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FINANCIAL*ink*

Your Money Management Newsletter

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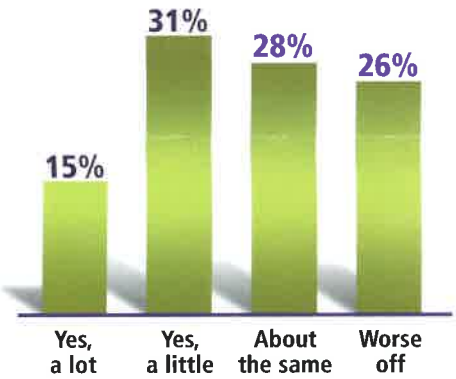
*Snap***SHOTS**

BETTER OFF THIS YEAR?

In a poll conducted in late 2009, only 46% of respondents thought they would be better off in 2010.

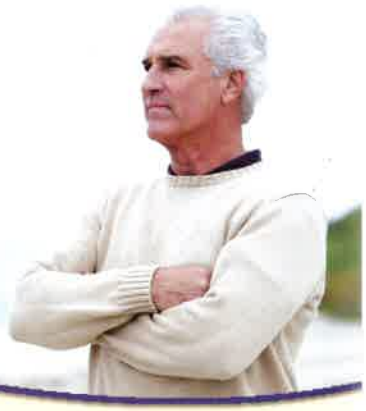


Source: *Money*, December 2009

Up **FRONT**

78% of investors believe their standard of living will be the same or better in retirement.

Source: *Journal of Financial Planning,* November 2009



Quick **HITS**

Most investors (74%) think that guarantees are "extremely" or "very" important when choosing an investment.[1]

Almost half (49%) of taxpayers who received economic stimulus payments from the IRS in 2008 used their rebates to pay off debt.[2]

The top 10% of U.S. taxpayers paid 71% of all federal income taxes in 2007, according to the most recent data available.[3]

About one million pets in the United States are currently insured: 90% are dogs and 10% are cats and a small number of other animals.[4]

Sixty-three companies issued initial public offerings of stock and began trading shares in 2009.[5]

Sources:
1) *InvestmentNews,* June 22, 2009
2) *Journal of Financial Planning,* December 2009
3) Tax Foundation, 2009
4) *The Wall Street Journal,* December 9, 2009
5) Hoovers.com, 2010

Practical insights for your **FINANCIAL GOALS**

Protection for a **PRICE**

The biggest financial worry among investors this year is that their investments will "get clobbered," according to a late 2009 poll.[1] So it's not surprising that 74% of investors said a guarantee was "extremely" or "very" important when choosing an investment.[2]

A guaranteed investment? Actually, it's no joke. Variable annuities, which are insurance contracts that offer an opportunity to pursue investment gains, give contract holders the ability to purchase guarantees to help protect against downside risks. Although the guarantees come at a price, consider the potential value of these benefits.

Guaranteed minimum accumulation. Regardless of the performance of the underlying investments, the contract value will maintain a minimum level after a specified term. This level is usually equal to the amount of premiums paid.

Guaranteed minimum income. When the annuity owner begins taking retirement income, the payment will be based on the greater of either the actual contract value or a minimum payment amount.

Guaranteed minimum withdrawals. A fixed percentage (usually between 5% and 7%) of the annuity premiums can be withdrawn annually for a specified period (including the owner's lifetime), regardless of market performance.

There are contract limitations, fees, and charges associated with variable annuities, which can include mortality and expense risk charges, sales and surrender charges, administrative fees, and charges for optional benefits. Withdrawals reduce annuity contract benefits and values. Variable annuities are not guaranteed by the FDIC or any other government agency; they are not deposits of, nor are they guaranteed or endorsed by, any bank or savings association.

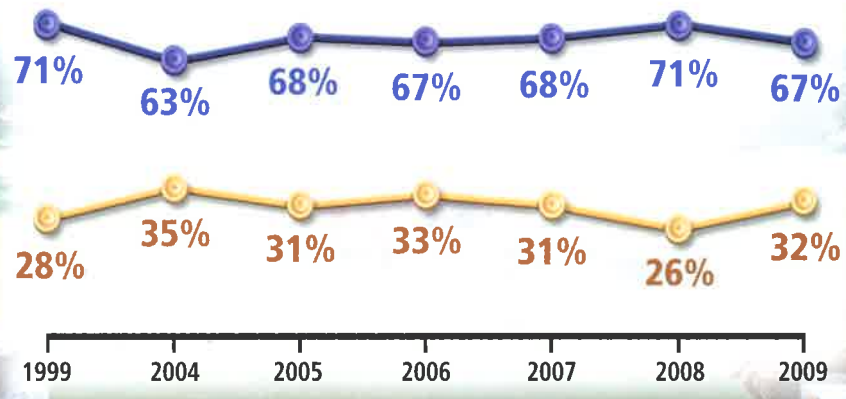
Withdrawals of annuity earnings are taxed as ordinary income and may be subject to surrender charges plus a 10% federal income tax penalty if made prior to age 59½. Any guarantees are contingent on the claims-paying ability of the issuing company. The investment return and principal value of an investment option are not guaranteed. Because variable annuity subaccounts fluctuate with changes in market conditions, the principal may be worth more or less than the original amount invested when the annuity is surrendered.

Variable annuities are sold only by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

1) *Money,* December 2009
2) *InvestmentNews,* June 22, 2009

Low Confidence in Social Security Guarantees

A majority of workers are not confident that Social Security will continue to provide benefits that are at least equal in value to benefits received by current retirees.



