5-2004

Your I.R.A. and You

Jacob Brent Hawkins
Utah State University

YOUR I.R.A. AND YOU

By

Jacob Brent Hawkins

Thesis submitted in partial fulfillment
of the requirements for the degree

of

Business Administration

in

Accounting

Approved:

Thesis/Project Advisor

Department Honors Advisor

Director of Honors Program

UTAH STATE UNIVERSITY
Logan, UT

2004

Table of Contents

- JACOB HAWKINS
- Sr. Project
- ~~Addition to~~
- FINAL Additions to Project.

(801) 319-2661 - Call w/ any Questions.

Your IRA and You

After thorough discussions with my senior academic advisor, Dr. Grange, and the Honors advising department, I decided to conduct my honors senior project on a topic that involved both my educational training and my professional activities. The project addresses the issue that most students outside the college of business do not understand investments. For the past 3 years I have been employed as an intern with Northwestern Mutual Financial Network. In this capacity I have had opportunities to meet with a wide variety of students looking for financial and investment advice. I observed that there was a general lack of investment knowledge among these students. My senior project was centered on providing a forum for students to gain free financial investment advice.

Paul Neagley, an experienced representative of, Northwestern Mutual Financial Network, and I presented a seminar 4 separate times which was entitled "Your IRA and You". Our presentation began with a presentation on general investment topics. Enclosed are both the hard copies of the presentation and overheads used in the seminar. We began by establishing that saving is at the heart of every good financial plan (see:" Your Financial Future Will Not Happen By Chance:" Northwestern Mutual Financial Network).

We then discussed the need to establish an individual plan to meet specific goals and personal investment objectives (see:"Plan and Take Action", Northwestern Mutual Financial Network) We outlined the Investment Pyramid and explained the different investment options available in various financial markets ("Building Your Financial

Foundation", Northwestern Mutual Financial Network). Another topic we discussed was the importance of compound interest. This often complicated concept was discussed in an extremely efficient manner and using the "Power of Compounding Consistency" diagram. Another important advantage, regarding students, is the ability to start early and have time on your side. After observing the Advantages of Starting early slide everyone in attendance was more committed to begin investing and the sooner the better.

Once we established the importance of savings and planning, we described the concept of individual selection. We used the Personal Investor Profile and the Confidential Personal Questionnaire. These evaluate such things as risk tolerance and personal financial objectives. We presented several examples of mutual funds from the, American Funds Family. Included are the materials used and overhead slides presented. We also specifically discussed the advantages of Individual Retirement Accounts, (IRA). We used the tax deferred vs. taxable investments to enlighten the students regarding Roth IRAs and pure mutual fund investing.

The 4 seminars were extremely successful, we had students asking questions, asking for additional information and looking for assistance with a personal investment plan. The main objectives to educate students, apply my scholastic knowledge, and involve professionals with students, were all achieved. I gained much from this honors project experience.

Your Future Financial Security Will Not Come By Chance

Ask Yourself These Questions:

- How much am I saving now?
- If I continue to save as I have in the past, how much money will I have in ten years?
- Am I satisfied with my current savings plan?
- Will I save systematically to reach my financial goals?

There are Two Ways to Save:

- Spend first and then save

or

- Save first and spend what is left.

Plan And Take Action
To Achieve Financial Security

Commit to saving systematically.

Save 10% to 20% of income annually.

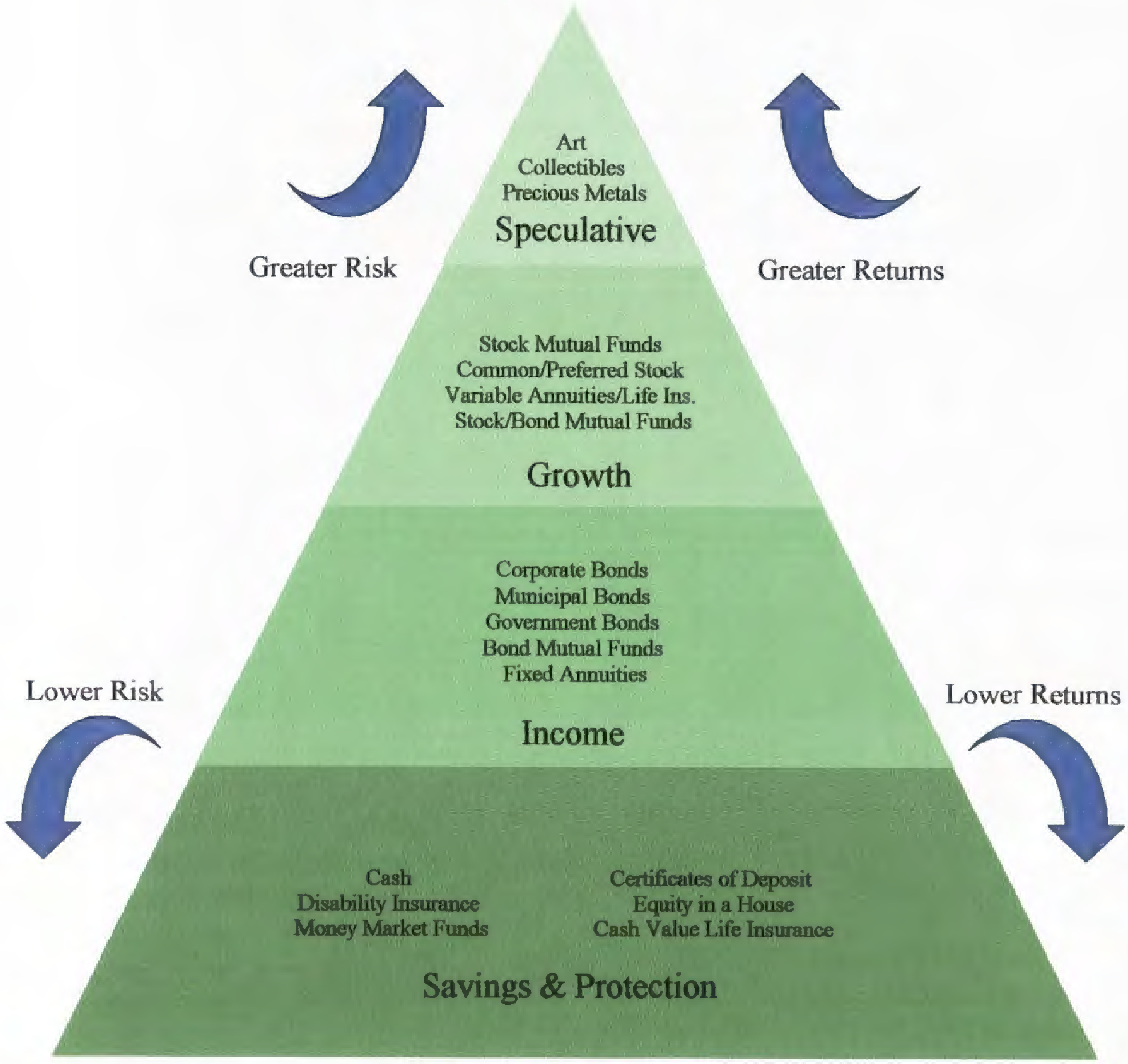
Develop a road map to reach goals.

Choose the right plan:

- What is my tolerance for risk?
- How is my plan taxed?
- What is a reasonable rate of return?

Build a solid financial foundation first.

Building Your Financial Foundation



There are no assurances that greater risk will result in greater return.

The Power Of Compounding Consistency

Starting with a $100,000 balance, which scenario of gains (+) or losses (-) will produce a higher cash balance in ten years?

Years	Scenario 1	Scenario 2
1	+ 20%	+8%
2	+ 21	+8
3	+ 10	+8
4	- 16	+8
5	+ 12	+8
6	- 2	+8
7	+ 22	+8
8	- 6	+8
9	+ 11	+8
10	+ 15	+8

Scenario 1 Fund Value at the end of 10 years = $215,571

Scenario 2 Fund Value at the end of 10 years = $215,892

Here you can see that consistent, long term, conservative investing can equal or even produce higher values than investments that may be more risky and have widely fluctuating returns.

There Are Advantages To Starting To Save Early

Here are the monthly investments required at different ages to accumulate $1,000,000 by age 65, assuming an 8% compounded rate of return:

Age When Investments Begin	Monthly Investments Required to Reach Goal at Age 65
25	$285
35	$667
45	$1,686
55	$5,430

The benefits of starting to save at an early age are clear.

Savings Alternatives for Retirement

Taxable Investments

* Contributions are made with after-tax dollars.
* You are taxed each year on the interest or dividends earned.
* Examples: Money market funds
  Certificates of deposit
  Mutual funds

Tax-deferred Investments

* Contributions are made with after-tax dollars.
* Your funds grow tax-deferred.
* At retirement, your contributions are returned tax-free but any earnings are taxable.
* Examples: Annuities
  Cash value life insurance
  Real estate

Tax-deductible Investments

* Contributions are made with pre-tax dollars.
* Your funds grow tax-deferred.
* At retirement, payments received are fully taxable.
* Examples: Profit sharing plans
  401(k) plans
  IRA (if you qualify for the deduction)

Roth IRA

* Contributions are made with after-tax dollars.
* Contributions are not tax deductible and are limited to $2,000 per year, subject to earnings limitations:
  $95,000 - $110,000 single
  $150,000 - $160,000 married filing jointly
* Investment earnings on the Roth IRA are tax deferred, and if held for five years, are available tax-free.
* Not subject to regular qualified IRA distribution rules (eg. distributions do not have to begin at age 70 1/2).
* The pre - 59 1/2 penalty applies for withdrawals. However it is waived for death, disability or up to $10,000 for qualified first-time home buyers.

Allowable Contributions to Traditional and Roth IRA

Age Range	Max Annual	Catch-Up (50+)	Max Annual (50+)
2002 - 2004	$3,000	$500	$3,500
2005 - 2007	$4,000	$500 ($1000 in 2006)	$4,500
2008	$5,000	$500	$5,500
2009 - 2010	Previous base + COLA	$500	Previous base + COLA
2011	$2,000	0	0

Your Most Important Asset

Your Potential Earnings to Age 65

Age	$25,000 Yearly	$40,000 Yearly	$50,000 Yearly	$100,000 Yearly	$150,000 Yearly
20	$1,125,000	$1,800,000	$2,250,000	$4,500,000	$6,750,000
21	1,100,000	1,760,000	2,200,000	4,400,000	6,600,000
22	1,075,000	1,720,000	2,150,000	4,300,000	6,450,000
23	1,050,000	1,680,000	2,100,000	4,200,000	6,300,000
24	1,025,000	1,640,000	2,050,000	4,100,000	6,150,000
25	1,000,000	1,600,000	2,000,000	4,000,000	6,000,000
26	975,000	1,560,000	1,950,000	3,900,000	5,850,000
27	950,000	1,520,000	1,900,000	3,800,000	5,700,000
28	925,000	1,480,000	1,850,000	3,700,000	5,550,000
29	900,000	1,440,000	1,800,000	3,600,000	5,400,000
30	875,000	1,400,000	1,750,000	3,500,000	5,250,000
31	850,000	1,360,000	1,700,000	3,400,000	5,100,000
32	825,000	1,320,000	1,650,000	3,300,000	4,950,000
33	800,000	1,280,000	1,600,000	3,200,000	4,800,000
34	775,000	1,240,000	1,550,000	3,100,000	4,650,000
35	750,000	1,200,000	1,500,000	3,000,000	4,500,000
36	725,000	1,160,000	1,450,000	2,900,000	4,350,000
37	700,000	1,120,000	1,400,000	2,800,000	4,200,000
38	675,000	1,080,000	1,350,000	2,700,000	4,050,000
39	650,000	1,040,000	1,300,000	2,600,000	3,900,000
40	625,000	1,000,000	1,250,000	2,500,000	3,750,000
41	600,000	960,000	1,200,000	2,400,000	3,600,000
42	575,000	920,000	1,150,000	2,300,000	3,450,000
43	550,000	880,000	1,100,000	2,200,000	3,300,000
44	525,000	840,000	1,050,000	2,100,000	3,150,000

What's going to happen to this money?
Are you going to save any of it?

Variable Annuity

Personal Investor
PROFILE

14-0351

Northwestern Mutual™

Determine Your Investment Objectives and Risk Tolerance

Name	Phone	Company

Street Address	City/State/Zip	Date

Form Completed By *(Name/Phone)*	Current Account Balance	Annual Expected Contribution

QUESTION OF TIME

Circle Value and Total the Corresponding Numbers

1. What is your time frame for wanting to reach your financial goals?

1 Year or less 1	*2 - 5 Years* 2	*6 - 10 Years* 3	*11 - 15 Years* 4	*16 Years or Longer* 5

2. What is your age?

60+ Years 1	*50 - 59* 2	*40 - 49* 3	*30 - 39* 4	*20 - 29* 5

3. What is your primary financial goal?

1	2	3	4	5
Capital Protection Protection against decline in market value of your investments.	*Current Income* Income generated from your investments.	*Consistency* A high degree of stability and predictability of your investment return over time.	*Long-Term Inflation Hedge* High degree of protection of long-term purchasing power of your investment.	*Capital Appreciation* Increase in market value of your investments is primarily through price appreciation.

TIME HORIZON TOTAL:
(Apply at right)

INVESTMENT RISK ATTITUDE

Circle and Total Numbers

	Strongly Agree	*Agree*	*Neutral*	*Disagree*	*Strongly Disagree*
1. I would like to get as much long-term growth from my investment funds as possible, even if it means dramatic ups and downs on a year-to-year or month-to-month basis in my investment results.	5	4	3	2	1
2. I believe I will have enough money to reach my goal; therefore, I must protect what I have.	1	2	3	4	5
3. I believe I will not have enough money to reach my goal; therefore, I must take risk to get ahead.	5	4	3	2	1
4. I would like to protect the money that I invest even if it means getting very little long-term growth.	1	2	3	4	5
5. I believe I will have enough money to reach my goal; therefore, I can afford to take some risk.	5	4	3	2	1
6. I believe I will not have enough money to reach my goal; therefore, I cannot afford to risk what I have.	1	2	3	4	5

INVESTMENT RISK TOTAL:
(Apply at right)

INVESTMENT OBJECTIVE ATTITUDE

Circle and Total Numbers

	Strongly Agree	*Agree*	*Neutral*	*Disagree*	*Strongly Disagree*
1. Earning the highest possible return is the first priority, even if it requires taking some risks to do so.	5	4	3	2	1
2. I prefer an investment strategy designed to grow steadily and avoid sharp ups and downs, even if it lowers the long-term returns.	1	2	3	4	5
3. Short-term losses are acceptable if I have confidence that the long-term returns will be good.	5	4	3	2	1
4. Protecting the money I have is a higher priority for me than making it grow.	1	2	3	4	5
5. If I inherited a large sum of money, I would put it in the bank rather than invest it in stocks.	1	2	3	4	5
6. For the right opportunity, I would quit my job and start my own business.	5	4	3	2	1
7. I do not think I will need to spend any of my principal before the end of my planning horizon.	5	4	3	2	1
8. Other assets I own, such as a pension, inheritance or personal savings account form a substantial portion of my net worth.	5	4	3	2	1
9. Apart from this investment, I expect my earnings to increase over the next 5 years.	5	4	3	2	1
10. I have a very adequate emergency fund that would cover most emergencies.	5	4	3	2	1

INVESTMENT OBJECTIVE TOTAL:
(Apply at right)

Now that you've completed the questionnaire,

please score your Profile and find the asset allocation model that may be appropriate for you.

ENTER YOUR TOTALS FOR EACH CATEGORY

TIME HORIZON: INVESTMENT RISK: INVESTMENT OBJECTIVE:

GRAND TOTAL:

Where do you fall on the Profile continuum?

A	B	C	D	E
19	38	57	76	95
Most Conservative				Most Aggressive

Compare your GRAND TOTAL figure and its corresponding letter to the model descriptions on the following page to get an idea of the asset allocation that most closely matches your risk and return parameters.

