Direct Solutions®

SETTING YOUR SIGHTS ON THE FUTURE

INVESTMENT BASICS

403(b)

October 08

Sentinel Investments℠

USI® CONSULTING GROUP

Highlights

Determining how to invest your money is an individual decision. This booklet is not intended to provide you with investment advice, but to help you understand your options available through the Sentinel 403(b) Program. Whether you are just beginning to build a retirement nest egg or you've been doing it for years, you may soon have a large sum of money to manage. By managing your investments wisely, when it's time to retire, your dollars will take you where you want to go.

- The Sentinel 403(b) Program has special tax advantages. Your contributions are made on a pre-tax basis and grow tax-deferred until you withdraw them. This helps you build a bigger retirement nest egg.
- You choose where to invest your account from a variety of options ranging from low-risk investment options, to higher risk investment options with a greater opportunity for higher earnings in return for taking more investment risk.
- You'll understand the value of setting up a sound investment strategy. And, you will always have the flexibility to change your mind as your situation changes.

Investing Tips

No single investment performs well all the time and no one can predict how your particular investment will do. To increase your long-term results and reduce your risk of being hurt by the performance of any single investment or downturn in the market, investment managers suggest the following:

Invest over different time periods

When you invest at regular intervals, it moderates changes in the average cost of your purchase both up and down. This is known as "dollar cost averaging" and is what happens automatically when you save through the program.

Invest among different types of funds

When you diversify, or spread out, your investments among several different vehicles, you spread out your risk. In other words, the better diversified your investments, the less likely you can be hurt by the poor performance of a single investment. The program offers you the opportunity to invest in a variety of funds.

If you want dollar cost averaging to work for you, you will need to consider your financial ability to continue investing on an ongoing basis. Dollar cost averaging does not guarantee a profit or protect against loss in a declining market. Dollar cost averaging can be an effective strategy when money is invested at regular intervals over a period of time.

Diversification does not guarantee against a loss and there is no guarantee that a diversified portfolio will out perform a non-diversified portfolio.

Keep in mind that all investment decisions are yours. The information contained herein is meant as general educational information and is not intended to be considered as investment advice. If you need investment advice, you should contact your investment advisor.

Introduction

An Introduction to Investing

The Sentinel 403(b) Program offers a menu of investments representing a broad mix of investment styles and strategies. This investment menu allows you to design your own portfolio to manage your risk and help you meet your goals.

Equity Investments

One way to invest money is to buy something and then share in the profit when the market value of that asset rises. Investments of this type are called equity investments. They include stocks, real estate and physical assets like collectibles (e.g., art or coins).

Equity investments are usually chosen for their potential long-term growth. Over short periods, however, there is some risk that their value may decline. Historically, stock equity investments have outperformed debt securities over most longterm periods. There is no guarantee, of course, that they always will.

Debt Securities

Debt securities include corporate and municipal bonds, bank CDs, U.S. Treasury bills, notes and bonds, and insurance company contracts. With debt securities, your money is invested in funds and loaned to an organization or entity and interest on the loan is collected.

Investors who value stability often choose debt securities since the risk of losing principal is lower when compared to equity investments.

Balanced

A Balanced Fund is a mutual fund that buys a combination of equities and debt securities to provide both capital appreciation and income.

The purpose of a balanced fund (sometimes called an allocation fund) is to provide investors with a single mutual fund that combines growth and income objectives, by investing in both equities (for growth) and debt securities (for income).

Sustainable Funds

The Sentinel 403(b) Program also offers sustainable funds whose underlying investments have been through a process of corporate, social and environmental screening in order to create portfolios that include social and environmental responsibility with financial performance.

Consider a fund's objectives, risks, charges and expenses carefully before investing. The prospectus contains this and other information about the funds available through the Sentinel 403(b) Program. Please read the prospectus carefully before you invest.

Planning

What will you need for a comfortable retirement?

The road to a successful retirement begins with a plan. The first part of that plan involves finding out how much money you'll need to live on in retirement. Your expenses may generally be less in retirement than they are when you are working. Your mortgage may be paid off, your children will be grown and on their own, and you will not have work-related expenses such as commuting costs, meals and work clothes. However, some expenses – medical costs and travel, for example – may be higher.

Current/Needed Income

Current yearly income	Yearly income needed at retirement (in today's dollars)
$20,000	$16,000
$30,000	$24,000
$40,000	$32,000
$50,000	$40,000
$75,000	$60,000
$100,000	$80,000

Recent studies show that retirees usually need about 80% of their pre-retirement income to live comfortably. Take a look at the chart to the left. It shows how much income you will need for retirement based on your last annual salary before you retire, using the basic 80% rule. (Of course, your own situation may require more or less income).

