Your Money & Your Retirement

Fall 2010

Beyond 401(k)s and IRAs

You're contributing as much as you're allowed to a 401(k) or other employer-sponsored retirement plan. You're also contributing the maximum annual amount to your Roth or traditional IRA. But you want to set aside still more money to make sure your retirement is everything you hope for. What options do you have? Here are some things to consider:

Before moving beyond--are you really maxing out your 401(k) and IRA?

IRAs and employer-sponsored retirement plans like 401(k)s have some real advantages when it comes to saving for your retirement. So, before you go any further, make sure you're really contributing all you can.

In 2007, most individuals can contribute up to $15,500 to a 401(k) plan, and up to $4,000 to a traditional or Roth IRA. If you're age 50 or older, though, you can make up to an additional $5,000 in "catch-up" contributions to your 401 (k) for 2007, and you can contribute an additional $1,000 to your traditional or Roth IRA. What's more, if you file a joint tax return with your spouse, your spouse may be able to make a full IRA contribution, even if he or she has little or no taxable compensation (see IRS Publication 590, Individual Retirement Arrangements, for details).

Looking at deferred annuities

If you are looking beyond 401(k)s and IRAs, one option you may be aware of is a deferred annuity. Deferred annuities are generally funded with after-tax dollars, but earnings are tax deferred; you don't pay tax until you take a distribution from the annuity (you pay tax on the portion of each distribution that represents earnings). There's also no annual limit on contributions to an annuity.

The tax deferral offered by a deferred annuity is a nice feature, but it comes with some tradeoffs that you'll need to weigh carefully:

- There are associated fees and costs, including annual fees, investment management fees, and insurance expenses
- A surrender charge may be imposed if you withdraw funds within a certain period of time
- A 10% federal penalty tax (in addition to any regular income tax) may apply if you withdraw funds from an annuity before age 59½
- Investment gains are taxed at ordinary income tax rates, not at lower capital gains rates

Annuities do have some unique benefits beyond tax deferral. With annuities, you can elect an annual payment amount that is guaranteed for the rest of your life (the guarantee is subject to the payment ability of the issuing institution)--this relative degree of certainty can be psychologically and financially comforting. In addition, annuities may offer some creditor protection under state law.

Taxable investment accounts

Your other basic option is to invest through a taxable investment account. The lower federal income tax rates that apply to long-term capital gains and qualifying dividends go a long way toward taking the bite out of holding investments outside of a tax-advantaged retirement account like a 401(k) or IRA. And, a taxable investment account offers one enormous advantage: You gain a tremendous amount of flexibility. You can choose from a virtually unlimited selection of specific investments, and there's no federal penalty for withdrawing funds before age 59½.

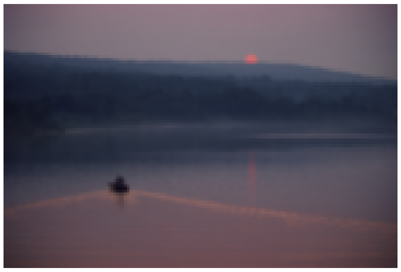
Investment options worth mentioning:

- *Mutual funds* or *separately managed accounts (SMAs) managed for tax efficiency* intentionally minimize current taxable distributions
- *Index mutual funds* and *exchange-traded funds (ETFs)* trade infrequently and therefore tend to have low annual taxable distributions
- *Tax-free municipal bonds* and *municipal bond funds* generate income that is free from federal and/or state income tax

Always keep the big picture in mind

Your investment decisions should be based on your individual goals, time frame, risk tolerance, and investment knowledge. You should evaluate every investment decision with an eye toward how the investment will fit into your overall investment portfolio, and whether it will meet your general asset allocation needs. A financial professional can be invaluable in helping you evaluate your options.

Five Ideas for Staying Sane in a Crazy Market



A key part of managing your money is managing your emotions, particularly when the stock market is going through a period of uncertainty. Being able to keep your cool is one of the most valuable skills you can have as an investor.

Stay on course by continuing to save

Even if the value of your holdings fluctuates, regularly adding to an account that's designed for a long-term goal may cushion the emotional impact of market swings. If losses are offset even in part by new savings, the bottom-line number on your statement might not be quite so discouraging.

If you're using dollar-cost averaging--investing a specific amount regularly regardless of fluctuating price levels--you may be getting a bargain by buying when prices are down. However, dollar-cost averaging can't guarantee a profit or protect against a loss, and you should consider your financial ability to continue purchases through periods of low price levels.

Stick with your game plan

Solid asset allocation is the basis of sound investing. One of the reasons a diversified portfolio is so important is that strong performance of some investments may help offset poor performance by others. Even with an appropriate asset allocation, some parts of a portfolio may struggle at any given time. Diversification can't guarantee a profit or protect against a loss, but it can help you balance risks.