A	19	Conservative Model
B	38	Moderate Model
C	57	Balanced Model
D	76	Aggressive Model
E	95	Equity Aggressive Model

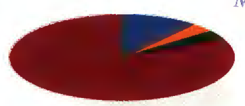
Asset Allocation Models

The divisions of the Northwestern Mutual Series Fund, Inc. and the Russell Insurance Funds help you diversify across asset classes, investment styles and porfolio managers when implementing your strategy. Match your profile to one of the asset allocation models and choose the funds.

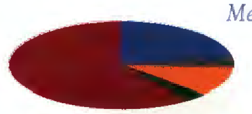
If you wish to self-direct the way in which you achieve multi-level diversification, select primarily from the divisions of the *Northwestern Mutual Series Fund, Inc.*

If you wish to automatically achieve multi-level diversification, select primarily from the *Russell InsuranceFunds.*

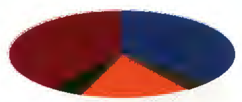
A. CONSERVATIVE ASSET ALLOCATION MODEL seeks to achieve a moderate total rate of return through low capital appreciation and reinvestment of a high level of current income.



B. MODERATE ASSET ALLOCATION MODEL seeks to achieve moderate, long-term capital appreciation with high current income, while recognizing the possibility of moderate fluctuation in year-to-year market values.



C. BALANCED ASSET ALLOCATION MODEL seeks a moderate level of current income and, over time, above-average capital appreciation with moderate risk.



D. AGGRESSIVE ASSET ALLOCATION MODEL seeks to achieve high, long-term capital appreciation with low current income, while recognizing the possibility of substantial fluctuation in year-to-year market values.

E. EQUITY AGGRESSIVE ASSET ALLOCATION MODEL seeks to achieve high, long-term capital appreciation, while recognizing the possibility of substantial fluctuation in year-to-year market values.

NORTHWESTERN MUTUAL SERIES FUND, INC.

Small Company Stocks
Small Cap Growth Stock Fund

International Securities
International Equity Fund

Medium/Large Company Stocks
Aggressive Growth Stock Fund *(M)*
Index 400 Stock Fund[1] *(M)*
Growth Stock Fund *(L)*
Growth and Income Stock Fund *(L)*
Index 500 Stock Fund[1] *(L)*

Multi-Asset
Balanced Fund

Bonds
High Yield Bond Fund
Select Bond Fund

Money Market
Money Market Fund

Fixed
Guaranteed Interest Fund

RUSSELL INSURANCE FUNDS

Small Company Stocks
Russell Aggressive Equity Fund

International Securities
Russell Non-US Fund

Medium/Large Company Stocks
Russell Multi-Style Equity Fund

Real Estate Securities
Russell Real Estate Securities Fund

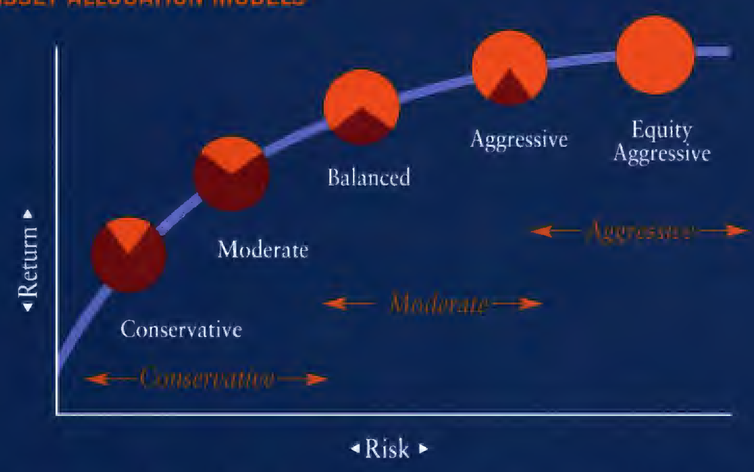
Bonds
Russell Core Bond Fund

PERSONAL INVESTOR PROFILE

The Personal Investor Profile is designed to help you develop an investment approach that fits your individual financial goals. This is the first step in the asset management process and it will help us define important factors such as your investment objectives, time horizon and attitudes toward risk and investing.

The profile works to build the foundation for the second step in the asset management process — determining an appropriate asset allocation. Based on your responses to the following questions, the Personal Investor Profile will help you develop an asset allocation strategy. You may find one of the five asset allocation models — *Conservative, Moderate, Balanced, Aggressive and Equity Aggressive* — appropriate for your investment needs, each with distinct risk and return characteristics. Or if you like, you can create your own asset allocation mix by using any combination of investment portfolios available within the Northwestern Mutual Series Fund, Inc. or the Russell Insurance Funds.

ASSET ALLOCATION MODELS



As you move from left to right on the graph, there is a portfolio structure at each level that can offer potentially higher returns. As with any type of portfolio structuring, however, attempting to reduce risk and increase return could at certain times unintentionally reduce returns.

There is no guarantee that any of the portfolios or models in this product will meet their stated goals or investment objectives. Investments in this product are subject to market risk and loss of principal. The investment return and principal value of an investment in this product will fluctuate, so that units, when redeemed, may be worth more or less than their original cost.

The Personal Investor Profile may not fully apply to participants in trusteed plans due to the number of investment options made available by the trustee.

(1) "Standard & Poor's®", "S&P®", "S&P MidCap 400 Index", "Standard & Poor's MidCap 400 Index", "S&P 500®" and "Standard & Poor's 500" are trademarks of The McGraw-Hill Companies, Inc. and have been licensed for use by The Northwestern Mutual Life Insurance Company. The funds are not sponsored, endorsed, sold or promoted by Standard & Poor's, and Standard & Poor's makes no representation regarding the advisability of investing in the funds.

Variable contracts have limitations. This brochure is authorized for distribution only when preceded or accompanied by a current prospectus or offering circular. The prospectus and offering circular contain a complete description of the variable product including charges and expenses. Please read the prospectus or offering circular carefully before sending or investing money.

Frank Russell Company is a majority-owned subsidiary of The Northwestern Mutual Life Insurance Company.

Issuer: The Northwestern Mutual Life Insurance Company, 720 East Wisconsin Avenue, Milwaukee, WI 53202-4797

Principal Underwriter: Northwestern Mutual Investment Services, LLC, a wholly-owned subsidiary of The Northwestern Mutual Life Insurance Company, 720 East Wisconsin Avenue, Milwaukee, WI 53202-4797 (414) 271-1444

The Northwestern Mutual Life Insurance Company • Milwaukee, WI
northwesternmutual.com
14-0351 (0599) (REV 0600)

Northwestern Mutual

CONFIDENTIAL PERSONAL QUESTIONNAIRE

Is there any particular topic you want me to be sure to cover in our time together?

Date

Revised

Revised

Personal & Family Information

Family

	Individual	Spouse
Name		
Is there a nickname you prefer?		
Home Address		
Home Phone / Fax / E-mail		
Date & Place of Birth		

Children's Names	Sex	Birth Date	Children's Names	Sex	Birth Date

Are you planning to have (more) children? ○ Yes ○ No

Are there any special considerations that relate to the future of your children and perhaps their future education? ○ Yes ○ No

(exceptionally bright? special talents? disabilities? prior marriages?)

Tell me about your extended family.

(parents, brothers, sisters - names, ages, health or cause of death, occupation, and location)

Is there anyone you are supporting now, or will be in the future, that you want to consider in your planning? ○ Yes ○ No

(see page 12 for LTC)

Employment

	Individual	Spouse
Employer / How long?		
Title / Specific Job Duties		
Who do you report to?		
Who owns the business? / Business Structure		
Business Address		
Business Phone / Fax / E-mail		
What are your future career plans?		
Tell me about your educational background. *(school(s), major, active in alumni?)*		

Interests & Avocations

	Individual	Spouse
How do you spend your time away from work?		
Any outside activities? *(organizations, clubs, charities, alumni associations, etc.)*	○ Yes ○ No	○ Yes ○ No
Do you have any interesting avocations? *(flying airplanes, skydiving, underwater diving, hang gliding, mountain or rock climbing, bungee jumping, motorsport racing, etc.)*	○ Yes ○ No	○ Yes ○ No
Drivers license number?		

Living Objectives

One of my purposes is to help you identify *(or focus on)* your personal and financial goals and planning objectives. With this in mind, let's review your goals for the next 3 years, the next 10 years and your long-term goals.

Short-Term Objectives *(0-3 years)*	Mid-Term Objectives *(4-10 years)*	Long-Term Objectives *(>10 years)*

Financial Priorities

As you consider your financial situation, what is your first priority? __________

Assuming you accomplished this, what would be next? __________

And assuming you accomplished this, what would be next? __________

- *saving money*
- *new home*
- *second home*
- *children's education planning*
- *new car*
- *starting own business*
- *estate planning*
- *retirement planning*
- *debt reduction*
- *mortgage protection*
- *providing for your family in the event of death /disability*

Savings Philosophy

Given your goals and financial priorities, it is important to review your savings and investment philosophy.

	Individual	Spouse
Is putting money aside on a regular basis for long-term savings important to you? Why?	○ Yes ○ No	○ Yes ○ No
What % of total income do you feel should be set aside to meet your financial goals?	%	
What does this mean in dollars on an annual basis?	$	
Are you currently doing this?	○ Yes ○ No	
Would a systematic savings program designed to achieve your goals be helpful?	○ Yes ○ No	○ Yes ○ No

Notes: __________

What is your tolerance for financial risk? Individual ____________ Spouse ____________
(0=none, 10=high)

Are you satisfied with your previous investment experience? ○ Yes ○ No Why? ____________

Rank from the following objectives, on a scale of 1 through 5, with 1 being the most important.

- ______ Liquidity - the ability to turn an asset into cash quickly
- ______ Safety - the probability of having principal returned
- ______ Tax reduction / Deferral - current reduction or deferral of taxes into the future from income and growth achieved today
- ______ Income - current distribution of the investment's earnings
- ______ Growth - reinvesting earnings to maximize appreciation & maintain purchasing power *(inflation protection)*

What do you consider to be a realistic rate of return? Short-term ______ % Medium-term ______ % Long-term ______ %

What do you think the inflation rate will average long term? ______ %

Investment Attitude

Income

It is important to have an understanding of how you are compensated and when you are paid.

	5 years ago	Last year	This year	Next year	5 years from now
Individual's Salary	$	$	$	$	$
Bonus *(when?)*					
Spouse's Salary					
Bonus *(when?)*					
Other Income					

	Individual	Spouse
How frequently are you paid?		
What is your monthly take-home pay?	$	$
At what rate do you expect your income to grow long term?	%	%
Do you anticipate any significant changes in your total income in the future? *(special bonus / inheritance - see page 12)*	○ Yes ○ No	○ Yes ○ No
What do you typically do with the extra money you earn as a result of your raises?		
What % of your total income do you pay in income taxes?	%	%
What is your Social Security Number?		

Do you normally receive a tax refund? ○ Yes ○ No
How much? Purpose? ____________

Are you working with an accountant? *(name, name of firm)* ○ Yes ○ No

____

Who manages your finances and pays your monthly expenses? ____________

Income

Assets & Liabilities

To better understand your current financial position, let's review your existing assets and any outstanding debt you may have.

	Approximate Value	Purpose	Asset Allocation (C,I,G)	Where are assets held?	Annual Contribs / % Increase	Owner	Liquid at Death? Y / N
Savings Accounts							
Checking Accounts		*(after expenses)*					
CDs							
Money Market Accts							
Life Insurance Cash Values							
Stocks							
Bonds - Corp							
- Gov't							
Annuities - Fixed							
- Variable							
Mutual Funds - Growth							
- Balanced							
- Income							
Qualified Retirement Plans - 401(k)							
- IRAs							
- TSA							
- Profit Sharing							
- Other							
Residence							
Real Estate Property							
Automobiles							
Personal Property							
Bus. Interest(s) *(see pg.13)*							
Other							
Other							

TOTAL Assets ____________ TOTAL Liquid at Death ____________

Is there anyone you turn to for financial advice? ○ Yes ○ No
(broker, planner, family member, other?) ____________

What are your general thoughts and feelings regarding debt? ______

What is the current outstanding balance of...	Amount Owed	Monthly Payment	Interest Rate	Time Remaining	Person Liable
Home Mortgage					
Equity Loans					
Personal / Student Loans					
Auto Loans					
Credit Cards					
Other					
TOTAL Liabilities					

Assets $ ______

Less Liabilities - $ ______

TOTAL Net Worth $ ______

Liabilities

Budget

To complete your current financial profile, it is important to review your monthly expenses.

Housing

- Mortgage / Rent ______
- Property Taxes ______
- Home Maintenance ______
- Homeowner's Insurance ______
- Utilities *(Electric, Gas, Water, Cable, etc.)* ______
- Telephone ______

Transportation

- Auto Payment(s) ______
- Auto Insurance ______
- Gas ______
- Maintenance / License ______
- Parking / Tolls / Bus / Train ______

Column 1 TOTAL ______

Household / Personal

- Groceries ______
- Personal Care ______
- Clothing / Dry Cleaning ______
- Domestic Help ______
- Professional Dues ______
- Dependent / Child Care ______
- Education / School ______
- Cash / Allowances ______

Personal Insurance

- Health Insurance ______
- Life Insurance ______
- Disability Insurance ______
- Long Term Care ______
- Medical / Dental / Drugs ______

Column 2 TOTAL ______

Loan Payments / Savings

- Credit Card Payments ______
- Other Loan Payments ______
- Savings / Investing ______

Discretionary

- Dining Out ______
- Recreation / Club Dues ______
- Movies / Sporting Events ______
- Hobbies ______
- Vacation / Travel ______
- Child Care ______
- Gifts / Contributions ______
- Other (   ) ______
- Other (   ) ______

Column 3 TOTAL ______

TOTAL MONTHLY EXPENSES ______

Net Monthly Income $ ______

Less Expenses - $ ______

TOTAL Surplus / Deficit $ ______

Budget

Planning

Education Planning

Now let's review the planning you have done as it relates to the goals you want to accomplish.

What thoughts do you have regarding your child/ren's future education?

Is funding their education important to you and your family? ○ Yes ○ No What % ______ Age to begin ______ Years to fund ______

Average inflation rate for college education?

What would be the total cost to send your child/ren to the college of their / your choice, today?

What is your current plan for funding this need and how do you feel about it?

Retirement Planning & Assets

Looking further out, what thoughts do you have regarding your retirement planning?

	Individual	Spouse
At what age would you like to be in position to not have to work?		

If you retired today, what lifestyle would you want?

How much after-tax monthly income would you need today to support this lifestyle? $

How long would you want this income to continue?

Do you know how much you will need to accumulate to accomplish this goal? ○ Yes ○ No $

Do you see yourself working part-time after retiring? *(what income, for how long?)* ○ Yes ○ No ○ Yes ○ No

Now let's review your current retirement program. *(IRAs, 401(k), TSA, Annuities, Profit Sharing, Other)*

Participant	*Type	Approximate Value	% Employee Contributions	% Employer Contributions	(C,I,G) Asset Allocation	Beneficiary at Death
Individual		$	%	%		
Spouse						

For defined benefit plan, see page 13

• NOTE: Obtain the employee benefits booklet •

Do you feel that your current planning will allow you to achieve your goals? ○ Yes ○ No

Should Social Security benefits be included in your retirement planning? ○ Yes ○ No

Insurance Planning

As I mentioned previously, I work primarily in two areas: wealth accumulation and insurance planning. With this in mind, let's review your existing insurance and estate planning.

Wills

	Individual		Spouse	
Do you have a written a will?	○ Yes	○ No	○ Yes	○ No

When and where was your will executed?

Who will be your executor? Why?

Who would be the guardian of your child/ren? Why?

Are you the chosen guardian for someone?

