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FINANCIAL*ink*

Your Money Management Newsletter

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*Snap***SHOTS**

SAVINGS EXPECTATIONS

Amount of savings that workers (with household incomes of $75,000 or more) think they will need for retirement

Source: 2010 Retirement Confidence Survey, Employee Benefit Research Institute

Up **FRONT**

$66

The average daily spending (excluding home and other routine monthly bills) of Americans in April 2010, up 10% from one year earlier.

Source: *InvestmentNews,* May 17, 2010

Quick **HITS**

More than half of the widows and widowers who received a life insurance death benefit collected an amount that was less than one year of their household incomes.[1]

Inflation is still ranked by Americans as one of their biggest financial concerns.[2]

Twenty-eight percent of affluent individuals plan to or have already reduced the amount they give to charitable causes in 2010. By contrast, 13% plan to increase their giving.[3]

Forty-nine million Americans were living in households with two generations of adults in 2008.[4]

Just 3% of Americans believe the amount they pay in income taxes is too low.[5]

Sources:
1) News-Medical.net, April 1, 2010
2) *Consumer Reports Money Adviser,* June 2010
3) *Journal of Financial Planning,* May 2010
4) *Money,* June 2010
5) Gallup, 2010

Practical insights for your **FINANCIAL GOALS**

When Life Happens, INSURANCE NEEDS MAY CHANGE

The amount of life insurance proceeds that surviving spouses receive can greatly affect their feelings of financial security, according to new research.

One year after losing a spouse, more than half of widows and widowers who received a death benefit equal to three or more years of income felt they were financially secure. By contrast, less than one-third of surviving spouses who received lesser amounts felt financially secure after one year.[1]

It's likely that people who had inadequate coverage weren't always underinsured. They may have started out with the appropriate protection but failed to review and update their coverage as their lives and needs evolved. Taking time to review your own life insurance needs may help you avoid a similar fate.

THE GOOD LIFE

Have you ever received a pay increase and then, after your spending expanded to absorb the extra pay, wondered how you ever managed to get by with less money? Think about how much you were earning at the time you purchased your life insurance. Would you be able to live on the same amount of coverage today? If you chose your policy's face amount based on a multiple of your income, it's a good idea to ensure that your coverage keeps pace when your earnings increase.

KIDS INCORPORATED

The birth of a child usually means household costs will increase for normal living expenses and medical care. But consider the possibility that a single parent left in financial straits might be forced to work longer hours, pay for child care, move to a smaller residence, and/or accept a reduced standard of living to get by. Adequate life insurance coverage not only may help avoid these consequences but may provide funds for the child's college education.

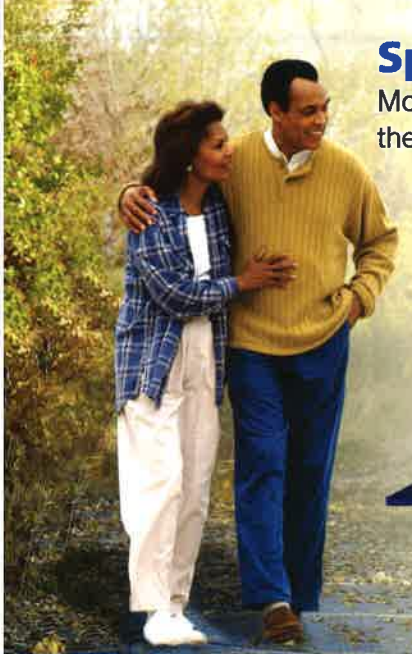
BENEFITS FOR BENEFICIARIES

As your life changes, your choice of beneficiaries may also change for such reasons as death, divorce, and marriage. Because your life insurance proceeds will be given to whomever you designated on the account form, it's a good idea to review your beneficiary designations on a regular basis to help avoid surprises and unwanted outcomes.

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.

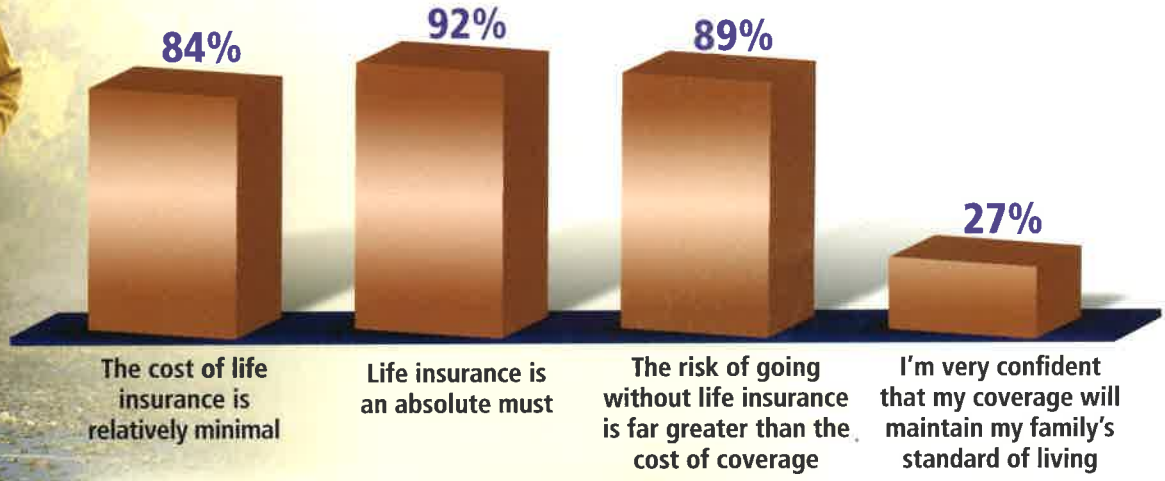
As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. In addition, if a policy is surrendered prematurely, there may be surrender charges and income tax implications.

