

Heads Up

6th Anniversary Issue!

TWA Pilots' DAP/401(k) Plan Quarterly Review



July 1999

Survey Reveals Common Questions

The survey distributed with the November 1998 issue of *Heads Up* triggered a good response from more than 500 TWA pilots. Overall, survey respondents are satisfied with the DAP/401(k) Plan and the *Heads Up* newsletter. In fact, 94% indicated they are satisfied with the plan, and 87% indicated satisfaction with the newsletter. A respectable 84% responded they are satisfied with the current investment choices offered by the plan.

Many respondents made valuable comments and asked a variety of questions. Following are some of the more common questions and answers. Some of these and other subjects raised by survey respondents will also be addressed in future *Heads Up* articles.

Q: Why doesn't the DAP/401(k) Plan have other fixed income investment options besides the Stable Value Fund?

A: For longer-term investing, the Stable Value Fund offers superior potential performance at a marginal increase in risk over money market instruments.

The Stable Value Fund has earned a respectable 6.56% rate of return for the past three years (through end of June 1999). It has outperformed its benchmark, the Merrill Lynch 1-3 Year Government Agency (short-term bond)

Index, by more than 0.34%. Moreover, it has outperformed money market investments, as benchmarked by the Salomon Smith Barney 3-Month T-Bill Index, by more than 1.47% over the same period.

Investment contracts make up the largest component of the Stable Value Fund (45%). These are contracts sold by insurance companies and banks who usually invest the money in fixed income investments. In exchange, they offer a consistent interest payment to the seller over the length of the contract (usually three years). The Stable Value Fund also contains 40% bonds (short and intermediate term) and 5% money market instruments.

Issuers of investment contracts require investors to limit their holdings in other fixed income instruments including a pure money market fund. Therefore, in order to take advantage of the investment contract's return in excess of money market (averaged over 1.5% in the last three years) return with little additional risk, the DAP/401(k) Plan does not offer fixed income funds beyond the Stable Value Fund. However, a US bond index fund, international bond fund, and a money market fund are available in the Fidelity Funds Window.

Q: Why not offer more mutual funds—more Fidelity, add Vanguard, add specialty funds such as those investing in Internet stocks or

socially responsible securities, or even one investing in gold?

A: Simplicity is the key to any successful, economical retirement savings plan—both as it relates to cost and risk control. Both plan and individual participant needs must be considered. There are more than 8,000 mutual funds available in the United States. To offer all of them would be very confusing and expensive.

Some of the thousands of funds have proved to be much better investment choices over the long term than others. The Investment Committee has endeavored to include the very best in the stand-alone funds and Model Portfolios. They consider manager history, performance, risk potential, style consistency, and cost. They also choose components that would work well together maximizing potential returns and minimizing overall risk in multiple fund portfolios. If selected managers underperform their assigned benchmark over an extended period, they are replaced.

The Fidelity Funds Window offers a collection of 57 mutual funds. Adding more funds and managers to the Window might create short-term opportunities or economies for a few individual investors. However, all participants would share in the added administrative costs that would accompany adding and monitoring more outside mutual funds. Consequently, the committee is not inclined to add more mutual funds to the Window at this time.

Q: Why don't we have Index Funds in the DAP/401(k) Plan?

A: We do! The Equity Index Fund is an option available among the six stand-alone DAP/401(k) investment options. This fund is designed to track the Wilshire 5000 Index, distributing assets in the same proportions so as to match the stocks in that index. The Equity Index Fund is managed by BGI (Barclays Global Investors). This index fund has an investment fee of less than 10 basis points (one-tenth of one percent). The Wilshire 5000 is a broad market index representing large, mid-size and small companies.

Website Offers Wealth of Information

www.twalpa.org/dap/

The recent survey revealed that 78% of respondents are Internet users, but only 26% have visited our site. Next time you're on the web, log on to www.twalpa.org/dap/ and take a tour.

This site offers a broad array of information about the plan and the investment funds. Daily NAV history for the core and model portfolios is updated monthly. Basic descriptions of the investment options as well as charts are provided for your reference. Hot links to web sites of fund companies used in the plan and other financial sites are provided for your information. Past issues of the *Heads Up* newsletter, manager information, links to Fidelity online planning tools and calculators, commonly asked questions, and monthly and quarterly performance updates round out the primary offerings. As with many web sites, ours is constantly changing and new information is added. Check back often for new features. COMING IN MAY 2000 – Personal account access for information and transfers on the web site. **HU**

Continued on page 2

DAP/401(k) Plan News

Y2K Status

The Plan Trustee, Record Keeper, and all investment managers are reporting that they are Y2K compliant. We will be modifying the record keeping computer system along with a TWA Payroll upgrade to become Y2K compliant by November. Millions of dollars have been spent by our service providers to prepare for the year 2000. We do not anticipate any change in the usual plan operation. The record keeping system upgrade will cause some changes in our loan and rollover procedures. See below for more information.