Now that you have an idea how much income you would need if you were retiring today, you need to figure out where that income will come from and how much will be required in the future. Use the tables below and the worksheet on page 5 to calculate your retirement income needs.

Future Value Factor

Years in retirement	Future Value Factor*
10	7.72
15	10.38
20	12.46
25	14.09

** Assume 3% annual inflation and 8% annual investment return*

Future investment returns cannot be predicted and your actual returns and principal value will differ.

Inflation/Investment Factors

Years to retirement	Inflation Factor*	Asset Growth Factor**	Investment Factor**
5	1.16	1.47	5.87
10	1.34	2.16	14.49
15	1.56	3.17	27.15
20	1.81	4.66	45.76
25	2.09	6.85	73.11
30	2.43	10.06	113.28
35	2.81	14.79	172.32
40	3.26	21.72	259.06

** Assume 3% annual inflation*
***Assume 8% annual investment return*

Worksheet

		Example	
1.	Your current yearly income.	$30,000	$ ______
2.	Yearly income you need at retirement. *Based on chart from previous page, or 80% of Line 1*	$24,000	$ ______
3.	An estimate of your Social Security benefit.* *Multiply Line 1 by .25 up to a maximum of $26,220*	$7,500	$ ______
4.	The annual income you will need to replace through retirement savings and personal assets. *Subtract Line 3 from Line 2*	$16,500	$ ______
5.	Adjust your current replacement income for inflation. *Multiply Line 4 by the "Inflation Factor" corresponding to your "Years to Retirement"* *(For this example, we assume 20 years left to retirement, so we multiply $16,500 (Line 4) by 1.81)*	$29,865	$ ______
6.	How much would you need to have at retirement to give you the yearly income in Line 5? *Multiply Line 5 by the "Future Value Factor" corresponding to your expected number of "Years in Retirement"* *(For this example, we assume 20 years in retirement, so we multiply $29,865 by 12.46)*	$372,118	$ ______
7.	Value of your current assets set aside for retirement (savings, investments, IRAs, etc.) adjusted for asset growth. *Multiply your current assets by the "Asset Growth Factor"* *(For this example, we assume $50,000 in assets multiplied by 4.66)*	$233,000	$ ______
8.	How much will you need to save? *Subtract Line 7 from Line 6*	$139,118	$ ______
9.	How much will you have to set aside each year in order to work toward your retirement goal? *Divide Line 8 by the "Investment Factor" corresponding to your "Years to Retirement"* *(Example: $139,118 divided by 45.76)*	$3,040	$ ______
10.	The amount you need to invest each month toward retirement. *Divide Line 9 by 12*	$253	$ ______

**For a more accurate estimate of your Social Security benefit, please contact the Social Security Administration at 1-800-772-1213.*

Risk

Understanding Risk

If you are like many people who choose retirement plan investments, you may be afraid of risk and therefore are investing the larger portion of your savings in a fixed, very low risk option.

Ironically, unless you are close to reaching retirement or needing money for other long-term financial goals, this approach could put your retirement income at greater risk.

- Most people are worried that when investing they might lose money rather than gain money. That is investment risk.
- It is also natural to worry that if you don't have enough saved, prices will rise and your savings will not buy much. That's inflation risk.
- There is another risk to consider – retirement risk. You need to at least keep up with inflation in order to reduce your risk of not having enough money in retirement. Or, you could outlive your retirement income.

A few percentage points can make a big difference

Increasing your investment rate of return by just a few percentage points per year can really have an impact on your balance. Keep in mind, too, that the longer your money is invested, the greater the possibility of seeing significant results. And remember, as a rule of thumb, the greater the potential for reward, the greater the investment risk.

To fight inflation, you'll need to take some risk

Your choice of investment options and the average rate of return they earn has a dramatic effect on available retirement income.

Value of $1,000 contributed per year (compounded annually)

Rate of Return	5 years	10 years	15 years	20 years	25 years	30 years	35 years
4%	$5,400	$12,000	$20,000	$29,800	$41,600	$56,100	$73,700
6%	$5,600	$13,200	$23,300	$36,800	$54,900	$79,100	$111,400
8%	$5,900	$14,500	$27,200	$45,800	$73,100	$113,300	$172,300
10%	$6,100	$15,900	$31,800	$57,300	$98,300	$164,500	$271,000
12%	$6,400	$17,500	$37,300	$72,100	$133,300	$241,300	$431,700
14%	$6,600	$19,300	$43,800	$91,000	$181,900	$356,800	$693,500

So, over a longer period, a small difference in additional investment return will have a significant impact on your retirement income. Is it worth it? Only you can decide.

