entering additional personal information. As further protection for Fidelity customers, when any of the personal data in a Fidelity account is changed, we send a confirmation notice through the mail to confirm the change.

Photographs by Photodisc



POINT of ORDER

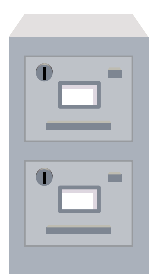
Follow these guidelines to get control of the clutter

By Christy Fisher

With April 15 approaching, now is an opportune time to get your financial house in order. Preparing your taxes will be much easier once you've sorted through that pile of pay stubs, utility bills, bank statements, credit card receipts, and investment statements. But before pitching them or adding to your already overflowing file cabinet, make sure you're familiar with the following general guidelines about what to keep and what to toss.

The tax man cometh: If the financial records support the income and deductions claimed on your federal tax return, you'll want to save these records for at least three years from the time you file or the filing deadline date, whichever is later. An Internal Revenue Service (IRS) audit must be done within three years of filing, but the IRS has six years to challenge the return if it thinks you've under-reported your income by at least 25%.

Proof positive: Hold on to records that provide proof of purchase for a product that is under warranty. Keep these records as long as you own the product, or its warranty period expires, says Robert Matheson, a certified financial planner in Naples, Fla. Retain receipts or canceled checks for big purchases. You'll want proof of their value in the event of loss or damage.



Dispose of properly

Shred unimportant or redundant financial records once monthly, quarterly, or year-end statements arrive, says John W. Roth, a federal tax analyst with CCH Inc., a tax and business law publisher in Riverwoods, Ill. But make sure you eliminate sensitive personal information, such as your Social Security number, address, and account numbers.

Pitch ATM receipts and canceled checks (except those that you may need for tax, insurance, or warranty purposes) once the transactions are cleared and you get a monthly banking statement. Destroy unnecessary credit card slips and monthly statements when purchases and payments are correctly accounted for. Throw out all but your last pay stub once you get a W-2 form. Eliminate your mortgage, retirement, and investment statements only if you get a complete summary report at year-end.

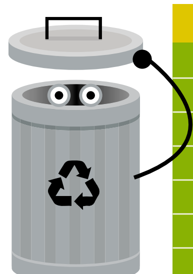
Safe keeping

Keep records of the purchase of your home and permanent home improvement receipts indefinitely, Matheson advises, especially if profits from previous home sales haven't been reported on your taxes. Home purchase records are wise to hold on to for legal reasons and are necessary for computing capital gains on the sale of your home for tax purposes.

Also, retain investment records that establish the cost basis, or the amount you originally paid for an investment, for at least three years after a sale.

FILE

DOCUMENT	KEEP...
Income-tax return	indefinitely
Form W-2 and supporting tax-related documents	at least 3 yrs
Investment account statements	at least 3 yrs, post sale
Home purchase records / home improvement receipts	indefinitely
Retirement savings records	indefinitely
Active life insurance and long-term-care policy	indefinitely



TRASH

DOCUMENT	THROW OUT AFTER...*
ATM and credit card receipts	a month
Canceled checks	a month
Household utility bills	a month
Credit card statements	a month
Pay stubs	year-end
Monthly bank statements	year-end
Monthly, quarterly investment statements	year-end
Monthly, quarterly retirement investment statements	year-end

*Save canceled checks, receipts, bills, and credit card receipts that are needed for tax, insurance, and warranty purposes. But pitch the items of no value once you get your monthly confirmation statement. Also, get rid of unneeded monthly and quarterly statements only if you get a complete year-end summary statement.

Illustrations by Fred Rix

How do you measure up?

Financial ratios help you assess your fiscal fitness

By David Whitemyer

"I've got all the money I'll ever need," comedian Henny Youngman once joked, "if I die by four o'clock." That's certainly no way to plan life's investments. But how long could you last on your savings?

Financial ratios can help answer that question. Used by mortgage lenders and business analysts to gauge risk and measure fiscal vitality, financial ratios are a simple tool for measuring how much money you have, and how much you owe.

"In an ideal world, personal financial ratios would function similarly to health ratios, like blood pressure and body mass," suggests Dr. Ruth Lytton, associate professor of financial resource management at Virginia Tech University. "There'd be widespread public awareness and motivation for annual checkups."

Cash–asset, debt–limit, annual-debt–service. The list of ratios goes on and on. And you don't need to be a CPA to do your own annual checkup. Using elementary math skills, anyone can tally up the most helpful ratios: liquidity and debt-to-asset.

Staying afloat on liquid dough

Your liquidity ratio determines the capacity of your household to meet current obligations, should your income draw to a blinding halt. To determine your liquidity ratio, divide your total liquid assets by your monthly expenses. Let's say you have $1,000 in a checking account and $9,000 in a money market fund. That's 10 grand in liquid assets. Your monthly expenditures, including house payments, equal $2,000, so your liquidity ratio is 5:1. You're in good shape, since most financial advisers recommend achieving a ratio of at least 3:1, or 6:1 if you're self-employed.

In the black or in the red

Debt-to-asset ratio determines solvency. To be insolvent is to have a negative net worth, where debts exceed assets. In short, it's the first step toward bankruptcy.

Ignoring housing costs and equity, divide your total liabilities by your total assets. Financed automobiles and credit card debt are common liabilities. If you owe $25,000 in student loans, for example, and another $5,000 on a car, your debt equals $30,000. Adding up your stocks, 401(k) balance, and passbook account, say your assets total $60,000, making the debt–to–asset ratio a healthy 0.5:1. You're solvent! If the debt side of your ratio is above 1.0, you're insolvent.

"Although insolvency is cause for alarm," advises Lytton, "the degree of alarm must be considered relative to the stage of one's financial life cycle." An insolvent 50-year-old considering retirement would be in more of a predicament than would a recent college graduate with strong future income potential.

Laugh all the way to the bank — or not

In fact, when you do a financial checkup with ratios, the final numbers don't express the complete picture. You must gauge the results with your own goals, your personal aversion to debt, and your need for security.

Charles Dickens expressed a sort of financial ratio in his classic *David Copperfield*, when Mr. Micawber explained, "Annual income twenty pounds, annual expenditure nineteen nineteen six, result happiness. Annual income twenty pounds, annual expenditure twenty pounds ought six, result misery."

Happiness should be the desired result, but as most will agree, money doesn't buy happiness. What Dickens' character was hinting at was that a healthy financial ratio may lead to peace of mind.

Learn about more financial ratios in the NetBenefits Planning Center, at **http://planning.netbenefits.com**.

Illustration by John Ritter

Retirement rebound

By Rick Sauder

DONALD SATCHER

AGE
60

EMPLOYER
AMERICAN CAST IRON PIPE COMPANY

OCCUPATION
ELECTRICIAN

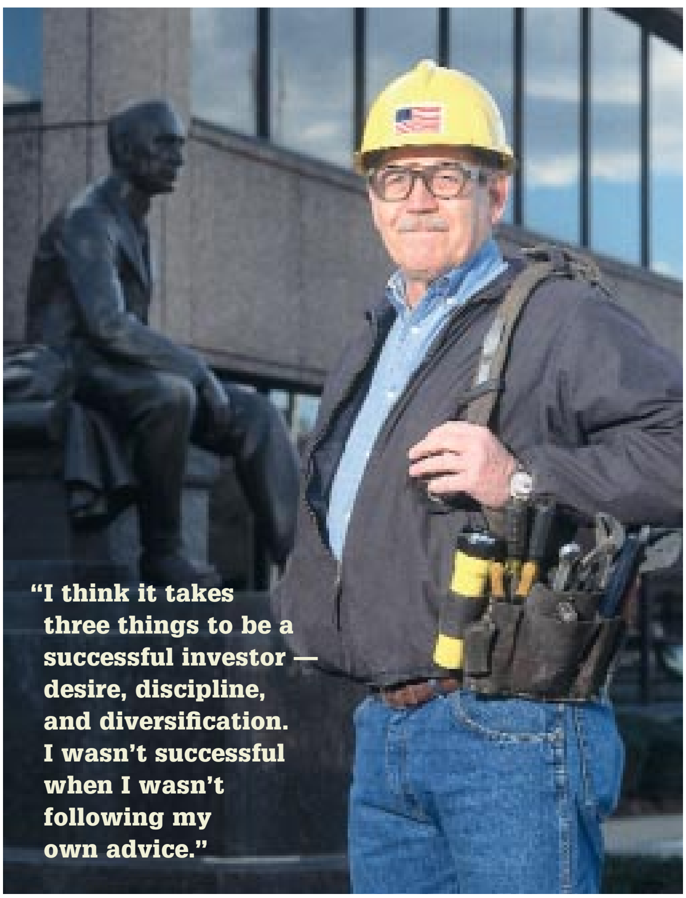
HOME
BIRMINGHAM, ALABAMA

Retirement planning challenge: Donald Satcher decided several years ago that the many pleasures of an early retirement would far outweigh the benefits of continuing to work in his later years. But it's not that he didn't like his job as an electrician for American Cast Iron Pipe Company, which he joined in 1967. Rather, thanks to the generous benefits provided by his long-time employer, he had built a sizeable nest egg in his 401(k) plan account and was on solid financial ground.

Then, in early 2000, the value of his retirement assets began to decline along with the broader stock market. Satcher had no one but himself to blame. "I went to chasing returns in about 1998," he recalls. "I looked at some of the hot mutual funds that were going through the roof, and I didn't want to miss out. I got greedy, and I got burned."