Loan Procedure Change

Starting December 31, 1999, a maximum of three outstanding loans will be allowed at any one time. In order to be able to negotiate a new loan, one of the three outstanding loans must be paid off in full prior to the new loan being processed.

Rollover Change

Rollovers to the DAP will only be allowed for new hire pilots. After December 31, 1999, retired participants will not be able to roll money out of the DAP and later roll back into the DAP.

Retiree Monthly Distributions

Monthly distributions are processed out of your account on the third Friday of each month. The Trustee processes checks and direct deposits on Thursday of the following week.

New Hire Procedures

New hire pilots are encouraged to call Benefits Express to start their 401(k) contribution and direct their DAP Company contribution as soon as they receive their PIN from Benefits Express. The Signature Authorization form and Beneficiary form should also be completed. Failure to contact Benefits Express and direct your contributions will result in monthly DAP contributions going into the Stable Value Fund (default option) which could cost you a great deal in retirement assets.

401(k) Participation

It is never too late! Start now! Call Benefits Express – more than 83% of active pilots are in the 401(k) and building serious retirement dollars. The maximum contribution for 1999 is \$10,000. Call Benefits Express today and contribute the full 11% to take advantage of this important tax-sheltered savings plan.

Beneficiary Forms

Ensure your assets go where you intend them to go. Keep your Beneficiary Form up to date. Call Benefits Express to check that your form is current.

Important for age 70 or older:

Beneficiary information is used for life expectancy calculations that affect your minimum required distribution.

New Manager

Marsico Capital Management has been selected as an additional manager for the Growth Stock Option. Check FIP/53 or our website for additional information.

Fidelity Fund Window Package

There are now 57 mutual funds available in the DAP Window Option. Please call 314-739-7373 if you did not receive the Fidelity information package mailed to all participants last April. Specific Fidelity Fund information can also be obtained from Fidelity at 800-881-4015.

DAP/401(k) Retirement/Investment Seminars for 1999

Seminars provide information on the DAP/401(k), investment planning, retirement planning, and estate planning.

Retirement Seminars-

August 18 in New York
September 15 in St Louis
November 10 in San Francisco

Investment Seminar-

October 6 in St Louis

Call 314-739-7373 for details and to reserve your seat. Spouses are invited.

Plan Expenses

Total Assets (12/31/98)	\$1,548,586,000
Total Operating Expenses	\$1,667,409
Record Keeping (Benefits Express)	
Trustee (Mellon Bank)	
Administration/Personnel	
Communication	
Operating expense as a percent of assets	11 Basis Points
Approximate* Net** Investment Manager Fee	27 Basis Points

1998 Total Plan Fees & Expenses
as a percent of Plan Assets
38 Basis Points

* investment management fee average

** after administrative offsets

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Survey *continued from front*

There are other BGI index funds within the six stand-alone options. Check the Fund Component Weighting section of this newsletter for the exact names. Also, see the February, 1996 *Heads Up* for a descriptive article on the index funds (available on the Web Site www.twalpa.org/dap/ in the *Heads Up* Library).

Additionally, the Spartan US Equity Index Fund (S&P 500 Index), Fidelity Extended Market Fund, (Wilshire 4500 – small to mid-cap US companies, and Spartan International Index (tracks total return of foreign stock markets – EAFE) are available through the Fidelity Funds Window.

Q: Can you explain expenses and fees paid by the DAP/401(k) Plan?

A: The DAP/401(k) expenses and all fees amounted to approximately 38 basis points (less than one-half of one percent) of Plan Assets in 1998. This includes the cost of administration, trust, record keeping, and investment fees. These expenses are deducted from the Net Asset Value (NAV) of each option on a daily basis and therefore are not paid directly by the participants, but are reflected in option performance. Some fees paid directly by participants are loan fees of \$100, excess transfer fees of \$100/transfer (more than 12 per plan/year), and excess telephone charges. These fees are used to reduce overall plan expenses.

Q: Can the transfers between the DAP and the Fidelity Funds Window be speeded up?

A: Actual transfers of assets take place around the 15th of each month (weekends and holidays permitting). Money going TO Fidelity comes out of your DAP account on the 15th and is processed INTO your Fidelity account at the end of the next business day. Money coming back to the DAP from Fidelity comes out of your Fidelity account on the 15th and is processed into your DAP account 2-3 days later (usually by the 18th). The delay is caused by the need to process the individual requests, audit the information and physically transfer the assets between two separate trust companies. It is a complicated procedure but worth the extra administrative detail to have the added flexibility provided by the additional 57 mutual funds.

Q: Why can't 401(k) money be invested through the Fidelity Funds Window?

