

Heads Up



THE VALUE OF ONE PERCENT

In the recent survey, many DAP/401(k) participants asked for a "risk-free" investment option. Seems logical. At first glance, it looks like a good way to shelter a large sum from the roller-coaster quirks of changing markets and uncertain times. Some participants want to park their account balances, hoping to time the market and quickly increase their holdings when the market recovers from a downturn. Unfortunately, most investors end up mis-timing the market, which usually costs them more than if they had kept to their original investment strategies. Others merely seek protection for their hard-won lump sums during retirement.

However, if you invest too conservatively, you avoid potentially higher market risk in exchange for lower performance. Worse, inflation may tax your money's buying power if you're preserving the principal in a "risk-free"

investment while withdrawing income over a number of years. Retirement can last a long time, 20 years or more on average for those around sixty years old today. Over a lengthy retirement, even today's inflation of around 3% will cut significantly into so-called "risk-free" investments—such as a money market fund.

Table 1

\$100,000 invested in:	Rate of Return*	10 years	20 years
Stable Value	5.9%	\$177,000	\$314,000
Money Market	4.7%	\$158,000	\$251,000
Difference	1.2%	\$ 19,000	\$ 63,000

*Annualized rates of return from July 1, 1993, to June 30, 1996.

Enter the Stable Value Fund

The Stable Value Fund offers more return for a marginal increase in risk than a money market investment. It doesn't contain any stock investments. Instead, it diversifies among traditional investment contracts, security-backed investment contracts, actively managed short-to-intermediate term bonds, and cash. And, its wrap feature protects participants from the day-to-day volatility of the bond markets. Simply put, it's designed to serve the same purpose as a money market

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DAP/401(k) News

DAP Pre-Retirement Planning Workshop

The first session will be held in St. Louis on Wednesday, March 19, 1997. This will be a 4-5 hour seminar covering many retirement subjects. Participation is limited to 35 pilots with spouses. Demand and feedback will determine the number of future sessions. Mark your calendar and watch for more information.

Maximize Your 401(k) Contributions in 1997

The company's DAP contribution will be 14.3% in 1997 for all pilots with more than one year of service. Due to IRS 415 limits on contributions to qualified plans, these pilots may only contribute 8.5% to the 401(k) in 1997. An 8% or 9% contribution election to the 401(k) will be automatically treated as 8.5% by TWA payroll. Pilots with less than one year of service may, and are encouraged to contribute the maximum 11%.

Starting January 1997, New Procedures for Retirees' Checks

- Checks will be dated on the last business day of the month
- Mellon Trust will mail the checks on the third business day prior to the end of the month
- Electronic deposits will occur on the last business day of the month

Survey Says...

Thanks to many of you who responded to the mail-in survey included in the last issue of "Heads Up." Your input was very valuable, particularly your written comments. We were pleased that, in general, survey respondents are satisfied with the newsletter and DAP/401(k) Plan. We'll attempt to address your questions and concerns in future issues of the newsletter.

If you didn't participate in the survey, but would like to add your thoughts, please feel free to drop us a note at the address on page two.

Table 2: Higher Returns Can Give You More Annual Income

	Investment strategy-day one	Investment strategy through retirement	Estimated annual income shown in today's dollars
Money Market Scenario 4.7% minus inflation = 2%	\$300,000 lump sum, invested to last 20 years	Spend to zero in 20 years	\$17,987 per year
Stable Value Scenario 5.9% minus inflation = 3.2%	\$300,000 lump sum invested to last 20 years	Spend to zero in 20 years	\$19,900 per year
Conservative Model Scenario 9.5% minus inflation = 6.8%	\$300,000 lump sum invested to last 20 years	Spend to zero in 20 years	\$26,100 per year
Moderate Model Scenario 12.1% minus inflation = 9.4%	\$300,000 lump sum invested to last 20 years	Spend to zero in 20 years	\$30,900 per year

Rates of return used in this story are for the past three years since the formation of the DAP/401(k) Plan. A longer historical view would depress all the numbers slightly but roughly in the same proportions. Although past returns do not predict future results, remember that time and diversification have proved to work efficiently together to offset investment risk. Inflation = 2.7%, average inflation for the past three years.