Do you work with an attorney? ○ Yes ○ No
(name, name of firm)

Have you done any additional estate planning? ○ Yes ○ No
(if yes, see page 13)

Health Insurance

	Individual		Spouse	
What can you tell me about the health insurance benefits provided by your employer?				
(If none) How are you providing for these benefits?				
Who is the benefits administrator at your company?				
Are you satisfied with your existing coverage?	○ Yes	○ No	○ Yes	○ No

Medical History

	Individual		Spouse	
Do you regularly see a personal physician? *(name, name of clinic)*	○ Yes	○ No	○ Yes	○ No
When was your last physical examination and what were the results?				
Have you ever had back problems, diabetes, heart murmur, high blood pressure, operations? If so, what?	○ Yes	○ No	○ Yes	○ No
Are you currently taking any medication and if so, for what reason?	○ Yes	○ No	○ Yes	○ No
Have you used nicotine in any form, during the last twelve months? If so, what? *(cigarettes, cigars, chewing tobacco)*	○ Yes	○ No	○ Yes	○ No
Do you see any other health professionals? Who and why?	○ Yes	○ No	○ Yes	○ No

Disability Income Benefits

What concerns do you have regarding protecting your income against loss due to an accident or illness?

What can you tell me about your existing disability coverage? *(employer provided, personally owned)* *(Many plans cover less than 70% of salary, may exclude bonus and commission, may be taxable, and can be restrictive.)*

Insured		Monthly Benefit	Beginning Date	Benefit Period	Premium	Company	Payor	Cost of Living* Adjustment
Individual	*(group)*				$			
	(personal)							
Spouse	*(group)*							
	(personal)							

* many plans do not protect against inflation

• **NOTE:** Obtain the employee benefits booklet •

	Individual	Spouse
If you were sick or injured and unable to work, how much after-tax income would you need on a monthly basis to maintain your current lifestyle?	$	$

If tomorrow you could not work due to a disability, what sources of income would meet your monthly living expenses?

How do you feel about your existing disability program?

Does your existing disability coverage cover bonus income and / or commissions?

Life Insurance Benefits

What thoughts or feelings do you have about life insurance in general?

How do you feel about your existing life insurance program?

Let's review your existing life insurance program. *(employer provided / personally owned)*

Insured	Face Amount	Type	Company	Cash Value	Premium	Beneficiary	Owner / Payor	Asset Allocation (C,I,G)
Individual				$	$			
(group)								
(personal)								
Spouse								
(group)								
(personal)								

What do you want your life insurance to do for you?

What thought process *(or formula)* did you use to determine the amount of coverage currently on your life *(and your spouse's)*?

Has anyone ever explained the living benefits of life insurance to you? *(accumulation, tax advantages, flexibility)* ○ Yes ○ No

Have you ever lost someone close to you? ○ Yes ○ No
How did that impact you?

Now that we have reviewed your current insurance planning, I would like you to tell me what you want to have happen to your family if you *(and/or your spouse)* were to die prematurely.

Your family may face five primary financial issues.

AMOUNT TO PROVIDE

		Individual	Spouse
1st, **Mortgage** If you were to die today would you want your family to be able to afford to stay in the same *(or similar)* home they are living in today *(pg. 5)*?	○ Yes ○ No	$	$
2nd, **Existing Debt** Would you want your family to be able to pay off any existing debt *(pg. 5)*?	○ Yes ○ No		
3rd, **Education** You mentioned that you want to provide *(pg.6)* ____________ for your children's education. Would you want this to be taken care of in the event of death? ____________	see appendix B		

4th, **Income**
Would you want your family to be able to maintain the same lifestyle they enjoy today? ○ Yes ○ No

	Individual	Spouse
Monthly Household Budget	$ ________	
Expenses that change (+/-)		
Mortgage payment	________	________
Debt payments	________	________
Insurance premiums	________	________
Other payments	________	________
Child Care	________	________
	________	________
Surviving spouse's earned income	________	________
Addt'l Monthly Income Needed	$ ________	$ ________

length of time ________ see appendix A

5th, **Finally,** most people feel that it makes sense to provide for:

	Individual	Spouse
Final expenses *(co-payments, funeral, estate admin., etc.)* ________		
Emergency fund *(for things not planned for)* ________		
Readjustment fund *(allowing time to determine future)* ________		
Is there anything else to consider that is important to you? ○ Yes ○ No ________		
TOTAL NEED		
Less Existing Life Insurance *(see page 8)*		
Less Liquid Assets *(see page 4)*		

Based on these figures, it looks like you need *(an additional)*..........**TOTAL AMOUNT** of capital to protect and guarantee what is most important to you. How do you feel about this amount?

Priorities

Priorities

Finally, of the insurance and financial objectives we have discussed, please rank the following in order of priority.

______	Funding your children's education	Notes:
______	Funding for a comfortable retirement	______
______	Providing for your family in the event of death	______
______	Providing for you and your family in the event of a disability	______
______	Planning for potential estate taxes	______
______	Providing for long-term care	______
______	Evaluating your investment portfolio	______
______	______	______

Summary

Summary

Earlier you indicated that ______ % of your total income or $ ______ *(pg. 2)* should be set aside annually to meet your financial goals.

If I can recommend a program that will help you accomplish what is most important to you and makes sense within your budget, what would you be willing to commit to on a monthly basis? $ ______

Earlier we discussed your expectations for the future increases in income; what portion of these increases would you feel good about saving? $ ______

Is there anything we have not touched upon that you feel is important for me to know? ______

What do you expect from me? ______

Favorable Introductions

Favorable Introductions & Next Appointment

Now that you've seen the process to this point, how do you feel about it? Why? ______

INTRODUCTIONS *(Successful... attorneys, CPAs, doctors, salespeople, business owners, other professionals. Neighbors, associates, friends, family. Recently... married, promoted, purchased home, changed jobs, or had a child.)*

6. ______

5. ______

4. ______

3. ______

2. ______

1. ______

Notes

Do you know someone who is not happy in their current position or is looking for a career opportunity?

○ Yes ○ No

Next Appointment

Next Appointment:

Date:

Time:

Place:

Expectations:

Advanced Planning

Long-Term Care

	Individual		Spouse	
Do you know anyone who has needed long-term care services at home or in a facility? *(immediate family, relatives, acquaintances)*	○ Yes	○ No	○ Yes	○ No

If so, please tell me about it. ______________________________

____

Describe your current long-term care coverage *(employer provided and / or personally owned).*

Insured	Daily Benefit	Beginning Date	Benefit Period	Company	Premium
					$

Have you ever considered needing long-term care yourself? ○ Yes ○ No ○ Yes ○ No

If yes, what has caused you to consider this? ______________________________

Have you considered a parent *(or in-law)* becoming dependent on you for long-term care? If yes, how do you think this would impact you *(financially, emotionally, physically)*? ○ Yes ○ No ○ Yes ○ No

____

____

If you *(and / or your spouse)* did need long-term care, how would this impact you financially? ______________________________

Have you considered who would be capable and willing to care for you? ○ Yes ○ No ○ Yes ○ No

If yes, how would this impact the caregivers lifestyle? ______________________________

____

Are you familiar with the approximate costs of long-term care *(where it would be provided)*? ○ Yes ○ No ○ Yes ○ No

If long-term care was needed for you *(your spouse, parents, in-laws)*, how much could you financially provide for on a daily basis? $__________ $__________

Typically, in this area, long-term care costs average $__________ *(typically $70-$200 a day depending on region).*

Should I use current or retirement income to offset any long-term care costs in my analysis? ○ Yes ○ No

If so, how much? $__________ $__________

Inheritances

Should any inheritance be included in this planning? ○ Yes ○ No ○ Yes ○ No

If so, how will it be distributed to you and which goals will it help to accomplish? ______________________________

____

	Individual		Spouse	
What is the purpose of this planning?				
When was this planning last reviewed?				
Have you established any trusts?	○ Yes	○ No	○ Yes	○ No
If so, for what purpose?				
Value of assets				
Who is the trust officer?				
Are you a beneficiary of any trusts?	○ Yes	○ No	○ Yes	○ No
At your death, to whom and how would your assets pass?				
Is this planning consistent with your current goals?	○ Yes	○ No	○ Yes	○ No
If not, what changes would you make?				
Are you currently making any charitable or educational gifts or pledges?	○ Yes	○ No	○ Yes	○ No
If so, would you like to see them continue if something happened to you?	○ Yes	○ No	○ Yes	○ No
Have you made other substantial gifts in the past? If so, what?	○ Yes	○ No	○ Yes	○ No
How do you feel about making gifts to avoid estate taxes at your death?				

Estate Distribution Plans

• **NOTE:** Obtain copies of estate planning documents *(wills, trusts, etc.)* •

Please describe the pension or deferred compensation plan that you *(and your spouse)* are covered by.

Participant	Description	Annual Retirement Income	Pre-retirement Death Benefit	Annual Disability Benefit	Cost of Living
		$	$	$	%

• NOTE: Obtain the employee benefits booklet •

Defined Benefit Plans

What is the name of your business? ____________

Describe specifically the nature of the business ____________

When and how did you start / acquire your business? ____________

What is your cost basis in the business? ____________

What is the approximate value of your business or what is your share worth? ____________

What will happen to your ownership interest in the event of your death or disability? ... when you retire? ____________

Business Interests

Survivor Needs – Income Needs

(based on 8.0% investment return, and 20% effective tax rate)

Years Income Needed

Annual Income Needed @ 3% (After-Tax in Today's Dollars)

Annual Income Needed	5	10	15	20	25	30	35	40	45	50	55	60
$18,000 ($1,500/mo.)	84,429	156,203	217,220	269,091	313,188	350,675	382,543	409,635	432,666	452,245	468,890	483,039
$24,000 ($2,000/mo.)	112,572	208,271	289,627	358,788	417,583	467,566	510,057	546,180	576,888	602,993	625,186	644,052
$30,000 ($2,500/mo.)	140,715	260,339	362,033	448,485	521,979	584,458	637,572	682,725	721,110	753,742	781,483	805,066
$36,000 ($3,000/mo.)	168,858	312,407	434,440	538,182	626,375	701,349	765,086	819,269	865,332	904,490	937,779	966,079
$42,000 ($3,500/mo.)	197,001	364,475	506,847	627,879	730,771	818,241	892,600	955,814	1,009,554	1,055,238	1,094,076	1,127,092
$48,000 ($4,000/mo.)	225,144	416,542	579,253	717,576	832,167	935,132	1,020,115	1,092,359	1,153,776	1,205,987	1,250,372	1,288,105
$54,000 ($4,500/mo.)	253,287	468,610	651,660	837,273	939,563	1,052,024	1,147,629	1,228,904	1,297,998	1,356,735	1,406,669	1,449,118
$60,000 ($5,000/mo.)	281,430	520,678	724,067	896,970	1,043,958	1,168,915	1,275,143	1,365,449	1,442,220	1,507,483	1,562,965	1,610,131
$66,000 ($5,500/mo.)	309,573	572,746	796,473	986,667	1,148,354	1,285,807	1,402,657	1,501,994	1,586,442	1,658,232	1,719,262	1,771,144
$72,000 ($6,000/mo.)	337,716	624,814	868,880	1,076,364	1,252,750	1,402,698	1,530,172	1,638,539	1,730,664	1,808,980	1,875,558	1,932,157
$78,000 ($6,500/mo.)	365,859	676,881	941,287	1,166,061	1,357,146	1,519,590	1,657,686	1,775,084	1,874,885	1,959,728	2,031,855	2,093,170
$84,000 ($7,000/mo.)	394,002	728,949	1,013,693	1,255,758	1,461,542	1,636,481	1,785,200	1,911,629	2,019,107	2,110,477	2,188,151	2,254,183
$90,000 ($7,500/mo.)	422,154	781,017	1,086,100	1,345,455	1,565,938	1,753,373	1,912,715	2,048,174	2,163,329	2,261,225	2,344,448	2,415,197
$96,000 ($8,000/mo.)	450,288	833,085	1,158,506	1,435,152	1,670,333	1,870,265	2,040,229	2,184,719	2,307,551	2,411,973	2,500,744	2,576,210
$102,000 ($8,500/mo.)	478,431	885,153	1,230,913	1,524,849	1,774,729	1,987,156	2,167,743	2,321,263	2,451,773	2,562,772	2,657,041	2,737,223
$108,000 ($9,000/mo.)	506,574	937,220	1,303,320	1,614,546	1,879,125	2,105,048	2,295,258	2,457,808	2,595,995	2,713,470	2,813,337	2,898,236
$114,000 ($9,500/mo.)	534,717	989,288	1,375,726	1,704,244	1,983,521	2,220,939	2,422,772	2,594,353	2,740,219	2,864,218	2,969,634	3,059,249
$120,000 ($10,000/mo.)	562,860	1,041,356	1,448,133	1,793,941	2,087,917	2,337,831	2,550,286	2,730,898	2,884,439	3,014,967	3,125,930	3,220,262

Survivor Needs – College Education Funding*

Current Age of Child

Annual Education Costs (*In Today's Dollars*)

	Age 0	Age 2	Age 4	Age 6	Age 8	Age 10	Age 12	Age 14	Age 16
$6,000	22,301	22,469	22,639	22,810	22,983	23,157	23,332	23,508	23,686
$8,000	29,734	29,959	30,186	30,414	30,644	30,876	31,109	31,344	31,581
$10,000	37,168	37,449	37,732	38,017	38,305	38,594	38,886	39,180	39,477
$12,000	44,601	44,939	45,278	45,621	45,966	46,313	46,663	47,016	47,372
$14,000	52,035	52,428	52,825	53,224	53,627	54,032	54,441	54,852	55,267
$16,000	59,468	59,918	60,371	60,828	61,288	61,751	62,218	62,688	63,162
$18,000	66,902	67,408	67,918	68,431	68,949	69,470	69,995	70,524	71,058
$20,000	74,336	74,898	75,464	76,035	76,609	77,189	77,772	78,360	78,953
$25,000	92,919	93,622	94,330	95,043	95,762	96,486	97,216	97,951	98,691
$30,000	111,503	112,346	113,196	114,052	114,914	115,783	116,659	117,541	118,439
$35,000	130,087	131,071	132,062	133,060	134,067	135,080	136,102	137,101	138,168
$40,000	148,671	149,795	150,928	152,069	153,219	154,378	155,545	156,721	157,906
$45,000	167,255	168,520	169,794	171,078	172,371	173,675	174,988	176,311	177,644
$50,000	185,839	187,244	188,660	190,086	191,524	192,972	194,431	195,901	197,383

*Assumes education begins at age 18 and is for 4 years.
Based on 8.0% investment return, 20% effective tax rate, and an annual college cost inflation rate of 6.0%.
Numbers represent the amount of capital needed to fund college education costs today.

- Only NMIS Registered Representatives may complete Appendix C -

Suitability

Investor Profile

Are there any investments you would like to know more about? __________

How comfortable are you with the topic of investing? __________

Tell me what concerns you most about investing? __________

Do you lie awake at night worrying about your investments? __________

Do you follow the markets? __________

Where do you get information about investing? __________

Who helps you with your investment decisions? __________

Do you invest online? __________

Investor Profile

The following exercise is to gain a general understanding of your risk tolerance. Allow me to ask you a series of questions.

Question of Time

(Circle Value and Total the Corresponding Numbers)

Let us take a moment to complete the following exercise so that I can get a feel for your general risk tolerance.

1. What is your age?

60+ years 1 | *50 - 59* 2 | *40 - 49* 3 | *30 - 39* 4 | *20 - 29* 5

2. Which of the following is most important?

1	2	3	4	5
Capital Protection Protection against decline in market value of your investments.	*Current Income* Income generated from your investments.	*Consistency* A high degree of stability and predictability of your investment return over time.	*Long-Term Inflation Hedge* High degree of protection of long-term purchasing power.	*Capital Appreciation* Increase in market value of your investments is primarily through price appreciation.