A: The Fidelity Funds Window is not an option in the 401(k). The tenth option in the 401(k) is the TWA Company Stock Fund. HU

Reviewing the DAP/401(k)'s Investment Options

Following is a brief review of each investment option and a performance comparison with its benchmark over the past six years (annualized numbers, July 1, 1993, through June 30, 1999).

Plan Assets*		
	July 1, 1993	June 30, 1999
401(k)	\$72	\$204
DAP	\$767	\$1,407

* In millions

Stable Value Fund

This option is designed to provide liquidity and safety of principal while providing a higher return over time than that offered by money market funds. It invests in a combination of traditional investment contracts, security-backed investment contracts, actively managed bonds, and cash. The benchmark is the Merrill Lynch 1-3 Year Government Agency Index.

<i>Six year performance comparison</i>	
Benchmark	5.60%
Fund	6.21%

Conservative Equity Income Fund

This option may include a range of value investment managers such as equity income, growth and income, etc. This option avoids using managers whose style is viewed as speculative or who concentrate assets in single industries or sectors. It includes funds with the common attributes of relatively low volatility and reasonable dividend yields. The benchmark is the Russell 1000® Value Index.

<i>Six year performance comparison</i>	
Benchmark	11.68%
Fund	19.05%

Equity Index Fund

This option is invested in a portfolio of diversified common stocks designed to provide a return similar to that of the broad stock market. The benchmark is the Wilshire 5000 Index.

<i>Six year performance comparison</i>	
Benchmark	21.23%
Fund	20.80%

Growth Stock Fund

This option invests in stocks from companies with higher historical or expected growth rates in sales or earnings. The primary objective is capital appreciation. This is achieved by investing in securities of established, well known companies and smaller, lesser known companies. The benchmark is the Russell 1000® Growth Index.

<i>Six year performance comparison</i>	
Benchmark	24.10%
Fund	20.60%

International Stock Fund

This option contains funds whose managers invest in securities across world markets. It may contain broadly diversified portfolios and/or portfolios of managers who have shown successful results in making more concentrated country/currency/company investments. The primary objective is longer-term growth of capital through a diversified portfolio of world market securities. The benchmark is the Morgan Stanley Capital International Europe Australia Far East (MSCI EAFE) Index.

<i>Six year performance comparison</i>	
Benchmark	9.94%
Fund	13.40%

Aggressive Growth Stock Fund

This option contains portfolios that typically include growth and value stocks of small to medium companies. The primary objective is capital appreciation through investment in equity securities with significantly better-than-average growth prospects. This fund carries more risk, but with the potential for higher returns, than the other DAP/401(k) funds. The benchmark is the Russell 2000® Index.

<i>Six year performance comparison</i>	
Benchmark	13.49%
Fund	12.85%

TWA Stock Fund

This fund is designed to give 401(k) participants the opportunity to invest their retirement savings in TWA stock. The fund holds both TWA common stock and cash for liquidity. Because it is not diversified, investing instead in a single company stock, this fund carries the highest potential risk of all funds in the 401(k) plan.

Conservative Portfolio

Designed for investors who wish to limit volatility and risk of principal, this option invests in a 40% equity/60% stable value combination. The fund's objective is income and capital preservation. The benchmark is a composite of the underlying funds' indexes.

<i>Six year performance comparison</i>	
Benchmark	11.68%
Fund	11.60%

Moderate Portfolio

Designed to provide a balanced long-term asset allocation suitable for a majority of participants, this option invests in a 65% equity/35% stable value mix. Its objective is capital growth and income. Generally, more money is invested in this option than any other in the plan. The benchmark is a composite of the underlying funds' indexes.

<i>Six year performance comparison</i>	
Benchmark	14.27%
Fund	14.10%

Aggressive Portfolio

Designed for participants with long time horizons and those willing to accept more risk and higher volatility in their investments. This option invests in an 80% equity/20% stable value mix. The fund's objective is capital accumulation. The benchmark is a composite of the underlying funds' indexes.

<i>Six year performance comparison</i>	
Benchmark	15.33%
Fund	15.03%

Fidelity Funds Window

This option allows DAP participants to invest in 57 mutual funds offered by Fidelity Institutional Retirement Services Company. Participants may allocate between 1% and 100% of their money from the basic DAP options into a wide variety of mutual funds. There are approximately 583 DAP participants with \$150 million currently in the Fidelity Funds Window option. **HU**

Note: Fund performance is reported net of all plan expenses. Benchmarks do not have management or administrative fees.