1) News-Medical.net, April 1, 2010



Split Decision

More than 90% of consumers believe it is essential to have life insurance, but only 27% believe their current coverage would be sufficient to maintain their loved ones' standard of living.



Source: *Journal of Financial Planning*, November 2009

How State and Local Governments Can HELP YOU AT TAX TIME

No one likes to pay taxes. Well, almost no one: 3% of Americans think the amount they pay in income taxes is too low. Far more common is the belief that taxes are too high, a view held by almost half of Americans.[1]

Unfortunately, most people have limited options for significantly reducing their tax burdens. And that may be why municipal bonds are so popular. It has been estimated that municipal bonds save high-income American bond investors around $20 billion a year in federal income taxes.[2]

WHEN GOVERNMENTS OWE YOU

Municipal bonds are debt obligations issued by state and local government entities. With a few exceptions, they pay interest that is not subject to federal income tax. Municipal bonds typically fall into one of two categories.

General obligation bonds are issued to raise capital immediately, usually to cover expenses or refinance public debt. They are commonly repaid through taxes levied by the issuing agency.

Revenue bonds are issued to fund specific revenue-generating projects, such as sports stadiums, redevelopment projects, and toll roads. Revenue bonds are typically repaid from the revenues generated by the finished projects.

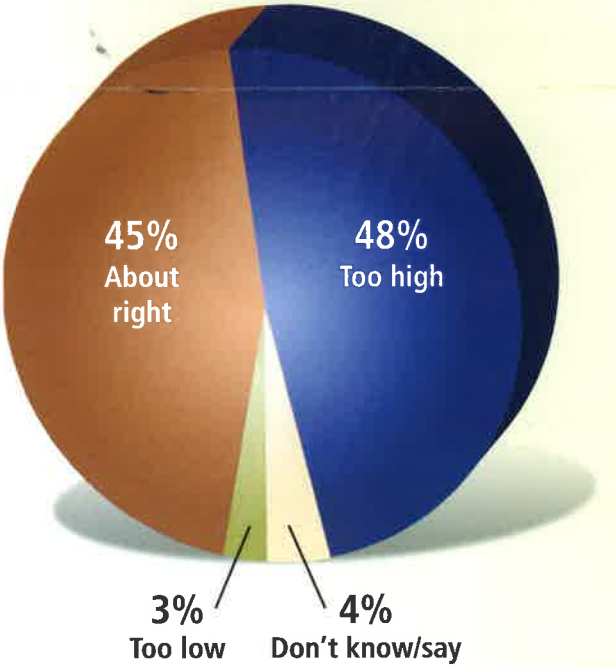
Because municipal bonds offer interest payments that are typically free of federal income tax, they tend to pay lower interest rates than those offered by taxable bonds. As a result, the tax benefits offered by municipal bonds tend to be more valuable to people in higher income tax brackets.

If a bond was issued by a municipality outside the state in which you reside, the interest could be subject to state and local income taxes. If you sell a municipal bond at a profit, you could incur capital gains taxes. Some municipal bond interest could be subject to the federal alternative minimum tax. The principal value of bonds may fluctuate with market conditions. Bonds redeemed prior to maturity may be worth more or less than their original cost. Investments seeking to achieve higher yields also involve a higher degree of risk.

Municipal bonds offer an appealing opportunity to generate income that is free of federal income taxes, but they are not for everyone. Call to discuss the tax implications of your current investing strategy.

1) Gallup, 2010
2) TheBigMoney.com, April 12, 2010

How Americans Feel About Federal Income Taxes



Source: Gallup, 2010

Getting Real About **INVESTMENT RETURNS**

Although inflation has been relatively calm in recent years, Americans still rank it as one of their biggest financial concerns. And well they should. The annual inflation rate has averaged 3.51% over the past 30 years.[1]

Inflation is a concern because it ranks with taxes as among the greatest threats to your portfolio. Taxes immediately consume part of any taxable investment returns, and inflation erodes the purchasing power of what's left.

Even though inflation has been quiet and current taxes are relatively low compared with other periods in U.S. history, we could be in for a change. Experts are worried that inflation may be rallying for a comeback. And some federal tax rates are slated to increase in 2011.

As the accompanying formula shows, calculating an investment's real rate of return can be a real eye-opener. Most people might consider 5% to be a fairly decent conservative rate of return, but after subtracting for federal income taxes and the 30-year average inflation rate, the real return would be less than 1%.

The lesson here is that, because of inflation and federal income taxes, an investor would need to earn about 5% a year just to break even. If your tax rate is higher or the inflation rate increases, even 5% may not be enough.

During periods of market volatility, it can be tempting to shift your assets to investment vehicles that seem "safe." However, low-risk investments are often characterized by low rates of return. Choosing investments that are too conservative for your situation may not alleviate the risk of losses to taxes and inflation.

1) Thomson Reuters, 2010 (Consumer Price Index for the period 12/31/1979 to 12/31/2009)

For Real

5.00%	Gross rate of return
– 1.25%	Federal income tax (assumes a 25% tax rate)
– 3.51%	Inflation (30-year average annual rate)
0.24%	Real rate of return

This hypothetical example is used for illustrative purposes only and does not represent any specific product, nor does it consider any state income taxes or investment fees. Actual results will vary.

If it has been awhile since you took a good, long look at your life insurance coverage, now is a great time to schedule a review. Call today.

Working toward a better financial future,