TIME HORIZON TOTAL: __________
(Apply at right)

Risk Attitude
(Circle and total numbers)

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1. I would like to get as much long-term growth from my investment funds as possible, even if it means dramatic ups and downs on a year-to-year or month-to-month basis in my investment results.	5	4	3	2	1
2. I believe I will have enough money to reach my goal; therefore, I must protect what I have.	1	2	3	4	5
3. I believe I will not have enough money to reach my goal; therefore, I must take risk to get ahead.	5	4	3	2	1
4. I would like to protect the money that I invest even if it means getting very little long-term growth.	1	2	3	4	5
5. I believe I will have enough money to reach my goal; therefore, I can afford to take some risk.	5	4	3	2	1
6. I believe I will not have enough money to reach my goal; therefore, I cannot afford to risk what I have.	1	2	3	4	5

Risk Total

Investment Attitude *(Circle and total numbers)*	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1. Earning the highest possible return is the first priority, even if it requires taking some risks to do so.	5	4	3	2	1
2. I prefer an investment strategy designed to grow steadily and avoid sharp ups and downs, even if it lowers the long-term returns.	1	2	3	4	5
3. Short-term losses are acceptable if I have confidence that the long-term returns will be good.	5	4	3	2	1
4. Protecting the money I have is a higher priority for me than making it grow.	1	2	3	4	5
5. If I inherited a large sum of money, I would put it in the bank rather than invest it in stocks.	1	2	3	4	5
6. For the right opportunity, I would quit my job and start my own business.	5	4	3	2	1
7. I do not think I will need to spend any of my principal before the end of my planning horizon.	5	4	3	2	1
8. Other assets I own, such as a pension, inheritance or personal savings account form a substantial portion of my net worth.	5	4	3	2	1
9. I expect my earnings to increase over the next 5 years.	5	4	3	2	1
10. I have a very adequate emergency fund that would cover most emergencies.	5	4	3	2	1

Investment Attitude Total:

Enter your totals for each category:

Time Horizon:	Risk Attitude:	Investment Attitude:	GRAND TOTAL:

Compare the grand total to the profile continuum.

A	B	C	D	E
14	33	52	71	90
Most Conservative				Most Aggressive

A 14 Conservative Profile
B 33 Moderate Profile
C 52 Balanced Profile
D 71 Aggressive Profile
E 90 Equity Aggressive Profile

Receipt for Documents

Received from ____

the documents listed below for the purpose of ______________________________

Description ____

____

____

____

____

______________________________ (Financial Representative) ______________ (Date)

The documents listed above have been returned.

______________________________ (Client) ______________ (Date)

Authorization for Information*

To: ____ (Company)

I, ____________________ (print policyowner's name) authorize you to provide to ____________________

____________________ any policy information that is in your possession concerning the following policies of which I am the owner: ____________________

____________________, for purposes of evaluating my financial affairs. This authorization is valid for ________ months (not to exceed 12 months) from the date it is signed.

______________________________ (Signature of Policyowner) ______________ (Date)

*This authorization is not to be used for the collection of Health Information

Authorization for Information*

To: ____________________

I/We, ____________________ (print name(s) of client(s)), authorize you to provide to ____________________

any financial information and materials that are in your possession and that are asked for by ____________________

____________________ (Financial Representative) in connection with an evaluation of my/our financial affairs.

This authorization is valid for __________ months (not to exceed 12 months) from the date it is signed.

____________________ (Signature of Client) ____________________ (Signature of Client)

____________________ (Date)

*This authorization is not to be used for the collection of Health Information

The Northwestern Mutual Life
Insurance Company · Milwaukee, WI
www.northwesternmutual.com

24-3624-05 (0199) (Rev. 0799, 0501)

Northwestern Mutual™

American Funds℠

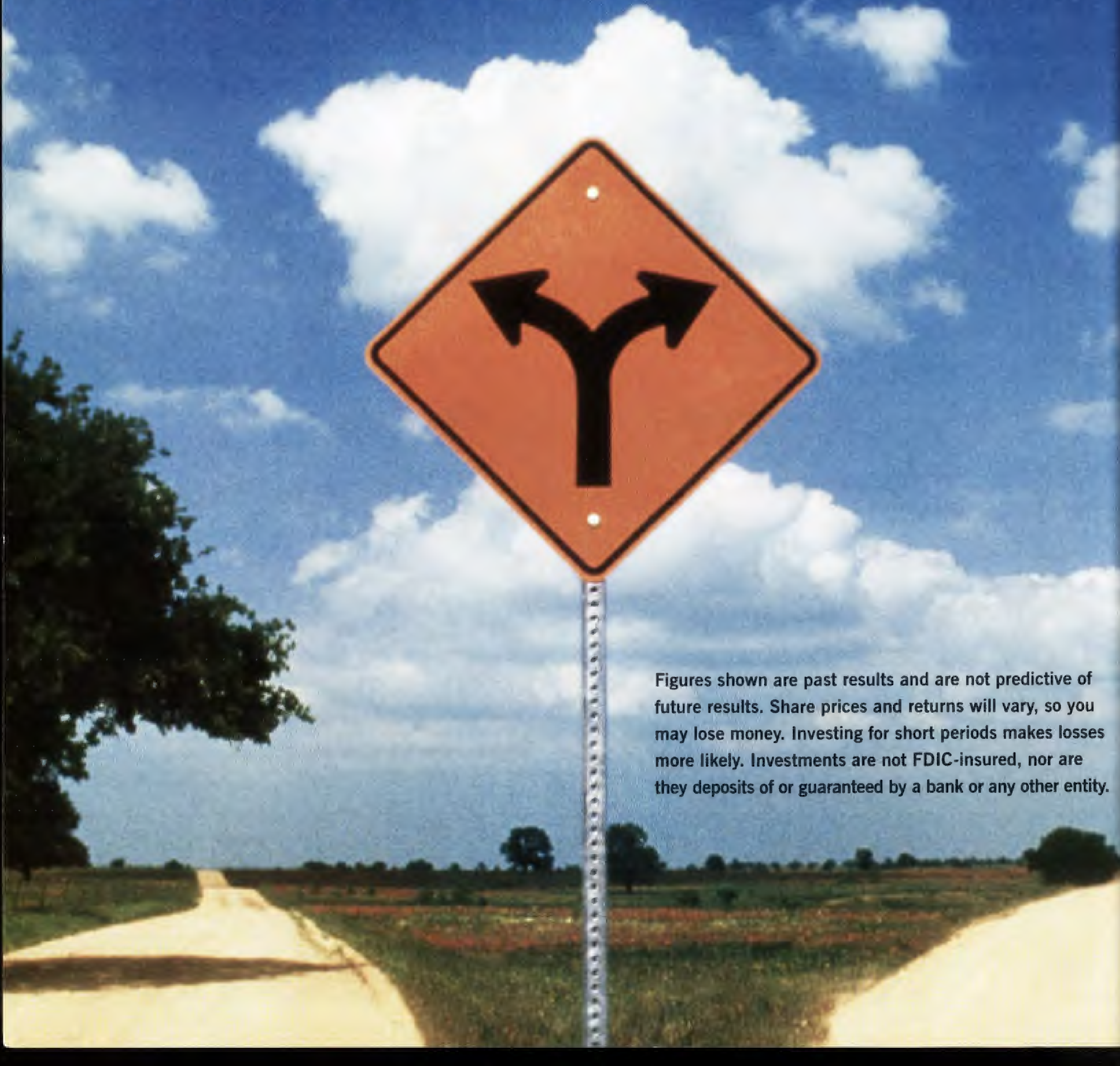
The right choice for the long term℠

On the right track

10 questions people often ask about mutual funds

American Funds believes everyone should know their options before developing an investment program.

We have produced this guide to get you started on the path to successful investing. It's no substitute for the experience and knowledge of your financial adviser, but it can help you learn more about the choices you'll face as you work together to create a long-term investment plan.



Figures shown are past results and are not predictive of future results. Share prices and returns will vary, so you may lose money. Investing for short periods makes losses more likely. Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity.

1 What is a mutual fund?

A mutual fund is a regulated investment company that invests money on behalf of individuals and institutions. Investors in a mutual fund are called shareholders. Professional investment managers use the pool of money to buy securities that, in their judgment, will help the fund achieve its stated objectives.

Mutual funds offer several advantages over individual stocks and bonds:

Professional management
Mutual funds are managed by experienced professionals who monitor your investments on your behalf.

Diversification
Your money is often invested in hundreds of securities. A diverse mix of holdings can reduce volatility because the effect of one bad investment will typically be offset by better results in the rest of the portfolio.

Liquidity
Fund shareholders can generally sell shares at any time at the current market value.

Convenient services
Most mutual fund companies offer shareholders a range of services, including automatic investing and withdrawal programs, reinvestment of fund distributions and exchanges between funds.

2 Why do so many people invest in mutual funds?

Whether you're investing for retirement, education, travel, a new home or simply for a rainy day, mutual funds can help you achieve your objectives.

Mutual funds are not just investments; they offer an effective and convenient way to structure a financial plan:

Building a retirement or college nest egg
You can automatically invest a fixed amount from your bank account on specific dates into a retirement account or 529 college savings plan.

Automatic withdrawals
You can have withdrawals automatically deducted from your mutual fund accounts and deposited in your bank account or have checks mailed to someone else.

Financial planning
Mutual funds provide account statements, shareholder reports, tax statements and, in many cases, year-end average cost statements to help you calculate taxes.

Whether you're investing for retirement, education, travel, a new home or simply for a rainy day, mutual funds can help you achieve your objectives.

There's no such thing as a "p
back over the past 30 years, a
to begin an investment prog

3 Is mutual fund investing safe?

The first question most people ask about mutual funds is "Can I lose money?" The answer is "Yes, investing in mutual funds is subject to various types of risk."

Unlike bank savings accounts and certificates of deposit (CDs), mutual funds are not insured or guaranteed by the federal government. Prices of most mutual funds fluctuate daily with changes in financial markets. However, staying invested over meaningful periods of time can help reduce the impact of short-term fluctuations.

In addition, here are some aspects of mutual funds — and the mutual fund industry — to consider:

Diversification

Mutual funds are usually diversified among many different holdings, which can help reduce risks associated with any single investment.

Liquidity

Investors can generally redeem, or sell, mutual fund shares at any time for the current market value.

Industry standards

The mutual fund industry is one of the most highly regulated in the U.S. economy:

- The industry is overseen by the Securities and Exchange Commission, which conducts regular audits of mutual fund companies.
- All communications — including shareholder reports and sales material — must comply with guidelines set by the National Association of Securities Dealers.
- Independent directors supervise each mutual fund, independent auditors analyze fund financial statements, and major banks act as custodians for all mutual fund assets.

4 What types of funds are available?

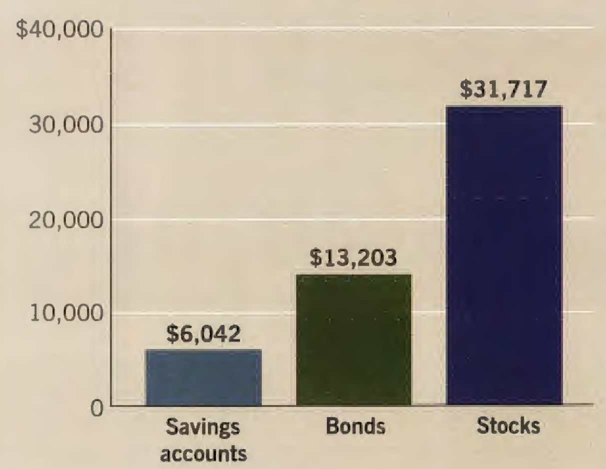
Mutual funds generally invest in one or more of these types of securities:

- stocks
- bonds
- short-term money market securities

Some funds can invest all over the world or only in certain regions; others focus on specific industries or sectors of the economy. There are funds that invest only in large companies and funds that invest in small companies. In all, more than 8,000 mutual funds are available in the United States.

The chart below shows the growth of hypothetical $1,000 investments in a savings account, bonds, and stocks from December 31, 1971, to December 31, 2001, with interest compounded or distributions reinvested.

Stocks, bonds or savings accounts?



Sources — stocks: Standard & Poor's 500 Composite Index; bonds: Salomon Smith Barney High-Grade Credit Index; savings accounts: based on figures from the U.S. League of Savings Institutions and the Federal Reserve Board, reflecting all kinds of savings deposits (maximum allowable interest rates imposed by law until 1983). Savings accounts are guaranteed, mutual funds are not. Indexes are unmanaged.

”time to invest. Looking
me has been the right time

5 Which funds should I choose?

That depends on your financial goals, investment time horizon, risk tolerance and financial circumstances. It's a good idea to sit down with a financial adviser and discuss these questions:

What are my goals?
What will you eventually do with your money? When will you need it? If you are investing for retirement, the younger you are, the more time you have to take advantage of growth-oriented stock investments. But if you need the money sooner, you want your investments to be less volatile and more accessible, making bond funds and money market funds more appropriate. Keep in mind, however, that an investment in these types of funds is not guaranteed and can go down in value.

What is my risk tolerance?
It's no good investing in an aggressive growth fund if you're going to panic every time the market takes a hit. Try to decide before you invest how much price fluctuation you can tolerate. Over the long term, stock and bond prices have generally been determined by corporate earnings. But emotion can also influence the market, as we saw after September 11. When stock prices are rising, investors tend to ignore risk; when prices are falling, investors tend to overlook the long-term opportunities.

What are my financial circumstances?
Do you have other savings or assets in addition to the money you want to invest in mutual funds? If so, these should also be considered as you make your long-term plans.

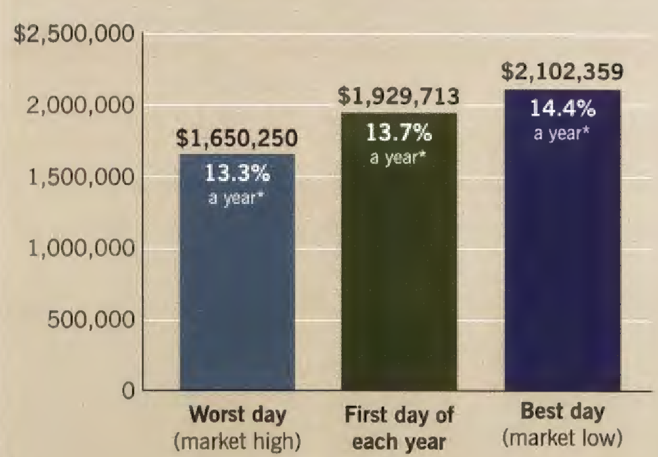
6 When is a good time to invest?

No one knows what the financial markets will do from year to year, month to month or even day to day.

There's no such thing as a "perfect" time to invest. Looking back over the past 30 years, any time has been the right time to begin an investment program. The key to long-term investment success is not *when* you invest but that you *do* invest.

The chart below compares hypothetical $5,000 annual investments in the stock market for the past 30 years through December 31, 2001, using three different strategies: investing on the worst day of each year (the day the market peaked), the first day of each year, and on the best day of each year (the market low). As you'll see, there's not much difference among the three.

How $5,000 a year has grown over 30 years



*Average annual compound return.
Source: Standard & Poor's 500 Composite Index, with dividends reinvested. Market high and low dates based on the Dow Jones Industrial Average. Past results are not predictive of future results.
Regular investing does not ensure a profit or protect against loss. Investors should consider their willingness to keep investing when share prices are declining.

7 Why are dividends important?

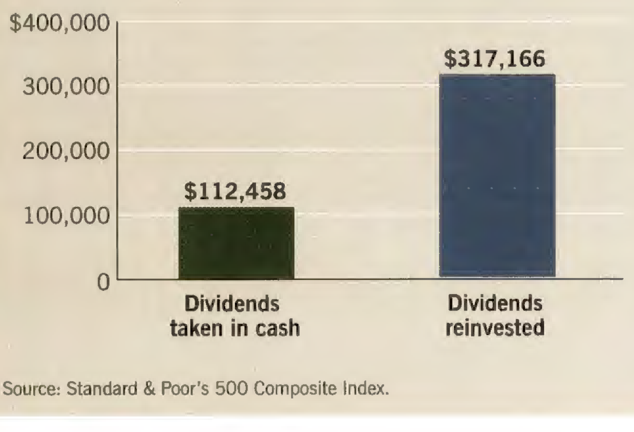
Dividends can make a big difference in the amount accumulated in mutual funds over time. Reinvested dividends accounted for 47% of the total return of the stock market, as measured by the unmanaged Standard & Poor's 500 Composite Index over the 20 years through December 31, 2001. During "flat" or declining markets, like in 2000 and 2001, dividends can often be the only positive return an investor receives.

