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FINANCIAL*ink*

Your Money Management Newsletter

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*Snap***SHOTS**

LOW SAVINGS BALANCES

Total savings and investments held by U.S. workers (excluding value of primary residence and defined-benefit plans)

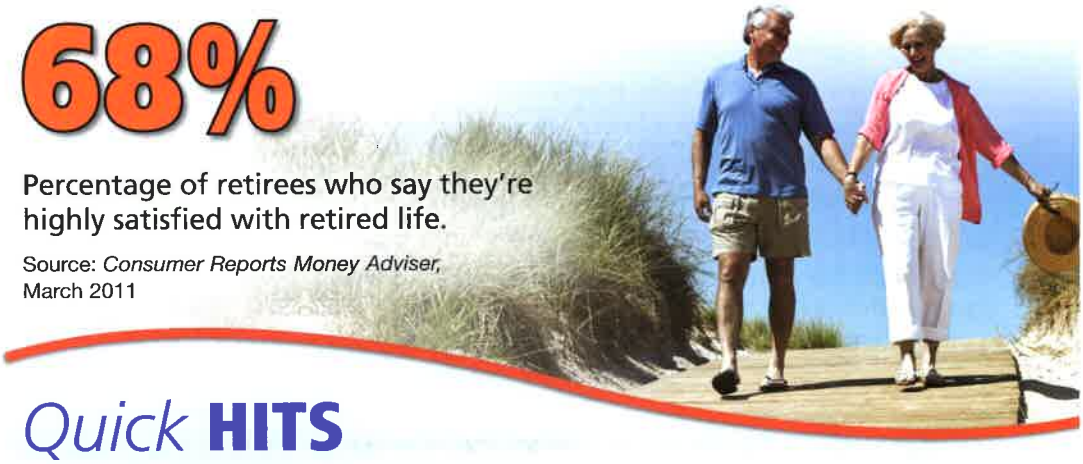
Source:
Employee Benefit Research Institute, 2011

Up **FRONT**

68%

Percentage of retirees who say they're highly satisfied with retired life.

Source: *Consumer Reports Money Adviser,* March 2011



Quick **HITS**

Twice as many men as women think the stock market will improve versus decline in 2011.[1]

Only one out of three workers expects Social Security to be a major source of retirement income.[2]

Less than 10% of workers who are eligible for automatic contribution increases in their employer-sponsored retirement plans take advantage of this feature.[3]

The average inflation rate over the last 50 years was 4.07%.[4]

Tuition and fees at public four-year colleges and universities increased during the last decade at a 5.6% average annual rate above the rate of general inflation.[5]

Sources:
1) *InvestmentNews,* March 28, 2011
2) Employee Benefit Research Institute, 2011
3) *The Wall Street Journal,* March 26, 2011
4) Thomson Reuters, 2011 (Consumer Price Index for the period 12/31/1960 to 12/31/2010)
5) The College Board, 2010

Practical insights for your **FINANCIAL GOALS**

Bring Your Life Insurance **HOME FROM WORK**

Only 44% of American households have individual life insurance — a 50-year low.[1] Perhaps this is because life insurance is a fairly common employee benefit. However, relying on a group policy through your employer means that the coverage could end if your job situation changes.

An important reason to own life insurance is to replace your lost income and provide your survivors with a source of cash (up to the policy limits) to help them pay living expenses. One way to help insulate your life insurance coverage from the unpredictability of your employment situation is by purchasing an individual policy. Depending on the type of policy you select, you may be able to obtain coverage for a specific number of years or for life.

TEMPORARY PROTECTION WITH AN EXPIRATION DATE

As the name suggests, *term life insurance* offers a death benefit if the insured dies within the covered time period, which could range from one to 30 years. The death benefit is typically not subject to federal income tax, unless the employer pays the premiums.

Term life generally has a lower premium than permanent life insurance, particularly at the beginning of the term. With some term policies, the premium adjusts each year, whereas with others the premium remains fixed for the full term. You may be able to continue coverage beyond the original term at a higher premium, or even convert to a permanent policy (subject to age restrictions and policy minimums) while the policy is in force.

