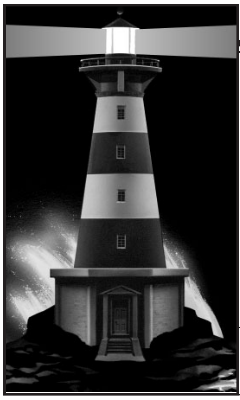


Since 1972 First Quarter 2003

The Fragasso Group, Inc.

The Retirement Planning and Wealth Preservation Specialists

A Registered Investment Advisor

...For the Serious Investor

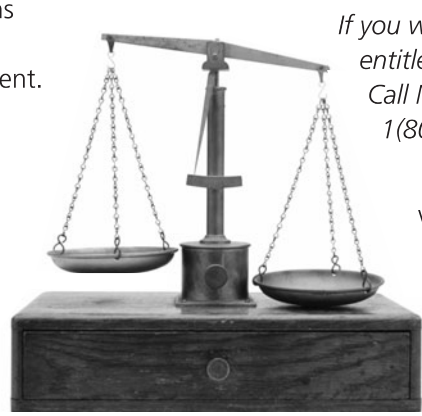
E-mail: fgi@fragassogroup.com • Website: www.fragassogroup.com

Investments: Results May Vary With Management Style Chosen

Our research of reward and risk over this turbulent market period of the last three years indicates that *how* a portfolio is managed determines in large part the results the investor obtains. We usually think that, if we could simply pick the right stocks, we will weather the market storm well. Good selection is important, but not as much so as management style!

Well, here's what we found:

- **Our discretionary accounts are more efficient than non-discretionary accounts.**
  Discretionary means the investment manager makes decisions and implements them immediately when the research indicates those changes should be made. This also includes regular portfolio re-balancing back to the originally agreed upon portfolio model.
  Non-discretionary management means the manager must check with the client before every transaction to gain agreement. When the delay and indecision of non-discretionary management was eliminated, efficiency of management in every respect went up.
- **Balanced portfolios provide better risk protection than unbalanced portfolios.**
  This has been true in all time periods, and over a market cycle (usually three to five years) the difference is quite pronounced. For example, the portfolios that were unbalanced during the late 1990s with telecom and high tech issues showed initially high returns, and then were later significantly impaired because of the unbalanced weightings of those industry sectors. Diversification isn't enough. You can own many securities, but if they are concentrated in too few industries and sectors, the portfolio will suffer in a downturn. An investor must employ all appropriate asset sectors to gain better balance.
- **Professional management is preferable to a do-it-yourself methodology.**
  Most folks just aren't adequately equipped via experience, education, temperament and analytical tools to go it completely alone.



If you want to learn more, ask for our brochure entitled, "Investment Portfolio Management." Call Melissa Seeger at (412) 227-3234 or 1(800) 900-4492 to have it mailed to you.

You can also visit our web site: www.fragassogroup.com to learn more of our comprehensive financial planning for individuals and companies along with more of our style of portfolio management.

We Need Your Email Address To Give You The Information You Need

To be sure that you are receiving our monthly email newsletter, please send us your email address right now. Simply email it to **fgi@fragassogroup.com.**

We will make sure that you receive your e-newsletter full of timely and helpful financial advice.

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South Hills Office: Suite 420 • 2000 Oxford Drive • Bethel Park, PA 15102 • 412-835-3100 • 1(800) 218-3143 • Fax (412) 835-3108
North Hills Office: 10925 Perry Highway • Wexford, PA 15090 • 724-940-4088 • Fax (724) 940-4098

Michael Fertig
Vice President and
Regional Manager – South

What Are Variable Annuities?

A Variable Annuity is a contract created to build long-term wealth (accumulation phase) for future income (pay-out phase). Your accumulated value depends upon how much you invested in the portfolio options, how well the account performs, and how long you choose to wait before starting to receive payments from the contract. Annuities are designed to be long-term investments, typically used to enhance other retirement savings.