Source: 2009 Retirement Confidence Survey, Employee Benefit Research Institute

2010: Year of the **TAX BREAK?**

The top 10% of U.S. taxpayers paid 71% of all federal income taxes collected in 2007 even though they earned only 48% of reported income, according to the most recent data. You might be tempted to think of the "top 10%" as an elite, ultra-wealthy group, but this isn't necessarily true. It only took a modified adjusted gross income of $113,018 to make it into the top 10%.[1]

Those who shoulder most of the nation's tax burden are normally excluded from many of the tax breaks that less-affluent taxpayers use to help reduce their own taxes. Congress is in the habit of phasing out tax benefits for people whose incomes exceed certain limits. If this has been a problem for you, then 2010 could be your year. Thanks to tax laws passed nearly a decade ago, many of the income limits that would normally exclude more affluent taxpayers from common tax breaks won't apply in 2010.

PERSONAL EXEMPTIONS

Individuals (who are not claimed as a dependent by another taxpayer) with earned income below certain limits are entitled to shield a portion of their incomes from taxation using a *personal exemption* for themselves and each of their dependents. This deduction was carved out by Congress based on a belief that all Americans are entitled to exclude from taxation enough of their incomes necessary to purchase items for sustenance (e.g., food, clothing, shelter).

High-income taxpayers traditionally are limited from using personal exemptions to reduce their taxable incomes. In 2009, the personal exemption started phasing out for joint filers with AGIs exceeding $250,200 ($166,800 for single filers). For the 2010 tax year, however, all taxpayers will be entitled to take a $3,650 personal exemption for themselves and each of their eligible dependents, regardless of income.

ITEMIZED DEDUCTIONS

Congress allows taxpayers to deduct from their incomes some or all of the money they spend in ways that may benefit society. These preferred expenses include charitable donations, mortgage interest for a primary residence, and health care. Ordinarily, the ability to deduct these expenses begins to phase out for taxpayers with AGIs above a certain threshold ($166,800 for single filers in 2009, $250,200 for joint returns). However, in 2010, the income threshold is suspended, meaning that all taxpayers can deduct qualifying expenses.

A Downside to Low Inflation

If the numbers in the table below look familiar, they should. Retirement plan contribution limits in 2010 are unchanged from their 2009 levels because they are indexed to inflation, and inflation was too low to warrant an increase.

2010 retirement plan contribution limits

	Up to age 49	Age 50 and older
401(k) plan	$16,500	$22,000
IRAs	$ 5,000	$ 6,000
403(b) plan	$16,500	$22,000
457 plan	$16,500	$22,000

It's important to note that the repeal of the exemption phaseouts is temporary; they are scheduled to reappear in 2011, subject to action by Congress. So if you're feeling fatigued after preparing your 2009 tax return, you can take comfort in the fact that you might see a smaller portion of your income go to pay taxes when you file your 2010 return next year.

1) Tax Foundation, 2009

The Return of the **INITIAL PUBLIC OFFERING**

After a drought of initial public offerings over the past few years, the IPO market finally began to perk up in the second quarter of 2009 (see chart). If the pace continues to accelerate, it could be a promising signal for investors.

Private companies seeking to raise cash may choose to "go public" by offering shares of ownership on a stock exchange. When a company offers new shares to the public, it's called a *public offering*. A great deal of attention focuses on the conditions that draw companies to make their debut or "initial" public offering.

Although it can be difficult for individual investors to get in on an initial offering, IPOs can serve as a useful indicator of the outlook for the stock market as a whole. Companies that want to go public will typically wait for market conditions that could fetch a high price for their shares. Because start-ups are seen as more risky than established firms, investors may give an IPO a cool reception when overall confidence levels (and stock prices) are down.

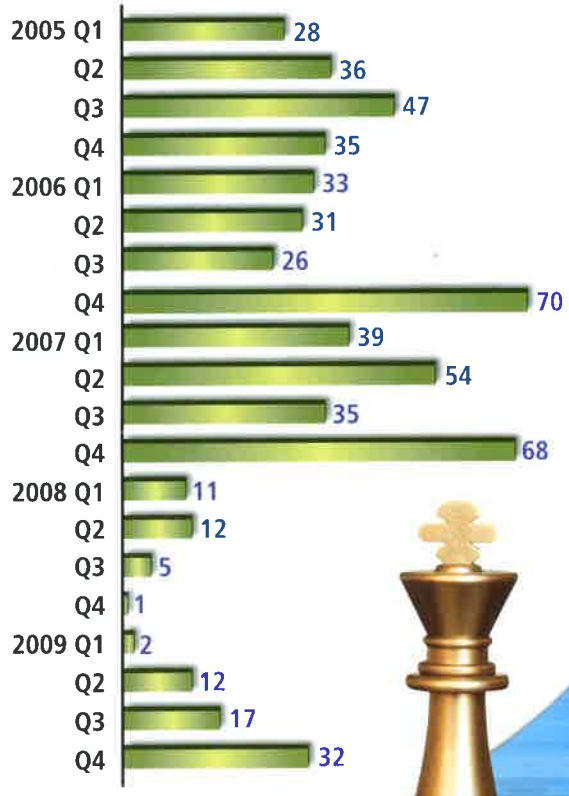
Predictably, IPOs all but disappeared as the nation battled a recession and a bear market in 2008. It's no coincidence that the IPO resurgence in 2009 coincided with a stock market rally that began in March of that year.

The return and principal value of stocks fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost.

Although investing in an IPO may not be appropriate for many investors, it's still a good idea to keep an eye on the pace of new offerings. Signals from the IPO market may yield clues about the health of the broader investing climate.

Climbing Back?

Are IPOs on their way back to pre-recession levels from their 2008 lows?



Source: Hoovers.com, 2010

Are you worried that your retirement assets could be depleted by your longevity? Call today to discuss ways to help your savings last as long as you do.

Working toward a better financial future,