VOLUME 21 • ISSUE 5

FINANCIAL*ink*

Your Money Management Newsletter

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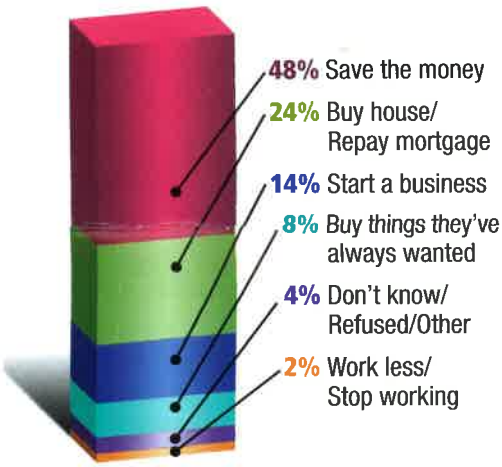
*Snap***SHOTS**

WHAT WOULD *YOU* DO?

Americans were asked what they would do with a $150,000 inheritance



Source: Gallup, 2010

Up **FRONT**

10,000

Estimated minimum number of baby boomers (born between 1946 and 1964) who will turn age 65 every day until 2029.

Source: Associated Press, December 27, 2010

Quick **HITS**

Nearly half (47%) of small-business owners say they won't retire until forced to do so for health reasons.[1]

U.S. taxpayers and businesses spend about 6 billion hours a year complying with filing requirements in the tax code.[2]

Six in 10 working Americans expect to receive no Social Security benefits when they retire, the most pessimistic finding in 20 years of polling.[3]

The federal government ran budget surpluses in only four of the past 28 fiscal years (1982 to 2010).[4]

Defined-contribution plans are a source of income for more retirees than traditional pensions ever were.[5]

Sources:
1, 3) Gallup, 2010
2) Internal Revenue Service, 2011
4) Haver Analytics, 2010
5) *Kiplinger's Personal Finance*, February 2011

Practical insights for your **FINANCIAL GOALS**

Give Yourself a **PERSONAL AUDIT**

Preparing a tax return involves tracking down records and statements, balancing accounts, and tallying gains and losses. It can be a lot of work — U.S. taxpayers and businesses spend about 6 billion hours a year complying with the filing requirements in the tax code.[1]

At the end of tax season, most of us have a better perspective on our finances than at any other time of the year. Before you file everything away, take some time to look at your overall situation. Consider it your own personal audit. You might discover it is time to make some adjustments.

CHECK YOUR BALANCE

The mix of assets in your portfolio can change as the individual asset classes perform at different rates. When this happens, the result may be either an overly aggressive portfolio, which could cause overexposure to risk, or a portfolio that is too conservative, which could help prevent you from reaching your goals (see chart).

If your asset allocation has shifted significantly, it may be time to *rebalance*. This is the process of buying and selling securities to reestablish the appropriate mix of stocks, bonds, and cash alternatives for your situation. Asset allocation does not guarantee against investment loss; it is a method to help manage investment risk.

REASSESS YOUR EXPECTATIONS

Affluent investors appear to be wearing rose-colored glasses when it comes to their long-term investments. Although many have lowered their expectations for investment returns over the next five years, 87% still expect to reach their long-term goals.[2]

Of course, there are plenty of reasons to be optimistic about reaching your long-term goals, but are your expectations still realistic? Unrealistic expectations can cause you to save too little, invest too conservatively, or hang on to underperforming investments.

EVALUATE YOUR TAX BURDEN

If tax time inspired you to look for ways to help reduce your tax burden, you might evaluate whether you are making the appropriate use of the tax-deferred retirement programs available to you. It may also be time to seek more tax-efficient investments. Although Congress prevented tax rates from going up this year, many current tax laws are slated to expire after December 31, 2012. Because we are in a period of uncertainty about the future of our tax laws, you may want to consult with a tax professional before you take any specific action.

It's a good idea to review your financial situation on a regular basis, whether it's tax time or not. We can help you look for strategies to help keep your portfolio on track.

1) Internal Revenue Service, 2011
2) *Investment Advisor*, July 15, 2010

Tale of Two Portfolios

These two hypothetical portfolios illustrate what could happen over time when assets perform differently and a portfolio is never rebalanced. Each portfolio had an initial allocation of 60% stocks and 40% bonds and was invested during a different 10-year time period. From 1990 to 1999, Sample portfolio #1 would have drifted to a 78% stock/22% bond allocation. From 2000 to 2009, Sample portfolio #2 would have drifted to a 39% stock/61% bond allocation.

Source: Thomson Reuters, 2010, for the periods 12/31/1989 to 12/31/1999 and 12/31/1999 to 12/31/2009. Stocks are represented by the S&P 500 Composite Index (total return), which is generally considered representative of U.S. stocks. Bonds are represented by the Citigroup Corporate Bond Composite Index, which is generally considered representative of U.S. corporate bonds. The performance of an unmanaged index is not indicative of the performance of any particular investment. Individuals cannot invest directly in an index. Past performance is no guarantee of future results. Shares, when sold, may be worth more or less than their original cost. Bonds redeemed prior to maturity may be worth more or less than their original value. Rates of return will vary over time, particularly for long-term investments. Investments seeking to achieve higher rates of return also involve a higher degree of risk. Actual results will vary.