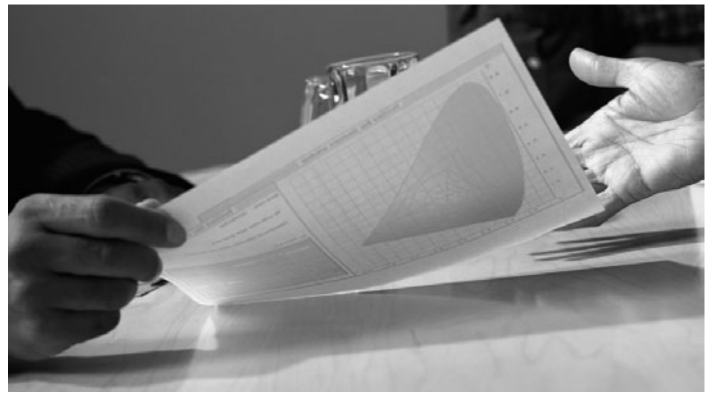
Why Invest in a Variable Annuity?

A variable annuity offers several benefits that distinguish it from other investments and retirement plans.

- **Tax-Deferred Growth:**
All earnings, including dividends, interest and capital gains, grow without current income tax until distribution. This means all your investments earnings can continue to grow tax-deferred. When you do start to take withdrawals, which typically occurs around the time of retirement, you may be in a lower tax bracket. Tax-deferral is a powerful advantage for long-term wealth accumulation. (It is important to note that withdrawals prior to age 59½ are taxable and also subject to a 10% tax penalty).

- **Investment Diversification and Flexibility:**
Most variable annuities give investors access to a wide variety of equity, balanced, and fixed income options – ranging from conservative portfolios, which limit your risk but offer the possibility of modest returns, to aggressive portfolios that may experience significant ups and downs, but offer the potential for higher long-term returns. This range of investment options gives you the flexibility to shift your asset mix to match your changing goals over time.

- **Beneficiary Protection:**
Many variable annuities offer a death benefit feature, should you die during the accumulation phase of the contract, that guarantees your heirs will never receive less than what you invested, less any withdrawals you have made, regardless of market conditions. In addition, some annuity contracts offer guaranteed lifetime income options and guaranteed minimum investment earnings.



- **Tax-Favored Annuity Payout Options:**
Unlike some retirement programs, variable annuities allow you to defer distributions beyond age 70½, putting control of that asset, and when it will be used and taxed, in your control. Once payments begin, the earnings portion of your annuity payment will be taxable, but the premium portion is considered return of principal and is not taxable.

- **Avoidance of Probate:**
At death, your variable annuity investment need not go through probate, an often costly and time consuming process for your family.

- **Professional Investment Management:**
Variable annuities offer the investment and insurance expertise of skilled professionals, with the experience to help you make informed, careful decisions. Your financial consultant at The Fragasso Group can explain the tax advantages, investment options, death benefit and other features available through the variable annuity contract as well as the fees associated with variable annuities. Please feel free to call if you would like learn more about how a variable annuity could fit into your overall retirement planning.

Guaranteeing Living and Death Benefits

Mike Fertig's article on variable annuities mentioned "limited downside risk" as one of the benefits that distinguishes tax-deferred annuities from other investments. Given the volatility in the stock market over the past three years, perhaps more now than ever "capital preservation" has become one of the most important factors in choosing how to invest your money. Because by nature investors are risk averse (i.e. when given the choice, an investor would prefer a low-risk, high-return strategy), the annuity companies created income and death benefits to allow contract owners to realize maximum return potential with minimal risk.

Deborah Sales
Vice President and Regional Manager – Central

Although no two annuities offer the exact same income and death benefit options, listed on this page are some of the more popular features being offered today. If your current tax-deferred annuity does not offer these enhanced benefits, contact your financial consultant to see whether your contract can be modified to better suit your needs. Additional costs may apply for contract enhancements.

