

# 401(k) UPDATE

APRIL 2009

## Your Financial Road Map

**A**re you making progress toward your financial goals? Are your finances in order? Are you prepared for a financial emergency? If you're not sure, take time to thoroughly assess your finances so you have a road map for your financial life:

### Assess your financial situation.

Evaluating where you currently stand financially will help you determine how much progress you are making toward your financial goals. There are several items to consider:

✓ **Your net worth** — Prepare a net worth statement, which basically lists your assets and

liabilities, with the difference representing your net worth. Prepared at least annually, it can help you assess how much financial progress you are making. Ideally, your net worth should be growing by several percentage points over inflation.

✓ **Your spending** — Next, prepare a cash flow statement, detailing your income and expenditures for the past year. Are you happy with the way you spent your income? You may be surprised by the amount spent on nonessential items like dining out, entertainment, clothing, and vacations. This awareness may be enough to change your spending patterns. But more likely, you will need to

prepare a budget to help guide your future spending.

✓ **Your debt** — Debt can be a serious impediment to achieving your financial goals. To assess how burdensome your debt is, divide your monthly debt payment, excluding your mortgage, by your monthly net income. This debt ratio should not exceed 10% to 15% of your net income, with many lenders viewing 20% as the maximum. If you are in the upper limits or are uncomfortable with your debt level, take active steps to reduce your debt or at least lower the interest rates on that debt.

### Increase your savings.

Calculate how much you are saving as a percentage of your income. Is it enough to fund your future financial goals? If not, go back to your spending analysis and look for ways to reduce expenditures. That may mean reassessing your lifestyle choices, since you need to live below your means to find money to save. Commit to saving more immediately and then

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## Your 401(k) Contribution Amount

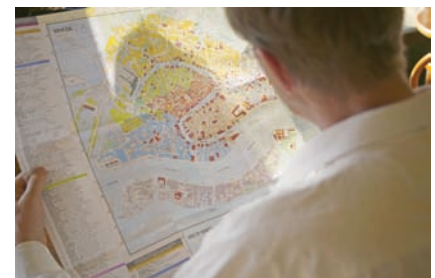
**B**efore deciding how much to contribute to your 401(k) plan, find out three key figures:

**What is the maximum percentage of your pay that can be contributed?** The maximum legal limit that can be contributed in 2009 is \$16,500 plus an additional \$5,500 catch-up contribution for participants age 50 and over, if permitted by the plan. However, most employers set limits in terms of a percentage of your pay to comply with government regulations.

**How much of your contribution is matched by your employer?** A common match is 50 cents for every dollar contributed, but many other variations also exist.

**Up to what percentage of your pay does your employer match?** Most plans only match contributions up to a certain percentage of your pay. For instance, the plan may only match contributions up to a maximum of 6% of your pay.

Please call if you'd like help deciding how much you should contribute to your 401(k) plan. ○○○



## Financial Road Map

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take steps to make that commitment a reality. For instance, you may decide to increase your savings by \$25 per week through your 401(k) plan at work. To do that, you may need to forego your daily stop for coffee and a doughnut, cut back on how often you dine out for dinner, and reduce your monthly clothing allowance. Not sure it's worth that much sacrifice to save \$25 a week? After 20 years, that weekly \$25 savings could grow to \$63,811 at an 8% annual rate of return before the payment of any income taxes. *(This example is provided for illustrative purposes only and is not intended to project the performance of a specific investment.)*

### Rebalance your investments.

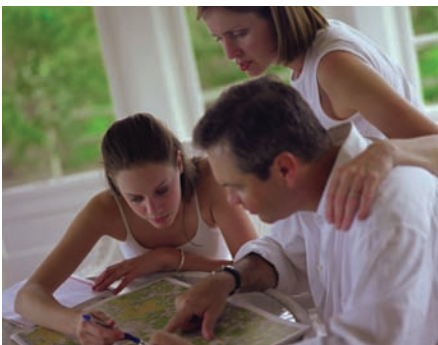
At least annually, thoroughly analyze your investment portfolio:

✓ Review each investment in your portfolio, ensuring that it is still appropriate for your situation.

✓ Calculate what percentage of your total portfolio each asset type represents, compare this allocation to your target allocation, and then decide if changes are needed.

✓ Compare the performance of each component to an appropriate benchmark to identify investments that may need to be changed or monitored closely.

✓ Finally, calculate your overall rate of return and compare it to the return you estimated when setting up your investment pro-



## The Basics of Dollar Cost Averaging

If you find it difficult to decide when to invest, consider a dollar cost averaging strategy. Dollar cost averaging involves investing a set amount of money in the same investment on a periodic basis. For instance, instead of investing \$48,000 in one stock immediately, you might decide to invest \$4,000 in that stock at the beginning of each of the next 12 months. Thus, you don't need to think about when to invest. You just follow your strategy and continue to invest on a periodic basis.

