

FOCUS ON ■ THE savings PLAN

Johnson & Johnson

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Feeling Uneasy About Investing?

Listen to the current buzz among investors, especially those planning for retirement, and you'll hear plenty of unease:

Is the stock market still worth investing in?

Are stocks too risky for retirement investing?

Should I put all my retirement savings in safer investments?

If questions like these reflect your own concerns, take a deep breath and don't panic. This article will present strategies you can follow to lessen the negative impact of uncertain investment markets and stay on the path toward your retirement goals.

TO REDUCE RISK, DIVERSIFY

The idea of portioning out money among numerous investments is called *diversification*. Diversification, especially in today's difficult investing climate, helps reduce volatility while giving you a better chance for a positive overall return. You increase your risk if you put your retirement savings in just one or a few investments. By spreading your money around, you reduce the risk of loss on any one investment and increase the chances of having one or more investments with positive returns.

You can diversify easily and effectively in the Johnson & Johnson Savings Plan. By offering nine

investment funds, the Plan lets you distribute savings among all three major investment categories known as *asset classes*:

- equities (stocks),
- fixed income investments (including bonds, annuities, and fixed interest contracts), and
- cash equivalents (including short-term certificates of deposit and U.S. Treasury bills).

The investment funds offered under the Johnson & Johnson Savings Plan cover the full range of these asset classes (see chart below).

You can further reduce risk by diversifying *within* an asset class. For example, let's say that you want to diversify within equities in the Savings Plan. One way to do that would be to choose the Diversified Equity Fund for U.S. stocks and the International Equity Fund for non-U.S. stocks.

SAVINGS PLAN INVESTMENT FUNDS GROUPED BY ASSET CLASS		
EQUITIES	FIXED INCOME	CASH EQUIVALENTS
Diversified Equity Fund	Fixed Interest Fund	U.S. Government Securities Fund
Russell 3000 Index Fund	Intermediate Bond Fund	
U.S. Small Cap Fund		
International Equity Fund		
Balanced Fund*		
Johnson & Johnson Common Stock Fund		

*The Balanced Fund is a diversified mix of investments consisting mainly of U.S. and non-U.S. equities (including Johnson & Johnson stock) and U.S. bonds (fixed income investments).

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SMART RETIREMENT INVESTING THROUGH GOOD TIMES AND BAD

- To reduce risk in your retirement portfolio, don't invest all your "eggs" in one basket. Stay diversified.
- Increase overall return by investing on a continuous, systematic basis.
- Don't try timing the market – you're not likely to win at that game.
- Stay focused on the long term — resist the temptation to react whenever investment markets go up or down.
- Keep saving in the Johnson & Johnson Savings Plan in order to get the 75% Company Match and other advantages. ■

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Let's look at an illustration of how diversification can limit your exposure to risk and give you the potential for a higher return and greater savings overall.

WENDY WINS THROUGH DIVERSIFICATION						
What \$5,000 was invested in	WALT	WENDY				
	One bank CD	\$1,000 in each of five different types of investments				
		#1	#2	#3	#4	#5
Return over 20 years	6.5%	Lost half of original value	0%	9%	5%	13%
Amount after 20 years	\$17,618	\$500	\$1,000	\$5,604	\$2,653	\$11,523
(Total) \$21,280						

- Twenty years ago, Walt invested \$5,000 in a bank certificate of deposit. The CD ended up paying an average, annual return of 6.5%.
- At the same time, Wendy invested \$5,000. However, she diversified by investing \$1,000 in each of five investments that as a group ranged from poor to excellent in terms of her return. Each of Wendy's investments ended up paying a different average, annual return, as shown above.

At the end of 20 years, Walt's savings have grown to \$17,618, while Wendy's have reached \$21,280. Investments #1 and #2 did not perform well for Wendy, as Investment #1 had a negative return, losing half of its value, and Investment #2 had a return of 0%. Her other investments, however, more than compensated and she came out ahead of Walt in total savings. So diversification paid off for Wendy.

SAVING IN GOOD TIMES AND BAD: DOLLAR-COST AVERAGING

When you consistently invest in any of the Savings Plan funds that hold equities, you automatically use a winning technique called dollar-cost averaging. Dollar-cost averaging in the Savings Plan means investing a fixed sum of money in the same funds at regular intervals – through good and bad investment markets. When the price per share of the stock in the fund goes down, you can actually benefit, because you get more shares for the new money you invest. In a slumping market, you might benefit by actually increasing your contributions to the Savings Plan, because you can buy into investment funds at “bargain” prices. The lower your cost of investing, the greater your rate of return.