Death Benefits:

- Basic = greater of
  1. Account value of date of death
  2. 100% of purchase payments, adjusted for withdrawals
  3. Cash surrender value when proof of death is received by the annuity company
- Enhanced (in many cases one or all enhanced benefits can be included)
  1. Earnings on contract are calculated and a 25% - 40% addition is made to the contract value, depending on the age of the owner on date of issue.
  2. Market gains are locked in on each anniversary of the contract's inception to ensure the highest anniversary value as the death benefit.
  3. 5% annual rate of return guarantee, regardless of account performance, up to 200% of the original purchase payments.

Income Benefits:

- Basic
  1. Fixed payments provided for a predetermined length of time, based on the account value on date payments begin.
  2. Variable payments provided for a period of time, until the investments within the contract are depleted.
- Enhanced
  1. Guaranteed return of principal, regardless of account performance, provided that withdrawals are made over at least a 14 year period.
  2. Income is paid based on the performance of the annuity, or a 5% annual rate of return, whichever is greater after seven years of accumulation.
  3. Income is paid based on the highest value of the contract on any anniversary date, since inception.

So, if you can't afford to miss out on the growth opportunities the stock market can provide and you need income during retirement but are concerned about losing money due to market volatility – or want to ensure you leave sufficient funds to your beneficiaries – you should consider investing in a tax-deferred annuity that offers some of the enhanced benefits highlighted above. These enhanced income and death benefit features can help reduce the overall risk of your investment and provide the peace of mind you may be looking for. Income and death benefit guarantees are based on the claims paying ability of the insurance companies, so you want to make certain that you are investing with a financially sound company.

Contact your financial consultant at the Fragasso Group to determine if this type of investment is appropriate for you.

The Bush Retirement Plan Proposal:

What It May End Up Meaning For Employers

Nicole Cavoti
Financial Consultant and Corporate Employee Financial Education and Retirement Plan Specialist

Why write an article about something that hasn't happened yet, and that may not happen at all? Because, despite the fact that Bush's proposal to eliminate all current retirement plans and replace them with new options hasn't yet passed Congress, questions are arising NOW about its potential impact on employers.

It seems as though we've just amended company retirement plans for the changes brought about when Congress enacted EGTRRA (Economic Growth and Tax Relief Reconciliation Act) in June of 2001. We've just memorized its new provisions including, the increased annual limit on 401(k) and 403(b) deferrals, increased annual compensation limit for contribution/ benefit purposes, increased dollar limit for individual contributions/ benefits purposes, simplified and modified top-heavy rules, allowance of rollovers between different types of plans, and "catch-up" contributions for participants age 50 and older. While the rules have been beneficial to many employers, gaining a thorough understanding of them can be quite daunting.

"The overwhelming complexity of current rules imposes substantial burdens on employers and workers."

– Pam Olsen
Treasury Assistant for Tax Policy

"The overwhelming complexity of current rules imposes substantial burdens on employers and workers," states Pam Olsen, Treasury Assistant Secretary for Tax Policy. "Because employer sponsorship of a retirement plan is voluntary, this complexity discourages many employers from offering any plan at all." So how would the proposed plan help?

On January 31st, the Treasury Department announced that the proposed ERSA (Employer Retirement Savings Account) would consolidate the currently multiple tax-preferred, employer based retirement savings accounts which share similar goals, but different rules regarding eligibility, contribution limits, tax treatment, and withdrawal restrictions. ERSAs would replace 401(k), thrift, 403(b), and governmental 457 plans as well as SARSEPs and SIMPLE IRAs into a streamlined account.

Though ERSAs would follow the existing rules for 401(k) plans, supporters say that the rules would be greatly simplified. For example, the definition of compensation and the minimum coverage requirement will be simplified and the top-heavy rules would be repealed. Nondiscrimination requirements for ERSA contributions would be satisfied by a single test and companies could choose to adopt a new design-based safe harbor to avoid this test altogether. The proposal would simplify qualification requirements while maintaining the intent of providing broad-based coverage of employees. Supporters of the plan also maintain that by reducing the unnecessary complexity, ERSAs would also reduce employer compliance costs. According to Olsen, "I'm confident that simpler rules will encourage employers," and that "creating a qualified plan(s) will be much easier."