Using a Variable Annuity for GUARANTEED INCOME

One of the recommendations from the White House Task Force on Middle Class Working Families was for retirees to purchase annuities to help reduce the risks of outliving their savings or experiencing lower living standards because of inflation and investment losses.[1]

The White House is not a common source of retirement information, but its recommendation addressed a common concern: running out of money in retirement. Although the task force wasn't talking about variable annuities in particular, one of the benefits offered by variable annuities is the potential for a guaranteed lifetime income.

If you have wondered whether your retirement portfolio will be able to go the distance, you might want to learn more about variable annuities.

AN INVESTMENT IN INSURANCE

A variable annuity is an insurance contract that is typically funded with either a lump sum or a series of premium payments. The term *variable* derives from the variable return potential. During the accumulation period, the contract holder can direct his or her premiums to be invested among a variety of subaccounts, which pursue returns in the financial markets. The subaccounts offer varying degrees of risk, allowing contract holders to pursue investment returns according to their risk tolerance, long-term goals, and time horizon.

When the contract holder is ready to begin receiving a retirement income, the amount of income available depends on the contract value, which is determined in part by how the investment subaccounts performed during the accumulation period.

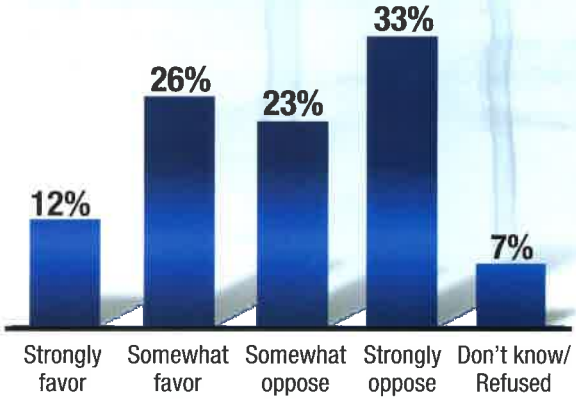
A lifetime income is one of several payout options. Contract holders may also select an income that lasts for a specific number of years or for the lifetimes of two people. For an additional cost, contract holders may be able to purchase guarantees, such as a guarantee of minimum fixed income payments or a guarantee to withdraw a specific amount over a lifetime, regardless of the account value.

There are contract limitations, fees, and charges associated with variable annuities, which can include mortality and expense risk charges, sales and surrender charges, investment management fees, 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 a 10% federal income tax penalty if made prior to age 59½. Surrender charges may also apply if the annuity is surrendered in the early years of the contract. 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 variable annuity contract and the underlying investment options, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

What If?

How U.S. workers felt about a hypothetical proposal to require individuals to spend either $100,000 or half the money in their retirement savings plans (whichever is less) to purchase an annuity at retirement that would pay a guaranteed income each month for life.



Source: Employee Benefit Research Institute, 2010

1) *Kiplinger's Personal Finance*, May 2010

The Difference Between the DEBT AND THE DEFICIT

In this age of stimulus spending and bailouts, "debt" and "deficit" are often used to describe the federal government's financial situation. Many people use these words interchangeably, yet they have significantly different meanings. This explanation may help you understand the conversation.

Budget deficit. When the federal government spends more money in a fiscal year than it collects in tax revenue, it creates a budget *deficit*. In the rare instances when government expenditures are less than tax revenues, the result is a budget *surplus*. Budget deficits have been the norm in recent decades. For example, in the past 28 fiscal years (1982 to 2010), there were only four years in which the federal government ran budget surpluses.[1]

National debt. How can the government spend more than it collects? By borrowing money. The total amount owed by the federal government is called the national *debt*. Because the federal government guarantees the timely payment of principal and interest, many individuals, corporations, state and local governments, foreign governments, and others are willing to lend their money. Although Treasury securities pay relatively low interest rates, they tend to appeal to investors seeking lower risk.

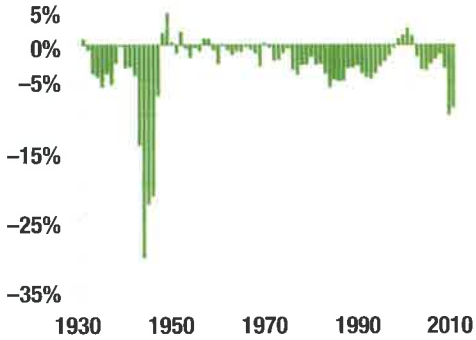
There's also quite a bit of borrowing between federal agencies. For example, Congress has long been in the habit of borrowing excess Social Security revenues. As a result, the national debt is divided into two categories: debt held by the public and intragovernmental holdings.

As you can imagine, there's considerable debate over how long the government can keep borrowing to finance spending. Regardless of how you feel about government spending, you might benefit from understanding the terminology.

1) Haver Analytics, 2010

Percentage of GDP

One way to keep budget surpluses and deficits in perspective is to look at them as a percentage of gross domestic product, the total annual output of the U.S. economy.



Federal budget surplus/deficit as a percentage of GDP

Source: Haver Analytics, 2010 (in fiscal years)

An annuity is just one of several options for receiving a lifetime income in retirement. We can help you evaluate options that might be appropriate for your situation.

Working toward a better financial future,