Look in the rear-view mirror

If you're investing long term, sometimes it helps to take a look back and see how far you've come. If your portfolio is down this year, it can be easy to forget any progress you may already have made over the years, though past performance is no guarantee of future returns.

Think about why you made a specific investment in the first place. That can help you determine if it still deserves a place in your investing strategy. Understanding how a specific holding fits in your portfolio also can help you consider whether a lower price might actually represent a buying opportunity. If you don't know an investment's purpose in your overall strategy, now's the time to find out.

Remember that everything's relative

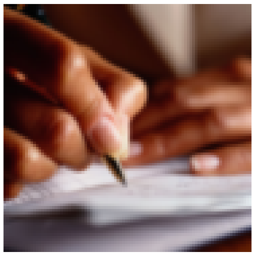
Most of the variance in the returns of different portfolios is generally attributable to their asset allocations. If you've got a well-diversified portfolio, it could be useful to compare its overall performance to relevant benchmarks. If you find that your investments are at least matching those benchmarks, that realization might help you feel better about your overall strategy.

Remind yourself that nothing lasts forever

Ups and downs are normal for the stock market. If you regret not selling at a market peak, or missed a bargain, remember that you're likely to have other opportunities at some point. Having predetermined guidelines for buying and selling can prevent emotion from dictating investment decisions.

Ask the Experts

What's a credit score and why should I care about it?



Your credit score is the result of a mathematical formula that's applied to all the information in your credit report (both positive and negative) and then compared to millions of other credit reports. The most common credit score is a FICO score, developed by the Fair Isaac Corporation. A variation of the basic FICO model is used by each of the three major credit reporting agencies: Equifax, Experian, and TransUnion. Your FICO score is based on five categories, each of which accounts for a percentage of your total score:

- Your payment history: 35%
- An analysis of your debt: 30%
- The length of your credit history: 15%
- Recent inquiries/new credit activity: 10%
- Types of credit in use: 10%

The result is a three-digit number between 300 and 850 that estimates your level of credit risk. The higher the number, the lower the risk.

This number significantly affects your ability to get credit and the terms you're offered. Generally, lenders consider people with scores above 700 to be in good financial health, and worthy of the best interest rates and credit terms. Those with scores below 600 are considered to be financially risky, and may be turned down for credit or offered stricter terms (higher interest rates, lower credit limits, and/or requirements for collateral or a cosigner or both).

To keep your score high:

- Pay your bills on time
- Repair any damage (i.e., overdue payments) as quickly as possible
- Keep your balances on your credit cards low (especially in relation to your credit limits)
- Pay off your debt
- Don't open new accounts you don't need

How do I dispute an unsatisfactory credit card purchase?

If you used a credit card to make what turns out to be an unsatisfactory purchase, you should first seek a refund or a replacement from the merchant that sold you the item. But if you have no luck there, you may have some recourse through the credit card company.

There are some requirements. First, you must have used the credit card to purchase the merchandise for personal (not business) use. Second, if you've already paid the credit card bill on which the sale is listed, the credit card company generally won't help you.

Additionally, the unsatisfactory purchase must have been made either with a charge card issued by the merchant or with a bank's card. If the item was not purchased with the merchant's own card, then the item must cost $50 or more.

Further, unless you used the merchant's own card, the purchase must also have occurred within your home state or within 100 miles of your billing address. Catalogue sales, Internet sales, and orders placed by telephone may be considered in-state purchases. State laws may vary, but these purchases are generally protected.

If you're unable to resolve the matter with the merchant, be sure to write the credit card company within 60 days of when the charge first appeared on your statement. Include in your letter your name, account number, information about the unsatisfactory item, and what you've done to try to resolve the matter with the seller.

The card issuer will usually investigate the matter, and you may withhold payment on the unsatisfactory merchandise until the matter is resolved. (Until then, no interest or late fees will be charged.) If the investigation reveals you are right and the merchant is at fault, you won't have to pay for the item or any finance charges on it. However, if the card issuer doesn't believe the merchant is at fault, you'll be expected to pay for the item. If you want to continue the dispute with the merchant, you'll have to do so in court.

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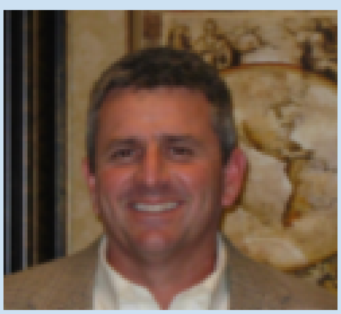

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Investment Advisory Representative

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