

Types of Retirement Plans

401(k) plans - A qualified plan established by employers to which eligible employees may make salary-deferral (salary-reduction) contributions on a pre-tax basis. Employers may make matching or non-elective contributions to the plan on behalf of eligible employees and may also add a profit-sharing feature to the plan. Under current IRS law the contribution limit is \$15,000 per year for those under age 50 or 100% of earned income. Assets in the plan grow tax deferred and are taxable upon distribution.

Roth 401(k) plans – Similar to a regular 401(k) plan, but the contributions are made on a post tax basis and are not taxable upon distribution.

403(b) plan - Also known as a tax-sheltered annuity (TSA) plan, is a retirement plan for certain employees of public schools, employees of certain tax-exempt organizations and certain ministers.

457 plans – A retirement plan for state and local government employees.

Individual Retirement Accounts (IRA) - An IRA is a retirement investing tool That can be either an "individual retirement account" or an "individual retirement annuity". There are several types of IRA's: Traditional IRAs, Roth IRAs, SIMPLE IRAs and SEP IRAs.

Traditional IRA - Individual taxpayers are allowed to contribute 100% of compensation (Self-employment income for Sole proprietors and partners) up to a specified maximum dollar amount to their Traditional IRA. Contributions to the Traditional IRA are usually tax-deductible depending on the taxpayer's income, tax-filing status, and coverage by an employer-sponsored retirement plan.

Roth IRA - An individual retirement account that bears many similarities to the Traditional IRA. Contributions are never deductible, and qualified distributions are tax-free.

SEP, Simple IRAs, and Keogh Plan – Retirement plans for small business owners. All are taxed like a 401(k) plan. Contribution limits are different for each of the plan

How do I determine what to invest in?

Diversification - A risk management technique that mixes a wide variety of investments within a portfolio. It is designed to minimize the impact of any one security on overall portfolio performance.

Asset Allocation - The process of dividing a portfolio among major asset categories such as bonds, stocks or cash. The purpose of asset allocation is to reduce risk by diversifying the portfolio.

- *Small Cap Stocks* - Refers to stocks with a relatively small market capitalization. The definition of small cap can vary among brokerages, but generally it is a company with a market capitalization of between \$300 million and \$2 billion.

Small cap examples: WebEx communication, Carters, Superior Energy Services

- *Mid Cap Stocks* - Companies having a market capitalization between \$2 billion and \$10 billion.
Shortened form of "middle cap".

Mid Cap Examples - Lehman Brothers, McAfee, Baxter International, Chico's

- *Large Cap Stocks* - Companies having a market capitalization over \$10 billion.

Large Cap Examples - Microsoft, General Electric, Coke, Ford, Home Depot

- *International Stocks* - Companies based outside the United States
- *Bonds* - A debt investment with which the investor loans money to an entity (company or government) that borrows the funds for a defined period of time at a specified interest rate
- *Cash Equivalents and Fixed Income* - A type of investing for which real return rates or periodic income is received in regular intervals at reasonably predictable levels. (CD's, money markets, and fixed annuities)

Model Portfolios

Model Portfolios vs. The S&P 500 Based on hypothetical returns for to 20-year period: December 31, 1985 – 2005

Model Portfolio Allocation	Aggressive Portfolio	Moderately Aggressive Portfolio	Moderate Portfolio	Moderately Conservative Portfolio	Conservative Portfolio	S&P 500 Index
Best Annual Performance	33.43%	28.35%	22.9%	19.31%	14.63%	37.58%
Worst Annual Performance	-17.19%	-13.22%	-8.67%	-3.45%	0.62%	-22.1%
Average Gain	18.35%	16.66%	13.2%	10.57%	7.6%	18.82%
Average Loss	-10.96%	-7.65%	-4.88%	-1.83%	N/A	-11.82%
Number of Years With a Gain	16	16	17	18	20	16
Number of Years With a Loss	4	4	3	2	0	4
20-year Avg. Annual Std. Deviation	13.84%	11.69%	8.92%	6.19%	3.47%	15.32%

The performance shown for the historical portfolios is a hypothetical model; it is not the performance of any particular investment. Each historical portfolio is represented by the same benchmark indexes and in the same proportions as the asset allocation models developed by Ibbotson Associates Advisors, LLC for Nationwide Financial®. The benchmark indexes used are described on the next page. Quarterly rebalancing was assumed to arrive at hypothetical portfolio returns. **Note that the returns do not include expenses that a real-world portfolio would incur which, if reflected, could significantly reduce performance.** Therefore, the actual performance of actively managed investments will vary from that of the underlying indexes (which are unmanaged and do not incur management fees or other expenses). You are unable to invest directly in an index.

PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS. Investing may involve market risk, including possible loss of principal. Small company stocks have higher risks than the stocks of larger, more established companies, and have significant short-term price volatility. International investing involves additional risks including: political instability, differences in accounting standards, currency fluctuations and foreign regulations. **The use of diversification and asset allocation as part of an overall investment strategy does not assure a profit or guarantee against loss in a declining market.**

Standard Deviation — measures the average variability from a fund's historical mean return. The higher the number, the more volatile the fund's historical returns.