If you need income to help meet living expenses, you can take dividends in cash. You can also reinvest your dividends and capital gain distributions to buy more fund shares, which can greatly increase the value of your mutual fund holdings over time.

Cross-reinvestment of dividends

This free service allows you to have dividends from one mutual fund automatically invested in another. Suppose you are concerned about adding money to a growth stock mutual fund because you fear the stock market might decline before the money is needed. One solution is to invest in a bond fund and cross-reinvest the dividends into the stock fund. That way, you gain access to the growth potential of the stock market while your principal remains invested in the bond fund, which is typically less volatile.

The benefit of reinvesting dividends



Source: Standard & Poor's 500 Composite Index.

8 Why should I consider funds that invest outside the United States?

Mutual funds that invest solely outside the United States — or globally, with investments inside and outside the U.S. — offer shareholders a number of advantages:

Balance

World economies move in different cycles and rhythms. Combining U.S. stocks and bonds with investments from other countries can provide a cushion against the impact of a down market in any one country.

Access

Investing internationally gives U.S. mutual fund investors access to markets they couldn't enter by themselves. A single fund might have holdings from dozens of countries around the world.

Opportunity

More than three-quarters of the world's stocks trade outside the United States so investing internationally offers more opportunities. However, investing outside the U.S. entails special risks, which you should discuss with your financial adviser.

The chart at left shows how a hypothetical investment of $10,000 in the stock market grew over the 30 years through December 31, 2001, using two approaches: taking dividends in cash and reinvesting them.

Combining U.S. stocks and bonds with investments from other countries can provide a cushion against the impact of a down market in any one country.

9 How can mutual funds help me reach my retirement and college savings goals?

Mutual funds are ideally suited for all types of tax-advantaged plans, including Individual Retirement Accounts (IRAs), 401(k) and 403(b) retirement plans, as well as 529 college savings plans.

Consider these benefits:

Tax-deferred compounding

With a conventional investment, you pay taxes on dividends and capital gain distributions. In many retirement and college savings plans, taxes aren't paid on distributions until withdrawn, allowing more of your money to work for you.

Diversification

Owning a diverse mix of assets can be a good way to control volatility.

Easy conversions

When you retire, you can move your money directly from your company's retirement plan into a rollover IRA. The rollover IRA will maintain the account's tax-deferred status. Mutual funds are especially well-suited for rollover IRAs because most fund families allow you to switch part or all of your assets from one type of fund to another to meet your changing needs. You can also roll over assets between 529 college savings plans.

10 How do I pay for a mutual fund purchase?

There are several ways to invest in mutual funds. Many funds are sold with a sales charge, known as a "load," payable at the time of purchase (upfront). Others have a back-end load, known as a "contingent deferred sales charge," that applies if shares are sold within a certain period after purchase. Part of the load is used to compensate financial advisers for their services.

Other funds are sold with no upfront or back-end fee but have higher ongoing expenses, and still others are sold directly to the public, instead of through a financial adviser. These are known as "no-load" funds because there is no sales charge.

All mutual funds have annual expenses, paid by shareholders as a percentage of their assets. Annual expenses can have a greater impact on the actual cost of share ownership than sales charges if, as you should, you intend to hold your fund shares for the long term.

Many mutual fund companies offer several share classes with different fee structures to give investors flexibility. A financial adviser can help you decide the best payment method for your financial plan.

Getting started

A good first step is to meet with a financial adviser who can help you select specific mutual funds that are right for you.

American Funds™

American Funds Distributors, Inc.

(800) 421 9900

Fax

Date 2/10/03

To Paul Naegle

From Sara

Company/Dept Northwestern Mutual

Dept Dealer Services

Fax no. 435-753-3643

Fax no.

Phone no.

Ext.

No. pages (including cover sheet) 17

Save master ☐ yes ☐ no

Message

Please notify sender at the telephone number listed above if the entire transmission is not received.

This sales message is for financial adviser use only and not for use with the public.

American Funds

Choose wisely
Invest for the long term

Roth, Traditional and Rollover IRAs

Sorting out your options

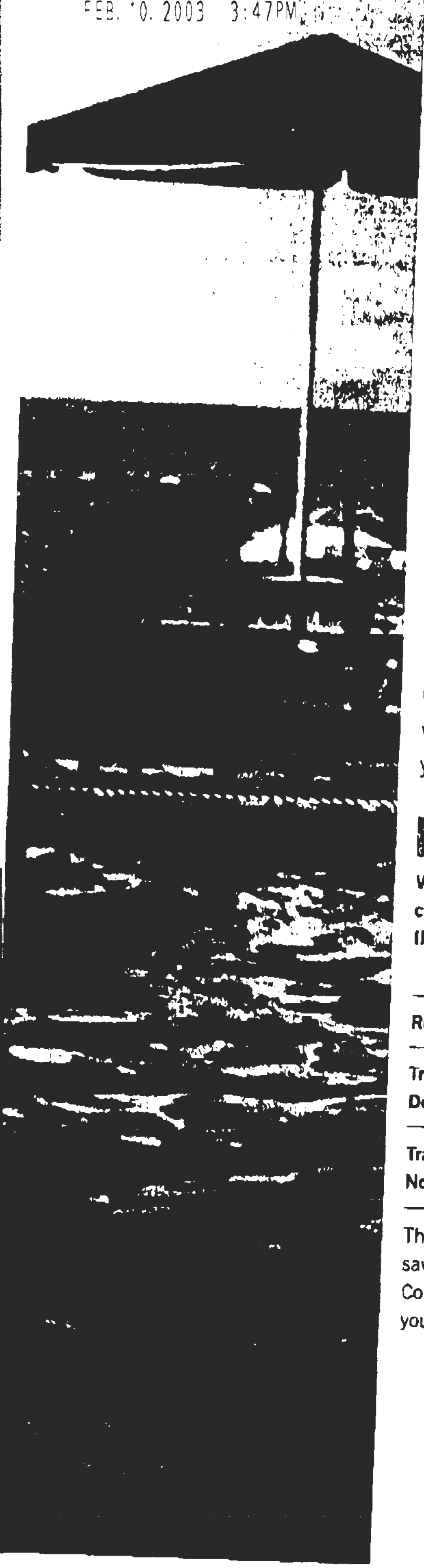
2002 edition

FEB. 10. 2003 3:47PM NO. 0138 P. 3

This guide will help you understand:

- Roth and Traditional IRAs
- The IRA that's best for you
- How to convert from a Traditional IRA to a Roth IRA
- Rollover IRAs

... are past results and are not predictive of future results. Share prices and returns will vary, so you may lose money. Investing for short periods makes losses more likely. Investments are not FDIC insured, not ... guaranteed by a bank or any other entity.



Jump-start your future with an IRA

Now you can sock away even more money by the time you retire.

Thanks to the Economic Growth and Tax Relief Reconciliation Act of 2001, saving for retirement may be easier than you think. This law leaves intact all of today's convenient retirement savings vehicles, including Individual Retirement Accounts (IRAs), and makes them more valuable by increasing how much you can contribute to them.

Although the Tax Relief Act makes investing for retirement more attractive, you'll probably want to compare the different IRAs so you and your financial adviser can choose together which one is best for your financial situation.

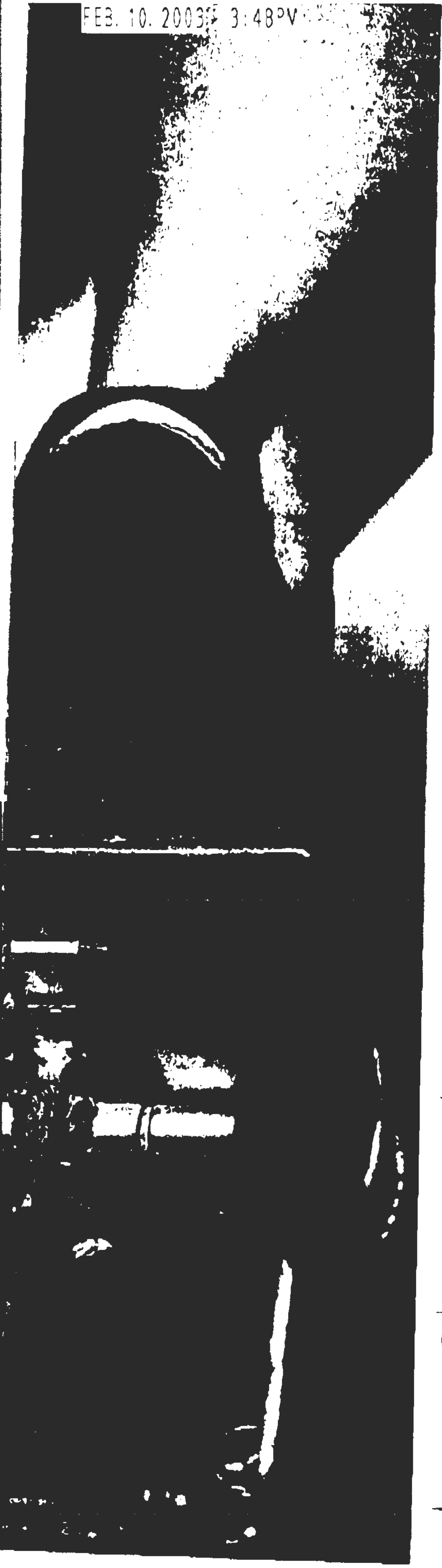
New IRA annual contribution amounts

With the Tax Relief Act, you can save even more in an IRA — up to $3,000 when contributed to one or spread between any combination of a Roth IRA or Traditional IRA. Take a look:

	2001	2002
Roth IRA	[redacted]	$3,000
Traditional Deductible IRA	[redacted]	3,000
Traditional Nondeductible IRA	[redacted]	3,000

Catch-up time: You can also contribute an extra $500 to your Roth IRA or Traditional IRA if you're 50 or older. This means for 2002 you can contribute up to $3,500 to an IRA.

The law comes with a sunset clause. After 2010, these savings incentives go away unless they're renewed by Congress. So you'll want to take advantage of them while you can.



Start with the facts

Not all IRAs will make sense for you. Take a look at the advantages and disadvantages of each.

Roth IRA

What it is

This IRA is a retirement savings vehicle in which you save with after-tax dollars so that when you withdraw your money it generally won't be taxed. The idea here is to pay taxes up front and never pay them again. You don't receive a tax deduction with a Roth.

Who it's best for

A Roth IRA provides the most advantages for the most people, especially those with long time horizons.

You can contribute to a Roth IRA as long as your modified adjusted gross income doesn't exceed these limits:

- $110,000 if you're single
- $160,000 if you're married and filing a joint return

Pros

Your contributions can be withdrawn tax-free and penalty-free at any time.

Withdrawal of your earnings is tax-free and penalty-free if your initial contribution to the account was made at least five years ago and you meet one of the following conditions: you're age 59½, you're purchasing a home for the first time, you're disabled or you die.

There are no age restrictions on making contributions as long as you (or your spouse) have earned income. There are no age requirements for withdrawing your money from a Roth IRA.

Cons

You cannot withdraw your Roth earnings without a penalty unless you've held the account for five years and you're older than age 59½. However, some exceptions to this rule are listed on the bottom of page 5.

If your modified adjusted gross income is too high, you may not be eligible for a Roth IRA.

Contributions

You can contribute up to $3,000 for 2002 if you're single and you earn as much as your contribution. If you're married and filing jointly, you and your spouse may contribute up to $6,000, but no more than $3,000 each, as long as you or your spouse earns as much as your contribution amount.

Individuals age 50 or older who meet the income requirements can contribute an additional $500, for a total of $3,500 for 2002 ($7,000 if you're married and filing jointly).

Traditional IRA (deductible)

This IRA allows you to save while your investments grow tax-deferred until you withdraw them. If you're eligible, you can take a current tax deduction for all or part of your contribution. A full deduction is available if you aren't covered by an employer-sponsored retirement plan. Or, if you're covered by a plan, you can still take a full deduction against your 2002 taxes if your modified adjusted gross income is less than $34,000 if you're single and less than $54,000 if you're married and filing jointly.

Also, if you're married and filing jointly and either you or your spouse is covered by a retirement plan, the spouse who isn't covered can make a deductible contribution as long as your combined modified adjusted gross income doesn't exceed $160,000.

A Traditional Deductible IRA is a good choice if you qualify for a current tax deduction (see above) or if you expect to be in a much lower tax bracket in retirement.

This IRA is available to you and your spouse if you're under age 70½ and you meet the contribution eligibility requirements mentioned above.

Your IRA earnings grow tax-deferred.

The current tax deduction reduces your tax liability

Penalty-free early withdrawals are allowed for a qualified first-home purchase (up to $10,000), higher education, death, disability, and certain health insurance and medical bills. However, you'll have to pay taxes on these withdrawals.

Withdrawals can be made for any purpose without penalties after age 59½ or in the case of death or disability.

Unless you meet the eligibility requirements, you cannot take a deduction for your contribution.

Your contributions and earnings are taxed as income when you withdraw them.

You cannot take an early withdrawal without incurring taxes and possible penalties on some of your earnings.

You cannot make contributions after age 70½.

To meet minimum IRS requirements, you'll have to start taking withdrawals after you reach age 70½.

You can contribute up to $3,000 for 2002 if you're single and you earn as much as your contribution. If you're married and filing jointly, you and your spouse may contribute up to $6,000, but no more than $3,000 each, as long as you or your spouse earns as much as your contribution amount.

Individuals age 50 or older who meet the income requirements can contribute an additional $500, for a total of $3,500 for 2002 ($7,000 if you're married and filing jointly).

Traditional IRA (nondeductible)

With a Traditional Nondeductible IRA, you receive the same tax-deferred treatment as you do with a Traditional Deductible IRA. The big difference between the two is the tax deduction.

A Traditional Nondeductible IRA is suitable for you if you aren't eligible to contribute to a Roth IRA or you can't take a deduction for contributing to a Traditional Deductible IRA.

This IRA is available to you and your spouse if you're under age 70½ and you meet the contribution eligibility requirements on page 4.

Your IRA earnings grow tax-deferred.

Penalty-free early withdrawals are allowed for a qualified first-home purchase (up to $10,000), higher education, death, disability, and certain health insurance and medical bills. However, you'll have to pay taxes on these withdrawals.

Withdrawals can be made for any purpose without penalties after age 59½ or in the case of death or disability.

No tax deduction is allowed.

Your earnings are taxed as income when you withdraw them.

You cannot take an early withdrawal without incurring taxes and possible penalties on some of your earnings.

You cannot make contributions after age 70½.

To meet minimum IRS requirements, you'll have to start taking withdrawals after you reach age 70½.

You can contribute up to $3,000 for 2002 if you're single and you earn as much as your contribution. If you're married and filing jointly, you and your spouse may contribute up to $6,000, but no more than $3,000 each, as long as you or your spouse earns as much as your contribution amount.

Individuals age 50 or older who meet the income requirements can contribute an additional $500, for a total of $3,500 for 2002 ($7,000 if you're married and filing jointly).

Which IRAs am I eligible for?

Check the table below to find out which IRAs you may qualify for. To see how this information applies in some real-life situations, look to the right.

Since you may be eligible to contribute to either a Roth or a Traditional IRA (deductible and nondeductible), we've outlined below what you need to know for each.

In addition, we've indicated whether your Traditional IRA contribution is eligible for a full tax deduction, a partial deduction or no deduction.