Satcher's retirement portfolio lost 35% of its value. But rather than panic, he looked at his situation objectively, made some adjustments, and never abandoned his dream of an early retirement. Today, he's a little older and a little wiser — and newly retired, at age 60.

His solution: Thanks to a slightly longer-than-anticipated stay in the workplace, Satcher was able to rebuild the balance in his 401(k) plan. He also stopped chasing returns and, accepting his mistake, retreated to less-risky mutual funds among the nearly 20 investment options offered in his 401(k) plan.



Photograph by Lee Harrelson

The third component of his approach has been the one that he considers the most important of all: keeping his situation in perspective. "Money comes and goes," he says. "What's most important in life are people and relationships." Satcher and his wife have been married for 34 years, and they have raised two children. One of his children recently married, and Satcher is looking forward to becoming a grandfather.

His investment strategy: Up until his retirement date this spring, Satcher held 80% of his 401(k) assets in stock funds, a small portion in a balanced fund that included bonds, and the remainder in money market funds. Now, however, he has begun to gradually scale back his exposure to the stock market and to put more of his assets into historically less-volatile bond funds and other income-generating investments.

Support from his plan: Consistently recognized as one the best companies in America to work for, American Cast Iron Pipe Company has offered a qualified savings plan to employees since the early 1980s — and Satcher has always taken full advantage of the opportunity. "We have a good pension and health care plan, too," he says. "But I tell the people who don't participate in the 401(k) plan that they're throwing away money. You can't beat the return you get from the company match. It's a way for us to retire earlier than our parents and grandparents did."

> "My parents would never buy anything unless they could pay cash. Back then, you just didn't buy on credit."

Full speed ahead

By Miranda Hitti

Photograph by Carolyn Hill

NORMA GOODWIN

AGE
66

EMPLOYER
SANDIA NATIONAL LABORATORIES

OCCUPATION
ADMINISTRATIVE ASSISTANT

HOME
ALBUQUERQUE, NEW MEXICO

Retirement planning challenge: "Dream big and listen to your heart" — that's Norma Goodwin's motto, taken from a medallion given to her by a former coworker at Sandia National Laboratories. A 66-year-old grandmother of three, Goodwin is a diligent saver who dreams of retiring soon, perhaps within five years. Meanwhile, she can be found cruising around Albuquerque in her 2002 Mustang GT convertible — the fourth Mustang she's owned — and enjoying her grandkids, adult son and daughter, and the 2,000-plus square-foot home she bought in 1997.

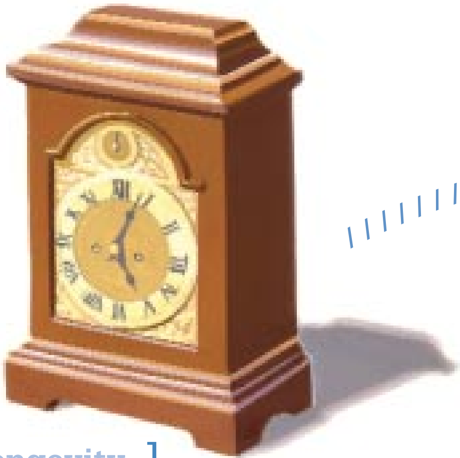
Goodwin, who is now single, looks forward to traveling in retirement, including frequent visits to see relatives in her hometown of Metropolis, Ill., which claims Superman as a native son. With smart planning, Goodwin is confident she won't need superhuman strength to reach her goal.

Her solution: Three years ago, a friend advised Goodwin to reconsider her aggressive, growth-oriented asset allocation. She heeded his advice, reallocating her 401(k) assets to a more conservative overall mix. "This makes sense for me because at my age I'm more interested in trying to preserve principal," explains Goodwin, noting that she has been pleased with the results. "I'm playing it safe and sleeping well."

Goodwin, who gives $45 per week to her church, comes from a family of hard workers and disciplined savers. "My grandparents were all very poor," she says, recalling the white beans, mashed potatoes, ketchup, and cornbread that were staple foods at her grandmother's house. Her father, one of 13 children raised on a Western Kentucky tobacco farm, bootstrapped himself from an eighth-grade education to a 50-year career as an architectural draftsman. He never entered the stock market, instead purchasing CDs with his overtime pay. Goodwin's brother, on the other hand, had a real knack for buying low and selling high. "He helped me greatly increase my wealth," she says, thankful that he was willing to share his advice.

Her investment strategy: Besides her Sandia retirement savings plan, Goodwin receives a generous monthly pension from the U.S. Air Force, where she worked as a secretary for more than 34 years before joining Sandia in 1994. She stayed with the Air Force until she was eligible for retirement, resigning only after she secured her position at Sandia. "I planned it that way," she says. "The name of the game is to get as much financial assistance as you can." Goodwin is also collecting Social Security benefits and has a CD, IRAs, bonds, and savings accounts.

Support from her plan: Goodwin has made maximum contributions to the Sandia 401(k) plan ever since becoming eligible. She appreciates that Sandia adds another 4% to her account, and she checks her investments online every payday. Goodwin likes what she's been seeing recently. "It's increasing slowly, and I plan to continue to save as much as I can," she says with satisfaction.



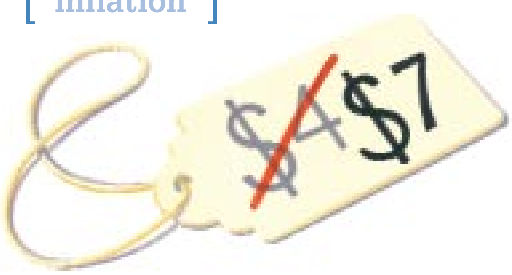
[longevity]

[asset allocation]

risk & reward

By Clint Willis

[inflation]



Retirement has its rewards. You can reap them fully — but only if you understand and manage a series of risks you'll face in securing income that lasts a lifetime.

[health care costs]

[excess withdrawal]

Illustrations by Andrew Davidson

By now, you're probably beginning to realize that retirement isn't the distant finish line most young people picture.

Instead, it's the beginning of a new and potentially rewarding life — one that also carries its own challenges. Chief among them: How can you ensure that your retirement savings and other financial resources last a lifetime?

The answer is simple: You must face up to an array of risks that will confront the next generation of retirees. The most serious risks are related to five crucial issues:

Longevity. Will you live longer than you expect? **Inflation.** Can you protect the purchasing power of your savings? **Asset allocation.** Will your investments grow quickly enough to sustain your lifestyle? **Withdrawal rates.** How much can you withdraw from your savings without depleting them too soon? **Health care costs.** Are you prepared to meet the soaring costs?

The first step to meeting these challenges is to understand them clearly so that you can formulate a successful response. "Retirement is the beginning of a whole new stage in your life — and as such, it brings a new set of challenges," says Linda Gadkowski, a certified financial planner in Centerville, Mass. "It's important to face those issues squarely — and as soon as possible."

Once you do that, you'll be better prepared to overcome these risks and enjoy the retirement of your dreams. With that in mind, here's a rundown of the five risks to retirement income — and some hints for how to cope with each.

LONGEVITY "RISK"

Thanks to a century of stupendous advances in medical technology, many of yesterday's sure-fire killers today are curable or merely chronic. One result: There's a very good chance that your retirement will last for 20, 30, or even 40 years — which means your retirement savings and other financial resources also must last that long.

This risk poses a special threat to the many Americans who simply don't realize how long they are likely to live. Those folks forget a crucial fact: The longer you have lived, the longer your expected total lifespan. For example, a man who has managed to reach age 65 can expect to live to 85. If he makes it to age 80, his life expectancy climbs to 90.

Women should plan for even longer life expectancies — and couples have to be especially careful. Consider a couple who reach age 65 in good health. There is a 50% chance that either the husband or wife will survive to the ripe old age of 92! "The longer you live, the greater the chance that you could outlive your savings," says Steven Merkel, a certified financial planner with Investor Solutions Inc., in Coconut Grove, Fla.

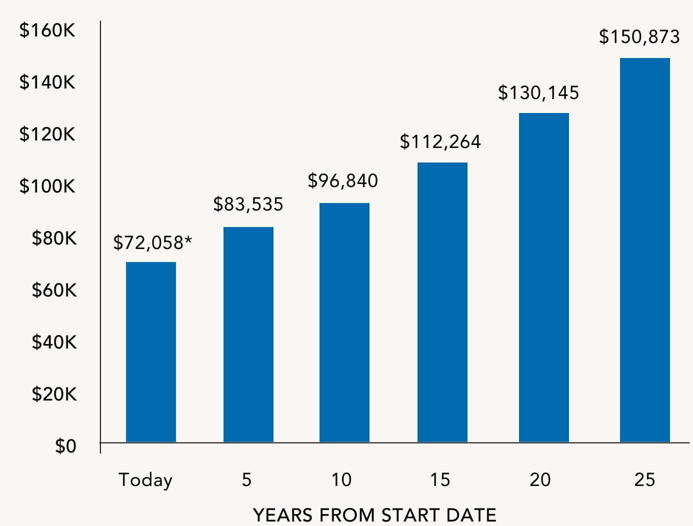
INFLATION RISK

If you're reading this, you're probably old enough to remember the double-digit inflation rates of the early '80s. The consumer price index peaked at a scary 13.5% in 1980 before declining to the much lower levels of recent years.

The United States has enjoyed a modest annual inflation rate of 2.7% since 1990. Trouble is, even a modest rate of inflation will wreak havoc with your retirement expenses over 20 or 30 years. At a 3% annual inflation rate, a retired couple with living expenses of roughly $72,000 in 2003 would need more than $150,000 — an increase of more than 100% — to meet their annual expenses in 25 years.