Fourth Quarter 2005

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Model Portfolio Allocation	Aggressive Portfolio	Moderately Aggressive Portfolio	Moderate Portfolio	Moderately Conservative Portfolio	Conservative Portfolio
Description	<ul style="list-style-type: none"> You're an aggressive investor who is very comfortable with risk You have a long time horizon You're willing to accept sharp, short-term price fluctuations in exchange for potential long-term returns 	<ul style="list-style-type: none"> You're an aggressive investor who is very comfortable with risk, but you're looking for slightly more diversification You have a longer time horizon You're willing to accept sharp, short-term price fluctuations in exchange for potential long-term returns 	<ul style="list-style-type: none"> You have a lower tolerance for risk than an aggressive investor and are seeking both growth and income You have a longer time horizon You're willing to accept moderate short-term price fluctuations in exchange for potential long-term returns 	<ul style="list-style-type: none"> You have a lower tolerance for risk, and your primary goal is income You have a shorter time horizon You're willing to accept some market volatility in exchange for greater potential income and growth 	<ul style="list-style-type: none"> You have a lower tolerance for risk, and your primary goal is income You have a shorter time horizon You're willing to accept very little risk, but still seek a small amount of growth

Benchmark Index Performances as of December 31, 2005 (Source: Zephyr StyleADVISOR)

Benchmark	Cumulative Return		Calendar Return			Average Annual Return					
	JAN 1, 2000 – DEC 31, 2005	2003	2004	2005	YTD	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years
S&P 500 Index (Large-cap Stocks)	-6.60%	28.68%	10.88%	4.91%	4.91%	4.91%	14.39%	0.54%	9.07%	11.52%	11.94%
S&P MidCap 400 Index (Mid-cap Stocks)	77.53%	35.62%	16.48%	12.56%	12.56%	12.56%	21.15%	8.60%	14.35%	15.98%	15.00%
Russell 2000 Index (Small-cap Stocks)	43.98%	47.25%	18.33%	4.55%	4.55%	4.55%	22.13%	8.22%	9.26%	13.04%	10.29%
MSCI EAFE Index (International Stocks)	9.51%	39.17%	20.70%	14.02%	14.02%	14.02%	24.18%	4.94%	6.18%	7.34%	10.00%
Lehman Brothers Aggregate Bond Index (Bonds)	48.00%	4.11%	4.34%	2.43%	2.43%	2.43%	3.62%	5.87%	6.16%	7.26%	7.88%
Citigroup 3-month T-bill Index (Cash)	18.22%	1.07%	1.24%	3.00%	3.00%	3.00%	1.77%	2.21%	3.72%	3.98%	4.74%

- The Standard & Poor's 500 Index is an unmanaged, capitalization weighted index of 500 widely held stocks of large U.S. companies that gives a broad look at how the stock prices of large U.S. companies have performed
- The Standard & Poor's MidCap 400 Index is an unmanaged index of 400 stocks of medium-size U.S. companies
- The Russell 2000 Index is an unmanaged index of approximately 2,000 companies with small market capitalizations relative to the market capitalizations of other U.S. companies
- The MSCI Europe, Australasia and Far East Index is an unmanaged index that is generally representative of international stock markets
- The Lehman Brothers Aggregate Bond Index is an unmanaged index comprised of intermediate-term government bonds, investment-grade corporate debt securities and mortgage-backed securities
- The Citigroup 3-month Treasury Bill Index is an unmanaged index that is generally representative of 3-month Treasury bills

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Model Portfolios

Hypothetical annual returns for the 20-year period: December 31, 1985 – 2005

Model Portfolio Allocation	Aggressive Portfolio	Moderately Aggressive Portfolio	Moderate Portfolio	Moderately Conservative Portfolio	Conservative Portfolio
1-year Cumulative Return	8.63%	7.85%	6.12%	5.24%	4.02%
3-year Avg. Annual Return	18.59%	16.00%	12.34%	9.11%	5.76%
5-year Avg. Annual Return	4.31%	4.55%	4.54%	4.60%	4.12%
10-year Avg. Annual Return	9.13%	8.88%	8.18%	7.43%	6.06%
15-year Avg. Annual Return	11.13%	10.56%	9.62%	8.52%	6.86%
20-year Avg. Annual Return	11.81%	11.33%	10.29%	9.26%	7.60%

The performance shown for the historical portfolios is a hypothetical model; it is not the performance of any particular investment. Each historical portfolio is represented by the same benchmark indexes and in the same proportions as the asset allocation models developed by Ibbotson Associates Advisors, LLC for Nationwide Financial[®]. The benchmark indexes used are described on the next page. Quarterly rebalancing was assumed to arrive at hypothetical portfolio returns. Note that the returns do not include expenses that a real-world portfolio would incur which, if reflected, could significantly reduce performance. Therefore, the actual performance of actively managed investments will vary from that of the underlying indexes (which are unmanaged and do not incur management fees or other expenses). You are unable to invest directly in an index.

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