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FINANCIAL*ink*

Your Money Management Newsletter

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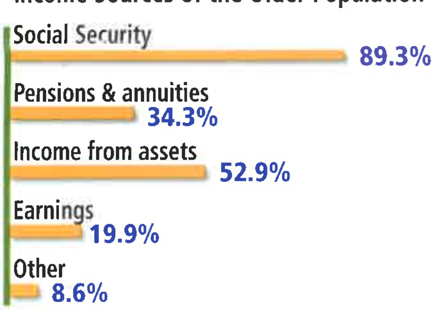
*Snap*SHOTS

Where the Gray Get Their Green

The vast majority of retired Americans rely on Social Security for at least a portion of their incomes. However, it's possible that future Social Security beneficiaries may not receive the same level of benefits as current retirees do.

Income Sources of the Older Population



Source: Employee Benefit Research Institute, 2009

Up FRONT

16% of companies surveyed have made base salary reductions during this recession, and another 21% are considering a similar move.

Source: *BusinessWeek*, June 8, 2009
(study of 518 large U.S. employers)

Quick HITS

Most middle-income Americans agree that everyone should have some form of life insurance, but only 20% think it should be high enough to replace the insured's income to support dependents.[1]

The most negatively viewed government agency (among six in a recent poll) was the Securities and Exchange Commission. The IRS came in second.[2]

Housing prices have risen 4.1% annually since 1987, according to the Case-Shiller® home price index. During the same period, the Consumer Price Index rose 3%.[3]

Forty-six percent of Americans are spending less money on lotteries as a way to reduce spending.[4]

The federal budget deficit is expected to exceed $1.8 trillion for the 2009 fiscal year, or 13% of gross domestic product.[5]

Sources:
1) *U.S. News & World Report*, March 31, 2009
2) *InvestmentNews*, June 8, 2009
3) *The Wall Street Journal*, May 27, 2009; Thomson Reuters, 2009 (Consumer Price Index for the period 12/31/1986 to 3/31/2009)
4) *InvestmentNews*, June 8, 2009
5) *The Washington Post*, March 21, 2009

Practical insights for your **FINANCIAL GOALS**

The Measure of a **LIFE**

The appropriate way to appraise a person's entire life after he or she is gone is a topic that has been debated by philosophers throughout the ages. Certainly, there are as many factors as there are ways to approach them. One measure of a life is the effect that the person's death has on those close to him or her. For those with dependents, this effect can be substantial.

One way to help mitigate the financial blow of the loss of a head of household is through life insurance. Yet in a recent survey, even though most people agreed that everyone should have some form of life insurance, only 20% felt that it should go beyond just covering bills and funeral costs and should replace the income of the deceased in order to support dependent family members.[1]

However, if you have dependents, the loss of your income could put your family in the difficult position of trying to maintain its standard of living on a much smaller budget. Life insurance can be a tool to help replace the lost income. But how much insurance is enough?

NO RULE OF THUMB

Some people recommend that life insurance be high enough to replace an equivalent of seven or eight times the annual salary of the insured. Yet this old rule of thumb may not be the best guidepost for someone with no children.

To determine how much life insurance coverage may be appropriate for your family, consider your dependents and their ages. How long would they be expected to need support? Would there be enough funds for college? Would you want the mortgage to be paid off?

Don't forget about other benefits that might be lost along with your salary. For example, if your health insurance is provided by your employer, your family may need replacement coverage.

Remember that 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 and to consult a tax professional.

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

1) *U.S. News & World Report*, March 31, 2009

Estimate Your Life Insurance Needs

Use this worksheet to help determine how much life insurance your family might need to maintain its current lifestyle over the long term.

		EXAMPLE	**YOU**
1. Calculate your dependents' total annual living costs. *(Include all mortgage and loan payments)*		$ 70,000	$
2. How much annual income would be available to them?			
A. Spouse's income	$		
B. Investment income	$		
C. Social Security	$		
D. Pension	$		
E. Other income	$		
F. Total income available	$	$ 46,000	$
3. How much more income will your family need? *(Subtract the total on line 2F from line 1)*		$ 24,000	$
4. What return could they expect on investments?		6 %	%
5. Resulting life insurance benefit *(Divide total on line 3 by the rate of return on line 4)*		$400,000	$

For example, if your family requires an additional $24,000 per year (line 3), you would divide that amount by an expected annual return, such as 6% (line 4). In this case, $24,000 divided by .06 equals $400,000 in coverage. You may want additional coverage if you need funds for a child's college education.

Home **EQUANIMITY**

The collapse of the housing market has provided a painful lesson for those who were counting on their homes as a source of retirement income. Falling home prices illustrate the potential difficulties of relying on the sale of a home to pay for retirement.

Since 1987, U.S. housing prices have risen 4.1% annually.[1] During that same period, the Consumer Price Index rose 3% annually.[2] Thus, when you subtract inflation, home prices produced a real return of only 1.1%. Additionally, you need to factor in property taxes, maintenance, and insurance, which can all serve to erode the long-term growth of a home's value.

MOVIN' ON OUT

The prospect of cashing in your home's equity to pay for retirement may be enticing when home prices are rising. However, when prices are falling, it's much easier to see why this is an unreliable strategy.

First, home values are subject to cyclical trends, so there's no guarantee that your home will be worth what you were planning on when you are ready to retire. There is also the possibility that, depending on market conditions, you may have trouble selling it.

Next, you'll still need somewhere to live. If you buy a smaller place, you will need to pay transaction and relocation costs, which could consume money you thought would help pay for retirement.