Let's assume you put \$100 each calendar quarter into a particular fund that invests in stock. During the four quarters shown in the chart below, the share price fluctuates, and so does the number of shares you get for your \$100 contribution:

HOW DOLLAR-COST AVERAGING WORKS IN YOUR FAVOR		
AMOUNT INVESTED	PRICE PER SHARE OF STOCK	NUMBER OF SHARES BOUGHT
\$100	\$20	5
\$100	\$10	10
\$100	\$25	4
<u>\$100</u>	\$25	<u>4</u>
\$400		23
Average Price per Share		\$20
		[\$20 + \$10 + \$25 + \$25 / 4]
Your Average Cost per Share Due to Dollar-Cost Averaging		\$17.39
		[\$400 / 23 shares]

During the four quarters in our snapshot, the average price per share is \$20. However, your average cost per share is only \$17.39, because you bought more shares when their price went down.

DON'T TRY TIMING THE MARKET

It may be tempting to move your money in and out of investments in an effort to catch only the performance highs and avoid the lows. But resist the temptation — even investment pros have a hard time succeeding at this — and very few do. Case in point:

- From 1993 through 2002, the average, annual return on the stock market (as represented by S&P 500 stocks) was 9.34%¹.
- During that period, if you had been busy timing the market and missed out on the market's 10 best days, your average annual return would have been only 4.29%¹, even if you had been fully invested for every other day during that 10-year period!
- If you had missed out on the 20 best days, your average annual return would have been 0.47%¹.
- If you had missed out on the 60 best days, you would have had an average annual loss of -9.83%¹.

Timing the market is an investing strategy to avoid!

KEEP A LONG-TERM PERSPECTIVE

To succeed at investing for retirement, resist the urge to react each time investing markets go up or down. Stay focused on the long term.

Equities (stocks) can play an important role in a long-term investment portfolio, even when the stock market encounters choppy waters. Equities do tend to show greater short-term ups and downs in value than other asset classes, but over longer periods historically, equities have produced higher returns. From 1926 through 2002, equities showed an average annual return of 10.2%. Compare this to returns of 5.5% for fixed income investments and 3.8% for cash equivalents². Remember, past performance does not predict future performance. Investments in equities could increase or decrease in value.

Keeping a long-term view does not mean ignoring your investments until you retire. From the day you start investing, keep tabs on your asset allocation - the manner in which your savings are distributed among the different asset classes. Over time, investment results can vary greatly from fund to fund, and your account can move away from your desired asset mix (for example, 70% equities and 30% fixed income). At least once a year, you should make sure your desired asset mix is still in place, and, if needed, you can transfer balances among the funds to maintain your asset mix. Also, there are times you may need to change your asset allocation. For example, if you are near retirement age, you may want to move some equity investments to fixed income investments to provide more safety.

STICK WITH THE SAVINGS PLAN TO GET A 75% RETURN

Especially in times like these, who wants to pass up a 75% return on investments? That's what you get with the Company Match in the Savings Plan. When you contribute to the Plan, Johnson & Johnson makes an additional contribution to your account — the Company Match, which equals 75% of the first 6% of base pay that you contribute.

So, take full advantage of the Company Match, use the strategies discussed, don't try timing the market, and keep a long-term view. At retirement, you'll reap the rewards of good-sense saving and investing. ■

While keeping a long-term view is important, there are times you may need to change your asset allocation. For example, if you are near retirement age, you may want to move some equity investments to fixed income investments to provide greater safety.

¹ Source: AIM Investments.

² In these numbers, equities are represented by the S&P 500, fixed income investments by 20-year U.S. government bonds, and cash equivalents by 30-day U.S. Treasury bills. These are average, annual, pretax returns. Source: Ibbotson Associates.



Project Your Retirement Income *Online*

See your Pension Plan and Savings Plan benefits *combined!*

at *Your Benefits Resources™*

<http://resources.hewitt.com/jnjbsc>
beginning August 1, 2003

A new online estimator will project your combined Pension Plan and Savings Plan benefits. It will even add in your estimated Social Security benefit at age 62 to give you a glimpse of your future income from *all three sources together*. You'll be able to create different scenarios by changing the assumptions, such as retirement age, rate of salary growth, investment return in the Savings Plan, and other retirement income you may have outside of Johnson & Johnson.

This article will give you a little preview of what's coming and reasons why this new feature can be useful to you. A detailed explanation of *how to use* the new projection tool will be mailed to you in a separate brochure. On August 1, 2003, you can go to *Your Benefits Resources* and see for yourself how easy it is to "design" your financial future.