The amount of money you will have for retirement can be linked directly to the investment options you choose today.

Strategy

Investment Questions To Ask Yourself

- **When do you need your money?**
  Generally, the farther away you are from the need for money in your retirement, the higher the level of risk you can take with your investments. Remember you don't need all your money in low-risk investments on the day you retire.

- **How well can you tolerate volatility?**
  Consider how you would react when the market plunges on a given day, or in a given month or any particular time period. If you would panic and do not have the emotional makeup or the time frame to weather the volatility of the stock market, you should diversify more toward moderate-risk and lower-risk investments.

- **Do you have the patience to transfer investment categories slowly?**
  Generally, you should not make a big shift in your investment categories at one time. Instead, try to transfer in small increments over two or three years.

- **Can you avoid trying to time the market?**
  Everyone would like to buy low and sell high. The trouble is, even the experts are unable to foretell the future. Because contributions are made to your account on a regular basis, you will be investing in fund shares when prices are falling as well as when they are rising, so that over time you pay an average cost per share. This is considered a sensible strategy.

Build a Strategy

Most experts agree that you can maximize your retirement savings by applying the strategy described below.

- Diversify – don't put all your eggs in one basket.
- Once you choose your categories, stay in the same account over a long period of time (2-3 years).
- Transfer investment categories slowly and in small increments (over 2-3 years).
- Become more conservative as you near retirement.

Diversification is the key. You should keep focused on what you are trying to accomplish and the overall level of risk that you are comfortable with. Then, you could build a portfolio strategy. It should be diversified with investments from the different risk categories.

Investor Type

What Type of Investor Are You?

To determine what type of investor you are, you need to develop an investment strategy. This questionnaire will help you determine which investment strategy is most appropriate for you and which investments offered by your retirement plan may suit your needs.

Please read the statements and select the appropriate response on a scale from 1 (strongly disagree) to 5 (strongly agree). After completing the questions, tally the responses to find your Investor Risk Score. Then turn to page 7 to find out what type of investor you are and for hypothetical asset allocations.

Investor Risk/Return	strongly agree	agree	neutral	disagree	strongly disagree
I am willing to risk short-term loss in return for a potentially higher long-term total return.	5	4	3	2	1
Earning a higher long-term total return that will allow my capital to grow faster than the inflation rate is one of my most important investment objectives.	5	4	3	2	1
I am willing to tolerate sharp up and down swings on the return from my investment in order to seek a potentially higher return than would normally be expected from more stable investments.	5	4	3	2	1
I do not expect to borrow money from my retirement plan within the next five years.	5	4	3	2	1
Investment Time Horizon	20 +	15 – 19	10 – 14	5 – 9	0 – 4
Number of years until I expect to take distributions from my plan.	5	4	3	2	1
Number of years until I plan to retire.	5	4	3	2	1
Subtotal	______ +	______ +	______ +	______ +	______

Investor Risk Score ______

Portfolios

The following model portfolios are meant as examples of hypothetical asset allocation and should not be considered investment advice. Please note that past investment performance is not necessarily representative of future performance or risk as financial market conditions change continually.

You should consider your other personal assets, savings and investments before applying any of the principles discussed here.

Preservation (6 – 10 points)

Money Market	15%	Mid/Small Cap	10%
Fixed Income	50%	International	5%
Large Cap	20%		

Conservative (11 – 14 points)

Money Market	10%	Mid/Small Cap	15%
Fixed Income	35%	International	5%
Large Cap	35%		

Balanced (15 – 19 points)

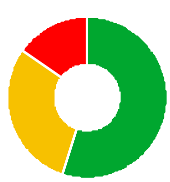
Money Market	0%	Mid/Small Cap	15%
Fixed Income	35%	International	10%
Large Cap	40%		

Capital Growth (20 – 25 points)

Money Market	0%	Mid/Small Cap	20%
Fixed Income	15%	International	15%
Large Cap	50%		

Aggressive (26 points or higher)

Money Market	0%	Mid/Small Cap	30%
Fixed Income	0%	International	15%
Large Cap	55%		



As a Sentinel 403(b) Program participant, you can access Morningstar's Retirement Manager Software by logging into your account online at www.usicg.com/sentinel.

Notes

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