EVEN LOW INFLATION CAN DAMAGE PURCHASING POWER

In 25 years, at just a 3% annual rate of inflation, your expenses could grow to more than double what they are today.



*$72,058 was the annual expenditure for individuals age 65+ with income greater than $70,000 from the U.S. Department of Labor, Bureau of Labor Statistics, Consumer Expenditures 2000 report. All other numbers were calculated based on a hypothetical 3% rate of inflation (historical average from 1926 through March 2003 was 3.06%) to show the effects of inflation over time; actual inflation rates may be more or less.

What's more, such figures may well understate inflation's potential impact on your retirement living expenses. At a 4% inflation rate, the same couple's expenses would more than triple in 25 years, reaching $244,000. "We've been very fortunate with inflation in recent years," says Morris Armstrong, a certified financial planner in New Milford, Conn. "But low inflation isn't likely to last forever."

It's also worth noting that some retirement expenses are likely to rise faster than the overall rate of inflation. A study by Families USA found that during the five years through 1998, prices for the 50 drugs prescribed most frequently for older Americans rose 25.2% — almost double the 12.8% overall inflation rate for the period.

ASSET ALLOCATION RISK

Many things are simpler when you're young — and asset allocation is one of them. Young workers with decades to go until retirement can afford to ride out market downturns. Thus, they can invest heavily in volatile, growth-oriented assets such as stocks or stock funds.

Retirees — and people nearing retirement — face a more delicate balancing act. They have less time and fewer opportunities to recover from market setbacks, so a serious bear market can disrupt their retirement plans. Result: Many older investors err on the side of caution by drastically reducing their growth-oriented equity holdings.

That can be a terrible mistake. Older workers, as well as retirees, need to remember that they can benefit from — and may require — the long-term potential of growth investments such as stocks.

True, a portfolio of income investments may protect you from the worst losses of a bear market. But such a portfolio also could greatly increase the risk that you'll outlive your savings.

In short, a diversified investment portfolio that balances factors such as growth, income, and stability is a key to investment success. That rule is true for young workers starting out in life — and it remains equally true for retirees. "A diversified portfolio is like a balanced diet," says Gadkowski. "You don't stop needing it when you retire." Neither diversification nor asset allocation ensures a profit or guarantees against loss.

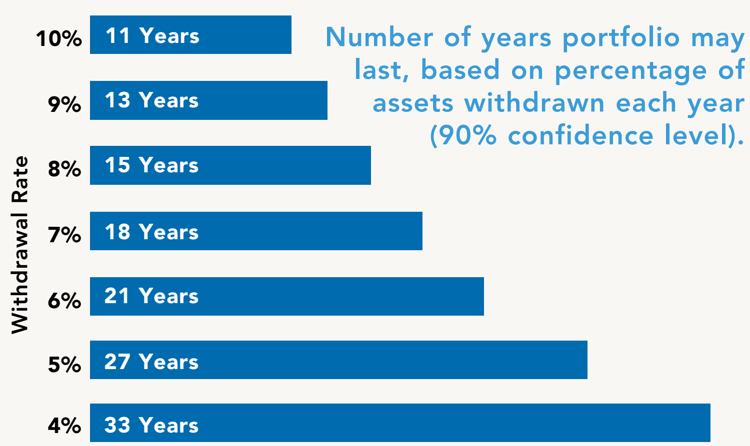
EXCESS-WITHDRAWAL RISK

You can't control inflation or investment returns or (though you can try) your lifespan. But you do get to decide how much to withdraw from your retirement savings each year — and that choice will have a huge impact on how long your money lasts.

Many retirees withdrew large sums from their savings each year during the '80s and '90s. After all, the stock market would continue to deliver double-digit returns each year to replace that money — wouldn't it?

The recent bear market answered that question in the negative. Some retired people were forced to cut back on spending and adopt more conservative withdrawal strategies. Other retirees returned to full-time jobs to

THE IMPACT OF WITHDRAWAL RATES ON A PORTFOLIO



Source: Fidelity Investments. Hypothetical value of assets held in an untaxed portfolio of 50% stocks, 40% bonds, and 10% short-term investments with inflation-adjusted withdrawal rates as specified. This exhibit is not intended to project or predict the present or future value of the actual holdings in a participant's portfolio or of the performance of a given model portfolio of securities. The calculations and results generated for this exhibit are based upon historical performance analysis of the stated asset groups, goals, and assumptions. Historical annual data from 1926 through 2002 is from Ibbotson Associates: stocks, bonds, and cash are represented by S&P 500, U.S. Int. Government Bonds, and U.S. 30-day T-Bills. Average 3% inflation rate assumed (historical average from 1926 through March 26 was 2.06%); actual inflation rates may be more or less. Several hundred financial market return scenarios were run to determine how the asset mixes may have performed. A 90% confidence level was utilized indicating that the percentage of assets withdrawn annually could have been supported for the number of years noted in 90% of the historical scenarios that were generated. For example, the assets could have supported a 4% withdrawal rate for 33 years in 238 of 250 scenarios. Investors may be charged fees when investing in an actual portfolio of securities, which are not reflected in illustrations utilizing returns or market segments. The S&P 500® Index is a registered service trademark of The McGraw-Hill Companies, Inc. and has been licensed for use by Fidelity Distributors Corporation and its affiliates. It is an unmanaged index of the common stocks of 500 widely held U.S. stocks that includes the reinvestment of dividends. It is not possible to invest directly in the index.

rebuild their savings — a move that surely wasn't part of their original retirement plans.

The key thing to know: Even a modest change in the amount you withdraw each year can make an important difference in your long-term financial prospects. The chart on page 10 shows how long a balanced investment portfolio (50% stocks, 40% bonds, 10% short-term investments) could potentially last at various withdrawal rates. The money has a 90% chance of lasting 33 years at a 4% withdrawal rate. Raise the withdrawal rate to 6%, and that figure drops by more than a third — to 21 years.

What's the right withdrawal rate for you? The answer depends upon a range of issues — from your age and health at retirement to the size and composition of your portfolio. And bear in mind that the right withdrawal rate may rise or fall over time. "Your withdrawal rate doesn't have to be static," says Armstrong.

HEALTH CARE EXPENSES RISK

Your physical health may have a major impact on your financial health in retirement. Health care costs are soaring again — rising 8.7% in 2001, versus a 2.8% rise in the general inflation rate.

Your generation's improved life expectancy means that most of you will probably be around to shell out big bucks for medical expenses. How big? A December 2003 study by the Fidelity Employer Services Company found that a couple retiring now at age 65 would need $175,000 in current savings just to supplement Medicare and pay other out-of-pocket health care costs in retirement. That figure rises significantly for a couple who retire at age 60. Of course, those figures are overstated for couples whose employers provide retirement health care coverage.

Then there are long-term-care costs for nursing homes and other services. Some people may decide to cover such costs through long-term-care insurance — but remember that such policies are most affordable if you purchase them at a relatively early age.

MEETING THE RETIREMENT CHALLENGE

What can you do to confront these risks? Start by taking a careful look at your current retirement plan to make sure that it acknowledges the potential pitfalls of retirement. And remember that even modest changes — such as a slightly lower withdrawal rate or a modest shift toward stocks — can make all the difference you need. The bottom line: Once you face these risks squarely, you'll be able to find solutions that work for you.

Past performance does not guarantee future results.

5 steps to lifetime income

Planning and managing for retirement today is more complex than ever before. You'll face several challenges as you transition from full-time work and wealth accumulation to retirement.

Now's the time to familiarize yourself with the process of developing a realistic income plan — a detailed, written plan that you feel confident will carry you through your retirement.

Here's a checklist of the steps you'll want to take as you build your personal retirement income plan.

Step 1
Estimate expenses

Your first step is to estimate your monthly or annual expenses. After developing an itemized list, divide the entries into essential and discretionary expenses. Essential expenses are those things you can't live without — food, housing, clothing, health care costs, and insurance. Examples of discretionary expenses include travel and entertainment.

Step 2
Estimate income

Now you're ready to similarly estimate your sources of income in retirement. Draw up an inventory of the income, assets, and accounts available to fund your retirement. These may include Social Security, traditional pensions, lifetime annuities, or other predictable long-term income flows. Don't forget financial and real estate assets such as stocks, bonds, mutual funds, CDs, real estate, and rental income. Estimate the income these may generate and add it to your predictable income flows. The sum is your total expected income.

Step 3
Compare expenses and income

Using the information you've compiled, you're now ready to compare your expected essential expenses with your projected income. The key is to determine if your predictable sources of income will cover your essential expenses. In addition, evaluate whether or not your less predictable assets are sufficient to fund your discretionary expenses.

Step 4
Allocate your assets

The goal here is to put in place an asset allocation strategy based on your time horizon, risk tolerance, and investment experience. Make sure your portfolio is structured to help minimize the five risks outlined in the main article.

Step 5
Monitor and maintain

With your retirement income plan in place, it becomes important to review it regularly — at least once a year. As your personal circumstances change, you'll want to adjust accordingly.

Seven strategies for a successful retirement

By Connie Blaszczyk

Le *plus ça change, le plus c'est le même chose.* How's your high school French? If it's vanished into the ether, here's the translation of this well-worn adage: *The more things change, the more things stay the same.*

Alas, if only it were true.

