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FINANCIAL*ink*

Your Money Management Newsletter

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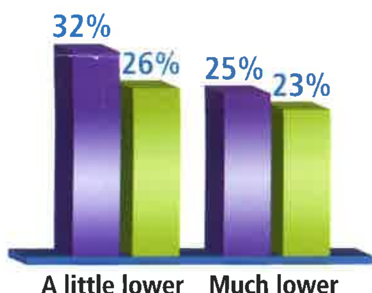
*Snap*SHOTS

UNREALISTIC EXPECTATIONS

Although 57% of workers expect their spending in the first five years of retirement to be a little or much lower than during the five years before they retire, only 49% of retirees report that their post-retirement spending was lower.



Source: Employee Benefit Research Institute, 2010

Up FRONT

5.55 million

The number of U.S. households with investable assets of $1 million or more. From June 2009 to June 2010, the number of U.S. millionaire households rose 8%.

Source: *The Wall Street Journal,* September 16, 2010

Quick HITS

Almost three out of four couples (71%) ages 35 to 44 say they make financial decisions together, compared with only 55% of couples who are 65 and older.[1]

A majority (64%) of workers mistakenly believe they have a very low risk of suffering a disability lasting 90 days or more, but even 40-year-olds have a 43% risk of suffering a long-term disability before age 65.[2–3]

Probate costs can consume 4% to 5% of the total value of an estate, depending on its size, complexity, and the state in which probate occurs.[4]

Nearly three out of four 401(k) participants are likely not on track to meet retirement goals based on their current 401(k) balances, plan contributions, and projected income from Social Security.[5]

American families with children who are likely to attend college rank saving for college as high a priority as saving for retirement.[6]

Sources:
1) AARP, 2010
2) Council for Disability Awareness, 2010
3–4) 2010 Field Guide, National Underwriter
5) Financial Engines, 2010
6) Sallie Mae, 2010

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Practical insights for your **FINANCIAL GOALS**

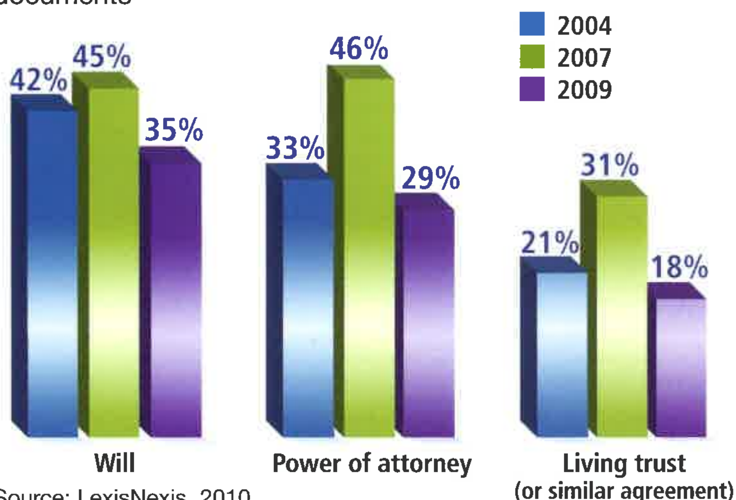
Help Keep Your Estate **OUT OF PROBATE**

If you've ever seen an estate go through probate, you know that it's the legal equivalent of having a tooth pulled — an unpleasant procedure to be avoided whenever possible. And just like tooth decay, probate may not be entirely avoidable, but you may be able to reduce the risk through preventive care.

Probate is a costly and sometimes lengthy procedure wherein a court oversees the distribution of property to a decedent's heirs. During probate, courts can freeze assets until the process is completed. Probate also risks a loss of privacy, because court records are open to the public. Perhaps the biggest drawback is the price tag — probate costs can eat up 4% to 5% of the total value of an estate, depending on its size, complexity, and the state in which probate occurs.[1]

Cutting Back on Estate Conservation

Percentage of Americans with basic estate conservation documents



Source: LexisNexis, 2010

One way to help shield assets from probate is by placing them in a trust. As you'll see, trusts offer other benefits as well.

MEET THE KEY PLAYERS

Although trusts involve a complex web of tax rules and regulations, the concept behind them is fairly simple. The *grantor* places ownership of his or her assets in the trust, which holds the property for the benefit of the *beneficiaries*. The trust is typically overseen by a *trustee* who must distribute the assets based on instructions outlined in the trust. Even though a trust is a legal document, it enjoys a level of privacy not available with a will because it may never see the inside of a courtroom.

There are several types of trusts, but most fit into one of two categories.

Revocable trusts allow the grantor to modify the terms, add or remove assets, and even revoke the trust entirely during the grantor's lifetime, after which the trust becomes irrevocable. This type of flexibility is popular for grantors who want to control how their assets are managed and distributed. Revocable trusts can be used to place limits and conditions on beneficiaries, help married couples segregate community assets from individual assets, and establish rules and guidelines for management of the trust assets during and after the grantor's lifetime.

Irrevocable trusts don't offer the same flexibility, but they excel when it comes to reducing exposure to creditor claims and estate taxes. The grantor is essentially required to surrender control of any assets that are placed in the trust. Transferring ownership of assets to the trust means they are no longer considered part of the grantor's estate. Although the grantor can specify how the assets will be distributed, he or she is generally prohibited from benefiting from the trust assets once they are in the trust.

