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YOUR MONEY MANAGEMENT NEWSLETTER

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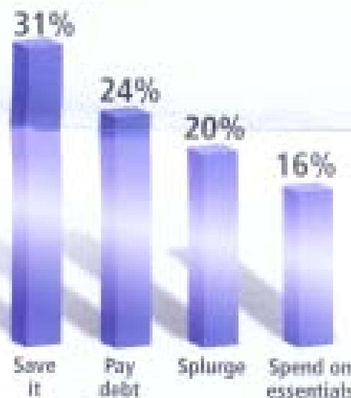
*Snap*SHOTS

GRAND USES

How Americans would spend an extra $1,000



Source: *USA Today*, May 28, 2008

Up FRONT

$5,799

The national average annual premium for family health-care coverage (in 2007)

Source: America's Health Insurance Plans, 2007

Quick HITS

Ninety percent of retirement income comes from investment earnings during retirement.[1]

Americans have a combined $10 trillion in life insurance coverage.[2]

Sixty percent of retirees had to stop working earlier than they planned.[3]

The U.S. economy (total GDP) is five times larger than China's economy.[4]

In 1922, a gallon of gas cost $3.11 in today's dollars.[5]

Sources:
1) *Financial Planning*, May 29, 2008
2) American Council of Life Insurers, 2008
3) *Journal of Financial Planning*, February 2008
4) The Gallup Organization, 2008 (2006 data)
5) Energy Information Administration, 2008

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How Much Is **ENOUGH?**

Americans have a combined $10 trillion in life insurance coverage.[1] That's an amazing sum, but consider this: It's only about 72% of America's roughly $14 trillion annual income, or what economists call gross domestic product.[2] Just about any family coping with the loss of a breadwinner would find it difficult to get by on a one-time payment equal to 72% of the earner's salary.

When you look at your life insurance coverage as a lump sum, it might seem like a lot of money, but how much is it in relation to your annual income? The ideal coverage amount is undoubtedly some multiple of annual income. But how do you know how much is enough?

QUALITY-OF-LIFE CONSIDERATIONS

An easy place to start is with an inventory of monthly expenses, such as mortgage and car payments, utilities, food, and clothing. Ideally, a death benefit would be able to meet living expenses for at least a few years, so that family members who are recovering from a tragic loss wouldn't also have to cope with a declining standard of living.

But don't stop there. It's also important to consider quality-of-life issues and your family's long-term goals.

Will the surviving parent need to work? If the answer is yes, what will it cost to care for younger children during the surviving parent's workday? Would the children's needs interfere with the parent's ability to work full-time?

Will the children have funds to attend college? A single parent might have a tough time continuing contributions to the family's college savings program or paying tuition and related costs.

Will the death benefit keep pace with inflation? It's prudent to assume that the cost of living will grow 3% to 4% per year. If you purchased coverage many years ago, it is possible that inflation has significantly eroded the purchasing power of the death benefit.

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. Before you take any specific action, be sure to consult with your tax professional.

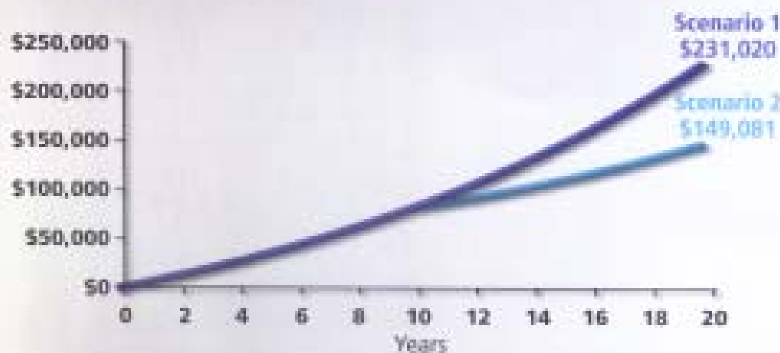
1) American Council of Life Insurers, 2008
2) Bureau of Economic Analysis, 2008

Between Retirement and a Hardship

If an individual had to stop making investment contributions because of a financial hardship caused by the death of a spouse, it could seriously affect a portfolio's potential growth.

