WORTH A LOOK

News & Investment Insights for Retirement **Plan Participants** • Vol. 9/No. 2/Summer 2006

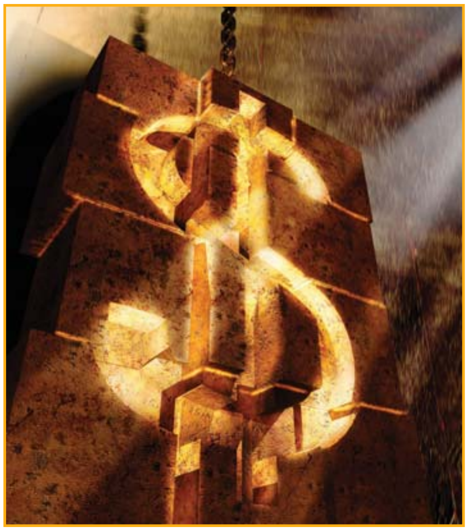
The Five Best and Worst Things To Do With Your 401(k) Plan

Your company retirement plan can be a very powerful tool as you prepare for retirement. Here's how to get the most from this employee benefit.

Five Best Things to Do:

1) ***Join as soon as possible.*** The sooner you begin contributing to your retirement, the more your money can accumulate. And, if your company makes a matching contribution and you delay participating, you'll be passing up free money.

2) ***Increase your contribution rate each year.*** Let's assume that you earn $20,000 and contribute 3% of your salary. That's a $600 annual contribution. Not a bad start. Now, what might you save if you increase that by just 1% of your salary each year for a decade? Based on a $20,000 salary, you'd only add $200 a year, or less than $8 every two weeks. But in 10 years, you'd be contributing 13% of your salary. Suppose your salary also grows by 3% a year. On a salary of $26,878, 13% would come to $3,494. Had you stayed at a 3% contribution rate, you would be deferring $896 a year. How much difference could the additional $2,598 a year make? Over the course of 30 years, that money, compounding at a hypothetical 8% a year, would grow to $317,855!



3) ***Contribute enough to get the full company match.*** At least, make sure you qualify for your employer's maximum matching contribution. Again, based on a $20,000 salary, and assuming your employer kicks in 50 cents for every dollar you contribute, up to 6% of your salary, you could receive an annual bonus of $600. That would boost a $1,200 a year deferral to $1,800. And it would grow tax-deferred until you take the money out.

4) ***Allocate your assets; then, review and rebalance regularly.*** Make sure you choose the right mix of funds for you, reflecting your tolerance for risk and the number of years before you expect to start withdrawing money. Then review your assets each year and make sure the mix remains right for you. The varied performance of each of your investments may lead to an unintentional shift, and your review is necessary for you to stay on track with your goals.

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Dear Participant:

In this issue, we look at how to become wealthy. Your net worth is a snapshot of how much wealth you have at any given time. Learn what your net worth includes, how to measure it, and how to increase it.

Your 401(k) plan is an excellent tool for building wealth. Here, we flag five of the best and worst things you can do with your plan.

Asset allocation is something you may have read about, but we provide a new twist. Find out what Goldilocks learns when she comes across some investments that are too hot or cold for her tastes.

Finally, one thing that could stop you from building wealth is credit card debt. We provide pointers on how to manage your credit cards.

We wish you well in all your efforts to build wealth.

Sincerely,

David Shute
Worth A Look Publisher

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What Are You Worth? And Why Does it Matter?

Do you know what you are worth? Why is it important to know?

Net worth is the basis for a lot of financial planning. It is simply the difference between what you own—your assets—and what you owe—your debts. It's like a snapshot, showing your financial health at a given point in time.

If you took a picture of your finances a year ago, today and a year in the future, you could see a trend. If you are moving in the right direction, your net worth should grow year by year as you save money, that money continues to grow (in a good year), and you continue to pay down debt, including your mortgage balance.

To assess your net worth, begin with your assets.

- Find current or recent statements from your bank accounts and investment accounts
- Include the value of your life insurance policy, if you own a whole life policy, which includes a cash value
- Include any retirement savings and the value of a company pension plan
- Add property, including the current value of your main residence, vacation property, or other real estate
- Include a rough estimate of all other physical assets, including vehicles, jewelry, art, collectibles, and home furnishings

Now, look at your liabilities, or debts. Include:

- The balance on your mortgage
- Any loans and lines of credit
- All credit cards

Finally, compare the two figures. The total you arrive at is your net worth. By consistently saving some money—in other words, spending less than you earn—you will grow your net worth. What your net worth amounts to by the time you retire could determine the type of retirement lifestyle you will enjoy.

So, take a few minutes to find out what you are worth. File that figure. And revisit it a year from now. It could encourage you to see your net worth grow over the years.

Net worth example:

Assets		Liabilities	
Cash	$2,000	Credit card balances	$2,000
Bank accounts	$5,000	Car loan balance	$5,000
Stocks, bonds, etc.	$10,000	Student loan	$10,000
Retirement plans	$50,000	Home mortgage	$150,000
Value or home	$300,000	Lines of credit	$3,000
Value of car	$10,000		
Total assets	**$377,000**	**Total Liabilities**	**$170,000**

Assets ($377,000) – Liabilities ($170,000) = Net worth ($207,000)

A Financial Fairy Tale

Goldilocks and the Three Assets

Once upon a time, there was a little girl named Goldilocks. She went for a random walk on Wall Street. Pretty soon, she came upon an investment house, offering a retirement plan. She knocked, and when no one answered, she walked right in.