So how do ERSAs compare to current retirement plans in terms of deferral amounts? Employees will be able to defer $12,000 (increasing to $15,000 in 2006) plus, once the employee reaches age 50, a catch-up contribution of $2,000 (increasing to $5,000 in 2006). This is the same amount that an employee may defer under a regular 401(k), 403(b), 457, or SARSEP plan, but it is greater than the amount permitted under a SIMPLE 401(k) or SIMPLE IRA.

While many other questions exist about ERSAs, one of the most common seems to be, "Will employers have to terminate their existing plans and transfer the assets to ERSAs?" The answer is no. If Congress passes the proposal, then beginning in 2004, all 401(k) plans will become ERSAs. SIMPLEs, SARSEPs, 403(b) plans and governmental 457 plans may continue in existence indefinitely, but may not accept any future contributions in 2004. And, any employer will be able to sponsor an ERSA.

Therefore, at a time when many employers are currently undergoing evaluations of service, performance and compliance of their company retirement plans, the proposal should not hamper those important efforts.

For more information on this article or to conduct a free analysis of your existing company retirement plan, contact Nicole Cavoti at 412-227-3205 or by email at **nicole_Cavoti@fragassogroup.com.**

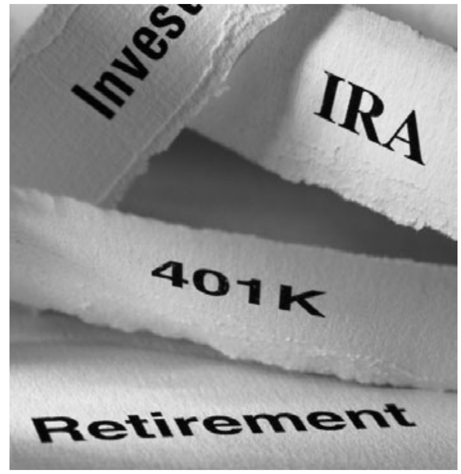
The Fragasso Group Introduces New Financial Planning Course Offerings

Over the past three decades the Fragasso Group has worked to provide educational financial planning workshop to local universities, corporations, and organizations. The classes provide attendees with valuable information about retirement planning, estate planning, debt, education funding, stocks, bonds, asset allocation, inflation, and many other pertinent topics. As part of class, each attendee has the option to create his or her own financial plan.

Recently, we have noticed an increasing demand for information specific to particular sectors of the population. In response, The Fragasso Group has designed new seminars that will address the specific concerns of these sectors as well as give them the general financial planning basics necessary to help alleviate those concerns.

In addition to the meaningful information you will receive, attorneys, CPAs, human resource and insurance professionals are eligible to receive up to 9 continuing education credits.

To Register, please call The University of Pittsburgh at (412) 648-2560.



Financial Planning Courses

Can You Afford To Retire?
A Workshop for Pre-Retirees
(3 Sessions)

A financially secure retirement is within the reach of most, if we effectively use the tools available to us and plan strategically for our full retirement needs. Meant for people considering retirement in the next 5 to 15 years, this class can help students anticipate all their retirement needs. Further, it promotes the proper planning methods to address and meet those needs for the full length of retirement.

Featured sections include overcoming the effects of inflation, protecting investments from taxation, preventing erosion of assets due to long term care expenses, a thorough discussion of insurance and estate planning.