Tax-filing status/ Modified adjusted gross income (MAGI)	2002 contribution eligibility	
	[illegible]	Traditional IRA (deductible and nondeductible)
Retirement plan participants		
Single		
$ 34,000 or less	full contribution	fully deductible contribution
$ 34,001 – $ 43,999	full contribution	partially deductible contribution
$ 44,000 – $ 95,000	full contribution	nondeductible contribution
$ 95,001 – $109,999	partial contribution	nondeductible contribution
$ 110,000 or more	not eligible	nondeductible contribution
Joint (you are an active participant in your employer's retirement plan)		
$ 54,000 or less	full contribution	fully deductible contribution
$ 54,001 – $ 63,999	full contribution	partially deductible contribution
$ 64,000 – $150,000	full contribution	nondeductible contribution
$150,001 – $159,999	partial contribution	nondeductible contribution
$160,000 or more	not eligible	nondeductible contribution
Joint (you are not an active participant, but your spouse is)		
$150,000 or less	full contribution	fully deductible contribution
$150,001 – $159,999	partial contribution	partially deductible contribution
$160,000 or more	not eligible	nondeductible contribution
Nonretirement plan participants		
Single		
$ 95,000 or less	full contribution	fully deductible contribution
$ 95,001 – $109,999	partial contribution	fully deductible contribution
$110,000 or more	not eligible	fully deductible contribution
Joint		
$150,000 or less	full contribution	fully deductible contribution
$150,001 – $159,999	partial contribution	fully deductible contribution
$160,000 or more	not eligible	fully deductible contribution

If you're married and filing separately, you can make a partially deductible contribution to a Traditional IRA or a partial contribution to a Roth IRA if your MAGI is between $0 and $10,000. Determined in accordance with IRS regulations, MAGI is generally your adjusted gross income for tax purposes. The MAGI limits for 2001 are $1,000 less in some instances. See *IRS Publication 590* for more information.

I chose a Roth IRA

Alex	single	age 29	teacher	modified adjusted gross income: $35,000

Even though Alex could take a deduction on a Traditional IRA, he chose a Roth IRA because he doesn't need his money for many years. Who knows what federal income taxes will be like by the time he retires? Whatever they'll be, he won't have to pay taxes on distributions from his Roth IRA when he reaches age 59½, and he'll always know how close he is to achieving his goal. After five years, the Roth IRA will also let him pull out up to $10,000 for a first home without taxes or a penalty.*

I chose a Traditional Deductible IRA

Dana	married	age 38	stay at home mom	modified adjusted gross joint income: $65,000

Dana recently stopped working to take care of her children. Her husband, Stephen, contributes to his 401(k) plan at work. Dana is not disadvantaged by being unemployed or by Stephen's participation in a 401(k) plan; she can invest a full $3,000 in a Traditional IRA and deduct the entire contribution from their joint tax return.

I chose to convert to a Roth IRA

Roger	single	age 45	sales manager	modified adjusted gross income: $75,000

Roger has a new job and is thinking about rolling over his old 401(k) plan balance into a Roth IRA. He understands that he'll owe taxes for doing this, but he likes the idea of paying taxes now and not later, especially since he doesn't plan on needing his money for another 25 years. His financial adviser has explained the steps to him: First, Roger must roll over his 401(k) plan balance into a Traditional IRA and then convert that account to a Roth IRA.

* Withdrawal of your earnings is tax-free and penalty-free if your initial contribution to the Roth IRA was made at least five years ago and you meet one of the following conditions: you're age 59½, you're purchasing a home for the first time, you're disabled or you die. If your initial contribution to the Roth IRA was made less than five years ago, you can make penalty-free but not tax-free withdrawals if you meet one of the above-mentioned conditions. Penalty-free withdrawals can also include certain periodic payments, catastrophic medical expenses, health insurance premiums after lengthy unemployment, higher education expenses and payment of a tax lien.

Choose the IRA that's best for you

How a Roth stacks up against a Traditional IRA depends on several factors.

Roth IRA or Traditional Deductible IRA?

If you're eligible for both the Roth and the Traditional Deductible IRA, consider choosing the Roth IRA if you:

- don't need the immediate tax savings of the Traditional Deductible IRA
- think you'll be in a significantly higher tax bracket in retirement

Just about the only time the Traditional Deductible IRA may give you more money at retirement than the Roth IRA* is if your tax bracket becomes significantly lower — let's say it drops from 27% to 10%.

* Assuming you maintain your Roth IRA for at least five years and don't begin withdrawing earnings until age 59½.

Roth IRA or Traditional Nondeductible IRA?

If you're eligible for both the Roth and the Traditional Nondeductible IRA, consider choosing the Roth IRA because it:

- offers better withdrawal rules. For example, under certain circumstances you can withdraw money from your Roth IRA and pay no federal taxes or penalties if you've had the account for five years.†

If you're only eligible for the Traditional Nondeductible IRA, consider choosing that IRA over a regular taxable investment because of the tax-deferred growth benefit — unless you plan to use the money before you reach age 59½.

† When the money is used to purchase a first home, for any purpose if you're at least 59½, or in case of death or disability.

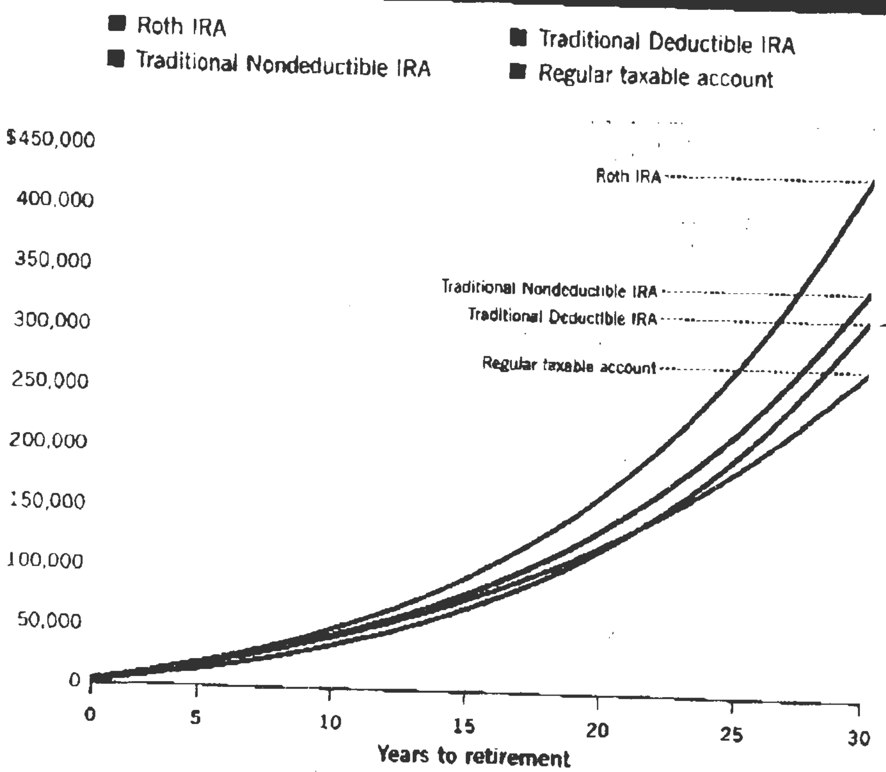
As a general rule, consider the Roth IRA if you don't need the immediate tax deduction and you expect to be in the same or in a higher tax bracket in retirement.

Your financial adviser can help you decide which IRA best suits your needs and which one may give you the biggest advantage overall. As we discussed earlier, it really depends on your situation: A Roth IRA gives you the tax-free advantage, a Traditional IRA gives you the benefit of tax-deferral, and a regular taxable account lets you pay taxes as you go along.

This chart shows the differences between a Roth IRA, a Traditional IRA (the nondeductible and deductible), and a taxable investment over time, assuming you make a $3,000 annual contribution until retirement and then you take a lump-sum distribution.

For more information, visit **americanfunds.com** and click on "FINANCIAL PLANNING" and then on "Retirement and IRAs."

Give your IRAs time



The Traditional Deductible IRA total does not include the $810 in tax savings that could be potentially reinvested each year. This could amount to an additional $75,496 for this investor, assuming a 9% annual return. Even with this extra savings, the Roth IRA still comes out ahead.

This hypothetical example reflects an annual $3,000 contribution per year into each account, a 9% annual growth rate, reinvested each year, before retirement and a 27% tax bracket. This is just an example and is not indicative of any particular investment. Your actual tax rate will vary, based on your taxable income. Your actual results may vary, and regular investing does not ensure a profit or protect against loss in a declining market.

The amount you can contribute to an IRA each year will continue to rise, reaching $4,000 in 2005 and $5,000 in 2008. After 2008, the contribution limit will be adjusted annually for inflation in $500 increments. These increases may go away after 2010 unless Congress renews them.

Let's walk through the steps

If you're converting to a Roth IRA, you need to look at a few things first.

Your salary, the taxes you'll have to pay and the tax bracket you'll be in during retirement are all factors that will impact your decision. You can convert your Traditional IRA to a Roth IRA if your annual modified adjusted gross income is $100,000 or less.* You must pay income taxes on all your earlier tax-deductible contributions to your Traditional IRA and on all investment earnings. (Depending on where you live, you may also owe state taxes on the conversion.) If you'd have to dip into your IRA to pay the tax, a Roth conversion probably isn't worthwhile.

* The threshold applies whether you're single or married; the amount converted does not count toward the MAGI limits for 2002 contributions. You cannot convert to a Roth IRA if you're married and filing your taxes separately.

Converting a Traditional Deductible IRA

Converting a Traditional Deductible IRA to a Roth IRA will generally be advantageous over the long term if you expect to be in the same or in a higher tax bracket when you retire and if you won't need your money for many years. (If you're close to retirement, however, remember that you generally cannot make tax-free withdrawals of earnings from a Roth IRA until five years after the conversion and you're over age 59½.) Please consult with your tax adviser to ensure that converting to a Roth IRA won't result in adverse tax consequences.

This table shows what might happen to a $50,000 Traditional Deductible IRA that is converted or left alone.

Is it worthwhile to convert a $50.000 Deductible IRA?

	Value of IRA today	Taxes paid	Value of lump-sum withdrawal after		
			5 years	15 years	25 years
Conversion to Roth IRA (taxes paid from non-IRA source)	$50,000	$13,500	$76,931 −18,557 (taxes invested)† **$58,374**	$182,124 −35,064 (taxes invested)† **$147,060**	$431,154 −66,253 (taxes invested)† **$364,901**
Remain in Traditional Deductible IRA (27% tax bracket)	$50,000	$0	$76,931 −20,771 (taxes paid) **$56,160**	$182,124 −49,173 (taxes paid) **$132,951**	$431,154 −116,412 (taxes paid) **$314,742**

Chart assumes a 9% compound annual return, lump-sum distributions, and a 27% tax bracket now and at retirement to simplify this example. Your actual tax rate will vary, based on your taxable income. This chart assumes taxes are paid immediately. This is just an example and is not indicative of the results of any particular investment. Your actual results may differ, and regular investing does not ensure a profit or protect against loss in a declining market.

† Cumulative value of the $13,500 paid in taxes if it had been invested in a taxable account (using same assumptions as above).

Converting a Traditional Nondeductible IRA

If you expect to be in a much lower tax bracket in retirement (for example, if you move from owing 27% in taxes to 15%), the profitability of converting a Traditional Nondeductible IRA to a Roth depends on how much of the existing IRA has already been taxed.

The more taxes you have already paid, the smaller your conversion tax bill and the more profitable a Roth IRA becomes.

- If you have a $50,000 Traditional Nondeductible IRA balance of which $35,000 is from nondeductible contributions (already taxed) and $15,000 is from earnings, converting to a Roth IRA would be profitable if you have at least five years until age 59½, when you can have penalty-free access to your money.
- If you've paid taxes on only half of the $50,000 balance, you would gain from converting to a Roth IRA if you have at least nine years until age 59½.

Both of these examples assume a 9% annual return, 27% in taxes until retirement and dropping to 15% in taxes after retirement.

Converting from a 401(k) or other eligible plan

You can convert a 401(k) or other eligible retirement plan distribution to a Roth IRA if your household has a modified adjusted gross income of $100,000 or less a year. (If you're married and filing taxes separately, you cannot convert to a Roth IRA.)

To convert, you must first roll over your retirement plan distribution into a Traditional IRA and then convert it to a Roth IRA. Income taxes have to be paid when you convert.

Conversion tax worksheet

1. **Rollover amount**
   Enter the dollar amount of the Traditional IRA balance you want to convert in **Box 1**.
   Box 1
2. **Taxable portion**
   Enter the portion of the amount you want to convert that you've already paid taxes on (e.g., nondeductible IRA contributions) in **Box 2**.
   − Box 2
3. **Subtract Box 2 from Box 1 and enter your answer in Box 3**
   = Box 3
4. **Taxes due**
   Multiply **Box 3** by your current income tax rate (e.g., if you're in the 27% tax bracket, X 0.27). Enter your answer in **Box 4**.
   X Current tax rate
   = Box 4
   Taxes you'll owe if you convert to a Roth IRA

This worksheet is only an example and assumes that you have only one IRA and that you've not taken any distributions from that IRA in the past. A large conversion may result in higher taxes than in this illustration. If you have multiple IRAs or have previously taken a distribution, consult your financial adviser and *IRS Publication 590* for guidance in determining the taxable portion. You'll want to consider whether your state imposes taxes on the conversion as well.

A couple of points on rollovers

Rolling your retirement plan savings into an IRA is a great way to continue tax-deferred growth and to gain better control of your money.

Whenever you leave a job, you have the option of rolling over the money that has accumulated in your retirement plan account into a Traditional IRA. This is called a rollover IRA.

Under the Tax Relief Act, you have more flexibility to manage your IRA accounts and greater portability with any money you've saved in your retirement plan.

You really can take it with you

What this actually means is that if you leave your job and want to continue saving tax-deferred, you can roll over your money into an IRA. Later on, if you choose to roll over that balance into your new employer's retirement plan, you can — even if you've made IRA contributions to your rollover account. If you want to consolidate all of your retirement plan monies from previous jobs, you can roll all of them into one IRA, too.

Simplify, simplify, simplify

Basically, this new portability is designed to make it easier for you to continue saving while avoiding current taxes and possible penalties. It also helps to simplify your finances by consolidating your retirement accounts. This is significant when you're trying to monitor your account and stick to your retirement goals. If you have retirement money in several places and you're receiving different statements each quarter, it can become difficult to ensure that your investments — and your overall financial strategy — are aligned the way you had originally wanted.

There's even more good news. Thanks to the Tax Relief Act, you can roll into an IRA any after-tax contributions you may have made to your former employer-sponsored retirement plan. So you can take that money with you and keep it working for you, too.

What you get with a rollover IRA

1. Continued tax-deferred growth

Rolling your savings into an IRA gives you the same tax-deferred protection you've grown accustomed to through your retirement plan. Also, if you roll over to an IRA and stay invested, you have the chance to avoid possible penalties and keep more money for yourself.

2. More investment options

A typical retirement plan has a select number of investments from which to choose, while an IRA gives you a wider range of investment choices. When you have more options to choose from, you and your financial adviser may find it easier to create an investment strategy suitable to your specific needs.

3. Greater control

With a rollover, you don't have to worry about the rules of a retirement plan (vesting schedules, distributions at certain ages, fewer investment options, just to name a few). An IRA doesn't have these limitations, although there will be tax ramifications when you withdraw the money.

Also, if you set up a rollover IRA, you can consolidate your eligible balances from any previous retirement plans into this IRA, including any after-tax contributions you may have made.