A Little Preview

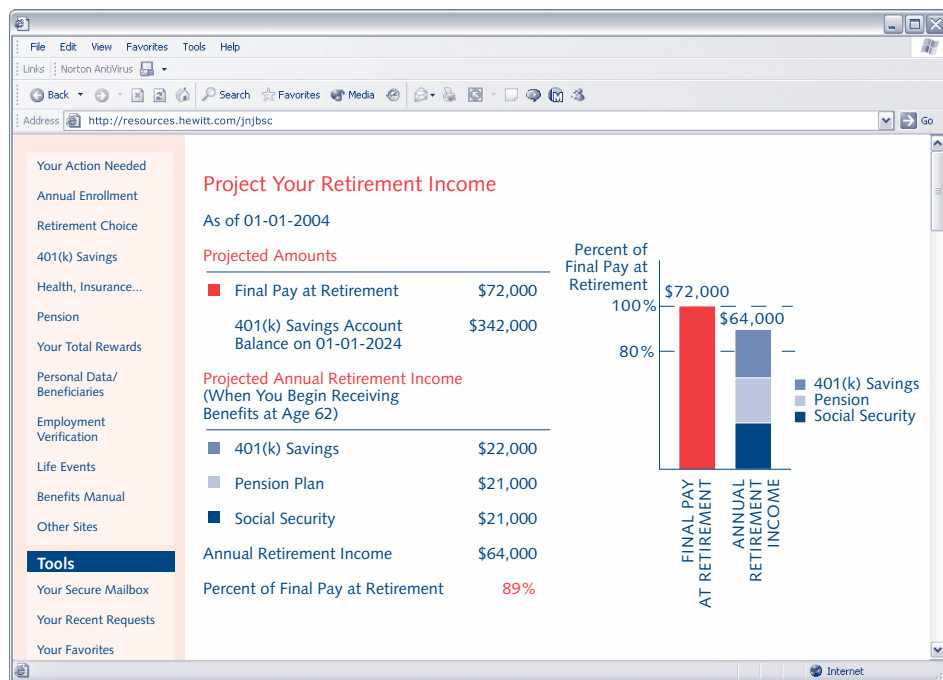
The new projection tool will show your estimated retirement income at age 62 based on the data in your personalized benefits record, such as your age, salary, last bonus, the prior year's sales commissions (if applicable), and your Savings Plan contribution rate and account balance. The opening estimate assumes a rate of return of 7% for your Savings Plan investments between today and age 62, and assumes that your current pay rate will increase 3% each year until retirement. You will see a graph (see Screen A) comparing your projected final pay to your projected total retirement income, which is the sum of your annual Pension Plan benefit, your Savings Plan balance (converted to an annual annuity for purposes of comparison) and your estimated annual age 62 Social Security. But that is just to get you started! Now it's your turn — you can enter the assumptions *you want*.

THE FUN PART – Designing Your Future

You can create different retirement scenarios by changing the assumptions for salary growth, retirement age, etc. For example, maybe you hope to retire before age 62. Or maybe you're dreaming of a big promotion next year and expect your salary to grow by more than 3% per year. Play around! Enter the assumptions you want, based on your own plans for the future, or just to see "what if..." You can do as many estimates as you like, at no charge to you. The assumptions you can change are shown on Screen B.

How Much is 'Enough'?

You're probably saying to yourself, "OK, so I see my future retirement income. How will I know if it'll be enough to live on in retirement?" Good question. In fact, financial experts constantly debate this question. And with people expected to live longer in the future, the question only gains in importance as time goes on.



Screen A

Assumptions

Last Day of Employment: Today, Early retirement - Age 55, Normal retirement - Age 65, Other Date or Age

Date You Begin Receiving Benefits: Earliest Available Date to Start Receiving Payments, Normal Retirement Date, Other Date or Age

Annual Pay Increase: %

Current 401(k) Savings Balance:

Annual 401(k) Savings Contribution: %

401(k) Savings Rate of Return: % (0%-10%)

Other Retirement Savings: \$

Beneficiary: Relationship Birth Date (mm-dd-cyyy)

Screen B

The projection tool not only shows your expected retirement income as an amount, but also as a "replacement ratio," which is the percentage of your final pay at retirement (including salary, sales commissions and bonuses) that will be replaced by your annual retirement income (see Screen A).

What should your target replacement ratio be? Don't think that a target goal of 100% is absolutely necessary. The percentage of pre-retirement pay that you will need to live on after you retire is different for everyone. Many financial experts suggest an income replacement ratio of 70% to 80%. However, your target percentage depends on many factors (see "How Much Is Enough To Live On In Retirement?" on page 4).

How Can This Help Me?