Performance



Fund Performance – Quarter Ended June 30, 1999

Fund	YTD 1998	1 year	3 years	6 years
Benchmark				
Stable Value Fund	2.39%	5.93%	6.56%	6.21%
Merrill Lynch 1-3 yr. Gov't/Agency	1.58%	5.23%	6.22%	5.60%
Conservative Equity Income Fund	13.61	18.00	23.84	19.05
Russell 1000 Value Index	12.87	16.37	25.92	20.40
Equity Index Fund	11.69	19.47	25.61	20.80
Wilshire 5000 Index	11.87	19.59	25.84	21.23
Growth Stock Fund	12.53	24.11	26.33	20.60
Russell 1000 Growth Index	10.45	27.27	29.98	24.10
International Stock Fund	10.12	6.63	13.91	13.40
MSCI EAFE Index	4.11	7.92	9.12	9.94
Aggressive Growth Stock Fund	11.12	3.73	8.45	12.85
Russell 2000 Index	9.29	1.50	8.74	13.49
Conservative Portfolio	6.50	11.02	13.72	11.60
Conservative Composite Index	5.88	10.84	14.10	11.68
Moderate Portfolio	8.65	13.04	16.17	14.10
Moderate Composite Index	7.25	12.82	16.61	14.27
Aggressive Portfolio	10.09	12.58	16.71	15.03
Aggressive Composite Index	8.18	12.48	17.27	15.33

FUND COMPONENT WEIGHTING

These tables represent component weighting for individual investment funds as of June 30, 1999.

Fund	Weighting
Stable Value Fund	
Cash/BGI Money Market	5%
PRIMCO GIC	45%
Wellington Bonds	Liq 10%/Core 40%
Conservative Equity Fund	
BGI 100/0 U.S. TAA	40%
Federated Stock Trust	20%
Morgan Core	20%
Neuberger/Berman Focus	20%
Equity Index Fund	
BGI US Equity Index	100%
Growth Stock Fund	
Fidelity Contrafund	16%
Janus Fund	16%
Marsico Focus	16%
MFS Research	16%
Vanguard US Growth	16%
BGI Growth Index	20%
International Stock Fund	
Am Century Intl. International Growth	25%
Am Century Intl. International Discovery	20%
Janus Overseas	25%
Templeton Intl. Foreign	30%
Aggressive Growth Stock Fund	
BGI Aggressive Market Index	20%
DFA 9-10 US Small Co.	20%
Franklin Small Cap Growth	20%
Heartland Value	20%
MFS Intl Emerging Equities	20%

DAP/401(k) Model Portfolio Mix Performance

This chart shows long-term (20 years) *simulations* of the range of returns for the Model Portfolio mixes. The highest and lowest annual returns are shown along with the average for the period. Six-year actual returns for the Portfolios are also shown, including the highest and lowest annual returns as well as the average for the period.

Range of Returns

Historical Simulations 1979 – 1998 and Six Year Actual Returns, July 1, 1993 – June 30, 1999



Performance shown for the Model Portfolios (1979 – 1998) is simulated based on returns of the benchmark indexes of each of the underlying TWA Pilots' DAP/401(k) funds used to create the Model Portfolios. Simulated returns compiled by Frank Russell Company. Simulated results shown do not reflect the deduction of transaction, management, and administrative costs. The simulations assume annual rebalancing to the target allocations. Past performance is for illustrative purposes only and is not a guarantee of future performance. This information is provided for reference only. For more information on the Model Portfolios, call the TWA Pilots' DAP/401(k) at 314-739-7373. Average numbers are compound annualized numbers.

Net Value of Funds (Millions)	401(k)	DAP
(June 30, 1999)		
Stable Value Fund	\$34.3	\$231.6
Conservative Equity Fund	42.4	110.7
Equity Index Fund	23.6	105.8
Growth Stock Fund	27.3	108.2
International Stock Fund	14.7	68.6
Aggressive Growth Stock Fund	19.9	34.1
Conservative Portfolio	4.2	57.2
Moderate Portfolio	20.2	515.8
Aggressive Portfolio	6.8	24.8
Fidelity Funds Window	—	149.7
TWA Company Stock	10.2	—
Total	\$203.6	\$1,406.5

Reminder

Plan information also available via CAMS FIP/52(Historic Performance) /53(Plan News)/54(Daily NAV)

The intent of this communication is to provide useful information, not investment advice. Each participant in the TWA Pilots' DAP/401(k) Plan is ultimately responsible to make his or her own investment decisions.

More Information and Interacting with the Plan:

To get account balance information, or to make transfers, call 1-800-828-8100 between 8 am and 5 pm, CST Monday through Friday. 1-847-883-0471 (not toll-free) from rotary telephone or outside the U.S. Use company I.D. 6662 followed by the # sign. Daily NAV, call 1-800-TWA-2017 (toll-free). Fidelity Funds 1-800-881-4015.

Other Information:

TWA Pilots' DAP 401(k)
Investment Committee
3221 McKelvey Road, Suite 105
Bridgeton, MO 63044-2551
314-739-7373