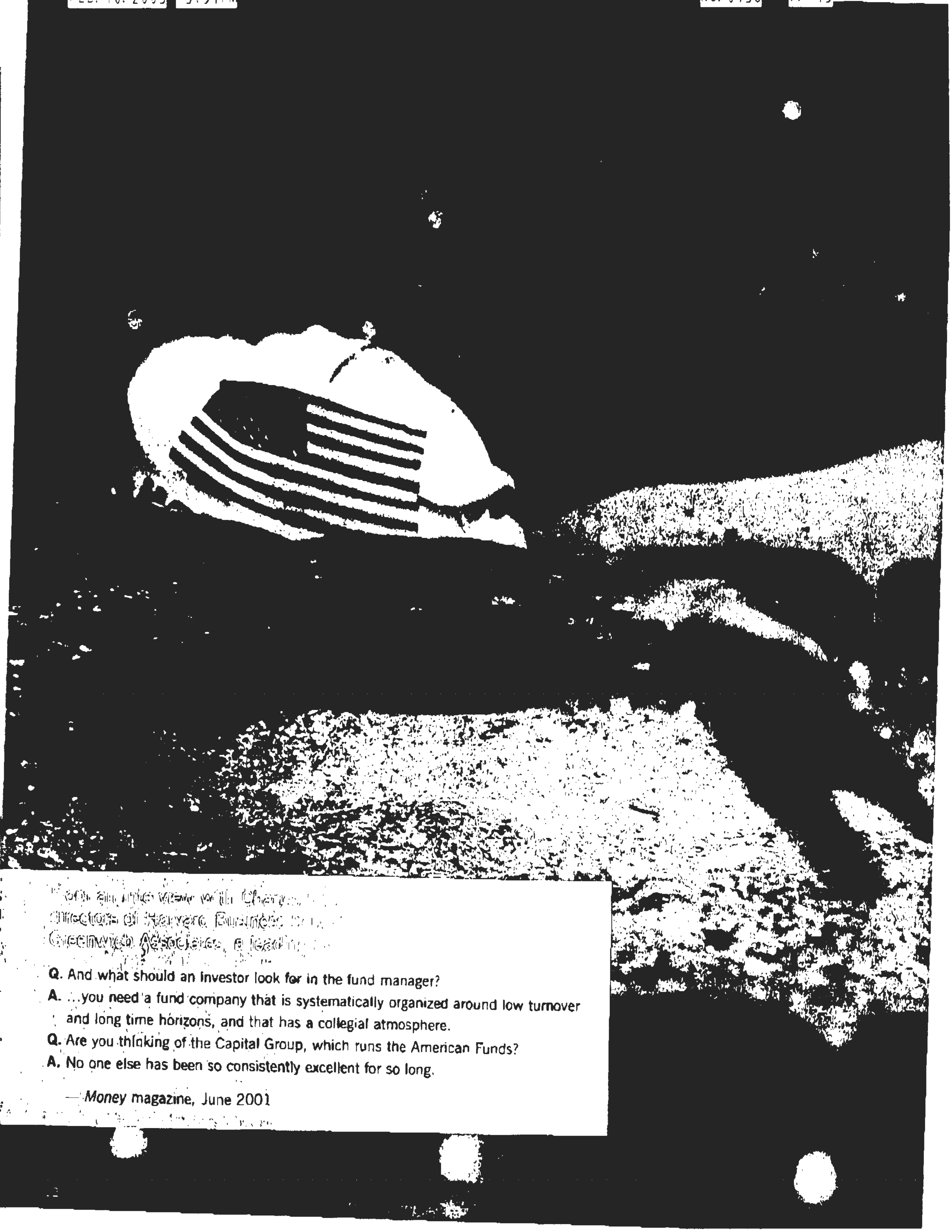
Contact your financial adviser for more information on how a rollover IRA can help you plan for retirement.

What should you look for when choosing an investment manager for your IRA?

[illegible] biggest [illegible] wisely [illegible] investment manager [illegible]

- [illegible]
- Has a consistent, long-term investment philosophy
- Has extensive global research capabilities
- [illegible] operating expenses [illegible]

[illegible]



[illegible] directors of Harvard Business [illegible]
Greenwich Associates, a lead[illegible]

Q. And what should an investor look for in the fund manager?

A. ...you need a fund company that is systematically organized around low turnover and long time horizons, and that has a collegial atmosphere.

Q. Are you thinking of the Capital Group, which runs the American Funds?

A. No one else has been so consistently excellent for so long.

— *Money* magazine, June 2001

The American Funds difference

Our conviction, consistency and confidence have been helping people like you for more than 70 years.

1. A long-term, value-oriented perspective

Since 1931, we've invested with a long-term focus based on thorough research and attention to risk.

- Our strategy is to buy the stocks and bonds of well-managed companies at reasonable prices and hold them for the long term.
- We make every effort to protect investors' money by sidestepping short-term market trends.

2. An unparalleled global research effort

In-depth research enables us to invest with conviction, even when other investors are uncertain or unwilling.

- In 2001, we spent approximately $140 million on investment research, making more than 7,500 research visits in over 45 countries.
- In all, more than 140 investment professionals in 11 offices around the world give us a comprehensive understanding of companies and financial markets.

3. The multiple portfolio counselor system

Our method of portfolio management combines teamwork and individual effort to create a consistent, sustainable method of achieving both the goals of our funds and our investors.

- Each fund's assets are divided into smaller, more manageable portions.
- Each portion is managed by a portfolio counselor who invests independently, treating his or her portion as though it were an entire fund — subject to fund objectives and overall guidelines.
- Another portion is managed by a group of research analysts who bring their expertise and strongest convictions directly to bear on fund results.

4. Experienced investment professionals

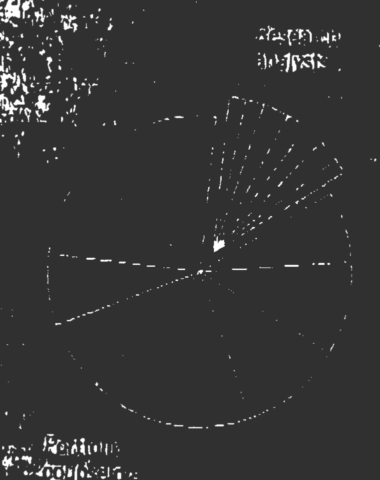
Nothing builds confidence like experience. Our portfolio counselors have demonstrated their abilities through good markets and bad.

- They have an average of 22 years of investment experience.
- More than 75% of them were in the investment business before the October 1987 market decline.
- Almost a quarter of them experienced the 1973–74 bear market.

5. A commitment to low operating expenses

Consistently lower expenses can mean more money for American Funds investors over the long haul. It's important to consider both the cost to buy a mutual fund and the annual fees when you're choosing your investments.

Benefits of the multiple portfolio counselor system:



When it comes to taking money out of an IRA, paying attention to detail can help you pay the least amount of taxes and penalties.

Although your withdrawal options are outlined in more detail in the table on pages 2 and 3, the table below may provide you with a quick overview of the applicable taxes and possible penalties you'll owe under special circumstances. Before you take money from your IRA, you'll want to talk with your financial adviser about what's best for your situation.

What federal taxes or penalties will I pay when I make withdrawals from my IRA?

Type of IRA	Type of withdrawal									
	First-time home purchase[1]		Educational expenses[2]		Before age 59½		After age 59½			
	Tax	Penalty	Tax	Penalty	Tax	Penalty	Tax	Penalty	Tax	Penalty
Roth IRA (account open more than 5 years)	no	no	on earnings only	no	on earnings only	on earnings only[3]	no	no	no	no
Roth IRA (account open less than 5 years)	on earnings only	no	on earnings only	no	on earnings only	yes[3]	on earnings only	no	on earnings only	no
Traditional IRA (deductible)	yes	no	yes	no	yes	yes[3]	yes	no	yes	no
Traditional IRA (nondeductible)	on earnings only	no	on earnings only	no	on earnings only	on earnings only[3]	on earnings only	no	on earnings only	no

[1] Subject to a lifetime limit of $10,000.

[2] Includes tuition, fees, books, supplies, equipment, room and board at a post-secondary educational institution.

[3] Penalties apply to earnings and certain contributions. Exceptions: 1) certain periodic payments, 2) catastrophic medical expenses, 3) health insurance premiums after lengthy unemployment, 4) higher education expenses and 5) payment of a tax lien.

Tax issues involving IRAs can be complex. Please consult your tax or legal adviser before making any decisions.

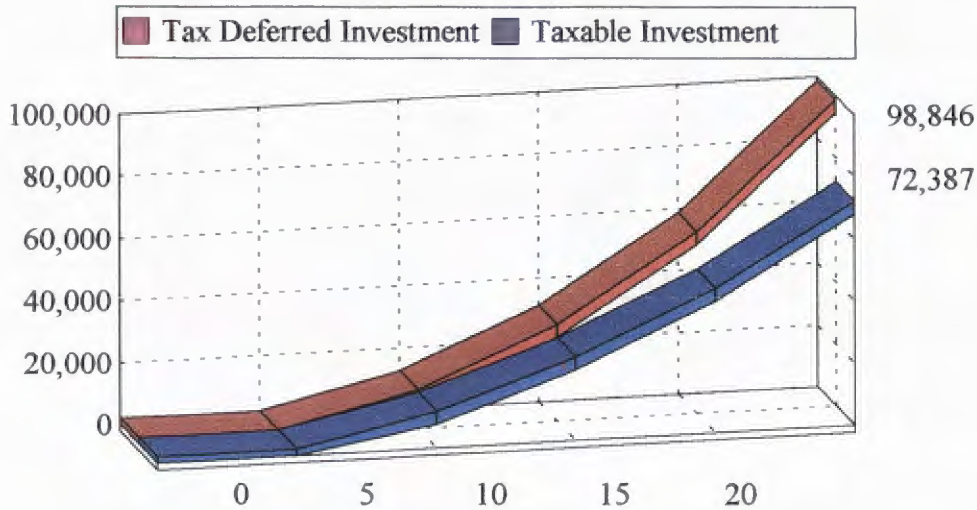
For more complete information about any of the American Funds, including risks, charges and expenses, contact your financial adviser for a current prospectus. Be sure to read it carefully before you invest or send money. You may also call American Funds Service Company, toll-free, at 800/421-0180 or visit americanfunds.com.

Visit our website at americanfunds.com.

The Capital Group Companies

American Funds Capital Research and Management Capital International Capital Guardian Capital Bank and Trust

Taxable Vs. Tax Deferred Accumulation
The Dramatic Difference

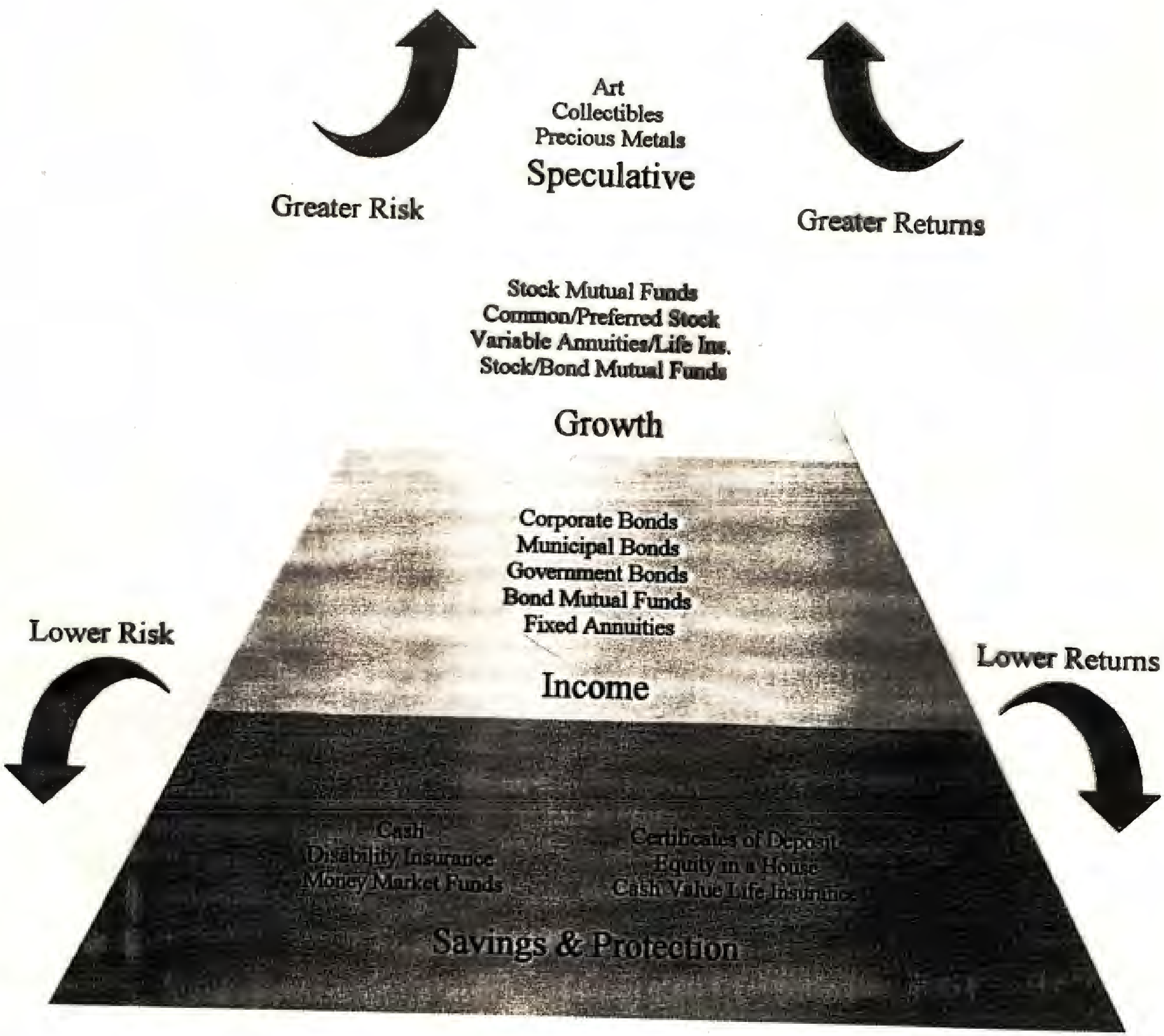


$2,000 invested annually at 8% interest - 33% tax bracket

	Taxable	Tax Deferred
Contribution	$2,000	$2,000
5 years	11,728	12,672
10 years	26,954	31,291
20 years	72,387	98,846

Note: These examples are for illustration only and are not intended to project performance for any specific investment. Investments may be treated differently for tax purposes. The tax deferred investment illustrated here does not take into account taxes due when money is withdrawn.

Building Your Financial Foundation



There are no assurances that greater risk will result in greater return.

There Are Advantages To Starting To Save Early

Here are the monthly investments required at different ages to accumulate $1,000,000 by age 65, assuming an 8% compounded rate of return:

Age When Investments Begin	Monthly Investments Required to Reach Goal at Age 65
25	$285
35	$667
45	$1,686
55	$5,430

The benefits of starting to save at an early age are clear.

The Power Of Compounding Consistency

Starting with a $100,000 balance, which scenario of gains (+) or losses (-) will produce a higher cash balance in ten years?

Years	Scenario 1	Scenario 2
1	+ 20%	+8%
2	+ 21	+8
3	+ 10	+8
4	- 16	+8
5	+ 12	+8
6	- 2	+8
7	+ 22	+8
8	- 6	+8
9	+ 11	+8
10	+ 15	+8

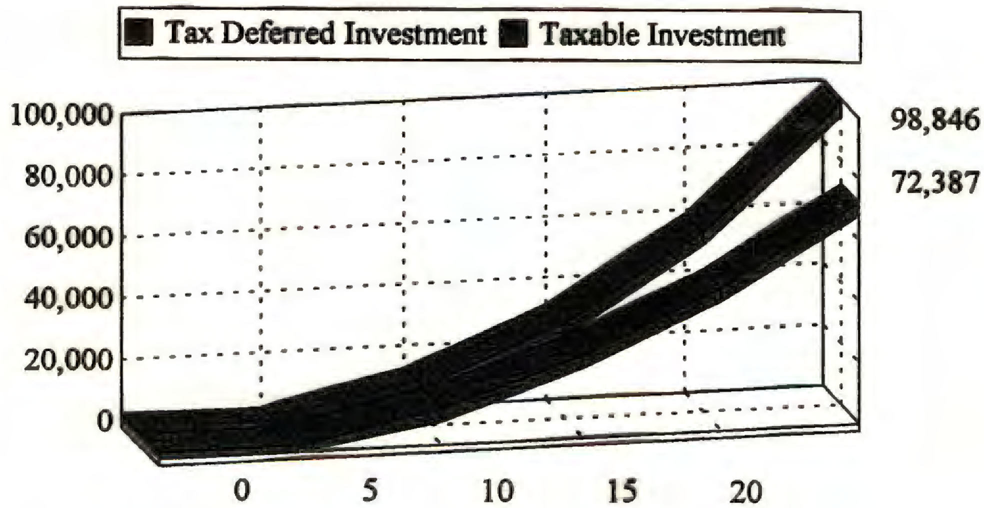
Scenario 1 Fund Value at the end of 10 years = $215,571

Scenario 2 Fund Value at the end of 10 years = $215,892

Here you can see that consistent, long term, conservative investing can equal or even produce higher values than investments that may be more risky and have widely fluctuating returns.