Dollar cost averaging is a defensive strategy that can help protect you from making a major investment when prices are high, especially during volatile periods. If the investment increases in value over that time, you still will have purchased some shares at lower prices.

Since you are investing a fixed amount of money, you purchase more shares when prices are lower and fewer shares when prices are higher. Thus, your average cost per share is typically lower than the average market price per share.

While dollar cost averaging is a good strategy for developing the habit of regular investing, it does require the discipline to invest consistently. However, it neither guarantees a profit nor protects against loss in a prolonged declining market. Because dollar cost averaging involves continuous investment regardless of fluctuating price levels, investors should carefully consider their financial ability to continue investment through periods of low prices.

Please call if you'd like to discuss how to set up a dollar cost averaging program. ○○○

gram. If your actual return is less than your targeted return, you may need to increase the amount you are saving, invest in alternatives with higher return potential, or settle for less money in the future.

### Prepare for financial emergencies.

To make sure you and your family are protected in case of an emergency, set up:

✓ A reserve fund covering several months of living expenses. The exact amount you'll need depends on your age, health, job outlook, and borrowing capacity.

✓ Insurance to cover catastrophes. At a minimum, review your coverage for life insurance, medical insurance, homeowners insurance, auto insurance, disability income insurance, and personal liability insurance. Over time, your insurance needs are likely to change, so you may find yourself with too

much or too little insurance.

### Review your estate plan.


The estate tax laws have been changing substantially over the past few years. Take a fresh look at your estate planning documents and review them every couple of years during this transition period. Even if the increases in exemption amounts mean that your estate won't be subject to estate taxes, there are still reasons to plan your estate. You probably still need a will to provide for the distribution of your estate and to name guardians for minor children. You should also consider a durable power of attorney, which designates someone to control your financial affairs if you become incapacitated, and a health care proxy, which delegates health care decisions to someone else when you are unable to make those decisions.

If you'd like help evaluating your finances, please call. ○○○


# How Retirees Can Protect Their Nest Eggs


**W**hile stock market fluctuations are painful for all investors, they are even more so for those nearing or in retirement. Investors who won't be retiring for many years have plenty of time for their investments to grow. Current and prospective retirees, however, may be concerned about how market fluctuations will


affect their retirement plans. If you're looking for ways to help protect your retirement nest egg, consider the following:


 **Try to withdraw as little as possible from your investments.** If your investments have declined in value, reevaluate your current withdrawal amounts. Withdrawing the same amount from a


substantially smaller portfolio means that you will deplete the balance much sooner. If you must make the same withdrawals, at least calculate what impact that will have on your current portfolio.

 **Consider postponing retirement or going back to work.** If you haven't retired yet, you may want to postpone retirement until you are sure your investments will provide enough income for retirement. Those who are already retired may want to consider going back to work on at least a part-time basis to avoid withdrawing too much from investments.

 **Build up a reserve of investments not tied to the stock market, totaling three or four years of retirement expenses.** With this reserve, you won't have to sell your stock investments during market declines.

 **Withdraw funds in a tax-efficient manner so they last longer.** In general, you should withdraw taxable investments first, so that your tax-deferred investments can continue their tax-deferred growth. In most cases, however, you will need to start taking minimum required distributions from your tax-deferred investments by age 70 1/2.

 **Reassess your asset allocation.** The recent stock market fluctuations may have made you realize that your portfolio contains too much risk. While you may not want to make major asset allocation changes immediately, you can take steps to gradually add diversification to your portfolio.


 **Decide whether you want a professional to manage your investments.** In volatile markets, you may feel more comfortable allowing an investment professional to make investment decisions for you. ○○○


## Assessing Your Investment Risk Tolerance


**A**lthough a high-risk portfolio may look good on paper, how those investments will affect your behavior and your emotional state should be taken into consideration. If those high-risk investments cause you significant worry or anxiety over potential market declines, you won't be comfortable owning them.

One approach to develop an investment portfolio that reflects your individual risk tolerance is to consider your investment income needs and your attitude about the potential changes in investment values. If your standard of living is dependent on investment income, your portfolio should be concentrated in investments that provide stable and predictable income. However, if your living needs are covered through employment income, it may make more sense to take a little more risk with your investments, choosing investments with greater growth potential over the long run.


While there is no simple way to determine what risk level fits your emotional makeup and attitude, there are some questions you can ask to gain a better understanding of what type of investor you are:


 Are you confused about investment basics?

 Are you more comfortable with saving than investing?

 Do market fluctuations cause you anxiety? Is that anxiety enough to disturb your day-to-day activities or your sleep?

 Do you require income from your investments?

 Is your financial situation unable to handle short-term losses?

 Are you fearful of losing your assets?

