T. Rowe Price
Retirement 2040 Fund
As of December 31, 2006

Basic Fund Information

Approach: The Retirement Funds seek the highest total return over time consistent with an emphasis on both capital growth and income. Each fund invests in a diversified portfolio of T. Rowe Price stock and bond funds, with an increasing allocation to bonds and short-term investments over time. Each fund's allocation between stock and bond funds will change over time (except for the Retirement Income Fund, which has a static allocation). The funds' investment in many underlying funds means that they will be exposed to the risks of different areas of the market. Investors should note that the higher the fund's allocation to stocks, the greater the risk.

Suitability: This fund may be appropriate for individuals who are planning to retire around 2040 and prefer a diversified approach to retirement investing.

Management: Jerome A. Clark, CFA, Portfolio Manager; joined the firm in 1992; B.S. (mathematics), U.S. Naval Academy; M.S. (operations research), Naval Postgraduate School; M.B.A. (finance), The Johns Hopkins University.

Newspaper Listing:

Portfolio Characteristics:

Number of Underlying Funds: 12 *Fund Inception:* September 30, 2002

Assets Under Management: $1,176.3 Million

Expense Ratio: 0.76%** *(As of Fiscal Year End: May 31, 2006)*

Total Return Performance

For Periods Ended December 31, 2006

				Annualized Returns		
	3 months	year-to-date	1 year	3 years	5 years	Since Inception
Retirement 2040 Fund						
%	7.42	16.24	16.24	12.78	--	17.98
Broad Weighted Index*						
%	7.11	16.24	16.24	12.05	--	--
Lipper Flexible Portfolio Funds Index						
%	5.99	12.77	12.77	9.51	6.62	--

* Weighted Index consists of 51.0% Dow Jones Wilshire 5000 Composite Index, 30.0% Lehman Brothers U.S. Aggregate Index, 10.0% Citigroup Three-Month Treasury Bill Index, 9.0% MSCI EAFE Index.

** The expense ratio for the fund is zero. It will indirectly bear its pro rata share of the expenses of the underlying funds.

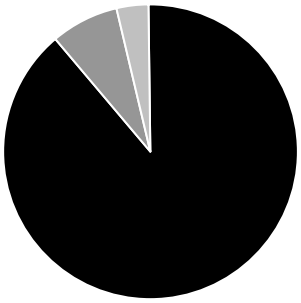
Share price, principal value, and return will vary and you may have a gain or loss when you sell your shares. Past performance cannot guarantee future results. Current performance data may be lower or higher than the performance data quoted. For the most recent month end performance information, please visit our web site at troweprice.com or call 1-800-225-5132.

Request a prospectus, which includes investment objectives, risks, fees, expenses, and other information that you should read and consider carefully before investing, by calling 1-800-225-5132 or visiting troweprice.com.

T. Rowe Price Investment Services, Inc., Distributor.

Fund Diversification Profile

Principal Investment Concentrations*



Significant Holdings*

Growth Stock Fund	27.3
Value Fund	22.5
Equity Index 500 Fund	12.0
International Stock Fund	7.4
International Growth & Income Fund	6.6
Mid-Cap Growth Fund	5.4
Mid-Cap Value Fund	4.2
New Income Fund	4.0
High Yield Fund	3.8
Small-Cap Stock Fund	2.5

% of total assets

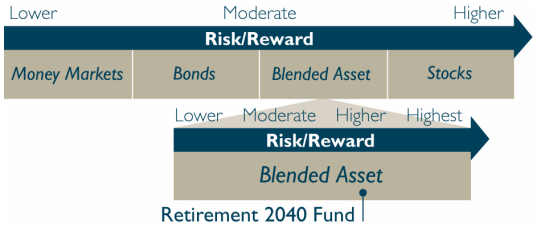
T. Rowe Price
Retirement 2040 Fund (TRRDX)

A Discussion About the Fund's Investment Strategy and Performance

INVESTMENT STRATEGY

The fund's investment strategy

The fund seeks the highest total return over time consistent with an emphasis on both capital growth and income. It invests in a combination of T. Rowe Price stock and fixed-income funds, with an increasing allocation to bonds (and short term investments) over time. The fund may include investment in domestic and international stocks, growth and value oriented stock, small and large cap stocks, and high quality and high yield bonds.



The fund's benefits and risks

Since the fund invests in many underlying funds, it will have partial exposure to the risks of many different areas of the market. In general, the stock portion of the portfolio is subject to market risk, or falling share prices; the bond portion will be affected by interest rate and credit risk. Investors should note that the higher the fund's allocation to stocks, the greater the risk.

How the fund seeks to reduce risk

By investing in both stock and fixed-income fund and combining different investment approaches, each Retirement Fund is designed to perform in various financial climates. As each fund invests simultaneously in various markets and sectors that may react differently under diverse financial conditions, they seek to provide attractive returns while reducing overall volatility. Diversification cannot protect against loss in a declining market or assure a profit.

There are many considerations when planning for retirement. Your retirement needs, expenses, sources of income, and available assets are some important factors for you to consider in addition to the Retirement Funds. Before investing in one of these funds, also be sure to weigh your objectives, time horizon, and risk tolerance.

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