This tool will show you how close your projected retirement income is to your target goal, and will give you an idea of how much more you need to save. Or, if you're very lucky, you may realize that you've saved so well that you can think about retiring a little earlier than you

MODEL YOUR RETIREMENT INCOME BY ASKING, "WHAT IF?"

What if I retire at age 57 instead of age 62? What if I increase my bank account balance outside of Johnson & Johnson? Go ahead, play around! You can project your retirement income as many times as you like on the new projection tool, and you can change the assumptions used to project your income.

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HOW MUCH IS ENOUGH TO LIVE ON IN RETIREMENT?

You don't necessarily need 100% of your pay to live comfortably in retirement. Some financial experts say that 70% to 80% of pay is enough. Your "replacement ratio" is the percentage of final pay that will be replaced by your annual retirement income. What should your target percentage be? That depends on:

- **Your lifestyle.** Do you plan to travel, go back to college, work part-time?
- **Where you will live.** Will your 'fixed' expenses change, such as heating, taxes, etc.?
- **Other sources of income** such as IRAs, spouse's pension, sale of your home, other investments.

Project Your Retirement Income Online, continued from page 3 had thought. In any case, you will have useful information at hand to help you do some financial planning, either on your own or with a professional financial planner.

What if the projection indicates you're falling short of your retirement goal? Then consider the following:

- **Increase your Savings Plan contributions.** You can save up to 35% of your pay, either pre-tax, post-tax or any combination of both (up to government limits, such as a maximum of \$12,000 of pre-tax contributions in 2003).
- **Maximize the Company Match.** If you are contributing less than 6% of your base pay to the Savings Plan, you are losing out on the Company Match, which gives you 75 cents on every dollar that you contribute up to 6% of your pay.
- **Over age 50?** You have the opportunity to contribute an additional \$2,000 pre-tax to the Savings Plan in 2003 above the \$12,000 pre-tax limit. This is a separate contribution election that can be made through *Your Benefits Resources*. The Catch-Up Contribution will increase to \$3,000 in 2004, \$4,000 in 2005 and \$5,000 in 2006.

- **Retire Later.** This will give you more time to save toward your retirement.
- **Reconsider your Investment Strategy.** If you have invested very conservatively, you may want to consider investments within the Savings Plan that are somewhat more aggressive. Specifically, the funds that invest primarily in stocks are the more aggressive funds. These funds contain more risk, but offer the potential for greater return, especially in the long-term. See the first article of this newsletter for more information about investing.
- **Consider Other Assets.** Don't forget to consider other assets that may be used toward your retirement, such as any Individual Retirement Accounts or other savings that you may have, or a pension that your spouse may have earned. ■

Check-out the new **Project Your Retirement Income** tool after August 1, 2003.

It's there for you.
It's your money.
It's your future.

Plan Changes for Non-Hardship Withdrawals

When you leave the Company, you may withdraw your balance from the Savings Plan at any time. However, while you are working for the Company, access is more limited — partly to comply with IRS rules, and partly to be consistent with the goal of seeing Savings Plan balances used as an important part of your retirement income. While working for the Company, these are the ways to gain access to your account:

- Loans (for any reason)
- Non-hardship withdrawals (of a portion of your balance, for any reason)
- Hardship withdrawals (with proof of a significant financial hardship)

From a retirement savings perspective, loans are preferable to withdrawals, since a loan must be repaid, and therefore remains as part of the Savings Plan balance that you will ultimately have at retirement. Withdrawals cannot be repaid to the Savings Plan. Therefore, the following will no longer be eligible for non-hardship withdrawal beginning August 1, 2003:

- **Employees' Post-Tax Matched Contributions**
Employees' post-tax contributions to the Savings Plan that are eligible for the Company Matching Contribution, and associated investment earnings,

will not be eligible for a non-hardship withdrawal as of August 1, 2003. Matched post-tax contributions made prior to August 1, 2003 and any associated investment earnings will continue to be eligible for non-hardship withdrawal.

Note that employees' **unmatched** post-tax contributions and associated investment earnings will continue to be eligible for non-hardship withdrawal.

- **Company Matching Contributions**
Company Matching Contributions and any associated investment earnings credited to your Savings Plan account on or after August 1, 2003 will not be eligible for non-hardship withdrawal. Company Matching Contributions and any earnings that were credited to your account and eligible for non-hardship withdrawal (i.e., aged 2 or more years) prior to August 1, 2003 will continue to be eligible for non-hardship withdrawal.

Keep in mind that the contribution types mentioned have been and will continue to be eligible for hardship withdrawals and loans.

To request a loan or withdrawal, or for more information, access *Your Benefits Resources* at <http://resources.hewitt.com/jnjbsc>. ■