Whether it's tax rates, the markets, or health care, things are changing faster than any Frenchman can say "*plus vite*." Not surprisingly, this rapid pace of change will impact your retirement planning — meaning that today, more than ever, *you* must be the driving force toward reaching your retirement goals. The plans you may have put in place two, three, or five years ago might now be out of date. This makes it essential that you create a strategy that works for you, and that you monitor your course regularly.

So, what exactly are you looking to provide for yourself in retirement? At a minimum, you'll want a monthly "paycheck" to cover essentials, such as your health care expenses, mortgage, and food. Of course, it's not enough to live paycheck to paycheck. You'll also want a source of retirement income for discretionary expenses, like travel and entertainment — in other words, the stuff that makes a good retirement even better.

"I believe that typically when someone retires, they need two separate and distinct portfolios," says Rick Bloom, financial adviser at Bloom Asset Management, in Farmington Hills, Mich. "One will cover their immediate income needs, and the second is for long-term growth." *Long-term growth* — that's important, especially now that we're living longer than ever.

Illustration by Sarah McMenemy

It's simple: Do your homework now, and you'll likely be able to afford not only what you *need* in retirement, but also what you *desire* in retirement. Follow through on the seven steps below, and you'll be well on your way.

Step #1

Picture your retirement lifestyle

Let's start with a projection of how much money you'll need in retirement. Sound like a difficult task? Simply look at how you live today. For instance, if you currently like to stay in four-star hotels when you travel, it's unlikely that you'll feel like downgrading to two-star bungalows. Be honest with yourself — don't assume you'll be able to "cut back." In fact, it's likely that you'll be spending as much as or *more* in retirement as you do today.

Make a list of your "must haves" and your "nice to haves." Get excited about the big-ticket "nice to haves" (perhaps an around-the-world cruise). Let your goals motivate you to start saving more *now*.

One thing to factor in: Over time, your projected annual income will need to rise with inflation.

Step #2

Identify the obstacles

No doubt about it — market volatility is still a major obstacle for many investors. "I find that people are forgetting the lessons of three or four years ago," says Bloom. "People are still trying to chase winners, rather than relying on a solid strategy."

Rather than trying to time the market, Bloom encourages investors to stick with an age-appropriate, well-diversified portfolio that they regularly rebalance. Bloom notes that this is especially relevant as you approach retirement. "People get ultra conservative, putting their money in CDs and other low-risk investments." The result: Expenses and inflation continue to rise, interest rates go down, and you're forced to use your principal to cover costs for essential expenses, shrinking your budget for discretionary expenses.

What about changes in recent tax laws? Should decreased income tax rates and decreased rates on long-term capital gains and dividends determine your overall investment strategy? Again, the only constant is taxes themselves. Beyond that, no one can predict how and when tax laws will change. Consequently, it's best to avoid basing your long-term planning strategy on shorter-term tax laws.

Now that you've considered potential risks and obstacles, let's "do the numbers" to determine if you're "retirement ready."

Step #3

Confirm where you are today

In Step One, you came up with a projection of your needed retirement income. The next step is to calculate your expected sources of income in retirement, including your pension, real estate holdings, and Social Security. Be careful to not overestimate, though. "Social Security is not going to keep up with increases in the cost of living," says Bloom. "The longer you live in retirement, the less Social Security will provide for you."

Whether you map out your numbers with a financial planner, do them yourself, or use a worksheet, you'll want to determine how close or far you are from reaching your targeted retirement nest egg.

What if you identify a sizeable gap between what you need and what you'll likely have saved? That's precisely what you should look for. Armed with this

> “When you’re close to retirement, it’s even more important that you assess your asset allocation and your need to rebalance.”
>
> — Financial adviser Rick Bloom

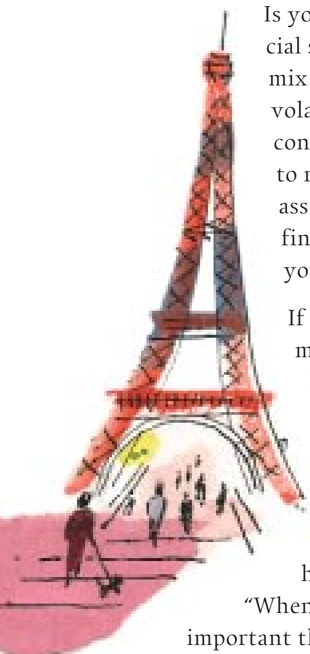
information, you can proactively improve your strategy and employ your best options (see Step Five).

Step #4

Determine your itinerary

Inflation...market volatility...taxes. These are the variables that most people fret about. While it’s true they will likely affect your retirement strategy, why not focus on something you can control — namely, your asset allocation.

Asset allocation is your retirement compass — your itinerary. If your itinerary doesn’t correlate with your goal, you’ll likely end up off the map. Asking yourself a few questions can help you get on course.



Is your current asset mix based on your financial situation from a few years ago? Does your mix suit your timeline? Given recent market volatility, you may have moved into more conservative investments — it may be time to revisit those choices. Be sure that your asset allocation reflects the big picture: your financial needs, your retirement timeline, your comfortable level of risk.

If asset allocation is the compass of retirement, then rebalancing is the ship’s rudder. Be sure to regularly rebalance your portfolio — annually, or as needed. If you don’t, you may find that what was once a 40%–60% bond-stock mix has flip-flopped into a 60%–40% bond-stock mix. This sort of thing can happen even over a short period of time. “When you’re close to retirement, it’s even more important that you assess your asset allocation and your need to rebalance,” says Bloom.

If your investments are spread over various accounts, it can be difficult to visualize your current asset mix. That’s when consolidation makes sense. And recent tax law changes have made consolidating your retirement accounts easier than ever.

Step #5

Determine the best routes

On the road to a retirement, you want to take the best route to get where you’re going. In other words, you need to save more.

Granted, this strategy isn’t new, but it’s often underestimated. By socking away an extra 1% or 2% of take-home pay into your 401(k) and IRAs, you’ll be taking advantage of some valuable attributes, namely tax-deferred saving and compounding of your money over time.

How can you afford to maximize your 401(k) contributions, take advantage of catch-up opportunities (if your plan allows), and contribute more to your IRA? Start by treating your budget like a successful business — be vigilant about keeping costs in check. Look carefully at your cash flow to find available dollars. “Many people have been able to refinance their houses over the past few years,” says Bloom, “helping to significantly lower their mortgage payments. They ought to take those savings and look at investing them.”

Another way to save more for retirement: Shift your time horizon. By postponing your retirement date, even by just a year or two, you’ll have more time to potentially earn and compound your savings. While some investors consider this their last option, some see it as a natural extension of their life goals.

Next up: Get a tune-up.

Step #6

Turbocharge your investing engine

How can you keep more of what you earn? Build yourself a tax-efficient portfolio. Here’s how.

Look over your investments. Identify them according to whether they’re currently “taxable” or “tax deferred.” Then, take a closer look at your two lists. Are your taxable investments generating excessive taxes? What about 401(k)s,

403(b)s — are you taking full advantage of these tax-deferred vehicles?

A word to the wise about taxes: Keep your tax consciousness in perspective. "Your fundamental goal shouldn't be to lower taxes," says Bloom. "The goal is to maximize your wealth, and be smart about your taxes." In other words, keep your eye on the prize.

Step #7

Consult your team

So you've done your homework, taken stock of where you are today, confirmed where you're headed, how you'll get there, and tuned the engine. What more can you do? What about working with a financial adviser? If you've been hesitant to do so, it may be that you need to do more of your own work first. "I think all too often, people go see a financial adviser without a clue as to whether they can trust that person," says Bloom. "The more you know about your own goals and investments, the better it's going to be."

Bloom cites four general areas in personal financial planning that you'll want to think about: estate planning, taxes, risk management, and investing. "You can have the best investments around, but if you don't have good estate planning, you could be in trouble." A trusted financial adviser can help you with all these concerns.

Of course, it's ultimately up to you whether you consult an adviser or go it alone with your retirement planning. Either way, don't be hesitant about seeking information, asking questions, and setting a course of action. With diligence, you can become your own best adviser. Find a strategy that works for you. And if that makes you different from most other folks, you can revert to your high school French: *Vive la différence!*

Illustrations by Sarah McMenemy

A pragmatist's vision for retirement

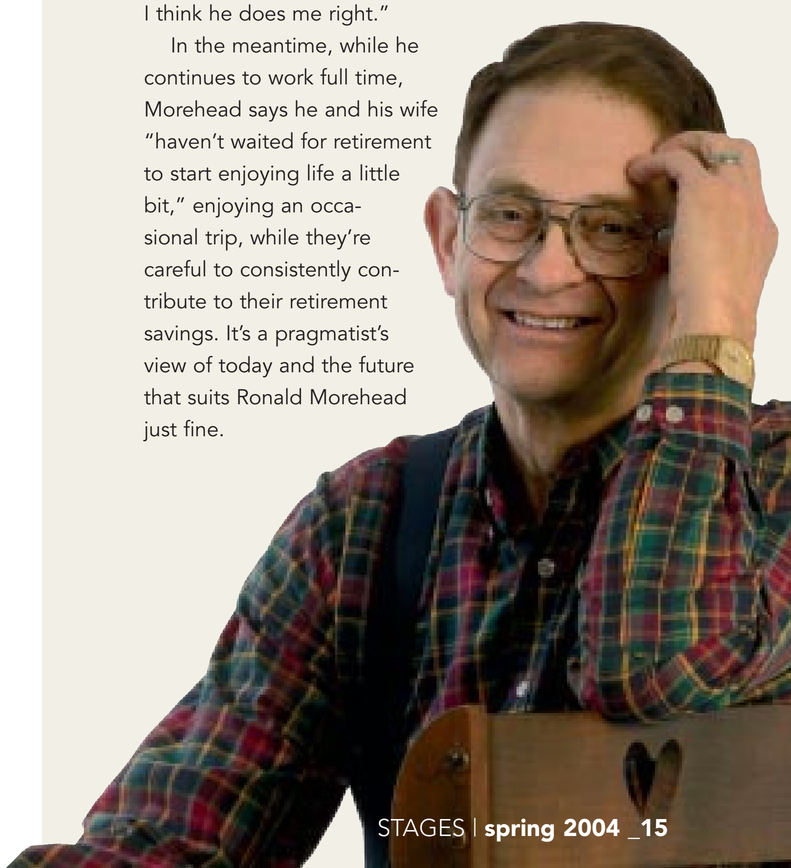
Meet Ronald Morehead, age 63, and a born pragmatist. A worker with Sauder Woodworking, Inc., for the past 10 years, Morehead's vision for his upcoming retirement contains a healthy dose of realism with a nod to living for today.