At an enrollment table, there were three classes of assets. Goldilocks was hungry for positive returns. She tasted the asset from the first bowl, marked "stock funds."

"This asset is too hot!" she exclaimed. "It's exciting, but just too risky for me!"

So, she tasted the asset from the second bowl, marked "bond funds."

"This asset is too cold," she said. "It's just not going to provide me with the investment returns I expect and need for my future."

Then, she tasted the last bowl of assets.

"Ahhh, this asset is just right," she said happily and she ate it all up. In this case, what appealed to Goldilocks was a balanced portfolio, suitably diversified among stocks and bonds.

But just as in the original story of *Goldilocks and the Three Bears*, from which we obviously borrowed quite liberally, not every bowl of porridge, chair, bed—or investment approach, in this case—will appeal to everyone. What works as an ideal investment mix for your best friend, your sister, your supervisor or office pal won't necessarily work for you. In a sense, it might be too hot or too cold for your tastes.

The best way to ensure that you find what you are looking for isn't to follow in Goldilocks' footsteps and use the trial and error approach.

A better way is to understand your risk tolerance, your time horizon and any other financial concerns or needs that you have. How long you can keep your money invested determines how much volatility in the investment markets your portfolio can tolerate. In your quest for satisfying investment returns, you can then allocate your assets in the best mix for your needs and tastes.

For many people, it's a question of mixing the right percentage in the three asset classes—stocks, bonds and cash—and then diversifying within those asset classes among the different investment styles available.

Your retirement plan has several investment options from which to choose. And Transamerica Retirement Services offers many tools, articles, and educational videos on its web site at *http://www.TA-Retirement.com* that can help you.

Good luck in finding the asset mix that tastes just right to you. It needn't be a scary adventure, but do it right and you just might live happily ever after.

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(Continued from cover)

5) ***Roll over your money when you leave.*** One critical factor in building wealth for your retirement is to let your money keep growing tax-deferred for as long as possible. When you retire, or switch jobs, make sure you don't take the money as a lump sum. Otherwise, you'll pay taxes and you may face an early withdrawal penalty. Far better to do a direct rollover to a new 401(k) plan, if changing jobs, or to a Rollover IRA when you retire.

Five Worst Things to Do:

1) ***Don't join.*** Waiting even a few years could be costly. A 25-year-old who waits five years before contributing $1,000 a year for 35 years, and earns 8% on that money, would accumulate $93,000 less than a same-age colleague who begins right away and contributes $1,000 steadily for 40 years.

2) ***Leave your contribution rate too low.*** You may be placed at a default contribution rate when you join the plan. Don't assume that rate will be enough to meet your retirement income needs. You may need to double or triple it.

3) ***Be too conservative or aggressive with your investments.*** If you invest too "safely," such as in a low-yielding money market fund, you might pass up significant savings over decades. Conversely, invest too aggressively, and you may be exposed to too much risk.

4) ***Leave your assets in a default fund that's wrong for you.*** Soon after you join, review the choices available and find the right investment mix for your needs.

5) ***Chase hot performing funds.*** Investment performance often follows cycles. One year's top funds often underperform the subsequent year. You'd do better to seek the right mix and stick with it.

How to Manage Credit Card Debt

The statistics tell the story: Average credit card debt per American household nearly tripled from 1993 to 2003 according to CardWeb.com[1], from $3,646 to a whopping $9,205. And overall consumer debt, not including mortgages, totaled more than $2.1 trillion among Americans in 2005, according to the Federal Reserve[2].

How can you manage credit cards—and avoid the temptation to overuse or abuse them?

- ***Leave home without it.*** Use a debit card, rather than a credit card, or pay with cash rather than plastic. Use your credit card only in emergencies.
- ***Limit your cards.*** Another approach is to use a credit card, a single card. Cut up all the others.
- ***Consolidate.*** If you already have a number of cards and are carrying a balance on more than one, consolidate them. Choose a card with the lowest interest rate and no annual fee. If you have a significant total balance, take the time to shop around and find a card company with the best rate for consolidating your balance.
- ***Avoid blank checks.*** Don't get lured by the easy money offers that your credit card firm teases you with. The blank checks are cash advances and often carry higher interest rates than your normal transaction charges.
- ***Avoid balances.*** Pay your balance on time and in full. It's not easy, true. But if you follow the next point, it may be easier.
- ***Set a limit and stick to it.*** Budget your card use. Set a monthly limit and keep a written record to stop from exceeding that limit.
- ***Get help.*** If you need professional counseling, an option is to contact the National Foundation for Credit Counseling. Learn more by visiting ***www.nfcc.org.***

[1] "Where the big borrowers live" by Hilary Smith. Retrieved from *http://moneycentral.msn.com/content/Banking/Yourcreditrating/P120358.asp*

[2] Federal Reserve Statistical Release: Consumer Credit. Retrieved from *http://www.federalreserve.gov/releases/g19/current/default.htm*

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Publisher: David Shute
Editor: Ivy Chan Andrade
Participant web site: ***www.TA-Retirement.com***
To e-mail us, see "Contact Us" on the web site.
1150 South Olive Street, Los Angeles, CA 90015.

Please consult your tax advisor for advice on your unique situation.

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