If you answered yes to most of these questions, you are likely to be a conservative investor — someone who is better off with lower-risk investment choices. On the other hand, if you answered no to most of these questions, you may be an aggressive investor and investments with higher return potential may be a better fit for you. Higher reward potential is subject to greater risk of loss of principal.

By knowing yourself and understanding your financial needs and goals, you will be better able to gauge how you may react to market fluctuations. In turn, this will help you determine what levels of risk to assign to your portfolio to help you meet your financial goals. Please call if you'd like to discuss your risk tolerance in more detail. ○○○

## Segregating Your Goals

Your willingness to assume risk with your investments is not necessarily a static concept. You may be less willing to take risk with investments designated for an essential financial goal, while you may be more willing to take risk for nonessential goals. However, those varying risk levels may be difficult to assess if all of your investments are commingled in one account.

For instance, assume you have three goals — to ensure you have enough funds to support yourself through retirement, to send your children to college, and to purchase a vacation home. The most crucial goal is to ensure you don't run out of money during retirement. Thus, you want a high level of assurance that you'll reach that goal, devoting a substantial portion of your resources to the pursuit of it. Your investments for that goal are likely to be somewhat conservative, especially as you approach retirement age.

The next important goal is sending your children to college. You have more limited resources to devote to that goal, plus your children can pay part of the costs themselves. You may be willing to assume more risk with your investments to increase the likelihood of reaching this goal.

Your goal for a vacation home is clearly last, so you may have few resources to devote to it. You may be willing to use very aggressive investments since that may be the only way you can achieve that goal.

The point is that your willingness to assume risk is not static. It will vary depending on how important each goal is to you and how much you can designate to that goal. Commingling all of your investments for all goals in one account may make it difficult to analyze your investments in this manner. Thus, you might want to set up separate accounts for each goal. Please call if you'd like to discuss this concept in more detail. ○○○

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## Market Data

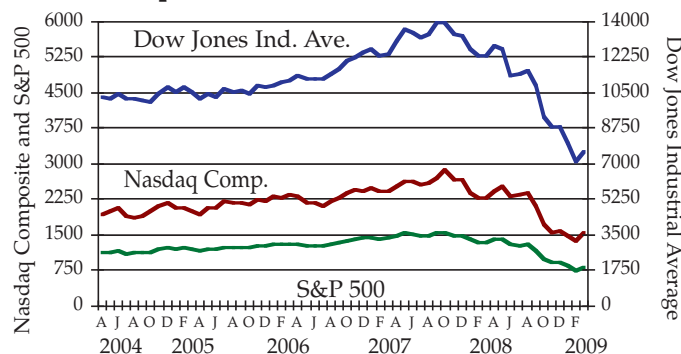


	Month End			% Change	
	Mar 09	Feb 09	Jan 09	YTD	12 Mon.
Dow Jones Ind.	7608.92	7062.93	8000.86	-13.3%	-38.0%
S&P 500	797.87	735.09	825.88	-11.7	-39.7
Nasdaq Comp.	1528.59	1377.84	1476.42	-3.1	-32.9
Wilshire 5000	8113.14	7473.97	8335.64	-10.7	-39.1
Gold	916.50	952.00	919.50	8.2	-1.8
				Dec 08	Mar 08
Prime rate	3.25	3.25	3.25	3.25	5.25
Money market rate	0.33	0.70	1.14	1.84	3.11
3-month T-bill rate	0.20	0.30	0.15	0.05	1.44
20-yr. T-bond rate	3.78	3.80	3.52	3.04	4.22
Dow Jones Corp.	7.04	6.87	6.58	7.16	5.80
Bond Buyer Muni	5.59	5.58	5.75	6.02	5.24

Sources: *Barron's*, *Wall Street Journal*

## Stock Indices

April 2004 to March 2009



Past performance does not guarantee future results.

## Thoughts about Retirement Planning

Over the next five years, retirement account roll-overs are expected to nearly double, from \$260 billion recorded last year to nearly \$500 billion in 2013. IRA assets are also expected to climb from \$4.7 million in 2007 to \$8.7 trillion in 2013 (Source: Financial Research Corporation, August 2008).

A survey of workers age 45 and older found that more than

60% expect to delay retirement if economic conditions do not improve. More than one quarter of workers (28%) said that their retirement savings were inadequate before the economy started deteriorating (Source: AARP, 2008).

According to a new study, an average 65-year-old man planning to retire this year with employer-sponsored health insurance will need to have saved at least an additional \$122,000 to have a

90% chance of fully covering his future health costs. The number is \$140,000 for a woman and \$235,000 for couples. This figure does not include any long-term-care expenses (Source: Employee Benefit Research Institute, 2008).

Only 10% of IRA-eligible taxpayers contribute to an IRA (Source: Employee Benefit Research Institute, 2008).  
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