Take Morehead's lifelong dream of owning a small farm — a wish that goes back to a happy childhood on a farm in Ohio. Such a venture today would take more money than it would earn. So, he and his wife, Carolyn, plan to combine their love of nature with a means of earning money in retirement.

"We love the West," says Morehead, "and hope to work in one of the state parks for a few summers."

Financially, Morehead also realizes the importance of better organizing his retirement funds, which include a 401(k) account, as well as a few IRAs. "My main goal is to get a better picture of my investments, to consolidate my accounts," says Morehead. To do so, Morehead will look to his own judgment, as well as that of his longtime accountant. "I judge what he tells me by what I read," says Morehead. "Sometimes he gives me advice that I question, but most of the time I think he does me right."

In the meantime, while he continues to work full time, Morehead says he and his wife "haven't waited for retirement to start enjoying life a little bit," enjoying an occasional trip, while they're careful to consistently contribute to their retirement savings. It's a pragmatist's view of today and the future that suits Ronald Morehead just fine.



KNOW WHERE YOU HOLD 'EM

By Clint Willis

An effective asset location strategy can increase the tax efficiency of your retirement savings accounts.

Smart investors are always looking for ways to maximize the return on their investments. Last year's tax cut, the Jobs and Growth Tax Relief Reconciliation Act of 2003, has made that a bit easier. The new law has sharply reduced the top tax rates on investment dividends (from 35% to 15%) and capital gains (from 20% to 15%) you earn from stocks held in taxable accounts.

Less to Uncle Sam, more for you. That's a tradeoff decidedly in favor of investors who hold retirement assets outside the shelter of a 401(k) plan, which grows tax deferred but is ultimately subject to ordinary income tax rates (up to 35%) on withdrawals. Still, it's important to make the right moves to take full advantage of the new rules. It's just as important to avoid false steps that could prove costly, such as redirecting your 401(k) contributions to a taxable account in an attempt to capitalize on the new, lower rates.

Such an approach could indeed be costly, according to Susan Strasbaugh, a certified financial planner in Colorado Springs, Colo. "The power of tax-deferred compounding is such that a 401(k) can continue to offer significantly greater long-term growth than a taxable account," she points out. What's more, a 401(k) plan offers other advantages — such as matching contributions and automatic payroll deduction — that are simply too good to refuse. "The tax laws could change 20 times before you retire," Strasbaugh continues. "Meanwhile, tax-deferred accounts, such as a 401(k), are still very compelling."

Top priority: asset allocation

The recent changes may have some implications for the decisions you make about your overall retirement savings strategy, however. In particular, the lower rates applied to taxable accounts raise the important but often overlooked issue of asset location — that is, determining which types of investments are best suited to taxable and tax-deferred accounts. Not to be confused with its close cousin, asset allocation, asset location should be an important consideration if you don't hold every penny of your long-term savings in tax-deferred accounts.

Like every investor, you must first decide upon an asset allocation strategy: an appropriate mix of growth-oriented stocks or funds as well as more stable, income-oriented holdings. You should then develop an asset location strategy by making careful decisions about which types of investments to hold in taxable accounts and which types can take full advantage of the opportunities provided by tax-deferred accounts. "Asset allocation comes first," says Strasbaugh. "But asset location also can make a significant difference over time."

Taxable vs. tax advantaged

Asset location is an important part of investment strategy for a simple reason: Taxable accounts are different from tax-deferred accounts, such as 401(k) accounts. When you invest in a taxable account, you must pay income tax on the money you set aside. In addition, every year you pay taxes on your dividends and capital gains, which means you have less profit to reinvest in the account each year. By contrast, a 401(k) lets you defer taxes on any salary you invest — and then also postpones taxes on profits, so that your money compounds tax deferred. True, you may pay taxes at a higher rate when you withdraw the money. But the potentially powerful effect of long-term compounding should more than make up for a relatively higher tax rate.

The best of both worlds

Clearly, a 401(k) account is a great way to increase the tax efficiency of your investments. Asset location offers a way to become even more tax efficient, by taking full advantage of your 401(k) as well as any other tax-deferred holdings such as a Roth IRA or a Traditional IRA.

Bear in mind that asset location comes after asset allocation. That is, you must first decide how to divide your total long-term investment portfolio among different types of investments. That done, you can consider the right asset location strategy by deciding which investments will take fullest advantage of the tax breaks in your 401(k) or IRA, and which ones should go into a taxable account.

Fortunately, your asset location strategy can be relatively simple. Start with the fact that fixed-income investments — such as the bond funds in your 401(k) account — generate a regular flow of cash that is subject to relatively high ordinary income tax rates of up to 35% in a taxable account. Taking that fact into account, you may decide to hold all of your fixed-income investments in the shelter of a 401(k).

By contrast, most equity investments generate capital gains and dividends that are taxed at much lower rates — typically 15% — in a taxable account. Thus, many investors who keep some money in taxable accounts will want to use those accounts for shares of stocks or equity mutual funds.

Locating your assets

None of this means you should keep all of your 401(k) savings in bond funds. Chances are, those 401(k) assets constitute the bulk of your long-term investment portfolio. Investors who keep too much money in bond funds could sabotage their portfolio's growth potential. "Most investors should have a healthy dose of growth investments in their 401(k)," advises Chris Kuehne, a certified financial planner in Pound Ridge, N.Y.

Moreover, the tax-related drawbacks of keeping stock funds in your 401(k) may not turn out to be as significant as you might expect. The reason: Stocks' tendency to generate higher returns than bonds do over long periods means that stock funds can take fuller advantage of tax-deferred compounding.

It's also worth considering a fund's turnover rate — the percentage of its assets that are replaced every year. A fund that makes frequent trades is likely to generate more taxable gains than a fund that makes less frequent changes in its portfolio. Thus, for example, passively managed index funds, with their low turnover rates, are sometimes more appealing candidates for a taxable account than an aggressive growth fund with a high-turnover rate.

Illustration by Karen Greenberg

LOCATION, LOCATION, LOCATION

The illustration shows six types of assets you might hold in your portfolio. The ones toward the left tend to be the least tax-efficient outside the shelter of a 401(k) plan or other tax-deferred account. The ones toward the right probably would suffer the least in a taxable account versus a 401(k).

The bottom line: Asset location isn't a replacement for asset allocation or tax-deferred accounts. Instead, it offers a way to make the most of those tools — which remain your most important allies in your quest for long-term financial security.

An investment's return and priciple value will fluctuate and can be more or less than the original cost when redeemed.

measuring volatility

IF MARKET SWINGS make you queasy, then consulting a trio of measures could provide the gut check you need to achieve a combination of desired returns and peace of mind.

By Jeff Schlegel

When it comes to volatility, not every mutual fund investor has a cast-iron stomach. Let's say your 401(k) plan includes two mutual funds with similar styles. Furthermore, each has gained an average annual return of 10% during the past three years. The choice between the two might seem like a toss-up. But for risk-averse investors, one of those mutual funds might be a better fit because it's less volatile.

Beta, r-squared, and standard deviation can help investors size up a mutual fund's volatility characteristics and how well it has performed vis-à-vis those characteristics, which can lead to investment decisions that are consistent with your risk tolerance. These measures are typically calculated over the most recent three-year period.

Beta

Perhaps the most familiar of the three measures is beta, which tracks how much risk a mutual fund has taken relative to its underlying benchmark index, such as the S&P 500® Index. Beta is a double-edged sword because a higher beta is an indication of greater potential returns *or* greater potential losses. A mutual fund with a beta of 1.00 has mirrored the volatility of its benchmark, meaning that it has more or less performed in line with that benchmark. A high-beta fund of 2.00 is twice as volatile as its benchmark — it could theoretically gain twice as much or lose twice as much. Consequently, if the S&P 500 Index gained 10%, a mutual fund with twice the volatility could jump 20%.

A mutual fund with a beta of 0.50 is half as volatile as its benchmark, so a 10% uptick in the benchmark S&P 500 likely would have produced only a 5% gain, whereas a 12% drop in the index likely would have resulted in only a 6% loss.

"Most investors want to own high-beta stocks in a bull market and low-beta stocks in a bear market," says Lee Hull, president of Hull Capital Management, in Dallas. "If you're worried about the market, you may want to crank down your beta" for stocks and mutual funds.

Of course, beta is an objective measure and risk is a subjective concept. However, opinion counts with beta as well. Hull says you must consider the time frame when judging beta. "When something is in favor, it tends to have a higher beta than normal," he says. You also need to compare betas on an apples-to-apples basis across different mutual fund categories. A small-cap growth fund with a beta of 1.10 doesn't have the same risk profile as a large-cap value fund with a similar beta because the underlying index of the former (the Russell 2000® Growth Index) is generally more volatile than that of the latter (S&P 500).

