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Your Hartford Financial Services Group

Financial News

What Is Social Security?

As national debate heats up over the future of Social Security, uncertainty can make retirement planning difficult. But knowledge is power; feeling informed may help ease some anxiety.

A social insurance policy

During the Great Depression, the unemployment rate grew as high as 25%, and more than half of elderly Americans were relying on private charities, public poorhouses, or their families for survival.¹ **Franklin Delano Roosevelt** initiated his "New Deal" policies following the stock market crash of 1929 and ensuing economic collapse.

As part of the New Deal, FDR designed a social insurance policy, where workers and employers pay a dedicated tax in exchange for a long-term insured benefit. And Social Security was born.

What do you pay?

Currently, most of the money needed to pay Social Security benefits comes from a payroll tax: Employees and

employers split the burden, each paying 6.2% of the employee's salary. Those who are self-employed pay the full 12.4%. The payroll tax, however, only has to be paid up to the annual earnings ceiling, which is \$90,000 in 2005. Other funding comes from limited taxes on Social Security benefits.

The Social Security taxes that you are paying today are doing double duty. They are paying current benefits for retirees and they are building a surplus for future retirees.

How do benefits work?

Even though your Social Security taxes are not set aside in a separate account, your Social Security benefit is calculated based on your earnings that have been taxed.

Your monthly benefit is based on your earnings averaged over most of your lifetime. Social Security benefits are also indexed to increase along with inflation.

Each year, you receive a Social Security statement in the mail that estimates your future benefits. If you would like to calculate your estimated future benefits or would like more information, you can contact the Social Security Administration at www.ssa.gov or 1-800-772-1213.

¹ FDR and the Origins of Social Security by Bill Hunot; Social Security Administration; April 25, 2002: www.francesperkins.org/fdr.html

The Health Of Social Security

The Baby Boomer generation will impact Social Security. Fortunately, lawmakers foresaw the impact several decades ago and instituted the Social Security Amendment of 1983 to help bolster Social Security for future generations.

Since 1983, Social Security has been building up a trust fund to help pay benefits for the Baby Boomers' retirement when the current payroll tax will not be sufficient to cover benefits. Today's workers and employers have been paying to build up those reserves.

So where are we today? By about 2018, projected benefits will begin to exceed payroll tax revenues and Social Security will need to draw upon its reserves. How long the surplus will

last is uncertain; the Congressional Budget Office estimates the reserves will run out in 2052, the Social Security trustees estimate 2042.

What happens when the reserves run out? At that time, according to the Congressional Budget Office, the system will still be in good health. Even without making any changes (such as raising taxes or altering the benefit structure), a pay as you go Social Security would be able to cover about 81% of its obligations until 2100, and 71% after that.

Sources: The Outlook for Social Security, June 2004; Projections of Social Security Finances: Congressional Budget Office; www.cbo.gov 2004 OASDI (Old Age and Survivors' Insurance and Disability Insurance) Annual Trustees Report; Projections of Future Financial Status: Social Security Administration; www.ssa.gov

Social Security facts:

- Social Security pays benefits to about 47 million Americans.*
- Total benefits paid in 2003 were \$471 billion.*
- The average monthly benefit for a retired worker in 2005 is \$955.**

*2004 OASDI Trustees Report; Social Security Administration
**Social Security Administration

"We put those payroll contributions there so as to give the contributors a legal, moral, and political right to collect their pensions and unemployment benefits."
~Franklin D. Roosevelt

"The Social Security program... represents our commitment as a society to the belief that workers should not live in dread that a disability, death, or old age could leave them or their families destitute."

~Jimmy Carter

Social Security Benefits For Spouses

Want to learn more about your benefit options, receive a benefits estimate, or download or order a publication? Visit the Social Security Administration at www.ssa.gov or call at 800-772-1213.

Did you know that it's possible to qualify for Social Security benefits under your own work record and that of your spouse? Or, you may qualify for benefits under an ex-spouse's or a deceased spouse's work record. And, although you can collect just one Social Security benefit, you are

generally entitled to the benefit with the higher dollar amount.

If you have taken time off work to care for children or earned less than your spouse, it may be to your advantage to collect a reduced spouse's benefit rather than a benefit based on your own work record. Or you can do both – at different times. For example, if your spouse is working when you're ready to retire, you could retire and collect benefits based on your own work record. Then, when your spouse retires, you could switch to reduced spouse's benefits. ●

Social Security: How Much Do You Know?

By understanding Social Security, you are better-equipped to plan for your financial future.

Are you relying on Social Security to provide you with a secure retirement? If so, or if you want to get a better idea of what role Social Security may play in your retirement, take this quiz to find out.

(Answers are at the top of the next page.)

1. Taking into consideration every person receiving Social Security benefits today, on average what percentage of income does Social Security currently replace?
 - a. 100%
 - b. 70%
 - c. 40%

2. In 2002, the average monthly Social Security benefit was:
 - a. \$874
 - b. \$1,257
 - c. \$1,583
3. If you were born after 1959, at what age can you be scheduled to receive full Social Security benefits?
 - a. 63
 - b. 65
 - c. 67
4. Are Social Security benefits taxed?
 - a. Yes, all benefits received are subject to taxation.
 - b. Maybe, taxation depends on your income.
 - c. No, Social Security is exempt from taxation.