Performance



See printed newsletter for performance

How To Read Performance: The graphic display above shows fund performance as arrows and market performance, represented by the benchmarks, as bars. Fund and market performance YTD runs through November 30, 1996. Fund performance is reported net of all expenses. One year performance runs from December 1, 1995 through November 30, 1996. Three year annualized performance runs from December 1, 1993 through November 30, 1996.

FUND COMPONENT WEIGHTING

These tables represent component weighting for individual investment funds as of Nov. 30, 1996. Weighting percentage does not include index fund target of \$20 million.

Stable Value Fund	Weighting
Wellington Bonds	Liq 10%/Core 40%
PRIMCO GIC	45%
Cash/BGI Money Market	5%

Conservative Equity Fund

Federated Stock Trust	20%
Morgan Core	20%
Neuberger/Berman Guardian	20%
USAA Income Stock	20%
BGI Global TAA	20%

Equity Index Fund

BGI Global US Equity	100%
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Growth Stock Fund

Fidelity Contrafund	20%
Fidelity OTC	20%
Janus Fund	20%
MFS Research	20%
Vanguard US Growth	20%
BGI Growth Index	

International Stock Fund

EuroPacific Growth	38%
Templeton Foreign	38%
20th Century Intl Equity	10%
Morgan Stanley Instl Asian	7%
Morgan Stanley Instl Emerg Mkts	7%
BGI EAFE Index	

Aggressive Growth Stock Fund

AIM Constellation	20%
DFA 9-10 US Small Co.	20%
Heartland Value	20%
PIMCO Adv. Oppty "A"	20%
20th Century Vista	20%
BGI Extended Market Index	

Net Value of Funds (Millions)	401(k)	DAP
(November 30, 1996)		
Stable Value Fund	\$25.8	\$133.9
Conservative Equity Fund	30.0	65.3
Equity Index Fund	8.8	50.6
Growth Stock Fund	11.0	56.9
International Stock Fund	15.0	49.4
Aggressive Growth Stock Fund	29.1	66.5
Conservative Portfolio	1.5	21.6
Moderate Portfolio	14.0	487.3
Aggressive Portfolio	5.4	25.1
Fidelity Funds Window	—	105.7
TWA Company Stock	3.0	—
Total	143.6	1062.3

The Value of One Percent cont. from front

investment, but with enhanced performance.

For the past three years the Stable Value Fund has returned almost 6%. Money markets, as measured by the T-Bill Index, have averaged 4.7%, while inflation has averaged around 2.7%. The difference in rates of return isn't significant over a year or two. But over a few decades, the difference is significant. (see Table 1)

One Percent Makes a Difference

The true value of your savings is what is available to you in retirement. Over time, one percent of return will make a big difference in your potential income.

Note the significant annual income differences as shown in Table 2. Consider a \$300,000 account balance, invested at retirement and spent to zero over 20 years. Let's back out inflation to express the figures in today's dollars. Also, let's include the Conservative and Moderate Model Portfolios to show what equity exposure can add to a long-term portfolio.

Interpreting the Scenarios

You may decide "risk free" investments will not help you meet your annual retirement income needs. Yet, choosing a stock-based investment may seem too risky for your nest egg. What to do? You can always "custom-build" a solution that better meets your needs. For example,

you might build a portfolio that increases return by adding some equity-type funds to the Stable Value Fund. You'll increase your risk a little, but the trade-off is the potential for higher annual income.

Your Low Risk Options

Retirement is for decades and so is inflation. If you still need a "risk-free" investment after considering the above factors, you may choose the DAP Stable Value Fund or the Money Market investment option available through the Fidelity window. You may also want to consider the Conservative Model Portfolio, which consists of the Stable Value Fund (60%), Conservative Equity Income Fund (20%) and the Equity Index Fund (20%). This portfolio provides the low risk features of a fixed income fund combined with the growth features of large size, diversified stocks. Whatever your choice, remember to consider the difference 1% can make. **HU**

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:

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