R-squared

A mutual fund's beta is only as good as its r-squared, which is a historical measurement that indicates how closely past fluctuations have correlated with the fluctuations of its benchmark index. "R-squared is useful when measuring the relevance of a passive benchmark to an actively managed fund," says Jeff Tjornehoj, a research analyst at Lipper Inc. The higher the r-squared number, the more reliable the beta. The rule of thumb is to look for an r-squared of 75 or higher.

A mutual fund's r-squared score can range from zero to 1.00 (or 100, depending on the source), with 1.00 indicating the mutual fund has completely tracked its benchmark index. A mutual fund with an r-squared of 0.80 indicates that 80% of its past movements were correlated to movements in its benchmark index. Some core equity index funds have an r-squared of 1.00, meaning they perfectly track the S&P 500 Index.

The S&P 500 Index is the most commonly referenced benchmark for U.S. stock funds, but it's not always the best comparison for a mutual fund's style and holdings. Investors should look at a mutual fund's best-fit index, which

Morningstar, Inc. defines as the one showing the highest correlations with a mutual fund over the past 36 months.

Standard deviation

The third measure, standard deviation, shows the dispersion of a mutual fund's returns over a specified time period. In other words, it quantifies fund volatility by showing how much the mutual fund has bounced around from its average returns during that time. A high standard deviation indicates greater volatility on both the upside and downside.

On a macro level, equity funds generally sport higher standard deviations than bond funds because they experience wider price swings. To illustrate that, Morningstar fund analyst Dan McNeela reports that the specialty technology fund sector had a standard deviation of 39 for the three years ended October 31, 2003. During that same period, the steady and sedate ultra-short bond fund category sported a standard deviation of 1. Falling somewhat between the two was the large-blend fund family, a combination of growth and income investing styles that scored a 17.

Standard deviation doesn't measure performance, but it can be useful when building a mutual fund portfolio. "It can steer people away from chasing after a hot mutual fund or sector because it reminds people that investments can go down just as much as they can go up," says McNeela. In addition, he notes that standard deviation can help investors diversify their portfolios by choosing a mix of mutual funds across the volatility — and thus, performance — spectrum. "It might be worth taking a small position in a higher standard deviation fund. If it's a small part of the overall portfolio, you don't need to be as concerned with the standard deviation of its return."

Don't lose sight of the big picture

Keep in mind that beta, r-squared, and standard deviation are rearview indicators, and that they don't predict future performance. They also lose their relevance if the fund's style changed during the measured time frame.

These measures should be part of the total mosaic of savvy mutual fund investing that includes evaluating fund managers, watching expenses, knowing a fund's performance during different market conditions, and examining a fund's holdings. After all, investing should be about helping you reach certain financial goals without constantly reaching for an antacid.

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The Lehman Brothers Aggregate Bond Index is an unmanaged market value–weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities, with maturities of at least one year.

It is not possible to invest directly in an index.

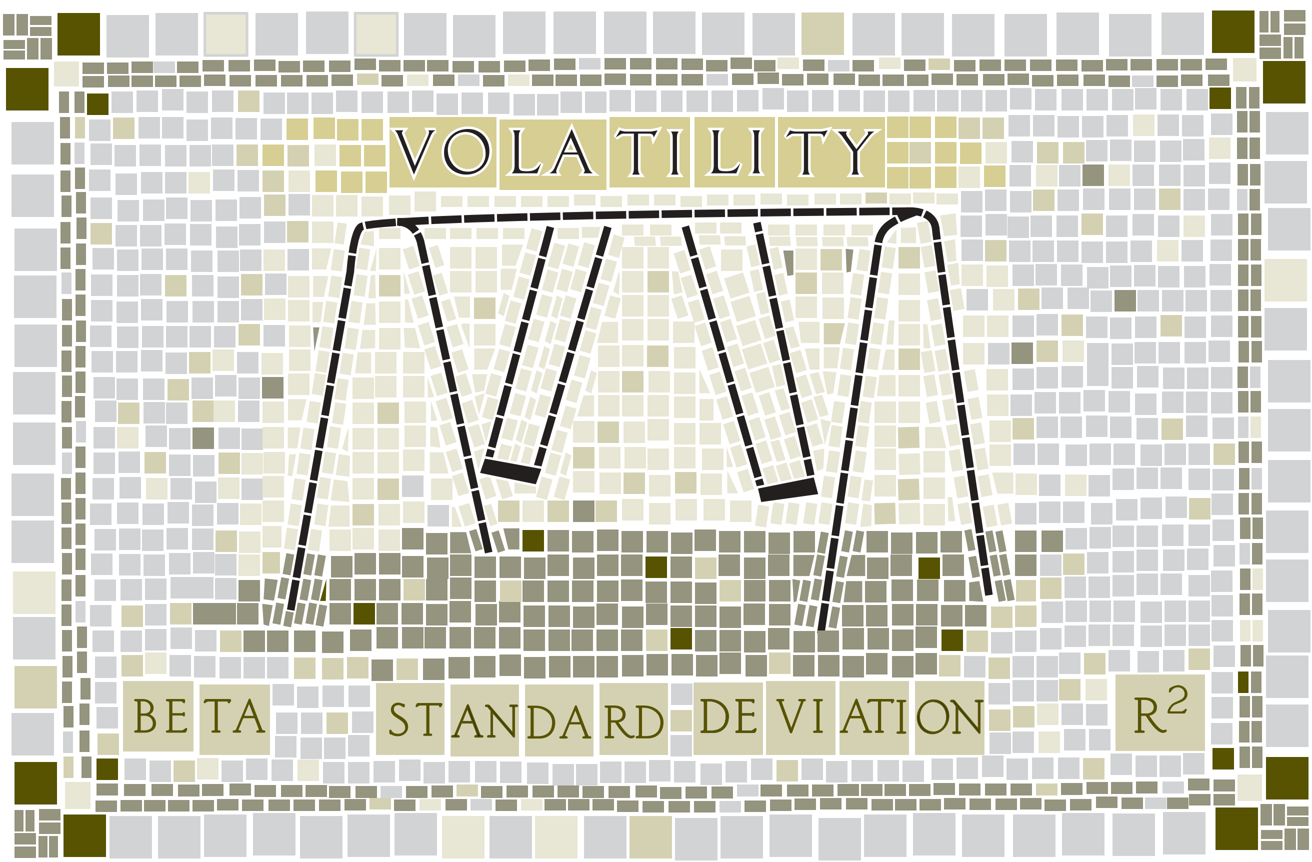

Illustration by Todd Gilmour

7 things you need to know about IRA investing

By Barbara Bedway

By now you're no doubt well acquainted with the various reasons a 401(k) plan can be a potent method for investing toward retirement. Your voluntary contributions not only reduce your taxable income, but any earnings are tax deferred until withdrawn. And, if you're eligible to receive a company match, your 401(k) gets an additional boost. Here's more good news: The limit on your pretax contributions to an employer-sponsored retirement plan has increased to $13,000 in 2004.

Once you've reached that limit, you should consider saving even more by opening an Individual Retirement Account (IRA). As a tax-advantaged investment, an IRA is an effective way to supplement your maximum 401(k) contributions — an important building block toward a more comfortable retirement.

"Investing to the maximum in both a 401(k) *and* an IRA is ideal," says Anthony Luciano, vice president, retirement planning, at Fidelity Investments. "IRAs offer additional opportunities to save even more for retirement, while also complementing the investment choices you've made for your 401(k) account."

Especially as tax time approaches, you may want to consider investing in an IRA. These days you can choose between a Roth IRA and a Traditional IRA. But that's not the only decision you'll face. To help you choose wisely, get acquainted with the fundamentals of IRA investing, highlighted below.

1. Eligibility

Age and adjusted gross income (AGI) are two factors that can impact your eligibility to open an IRA. There are no age limits for a Roth IRA, but there are income restrictions. To make the maximum contribution for the 2003 tax year ($3,000), adjusted gross income (AGI) must not exceed:

- $95,000 for single filers, with partial contributions allowed up to $110,000
- $150,000 for a married couple filing a joint return, with partial contributions allowed up to $160,000.

If you have earned income and are under age 70½, you may contribute to a Traditional IRA. In general, if neither you nor your spouse participated in a 401(k) or other qualified retirement plan, your contribution will be fully deductible. Even if you're an active participant in a qualified plan, you can receive the full deduction for the 2003 tax year if your AGI is:

- $40,000 or below for single filers, with partial deductions allowed up to $50,000
- $60,000 or below for married joint filers, with partial deductions allowed up to $70,000.

Note: For tax year 2004, each of these four deductibility figures is raised by $5,000.

For both types of IRAs, you must have earned income at least equal to the amount contributed. Married couples: If you file jointly, either spouse can have the requisite earned income.

2. Roth vs. Traditional

Both types are designed as long-term, tax-advantaged retirement accounts, but the way they are taxed differs markedly. Contributions to a Roth IRA are made with after-tax money and are never tax deductible. The Roth's tax benefits show up later, when you withdraw the money, completely federal income tax free after age 59½, if the account has been open for five years. Also, Roths have no mandated withdrawals in your lifetime, not even at age 70½. And you can continue to contribute to a Roth as long as you have earned income and meet income limits.

