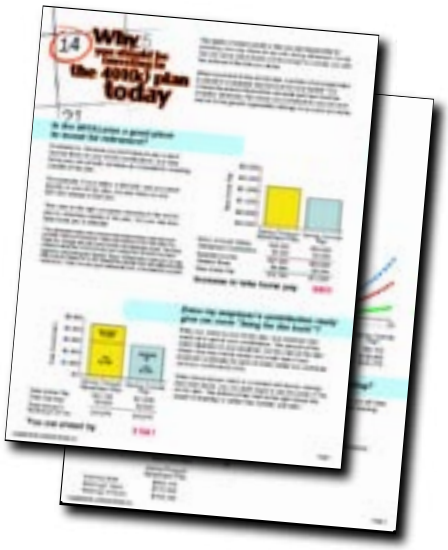
Why you should be investing in the 401(k) plan today!

This report is aimed at non-participants and can be distributed by itself or as part of an enrollment kit. The report shows the effect of participation on take-home pay and emphasizes the benefits of participating in the plan (employer match, tax-deferral, and wealth accumulation). This report also encourages employees to begin participating immediately by showing the price of delay.

Note: There is also a version of this report that does not mention the employer match for plan sponsors who do not match their employee's contributions.



Why you should be investing in the 401(k) plan today

The reality of today's world is that you are responsible for providing your own financial security during retirement. Social Security alone will probably not be enough to provide you with the retirement lifestyle you desire.

When you enroll in the 401(k) plan, a portion of your paycheck is placed in a separate plan account for your benefit. You choose the amount that will be set aside and how it will be invested. Moreover, the money you contribute to your account and all of the growth it generates belongs to you and you alone.

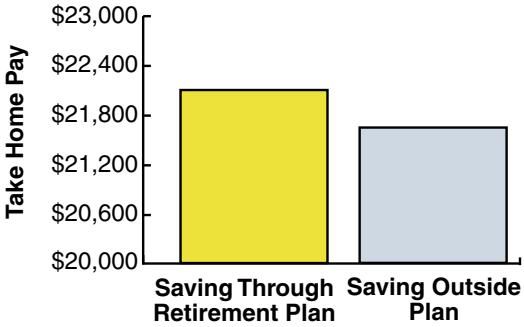
Is the 401(k) plan a good place to invest for retirement?

It certainly is. Because you don't have to pay current income taxes on your 401(k) contributions, your take home pay can actually increase as compared to investing outside of the plan.

For example, if your salary is $30,000, and you invest $3,000 in your 401(k) plan, you pay taxes on only $27,000 instead of $30,000.

The chart at the right compares investing in the 401(k) plan to investing outside of the plan. You can see how take-home pay is affected.

*This illustration takes into account only federal taxes and does not consider state or local taxes. Takes are based on the IRS 2002 Tax Table for a single filer plus 2002 OASDI and Medicare taxes. The 2002 standard deduction of $4,700 and one exemption ($3,000) has been applied in calculating the Federal Taxes. Withdrawals made prior to age 59½ may be subject to a 10% federal tax penalty and are subject to plan restrictions. Taxes are due upon withdrawal from a tax-deferred account.



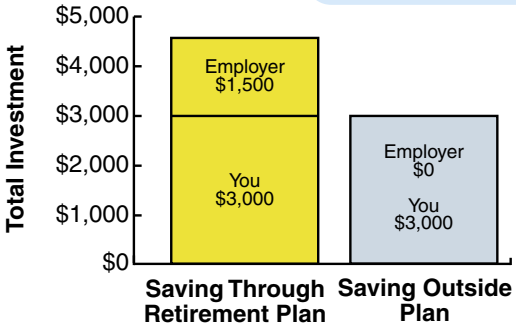
	Saving Through Retirement Plan	Saving Outside Plan
Gross Annual Salary	$30,000	$30,000
Retirement Contribution	$3,000	$3,000
Taxable Income	$27,000	$30,000
Federal Taxes	$4,894	$5,344
Take Home Pay	**$22,106**	**$21,656**

Increase in take home pay **$450**

Does my employer's contribution really give me more "bang for the buck"?