Sewickley Public Library:
June 16, June 23, and June 30
6-9 PM

Bethel Park High School:
July 10, July 17, July 24
6:30-9:30 PM

Retirement Plan Management
(3 Sessions)

This course is designed for retirement plan sponsors, fiduciaries, attorneys, benefits personnel, CPAs, and HR professionals. Course addresses fiduciary and ethical considerations related to retirement plans. Focus on understanding practice standards that apply to the "group" called fiduciaries. Discussion to include legal considerations in retirement plan management and the resulting liability for plan trustees and their professional advisors. Requirements under ERISA will also be discussed. Other feature sections include the basics of financial planning, the importance of education and the benefits of proper investment and retirement plan management.

University of Pittsburgh,
Oakland campus:
May 20, May 27, June 3 6:30- 9:30 PM

University of Pittsburgh,
Oakland campus:
June 14, June 21, June 28
9:30 AM – 12:30 PM

Tax Reduction Techniques:
Income, Investments, and
Retirement Planning
(3 Sessions)

This all-inclusive workshop is designed for anyone who wishes to learn how he or she can reduce their taxable income, make the most of their tax refunds, and learn how proper investment management can ensure their financial future. Tax reduction techniques will be part of an overall discussion of financial planning strategies and financial principles to help one meet his or her goals. Feature sections include the basics of financial planning, estate planning (accumulation, preservation, and transference of wealth), education funding, and insurance.

University of Pittsburgh,
Oakland campus:
June 9, June 16, June 23
6:30 – 9:30 PM

University of Pittsburgh,
Oakland campus:
July 8, July 15, July 22
6:30 – 9:30 PM

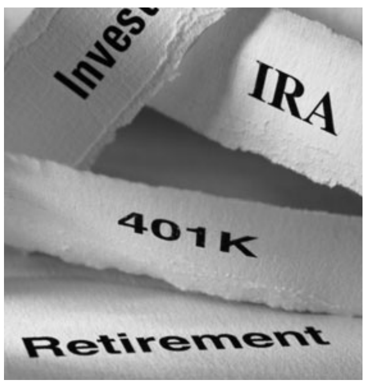
continued on page 6

Financial Planning Courses

continued from page 5

Financial Health During Job Transition
(3 Sessions)

The unthinkable has happened and now you find yourself without a job. What do you do? The obvious answer is to look for new employment., but how do you handle your personal finances in the meantime? This course is designed for those who have recently been downsized or who are in a period of job transition. It will teach participants how to deal with the immediate problems of job transition while keeping their finances on track to their financial goals. Topics that will be discussed include how to transition and manage your retirement plan, avoid/control debt, assess insurance needs, manage cash flow and tailor a financial plan to fit one's needs during a transitional period.



University of Pittsburgh,
Oakland campus:
May 29, June 5, June 12
6:30 – 9:30 PM

University of Pittsburgh,
Oakland campus:
June 30, July 7, July 14
6:30 – 9:30 PM

Corporate Officers, Executives and Insiders: Your Complex Financial Issues
(3 Sessions)

Effective financial planning requires keen application of financial principles and up-to-date knowledge of the financial tools available to meet one's goals. This course is designed for corporate officers, executives and senior managerial level staff to provide them with a clearer understanding of issues specific to holders of stock options as well as provide them with invaluable information to help manage their personal finances. Discussion of all investment opportunities is covered, along with the proper methods for evaluation, selection, and monitoring of those investments. It also covers financial such as proper diversification into an asset allocated portfolio in order to combat inflation, minimize taxation, and strengthen one's portfolio.

University of Pittsburgh,
Oakland campus:
May 24, May 31, June 7
9:30 AM – 12:30 PM

University of Pittsburgh,
Oakland campus:
June 18, June 25, July 2
6:30 – 9:30 PM

Corporations Also Benefit From Information

The need for corporations to educate their workforce has never been greater. Our employee financial education courses teach that it is not what an employee *makes* in salary but what the employee *does* with what he or she makes that will determine the difference between financial success and failure.

In addition to satisfying ERISA 404(c) requirements, companies that provide this free and critical benefit to employees often enjoy ancillary results including increased participation and contribution levels in company retirement plan, enhanced employee understanding of fringe benefits package, greater retention, lessened fear over financial concerns and increased morale.