Only Traditional IRAs offer tax deductibility to investors who qualify, as well as tax deferral on earnings growth. You don't have to pay federal income taxes on the money until you withdraw it after age 59½. You also must begin withdrawing the money when you turn 70½ — a stipulation known as a Required Minimum Distribution (RMD). You can no longer contribute to a Traditional IRA after age 70½.

"Basically, Traditional IRAs enable you to take advantage of pretax contributions, and you pay taxes at whatever your current rate is in retirement," says Luciano. "The Roth gives you ability for tax-free growth versus tax-deferred growth." Luciano points out that you may want to consult a financial adviser about which type is best for your situation.

Illustration by Tatsuro Kiuchi

3. Spousal IRA

The Spousal IRA is specifically designed for families that have a spouse who is a) not employed; b) without enough income to fully fund an IRA; c) without a qualified retirement plan at work.

Spouses can choose either a Roth or Traditional IRA. In either case, contributions cannot total more than $3,000 for tax year 2003. If you file jointly, total contributions for working and non-working spouses cannot exceed $6,000 in tax year 2003. (With the catch-up contribution of $500 in tax year 2003, the couple could add a total of $1,000 to their contributions; see below.)

Be aware that the working spouse must have enough earned income to fund both IRAs. The entire amount contributed is tax deductible if the working spouse is not covered by an employer-sponsored plan. If the working spouse is covered, those contributions may be partially deducted, subject to income limits.

4. Contribution limits and deadlines

For both types of IRAs, your tax-year contributions must be made by the tax filing deadline of the following year — so you still have until April 15, 2004, to set up your IRA for the 2003 tax year. You may contribute up to $3,000 to your IRA for tax years 2003 and 2004, with the amount scheduled to gradually escalate to $5,000 in 2008. A special catch-up provision allows those age 50 and older to contribute an additional $500 each year through 2005. That catch-up provision increases to $1,000 beginning in 2006. The contribution limits are subject to certain phase-out rules: Consult your financial adviser for the limits in your particular situation.

5. "R" is for retirement

Uncle Sam created IRAs as a way to encourage long-term investing for retirement. Taking the money out prematurely — prior to age $59\frac{1}{2}$ — can result in a 10% penalty. You can always withdraw your contributions to a Roth IRA, without a penalty. With both Traditional and Roth IRAs, you are allowed to withdraw contributions and earnings before retirement without penalty for certain reasons. Examples include a first-time home purchase, qualified education expenses, certain expenses related to long-term unemployment, and qualified medical expenses.

In addition to a penalty for early withdrawal, you may also owe federal income tax on the amount you withdraw from a Traditional IRA. "IRAs are truly designed for the long-term investor," cautions Luciano. "You really want to keep that money growing tax deferred or, in the case of a Roth, tax free, for as long as possible."

6. Getting started

Setting up an IRA is fairly straightforward. You can use a mutual fund company, brokerage firm, or bank. Many financial services firms allow you to make systematic contributions from a checking account. The range of investment choices to fund your IRA is extensive — including mutual funds, CDs, money markets, and individual securities. This is a real advantage when it comes to creating a diversified portfolio, notes Luciano. "You might start with one diversified mutual fund, and over time split your money among several funds with different styles to enhance diversity."

7. How to choose IRA investments

Most financial experts agree you should keep in mind your entire investment portfolio when considering how to allocate money in your IRA. Take note of what percentage of your 401(k) is in stocks, bonds, and cash, and look to "round out" your portfolio with your IRA.

"An IRA is a piece of the larger puzzle," sums up Luciano, "not something you look at independently. You want to make sure you have an appropriate asset allocation across your entire portfolio, factoring in your risk tolerance and the amount of time before retirement."

Make sure you understand the tax consequences of any withdrawal or distribution from an IRA or other retirement plan before you initiate one.

I will turn 55 years old in November 2005 and intend to "separate from service with my employer." To avoid the 10% early-withdrawal penalty, do I need to work through and including that birthday in November 2005? Or can I just "tag" the year 2005 and leave any month starting with January 2005?

— Catherine Zornes, Salt Lake City, Utah

Generally speaking, the Internal Revenue Service (IRS) will impose an additional 10% tax on the taxable portion of distributions for early withdrawals made from retirement plans prior to the participant's attainment of age 59½. However, there are several exceptions. Among those exceptions are distributions "made to the employee after separation from service after attainment of age 55." The issue when determining whether or not this exception applies to a distribution received before the attainment of age 59½ is whether or not your separation from service has to occur after the attainment of age 55. The IRS provides that if a distribution is made after the employee separates from service with the employer maintaining the retirement plan and that separation from service occurs during or after the calendar year in which the employee attains age 55, the distribution will not be subject to the 10% early withdrawal penalty.

Some of the other types of retirement plan distributions that are not subject to the 10% early-withdrawal penalty include:

- Distributions made to a participant's beneficiary, including an estate, following the death of the participant
- Distributions to a participant who is totally and permanently disabled, as defined by the IRS
- Distributions that are part of a series of substantially equal periodic payments that are made not less frequently than annually for the life (or life expectancy) of the employee or the joint lives (or joint life expectancy) of the employee and his/her designated beneficiary
- Distributions of dividends paid on employer stock in an employee stock ownership plan (ESOP)
- Distributions used to pay medical expenses to the extent that the distribution exceeds the amount deductible for medical expenses, currently 7.5% of adjusted gross income, regardless of whether the participant itemizes deductions

Thomas J. Hohl, Esq.
Senior Vice President of Business Compliance
Fidelity Employer Services Company

- Distributions to an alternate payee in accordance with a qualified domestic relations order (QDRO), and
- Distributions made on account of an IRS levy under Code section 6331.

In addition, corrective distributions to comply with the nondiscrimination tests under Code sections 401(k) (excess contributions) and 401(m) (excess aggregate contributions) as well as the section 402(g) and section 415 limitations are not subject to the 10% early withdrawal penalty.

The amount of any distribution from a retirement plan is reported to the recipient on IRS Form 1099-R (Distributions From Pension, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.). It should be noted that before receiving a distribution from a retirement plan, you may wish to consult with a tax adviser. Finally, for more information on the tax treatment of retirement plan distributions, see IRS Publication 575, "Pension and Annuity Income."

HAVE YOU GOT A QUESTION FOR OUR PANEL OF EXPERTS?

Send it along via e-mail to **stages@fmr.com** or write to us at **STAGES, Ask + Answer, P.O. Box 55017, Boston, MA 02205**. Please note that we cannot answer questions about your specific financial circumstances.

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Take control of your retirement planning

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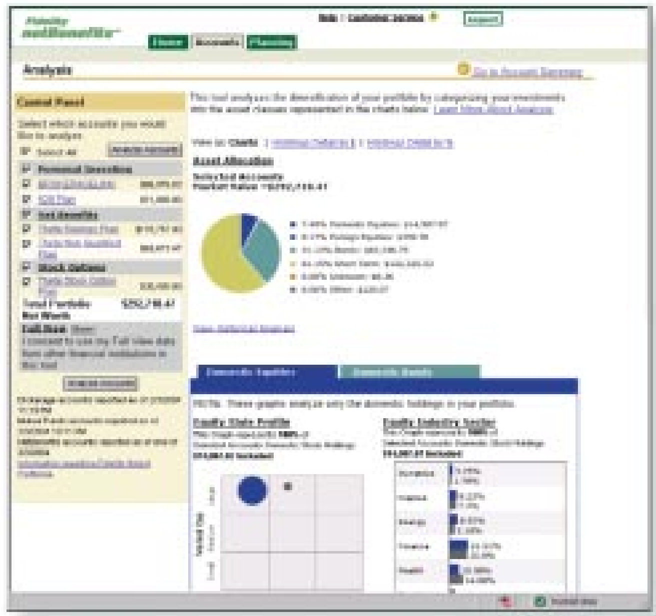
Planning for retirement doesn't have to be a once-a-year event. And the convenience of the Internet makes it easier than ever to stay on top of your 401(k) strategy throughout the year, or as necessary. Fidelity NetBenefits® now includes two new online planning tools — Portfolio Analysis and Investment Research — that can help you better understand your investments, while also helping you make more knowledgeable investment decisions.

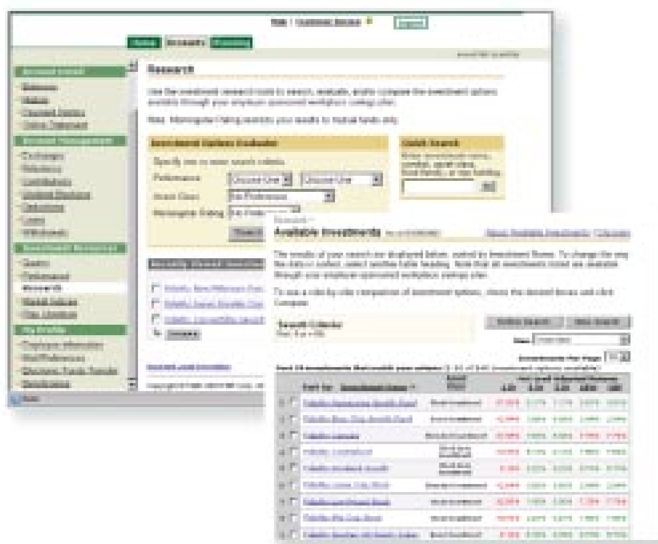
Portfolio Analysis



Portfolio Analysis

Looking to measure the overall diversification of your portfolio? This comprehensive diagnostic tool applies "look-through" methodology to examine the underlying holdings of each of your investments. Portfolio Analysis categorizes your investments to give you better understanding of your portfolio's diversification. The goal is to give you a more transparent view of the securities within your accounts. Check it out today to review the investment style and industry sector breakdown of your domestic equity and bond investments, or to compare your portfolio with an appropriate market index benchmark.