Scenario 1 shows how much could accumulate if $500-per-month contributions (earning a hypothetical 6% annual rate of return) continued uninterrupted for 20 years.

Scenario 2 shows how much could accumulate if the individual had to stop making $500-per-month contributions after 10 years, but the principal continued to earn 6% annually for the remaining 10 years.



This hypothetical example is used for illustrative purposes only and does not represent any specific investment. Actual results will vary. It assumes $500-per-month contributions and a 6% annual rate of return but does not take into account any fees, expenses, or taxes, which would reduce the ending balances if they were included.

The End Is
JUST THE BEGINNING

Here's something you probably didn't know: New research shows that close to 90% of retirement income comes from investment earnings during retirement.[1]

Despite the popular idea that retirees' incomes are generated primarily by pre-retirement investment earnings, the reality is that a retirement portfolio has to keep working long after the owner stops making retirement plan contributions.

It would be easy to draw the wrong conclusions from this research, so it's important to thoroughly consider the implications.

PORTFOLIO WORKS

First, it would be a mistake to assume that this finding means any portfolio earnings during retirement can help offset lower contribution levels during your working years. In fact, it's even more critical to accumulate as much as possible before you stop working because your retirement income will depend heavily on your portfolio balance.

Retiring with insufficient assets means you could be forced to assume too much risk in order to generate enough income to fund the lifestyle you envision.

Next, your asset allocation must be monitored closely, every step of the way, to maintain the appropriate balance needed for portfolio growth, preservation of principal, and avoidance of losses from which you may not have time to recover. Asset allocation is the way in which your investments are allocated among stocks, bonds, and cash. In general, the closer you are to retirement, the less you can afford to assume the higher risks associated with stocks. However, eschewing equities too early can also put you at risk of not accumulating enough to reach your retirement goals.

Finally, if medical science continues to extend life expectancies, or if you have an above-average life expectancy as a result of genetic or lifestyle factors, an even greater percentage of your overall retirement income may need to be generated from investment earnings.

If you are still several years from retirement, keep this information in mind as you periodically review how much of your current income is going toward your long-term financial goals. If you plan to retire soon, it is important to revisit regularly how your retirement portfolio is allocated.

1) *Financial Planning*, May 29, 2008

Landmark Benchmark

A landmark 1986 study (confirmed by subsequent research) found that 91.5% of portfolio performance can be attributed to the careful allocation of assets.

Sources: *The Wall Street Journal*, May 15, 2008; Brinson, Singer, and Beebower, "Determinants of Portfolio Performance II: An Update," *Financial Analysts Journal*, May–June 1991

TIPS for **MANAGING INFLATION**

High oil prices and low interest rates are among the factors that have conspired to push the inflation rate out of the comfort zone to which Americans have become accustomed.

Inflation ranks among the worst threats that investors must overcome in order to achieve their long-term financial goals. In general, it takes time for an investment to grow, so an investment must outpace inflation in order to show a real return.

Conventional Treasury debt instruments are considered to carry the lowest risk of any debt investment because they are backed by the full faith and credit of the U.S. government as to the timely payment of principal and interest. But they offer no protection against value lost to inflation.

Fortunately, the U.S. Treasury issues another form of debt that helps protect investors from the effects of inflation: Treasury Inflation-Protected Securities (TIPS).

TIPS are similar to other Treasury bonds, but with an important distinction: The principal increases when the consumer price index (CPI) rises and decreases when the CPI falls. TIPS make interest payments twice a year and return the original or inflation-adjusted principal (whichever is greater) at maturity.

As with other investments, TIPS have advantages and drawbacks. One advantage is that as the principal amount grows, so do the interest payments, meaning that the income generated by TIPS has the potential to rise over time. However, one disadvantage is that you must pay federal income tax on the income plus any increase in principal, even though you won't receive the accrued principal until the bond matures.

The principal value of Treasury Inflation-Protected Securities fluctuates with changes in market conditions. If not held to maturity, TIPS may be worth more or less than their original value.

Inflation ranks among the worst threats that investors must overcome in order to achieve their long-term financial goals.

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

Tom Looke