THROW IT IN REVERSE

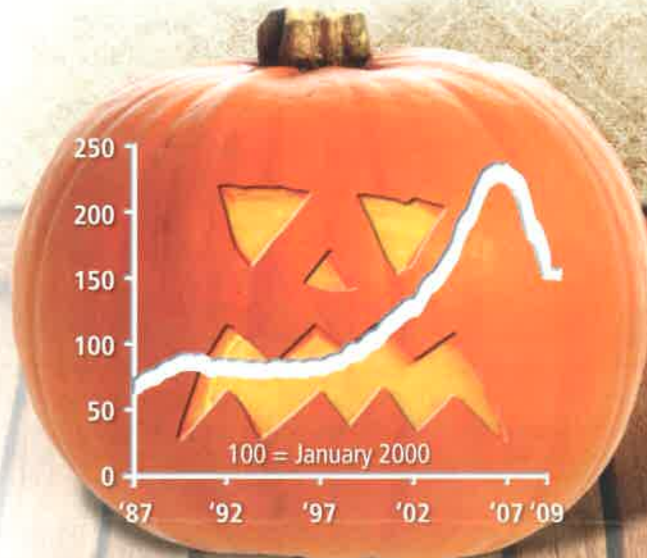
One way for older homeowners to capitalize on the equity in their homes is a reverse mortgage. But despite their recent surge in popularity (the government insured 11,660 reverse mortgages in April 2009, the highest monthly total since the program began in 1990), reverse mortgages may not be an appropriate strategy for some people.[3]

Homeowners aged 62 and older can use a reverse mortgage to borrow against the value of their homes, and there's no need to pay back the loan as long as they continue to live there. The loan is paid off by the sale of the home after they move out or after both spouses pass away. The amount a homeowner might be able to receive from a reverse mortgage will depend on the loan's interest rate, the owner's age, and the home's equity value. Reverse mortgage loan fees are typically high and can reach up to 10% of a home's value over the life of the loan.[4]

The collapse of the housing market has caused many people to take a second look at the way they view their homes. Call today if you are looking for strategies to help increase your retirement income.

Burst Bubble

Since peaking in the second quarter of 2006, average home prices have declined 33.6%. In April 2009, prices were at similar levels to where they were in the middle of 2003.



Source: Standard & Poor's, 2009 (S&P/Case-Shiller 10-City Home Price Index for the period 1/1/1987 to 4/30/2009; this index is normalized to have a value of 100 points in January 2000).

1) *The Wall Street Journal,* May 27, 2009
2) Thomson Reuters, 2009 (CPI for the period 12/31/1986 to 3/31/2009)
3–4) *The Wall Street Journal,* June 10, 2009

INFLATION FRUSTRATION? *Here Are Some TIPS*

In an effort to seize the controls and pull the economy out of a recession, the government is expected to rack up a deficit of over $1.8 trillion for the 2009 fiscal year. This amounts to 13% of gross domestic product — a level not seen since the end of World War II.[1]

Rampant government spending has some experts worried about the possibility of inflation in the near future. Inflation can wreak havoc on investment returns; as the purchasing power of the dollar declines, investments have to keep pace with inflation to avoid a loss.

Investors worried about the effects of inflation can get some relief in the form of Treasury Inflation-Protected Securities (TIPS). The principal value of TIPS increases as the Consumer Price Index (a popular measure of inflation) rises, and the value decreases when the CPI falls. This, in turn, can increase or decrease your yield. TIPS make semi-annual interest payments and return the greater of either the original or the inflation-adjusted principal at maturity.

Unless a Treasury Inflation-Protected Security is held in a tax-deferred account, the bondholder must pay federal income tax on the income as well as any increase in principal, even though the increased principal is withheld until the bond matures.

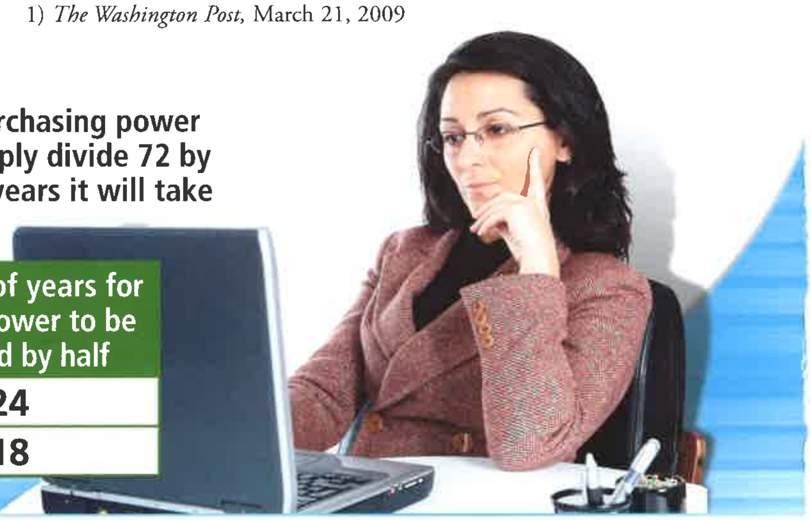
U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest. The principal value of TIPS fluctuates with changes in market conditions. If not held to maturity, TIPS may be worth more or less than their original value.

1) *The Washington Post*, March 21, 2009

The Rule of 72

To get an idea of the effect that inflation has on the purchasing power of the dollar, consider a variation of the Rule of 72. Simply divide 72 by the annual rate of inflation to calculate the number of years it will take for the buying power of your money to be cut in half.

Annual rate of inflation	Rule of 72 formula	Number of years for buying power to be reduced by half
3%	72 ÷ 3	24
4%	72 ÷ 4	18



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Are you taking your life expectancy into account when deciding how much to set aside for retirement? To explore strategies that may help you avoid a retirement income shortfall, call today for an appointment.

Working toward a better financial future,