Investment Research



Investment Research

Considering an adjustment to your 401(k) investment lineup? The Investment Research tool enables you to completely screen and research the investment options available in your plan, helping to make you a more confident investor. Start by completing a quick search of plan investment options by fund name, fund family, symbol, or top holding. Then you're ready to evaluate and sort them by specific criteria such as performance, asset class, and Morningstar rating. The tool allows you to view detailed, side-by-side comparisons of up to five plan investment options.

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Half full

How I found retirement optimism, took charge of my future, and settled into the fast lane on the road to retirement.

By Margaret Malaspina

Illustration by Juliette Borda

On the road to retirement — to borrow a phrase from a popular advertising campaign — there are drivers and there are passengers. I've been both. In the driver's seat, I've spent most of my career in the investment business, helping large mutual fund companies educate shareholders about investing for retirement.

As the author of two books on retirement, I speak to investors who, like you, are saving for the big day. They talk about their retirement dreams — and their worst fears: "My savings will never amount to anything, so why bother?" "If I can't even pay my credit card bills, where will I find money to save for retirement?" "I'm maxing out my 401(k) plan, but it's still not growing fast enough."

As a passenger, I'm all too familiar with this sentiment. I got a late start on my own retirement savings. I was age 40 when I opened my first IRA, which promptly lost $400. While my young, single colleagues were maxing out their 401(k) contributions, I was a single mom with a mortgage payment and the looming prospect of college for my two kids.

Optimism prevails

Then something happened. An optimist about every other aspect of my life, I decided that my negative attitude toward saving for retirement had to go. I took a long, hard look at my financial resources, compared them with my goals, and concluded that saving a million bucks was unlikely. But I didn't panic. Instead, I realized that if I managed to save even $50,000 or $100,000, it could make a difference. I became a retirement optimist — someone who saw that there were lots of points between zero and a million — and decided to aim for one of them.

The optimist in me figured I might be able to do better if I learned more about investing. I searched for gems of wisdom, studied systems and formulas, and concluded that what I really needed to do was begin to follow the simple — and boring — lessons I had already learned. Invest for the long term. Diversify. Rebalance. I chose a core equity fund for my 401(k) plan and stayed with it. In the mid-1990s, I invested in bond funds while the stock market was going nuts. In 1999, I decided to look at asset classes that weren't in my portfolio, so I bought a real estate fund. In 2001, I bought a high-yield bond fund.

Retire in style

I also invested in myself. I figured if I *made* more money, I could *save* more money. And I did. Supplementing my regular income with freelance assignments, I had the opportunity to invest in both my employer's 401(k) plan and my own SEP IRA. Then, I left my job and started my own business — and got a little lucky. It's easier to get lucky when you are optimistic. And you'll never get lucky, financially or otherwise, if you're not in the game.

At age 59, I'm still a long way from retirement. But I'm a lot closer to that million dollars than I ever thought I would be. I've gone from feeling that retirement was an option only for the wealthy to believing that I, too, could retire — and even do it in style. Along the way, I've bought my own home, educated my children, and started my own business, all while saving the maximum every year for retirement. I picture myself taking my first really long vacation — a leisurely drive across the United States. California sunsets, Florida beaches, Big Sky country. Optimist in charge and enjoying the view from the driver's seat.

Margaret Malaspina writes about investing, and dreams of travel, from her office in suburban Boston.

home page

online retirement-planning resources from Fidelity

Results are in

Quarterly Market Perspective gets high marks

Since its launch on Fidelity NetBenefits® in August 2003, more than 70,000 investors have tuned in to the Quarterly Market Perspective (QMP). Why such interest? "Workplace savings plan investors are becoming more interested in stock market performance in relation to their retirement savings strategy," says Steve Deschenes, executive vice president of marketing at Fidelity Institutional Retirement Services Company. "The Quarterly Market Perspective is proving to be a useful multimedia tool for them."

Besides an avid interest in recent market performance, QMP viewers have responded enthusiastically to the online survey. Here are a few results:

- **Nearly 80% rated the QMP as very good or excellent**
- **More than 90% agreed that the content was informative, useful, and easy to understand**
- **More than 80% consistently say they are likely to watch future QMPs**

QUARTERLY MARKET PERSPECTIVE

The hosts: **Rick Spillane and Bill Ebsworth** What is it: **An informative listen-and-learn recap of recent market performance, designed specifically for workplace savings plan investors like you** Where is it: **Login to your NetBenefits account and link on the "Planning" tab** When is it: **The QMP is updated in early January, April, July, and October.**

MEET THE HOSTS

Host: Bill Ebsworth
Born: Overseas (military brat)
Current title: Executive Vice President, Fidelity Institutional Retirement Services Co.
International assignment: 1986–1997 lived in Tokyo and Hong Kong, working successively as an analyst, fund manager, research director, and chief investment officer for Southeast Asia.
What I enjoyed most about living in Asia: The people!
What I enjoyed least about living in Asia: Gaining weight from all the terrific food.
When I'm not at work: Outdoor activities with my family. Mountain biking with my friends.
Historical person I most admire: Franklin Delano Roosevelt
Talent that I'd like to have: Music
Favorite writers: Robert Caro, Barbara Tuchman
My motto: "Good judgment comes from experience. Experience comes from exercising poor judgment."
Biggest mistake I see that investors tend to make: Perfectionism. Successful investors learn from their mistakes; they don't dwell on them.
Investing is a lot like: Mountain biking. Having fun means taking some risks, knowing that you'll fall from time to time."

Host: Rick Spillane
Born: Boston
Current title: Executive Vice President and Head of Global Investment Strategy, Fidelity Management & Research Co.
International assignment: From 1994 to 1997, served as chief investment officer for Fidelity International Limited (London), also acting as co-portfolio manager for the Fidelity Funds International Portfolio.
What I enjoyed most about living in London: Making new friends — inside and outside of Fidelity
What I enjoyed least about living in London: British Rail
When I'm not at work: "Where's the first tee?"
Historical person I most identify with: JFK
Words or phrases I tend to overuse: Wicked
Favorite writer: Michael Lewis
My motto: Look ahead, not behind
Biggest mistake I see that investors tend to make: Looking behind
Investing is a lot like: A long, uphill par 5 into the wind.

Watch for the next **QMP** on **NetBenefits** in early **April** for a review of **first quarter 2004 market performance.**

2004 Retirement Assessment Guide

Are you ready to retire? Knowing the answer is more complex than ever before. As you prepare for your big day, we tell you what you need to know to make the transition — and your golden years — a success.

risk&reward

Improve your chances for a rewarding retirement by familiarizing yourself with the five key risks to lifetime income.

Go to page 8

Seven strategies for a successful retirement

In retirement, you'll define success on your own, personal terms. Until then, follow our steps for taking charge now.

Read more on page 12

real life | **REAL PEOPLE**

LEARN FROM HIS MISTAKES

Donald Satcher rebuilt his 401(k) portfolio and then retired at age 60.

Learn how on page 6

real life | **PERSONAL FINANCE**

FINANCIAL RATIOS

How do you measure up?

Find out on page 5

expertise | **7 THINGS**

BEYOND YOUR 401(k)

GET ACQUAINTED WITH THE FUNDAMENTALS OF **IRA INVESTING**

Go to page 20

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IT COULD COST YOU MORE THAN YOU THINK.

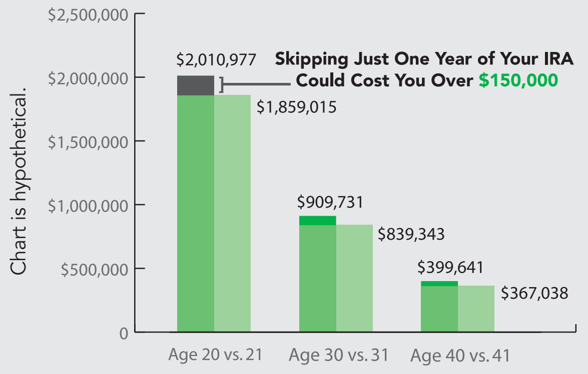

Chart assumes annual $3,000 contributions made on January 1 each year beginning at the specified age and continuing through age 70. Assumes 8% annual rate of return. Assumes annual tax-deferred compounding in an IRA. Final account balances are prior to any distributions and taxes may be due upon distribution. This hypothetical example is for illustrative purposes only and does not represent the performance of any security.

Consider taking two steps for saving.

STEP ONE is easy: Contribute the maximum to your 401(k) plan. And if you still have money to invest, consider taking **STEP TWO:** Contribute to an IRA.[2] Saving even a small amount now can have a significant impact on your retirement savings, because your IRA contributions may grow tax deferred (Roth IRA contributions may grow federally *tax free*). You get earnings on your earnings so your money may grow faster — and has the potential to earn more as time goes by.

And with new "catch-up" contribution limits, people age 50 or older can contribute an extra $500 to an IRA this year and next year—and an extra $1,000 each year starting in 2006.

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[1]Fidelity has eliminated the usual $50 brokerage account fee for Traditional, Roth, Rollover, and SEP IRA accounts. Other fees still apply, including mutual fund management fees and expenses, low-balance fees and short-term trading fees on certain mutual funds, brokerage commissions, and account closing fees.
[2]Contributions to a Traditional IRA may or may not be deductible.
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Fidelity INVESTMENTS