A properly structured trust can be a valuable estate conservation tool, but it is not something you should set up yourself. Before implementing any trust strategies, you should consider the counsel of an experienced estate planning professional.

1) *2010 Field Guide*, National Underwriter

Protecting What May Be Your **MOST VALUABLE ASSET**

If you are young and healthy, you might think your chances of becoming disabled are fairly slim. And you wouldn't be alone in your belief: 64% of workers believe they have only a 2% (or less) risk of suffering a disability that could sideline them for three months or longer.[1]

But statistics tell a different story: 43% of 40-year-olds will suffer at least one long-term disability (90 days or longer) before age 65.[2] Despite this risk, 38% of working Americans say they would be able to pay their living expenses for only three months or less if their incomes were interrupted; 65% would not be able to cover expenses for one year. These findings become all the more alarming when you consider that the average long-term disability lasts for two and a half years.[3]

If you wouldn't think of going without insurance coverage for your home, health, or car, it doesn't make much sense not to protect what may be your most valuable asset: your ability to earn an income.

A POLICY THAT CAN PROTECT

An individual disability income insurance policy can help replace a percentage of your salary, up to the policy limits, if you should suffer an illness or injury that makes it impossible for you to continue working. The benefits can continue until you recover or for a predetermined number of years, whichever comes first. If you pay the premiums yourself, the benefits usually are not taxable. Some policies will pay if you can't perform your current occupation, whereas others will pay only if you cannot perform any type of job.

Many workers have some type of short-term group disability coverage through their employers. Group plans rarely cover as much as the 70% to 80% of income that individual policies typically offer, and the benefits from group plans are taxable to the extent that the employer pays the premiums.

YOUR FUTURE COULD BE AT STAKE

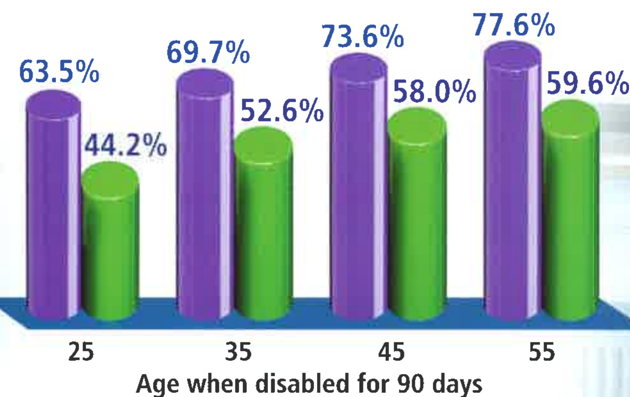
In the absence of an adequate, long-lasting source of disability income, you could be forced to use your retirement assets to pay living expenses and medical costs. If you have to withdraw assets from a tax-deferred retirement account, the withdrawals may be subject to a 10% federal income tax penalty if you are younger than 59½ (depending on the severity of the disability), as well as ordinary income taxes. Even worse, tapping your retirement assets could interfere with progress toward your retirement goals, creating the possibility that you might not be able to attain the retirement lifestyle you envisioned.

The appropriate disability income strategy may help reduce the financial consequences if you lose your income because of an illness or injury.

1, 3) Council for Disability Awareness, 2010
2) *2010 Field Guide,* National Underwriter

A Few Months Could Mean a Few Years

Once a disability has lasted for at least 90 days, the chance that it will continue for a longer period increases with age.



Source: *2010 Field Guide,* National Underwriter

When Being Average May Be THE BEST APPROACH

Different people have different investing styles. One investor with $3,000 might invest the entire lump sum right way, whereas another might invest $500 per month over the course of six months.

No method is guaranteed to work better, but there may be an advantage to taking the latter approach, especially in a volatile market. Here's why.

Dollar-cost averaging is a strategy in which you invest a fixed amount in a particular security, such as a mutual fund, on a regular (such as monthly) basis in order to accumulate shares over time. Because share prices vary, you would be purchasing a different number of shares each time using the same amount of money: When prices fall, you would be purchasing more shares; when prices rise, you would be purchasing fewer shares. Often, this strategy may result in an overall *lower average cost* per share over time (see table).

Although dollar-cost averaging does not ensure a profit or prevent a loss, it may help reduce the risk of investing a significant sum of money in a single investment at a time when prices are fluctuating. To take full advantage of the benefits of dollar-cost averaging, you must be financially able to continue making purchases through periods of high and low price levels.

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

Mutual funds 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.

Dollar-Cost Averaging in Action

If all $3,000 had been invested in one lump sum, this hypothetical investor would have been able to purchase 75 shares at $40 per share. With a dollar-cost averaging strategy, the investor was able to purchase 81.52 shares at an average cost of $36.80 per share.

Monthly investment	Price per share	Number of shares purchased
$500	$40	12.50
$500	$32	15.63
$500	$33	15.15
$500	$34	14.71
$500	$42	11.90
$500	$43	11.63
$3,000	**$224**	**81.52**

Average price per share: **$37.33** ($224 ÷ 6)
Average cost per share: **$36.80** ($3,000 ÷ 81.52)

This hypothetical example is used for illustrative purposes only and does not represent the performance of any specific investment. Actual results will vary.

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You might be uncomfortable discussing estate conservation and disability issues, but your discomfort might pale in comparison to what could happen to your family if you were unprepared for an emergency.

Working toward a better financial future,