LIFETIME PROTECTION WITH NO EXPIRATION DATE

Permanent life insurance offers lifetime protection and a guaranteed death benefit as long as you keep the policy in force by paying the premiums. Although the premium is higher than for term insurance, it typically remains level for the rest of your life.

A portion of the permanent life insurance premium goes into a cash-value account, which accumulates on a tax-deferred basis at a minimum guaranteed rate for the life of the policy. You may be able to borrow against the cash value during your lifetime to help pay for retirement or other needs.

Withdrawals of the accumulated cash value, up to the amount of the premiums paid, are not subject to income tax. Loans (as long as they are repaid) are also free of income tax. Loans and withdrawals from a permanent life insurance policy will reduce the policy's cash value and death benefit. Any guarantees are contingent on the claims-paying ability of the issuing insurance company.

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. Before implementing a strategy involving life insurance, it would be prudent to make sure that you are insurable.

As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. And if a policy is surrendered prematurely, there may be surrender charges and income tax implications.

Ask yourself whether you are willing to stake your family's financial future on group coverage that could change unexpectedly. An individual policy could help prevent gaps in your coverage.

1) LIMRA, 2010

Immediate Difficulties

Four out of 10 households with children under 18 say they would immediately have trouble meeting everyday living expenses if a primary wage earner were to die.

Source: LIMRA, 2010

Are You Prepared for **INFLATION?**

The U.S. Department of Agriculture expects food prices to rise 3% to 4% in 2011 due to a combination of factors, including increased world demand and rising energy prices.[1]

The United States has enjoyed fairly low inflation in recent years, but price spikes such as we have seen this year for energy and food are a reminder that it's important not to become complacent about inflation as you prepare for retirement. Simply put, inflation weakens your purchasing power. If your retirement portfolio doesn't grow faster than inflation, the amount of money you thought you needed for retirement might not be enough to afford the retirement lifestyle you envision.

EVER-PRESENT CONCERN

Inflation is a general increase in prices. The causes of inflation can vary from the scarcity of key commodities to government policies. The Federal Reserve is charged with influencing the monetary and credit conditions in the economy, but its policies cannot fully control the rate of inflation. In fact, even though the Fed strives to keep inflation around 2% per year, the Consumer Price Index (CPI), a common measure of inflation, has grown at an average annual rate of more than 4% over the past 50 years. During this period, there were only 12 years in which the CPI grew by less than 2%.[2–3]

HOW COULD INFLATION AFFECT YOUR SAVINGS?

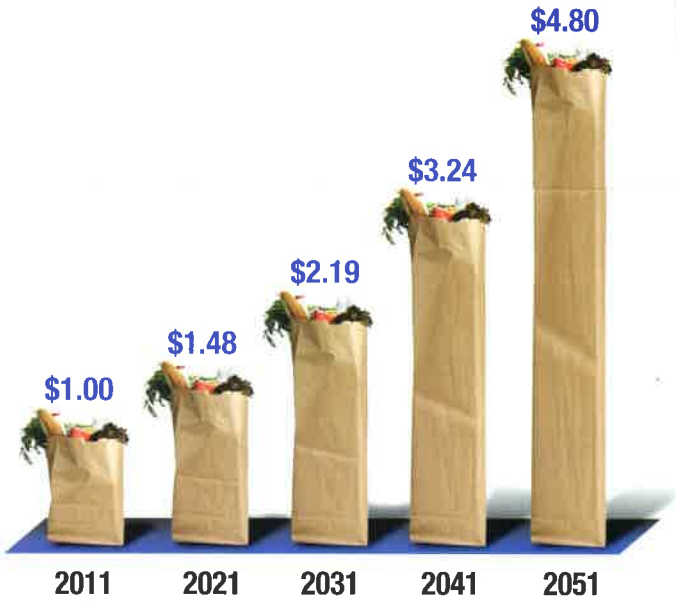
One simple formula for anticipating the effects of inflation is to divide the expected inflation rate into 72. This formula, the Rule of 72, will give the approximate number of years it could take for the purchasing power of a dollar to be cut in half. So if inflation averages 4%, in 18 years a dollar would be able to buy about half as much as it can today (72 ÷ 4 = 18). In other words, what costs $1 today could cost $2 in 2029, assuming a 4% average annual inflation rate.