Taxable Vs. Tax Deferred Accumulation

The Dramatic Difference



$2,000 invested annually at 8% interest - 33% tax bracket

	Taxable	Tax Deferred
Contribution	$2,000	$2,000
5 years	11,728	12,672
10 years	26,954	31,291
20 years	72,387	98,846

Note: These examples are for illustration only and are not intended to project performance for any specific investment. Investments may be treated differently for tax purposes. The tax deferred investment illustrated here does not take into account taxes due when money is withdrawn.

Plan And Take Action
To Achieve Financial Security

Commit to saving systematically.

Save 10% to 20% of income annually.

Develop a road map to reach goals.

Choose the right plan:

- What is my tolerance for risk?
- How is my plan taxed?
- What is a reasonable rate of return?

Build a solid financial foundation first.

Your Future Financial Security Will Not Come By Chance

Ask Yourself These Questions:

- How much am I saving now?
- If I continue to save as I have in the past, how much money will I have in ten years?
- Am I satisfied with my current savings plan?
- Will I save systematically to reach my financial goals?

There are Two Ways to Save:

- Spend first and then save

or

- Save first and spend what is left.

I chose a Roth IRA

Alex	single	age 29	teacher	modified adjusted gross income: $35,000

Even though Alex could take a deduction on a Traditional IRA, he chose a Roth IRA because he doesn't need his money for many years. Who knows what federal income taxes will be like by the time he retires? Whatever they'll be, he won't have to pay taxes on distributions from his Roth IRA when he reaches age 59½, and he'll always know how close he is to achieving his goal. After five years, the Roth IRA will also let him pull out up to $10,000 for a first home without taxes or a penalty.*

I chose a Traditional Deductible IRA

Dana	married	age 38	stay-at-home mom	modified adjusted gross joint income: $65,000

Dana recently stopped working to take care of her children. Her husband, Stephen, contributes to his 401(k) plan at work. Dana is not disadvantaged by being unemployed or by Stephen's participation in a 401(k) plan; she can invest a full $3,000 in a Traditional IRA and deduct the entire contribution from their joint tax return.

I chose to convert to a Roth IRA

Roger	single	age 45	sales manager	modified adjusted gross income: $75,000

Roger has a new job and is thinking about rolling over his old 401(k) plan balance into a Roth IRA. He understands that he'll owe taxes for doing this, but he likes the idea of paying taxes now and not later, especially since he doesn't plan on needing his money for another 25 years. His financial adviser has explained the steps to him: First, Roger must roll over his 401(k) plan balance into a Traditional IRA and then convert that account to a Roth IRA.

* Withdrawal of your earnings is tax-free and penalty-free if your initial contribution to the Roth IRA was made at least five years ago and you meet one of the following conditions: you're age 59½, you're purchasing a home for the first time, you're disabled or you die. If your initial contribution to the Roth IRA was made less than five years ago, you can make penalty-free but not tax-free withdrawals if you meet one of the above-mentioned conditions. Penalty-free withdrawals can also include certain periodic payments, catastrophic medical expenses, health insurance premiums after lengthy unemployment, higher education expenses and payment of a tax lien.

Which IRAs am I eligible for?

Check the table below to find out which IRAs you may qualify for. To see how this information applies in some real-life situations, look to the right.

Since you may be eligible to contribute to either a Roth or a Traditional IRA (deductible and nondeductible), we've outlined below what you need to know for each.

In addition, we've indicated whether your Traditional IRA contribution is eligible for a full tax deduction, a partial deduction or no deduction.

Tax-filing status/ Modified adjusted gross income (MAGI)	2002 contribution eligibility: Roth IRA	Traditional IRA (deductible and nondeductible)
Retirement plan participants		
Single		
$ 34,000 or less	full contribution	fully deductible contribution
$ 34,001 – $ 43,999	full contribution	partially deductible contribution
$ 44,000 – $ 95,000	full contribution	nondeductible contribution
$ 95,001 – $109,999	partial contribution	nondeductible contribution
$ 110,000 or more	not eligible	nondeductible contribution
Joint (you are an active participant in your employer's retirement plan)		
$ 54,000 or less	full contribution	fully deductible contribution
$ 54,001 – $ 63,999	full contribution	partially deductible contribution
$ 64,000 – $150,000	full contribution	nondeductible contribution
$150,001 – $159,999	partial contribution	nondeductible contribution
$160,000 or more	not eligible	nondeductible contribution
Joint (you are not an active participant, but your spouse is)		
$150,000 or less	full contribution	fully deductible contribution
$150,001 – $159,999	partial contribution	partially deductible contribution
$160,000 or more	not eligible	nondeductible contribution
Nonretirement plan participants		
Single		
$ 95,000 or less	full contribution	fully deductible contribution
$ 95,001 – $109,999	partial contribution	fully deductible contribution
$110,000 or more	not eligible	fully deductible contribution
Joint		
$150,000 or less	full contribution	fully deductible contribution
$150,001 – $159,999	partial contribution	fully deductible contribution
$160,000 or more	not eligible	fully deductible contribution

If you're married and filing separately, you can make a partially deductible contribution to a Traditional IRA or a partial contribution to a Roth IRA if your MAGI is between $0 and $10,000. Determined in accordance with IRS regulations, MAGI is generally your adjusted gross income for tax purposes. The MAGI limits for 2001 are $1,000 less in some instances. See *IRS Publication 590* for more information.

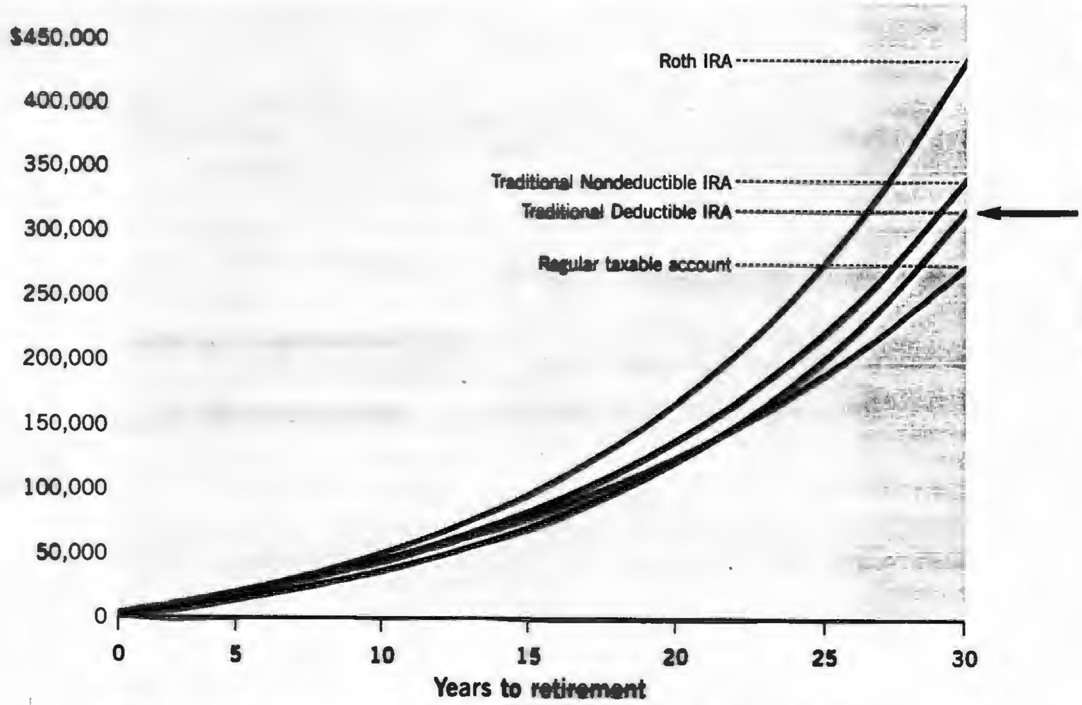
Your financial adviser can help you decide which IRA best suits your needs and which one may give you the biggest advantage overall. As we discussed earlier, it really depends on your situation: A Roth IRA gives you the tax-free advantage, a Traditional IRA gives you the benefit of tax-deferral, and a regular taxable account lets you pay taxes as you go along.

This chart shows the differences between a Roth IRA, a Traditional IRA (the nondeductible and deductible), and a taxable investment over time, assuming you make a $3,000 annual contribution until retirement and then you take a lump-sum distribution.

For more information, visit **americanfunds.com** and click on "FINANCIAL PLANNING" and then on "Retirement and IRAs."

Give your IRAs time

- Roth IRA
- Traditional Nondeductible IRA
- Traditional Deductible IRA
- Regular taxable account



The Traditional Deductible IRA total does not include the $810 in tax savings that could be potentially reinvested each year. This could amount to an additional $75,496 for this investor, assuming a 9% annual return. Even with this extra savings, the Roth IRA still comes out ahead.

This hypothetical example reflects an annual $3,000 contribution per year into each account, a 9% annual growth rate, reinvested each year, before retirement and a 27% tax bracket. This is just an example and is not indicative of any particular investment. Your actual tax rate will vary, based on your taxable income. Your actual results may vary, and regular investing does not ensure a profit or protect against loss in a declining market.

The amount you can contribute to an IRA each year will continue to rise, reaching $4,000 in 2005 and $5,000 in 2008. After 2008, the contribution limit will be adjusted annually for inflation in $500 increments. These increases may go away after 2010 unless Congress renews them.

What you get with a rollover IRA

1. Continued tax-deferred growth

Rolling your savings into an IRA gives you the same tax-deferred protection you've grown accustomed to through your retirement plan. Also, if you roll over to an IRA and stay invested, you have the chance to avoid possible penalties and keep more money for yourself.

2. More investment options

A typical retirement plan has a select number of investments from which to choose, while an IRA gives you a wider range of investment choices. When you have more options to choose from, you and your financial adviser may find it easier to create an investment strategy suitable to your specific needs.

3. Greater control

With a rollover, you don't have to worry about the rules of a retirement plan (vesting schedules, distributions at certain ages, fewer investment options, just to name a few). An IRA doesn't have these limitations, although there will be tax ramifications when you withdraw the money.

Also, if you set up a rollover IRA, you can consolidate your eligible balances from any previous retirement plans into this IRA, including any after-tax contributions you may have made.

Contact your financial adviser for more information on how a rollover IRA can help you plan for retirement.

What should you look for when choosing an investment manager for your IRA?

Since paying for your retirement will likely be the biggest expense you'll ever have, you want to know that you're investing your money wisely. When looking for an investment manager, you should generally look for one who:

- has been through all kinds of markets — both bad and good
- has a consistent, long-term investment philosophy
- has extensive global research capabilities
- seeks to keep its operating expenses low

If you want one of the most experienced, well-respected investment managers in America watching over your retirement assets, consider American Funds.

Traditional IRA (deductible)

This IRA allows you to save while your investments grow tax-deferred until you withdraw them. If you're eligible, you can take a current tax deduction for all or part of your contribution. A full deduction is available if you aren't covered by an employer-sponsored retirement plan. Or, if you're covered by a plan, you can still take a full deduction against your 2002 taxes if your modified adjusted gross income is less than $34,000 if you're single and less than $54,000 if you're married and filing jointly.

Also, if you're married and filing jointly and either you or your spouse is covered by a retirement plan, the spouse who isn't covered can make a deductible contribution as long as your combined modified adjusted gross income doesn't exceed $160,000.

A Traditional Deductible IRA is a good choice if you qualify for a current tax deduction (see above) or if you expect to be in a much lower tax bracket in retirement.

This IRA is available to you and your spouse if you're under age 70½ and you meet the contribution eligibility requirements mentioned above.

Your IRA earnings grow tax-deferred.

The current tax deduction reduces your tax liability.

Penalty-free early withdrawals are allowed for a qualified first-home purchase (up to $10,000), higher education, death, disability, and certain health insurance and medical bills. However, you'll have to pay taxes on these withdrawals.

Withdrawals can be made for any purpose without penalties after age 59½ or in the case of death or disability.

Unless you meet the eligibility requirements, you cannot take a deduction for your contribution.

Your contributions and earnings are taxed as income when you withdraw them.

You cannot take an early withdrawal without incurring taxes and possible penalties on some of your earnings.

You cannot make contributions after age 70½.

To meet minimum IRS requirements, you'll have to start taking withdrawals after you reach age 70½.

You can contribute up to $3,000 for 2002 if you're single and you earn as much as your contribution. If you're married and filing jointly, you and your spouse may contribute up to $6,000, but no more than $3,000 each, as long as you or your spouse earns as much as your contribution amount.

Individuals age 50 or older who meet the income requirements can contribute an additional $500, for a total of $3,500 for 2002 ($7,000 if you're married and filing jointly).

Traditional IRA (nondeductible)

With a Traditional Nondeductible IRA, you receive the same tax-deferred treatment as you do with a Traditional Deductible IRA. The big difference between the two is the tax deduction.

A Traditional Nondeductible IRA is suitable for you if you aren't eligible to contribute to a Roth IRA or you can't take a deduction for contributing to a Traditional Deductible IRA.

This IRA is available to you and your spouse if you're under age 70½ and you meet the contribution eligibility requirements on page 4.

Your IRA earnings grow tax-deferred.

Penalty-free early withdrawals are allowed for a qualified first-home purchase (up to $10,000), higher education, death, disability, and certain health insurance and medical bills. However, you'll have to pay taxes on these withdrawals.

Withdrawals can be made for any purpose without penalties after age 59½ or in the case of death or disability.

No tax deduction is allowed.

Your earnings are taxed as income when you withdraw them.

You cannot take an early withdrawal without incurring taxes and possible penalties on some of your earnings.

You cannot make contributions after age 70½.

To meet minimum IRS requirements, you'll have to start taking withdrawals after you reach age 70½.

You can contribute up to $3,000 for 2002 if you're single and you earn as much as your contribution. If you're married and filing jointly, you and your spouse may contribute up to $6,000, but no more than $3,000 each, as long as you or your spouse earns as much as your contribution amount.

Individuals age 50 or older who meet the income requirements can contribute an additional $500, for a total of $3,500 for 2002 ($7,000 if you're married and filing jointly).

Start with the facts

Not all IRAs will make sense for you. Take a look at the advantages and disadvantages of each.

Roth IRA

What it is	This IRA is a retirement savings vehicle in which you save with after-tax dollars so that when you withdraw your money it generally won't be taxed. The idea here is to pay taxes up front and never pay them again. You don't receive a tax deduction with a Roth.
Who it's best for	A Roth IRA provides the most advantages for the most people, especially those with long time horizons. You can contribute to a Roth IRA as long as your modified adjusted gross income doesn't exceed these limits: • $110,000 if you're single • $160,000 if you're married and filing a joint return
Pros	Your contributions can be withdrawn tax-free and penalty-free at any time. Withdrawal of your earnings is tax-free and penalty-free if your initial contribution to the account was made at least five years ago and you meet one of the following conditions: you're age 59½, you're purchasing a home for the first time, you're disabled or you die. There are no age restrictions on making contributions as long as you (or your spouse) have earned income. There are no age requirements for withdrawing your money from a Roth IRA.
Cons	You cannot withdraw your Roth earnings without a penalty unless you've held the account for five years and you're older than age 59½. However, some exceptions to this rule are listed on the bottom of page 5. If your modified adjusted gross income is too high, you may not be eligible for a Roth IRA.
Contributions	You can contribute up to $3,000 for 2002 if you're single and you earn as much as your contribution. If you're married and filing jointly, you and your spouse may contribute up to $6,000, but no more than $3,000 each, as long as you or your spouse earns as much as your contribution amount. Individuals age 50 or older who meet the income requirements can contribute an additional $500, for a total of $3,500 for 2002 ($7,000 if you're married and filing jointly).