Some of the local companies and organizations that have recently offered our financial education courses to their employees include:

- Highmark
- Duquesne University
- IKM Architects
- Among Friends

For more information on including this free program as an additional benefit for your employees, contact:

Nicole Cavoti
by phone at:
412-227-3205
or by email at:
nicole_cavoti@fragassogroup.com

Session II of "Are You Protecting Your Most Valuable Asset?"

Kevin Daeschner
Financial Consultant

In last quarter's newsletter I wrote on the importance of protecting your most valuable asset; the ability to earn an income. I just wanted to take a couple of quick moments to address some follow-up points to disability insurance.

As we learned from the last newsletter the ability to earn a living will be the greatest asset one will ever own. I wanted to take this time to examine a couple of different definitions and topics that become very important.

✔ **ELIMINATION PERIOD** – as the name implies it is the period of time that you are eliminated from receiving disability benefits. While a 30-day elimination period is far more expensive than a 270-day elimination period it may not be the best elimination period for you. There is much more to consider than cost, mainly the amount of cash reserves you have on hand to get you by the elimination period. Sure the 270-day elimination period will be quite a bit cheaper than the 30 day but do you have the cash reserves to last you 9 months. Just something to consider.

✔ **COST OF LIVING ADJUSTMENT RIDER*** – often referred to as COLA this is a rider that will allow your disability payments to keep pace with inflation. Most policies have the option of 3% or 6% COLA riders. Prime example of why a COLA rider becomes important. If you were 30 years old and your disability policy will pay you $4100/month and you have a horrible car accident and are permanently disabled then you will receive $4100/month for the rest of your life. In 20 years that same $4100/month through simple inflation will buy you less than $2000/month of goods down the road.

✔ **FUTURE INCREASE OPTION RIDER** – (FIO) This optional rider is designed to protect your future income. We hope that you do not plan on making your current level of income for the rest of your working career. This is a rider that would be added onto your policy, so that when you do experience pay increases, you can come back to us and say that you would like to purchase more disability insurance. With this rider we can do that regardless of health changes. You could be diagnosed with cancer, and as long as you have more income to protect, we will issue you more coverage.

✔ **SOCIAL SECURITY DISABILITY BENEFITS -** Qualifying for Social Security benefits is very difficult because the disability must prevent you from doing any kind of work - not just your usual job. Even if you did qualify, 57% of Social Security disability applications are denied at the first decision level.

If you think you could get by on Social Security benefits, consider this. The maximum payment in 1998 for an eligible 30-year-old earning $68,400 or more is barely $1,568 a month! Could you live on that?

✔ **WORKER'S COMPENSATION -** Worker's Compensation only covers job related sickness or injury. In addition, these benefits are limited.

I hope you found these follow-up terms of some use, the design of the past two articles was not to make everyone Disability experts but rather to spark a concern or further educate. As always for more questions feel free to contact me and I will be more than willing to address individual concerns.

ALWAYS REMEMBER
Everything you have and everything you hope to have depends on your continued ability to go to work each day.

As reference statistics were taken from www.about-disability-insurance.com

*Available at an additional cost

ALWAYS REMEMBER...

Everything you have and everything you hope to have depends on your continued ability to go to work each day.

Nonprofit Organizations Can Benefit From Information

Nonprofit organizations must communicate the organization's mission to board and committee members along with volunteers and donors. The Arthritis Foundation took advantage of The Fragasso Group's expertise in this area on a recent Saturday during its annual meeting. Bob Fragasso spoke to the Foundation's constituency in a humorous and inspirational way of the fulfillment of the Foundation's mission, and the importance that fund development plays in the lives of arthritis suffers.

If your organization can benefit from this type of presentation for your constituency, call Nicole Cavoti at (412) 227-3205 to make arrangements.

Arthritis Board Member Dr. Ted Osial (left) and Bob Fragasso with some new friends.

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