What investment return would be needed to outpace inflation? If an investment earns 5% and is taxed at a 25% rate, the after-tax return would be 3.75%. If inflation is 4%, then the investment is not keeping pace with inflation and may actually be losing purchasing power. This hypothetical example is used for illustrative purposes only and does not represent any specific investment; actual results will vary.

It can be easy to forget about inflation because the short-term effects may seem fairly insignificant. However, by failing to account for inflation in your long-term outlook, you run the risk of not having enough money to enjoy a comfortable retirement.

Inflated Costs

This hypothetical illustration shows how a 4% annual inflation rate could affect the purchasing power of a dollar over the next four decades. For example, goods and services that can be purchased for $1.00 today could cost $1.48 in 2021.



This hypothetical example is used for illustrative purposes only. Actual results may be more or less than those shown. This example does not represent any specific investment product.

1) U.S. Department of Agriculture, 2011
2) *The Wall Street Journal,* February 9, 2011
3) Thomson Reuters, 2011 (Consumer Price Index for the period 12/31/1960 to 12/31/2010)

Take This COLLEGE SAVING EXAM

During the last decade, tuition and fees at public four-year colleges and universities increased at a 5.6% average annual rate above the rate of general inflation.[1] Test your knowledge of Coverdell Education Savings Accounts (ESAs) and Section 529 savings plans by indicating whether each statement below refers to an ESA, a 529 plan, or neither.

1. Contributions are tax deductible as long as they are within certain limits.
   a. ESA **b. 529 plan** **c. Neither**
2. Tax-free withdrawals may be used for qualified K–12 expenses.
   a. ESA **b. 529 plan** **c. Neither**
3. Donors may contribute regardless of their income level.
   a. ESA **b. 529 plan** **c. Neither**
4. Beneficiaries may receive no more than $2,000 in contributions annually.
   a. ESA **b. 529 plan** **c. Neither**
5. Donors may contribute to any beneficiary regardless of the beneficiary's age.
   a. ESA **b. 529 plan** **c. Neither**

1) The College Board, 2010

ANSWERS:

1. **c. Neither.** Contributions to both ESAs and 529 plans are made with after-tax dollars, but qualified distributions are tax-free.
2. **a. ESA.** Through 2012, tax-free withdrawals can be used for qualified K–12 expenses. Nonqualified withdrawals may be subject to ordinary income tax and a 10% federal income tax penalty.
3. **b. 529 plan.** Although there are no income restrictions for 529 donors, there are for ESA donors.
4. **a. ESA.** Unlike ESAs, there are no federal contribution limits with 529 plans, although each state may establish lifetime contribution limits for its own plan.
5. **b. 529 plan.** There is no beneficiary age restriction for 529 plan contributions, but ESA contributions may be made only to beneficiaries under 18 (with some possible exceptions).

Before investing in a 529 savings plan, please consider the investment objectives, risks, charges, and expenses carefully. The official disclosure statements and applicable prospectuses, which contain this and other information about the investment options and underlying investments, can be obtained by contacting your financial professional. You should read this material carefully before investing.

As with other investments, there are generally fees and expenses associated with participation in an ESA and a 529 savings plan. There is also the risk that the plan investments may lose money or not perform well enough to cover college costs as anticipated. The tax implications of a 529 savings plan should be discussed with your legal and/or tax advisors because they can vary significantly from state to state. Also be aware that most states offer their own 529 plans, which may provide advantages and benefits exclusively for their residents and taxpayers.

Life insurance can be a critical aspect of your overall financial health. We can help you determine whether you have the appropriate coverage for your family's needs.

Working toward a better financial future,