When you invest in your 401(k) plan, your employer may match all or part of your contributions. The amount of the match depends on your employer, but the chart at the right shows how much extra money you could have if your employer contributes 50 cents for every dollar you contribute (and you contribute $3,000).

When the employer match is combined with the tax savings described above, you can really begin to see the power of the 401(k) plan. The bottom of the chart at the right shows the power of investing in, rather than outside, your plan.



	Saving Through Retirement Plan	Saving Outside Plan
Take Home Pay	$22,106	$21,656
Total Savings	$4,500	$3,000
Total Amount Working For You	**$26,606**	**$24,665**

You are ahead by **$1941**

employer match version

Why you should be investing in the 401(k) plan today

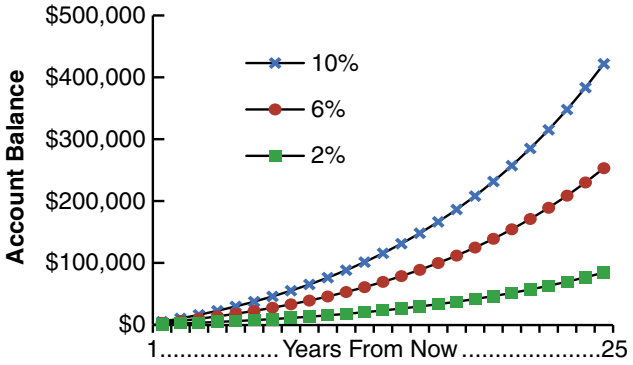
How much can my account grow?

The chart at the right shows how much your account could grow over the next 25 years if:

- your current annual salary is $30,000;
- your salary increases 2% each year;
- you contribute either 2%, 6%, or 10% to your plan;
- and your employer matches 50% of your contributions.

The growth of your account also depends on the rate of return your investments earn. The chart at the right assumes your investments earn 8% each year.

*The figures at the bottom of the chart compare how much your account could grow if you invest in the plan versus outside of the plan. In addition to the tax advantages shown on the previous page, the retirement plan also provides tax-deferred growth which means you do not pay taxes on the growth of your investments until you withdraw the money (which could be over your entire retirement). If you invest outside of the plan, however, you must pay taxes on the growth of your investments as that growth happens. This illustration assumes that, if you invest outside of the plan, 25% of your investment growth will go to pay taxes. Thus, an after-tax growth rate of 6% (75% of 8%) is used when illustrating the growth of investments outside of the plan.

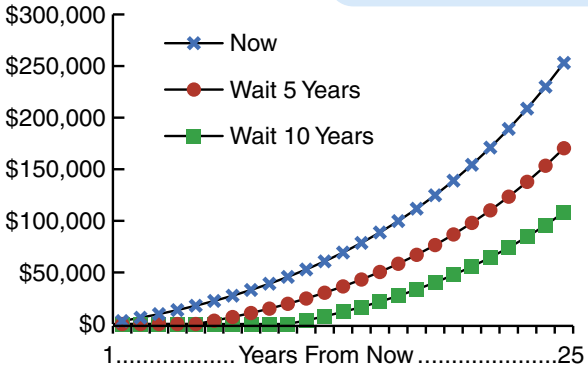


	Saving Through Retirement Plan	Saving Outside Plan*
2% Contribution	$84,367	$42,155
6% Contribution	$253,102	$126,465
10% Contribution	$421,837	$210,776

What if I wait to start investing?

The chart at the right shows how much less you will have in 25 years of you wait 5 or 10 years to start investing. The chart assumes:

- your current annual salary is $30,000;
- your salary increases 2% each year;
- you contribute 6% to your plan;
- your employer matches 50% of your contributions;
- your investments earn 8% each year.



	Saving Through Retirement Plan
Starting Now	$253,102
Waiting 5 Years	$170,366
Waiting 10 Years	$108,196

employer match version