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Financial Briefs

FEBRUARY 2009

Your Financial Road Map

Are 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

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Assisting Your Parents with Their Finances

Discussing financial matters with your parents can be difficult. You don't want to seem concerned about how much money they may eventually leave you, while they may fear you are interfering in their lives. Yet, without discussing these matters beforehand, you may have trouble finding financial records or determining their wishes if you need to take over their finances.

Consider discussing financial matters with your parents when they are in their early 60s. Include all immediate family members to prevent future misunderstandings, making sure to cover the following:

- **Where are personal records kept?** You don't need to know specifics, but you should find out where important records are located. Determine where details about insurance policies, investments, deeds, birth and marriage certificates, pension information,

bank statements, estate planning documents, credit card information, and outstanding debts are kept.

- **Who are their advisers?** Ask for a list with names, addresses, and phone numbers of all advisers and physicians. Get details about medical conditions and medications being taken.
- **What are their monthly income and expenses?** This will help you determine whether they have sufficient income to pay bills. If they don't, you may be able to help them change investment selections or find ways to increase income.
- **Do they have adequate insurance?** Make sure your parents have adequate insurance coverage and have made provisions for long-term-care needs. Have them investigate long-term-care insurance when they are still

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Financial Road Map

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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 take steps to make that commitment a reality. For instance, you may decide to increase your saving 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 program. 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.

Stretching Your Salary

In the current economic climate, many employers are cautious about increasing expenditures. That means your best bet for the near term is to make your current salary stretch farther. Some tips to consider include:

- **Deposit your paycheck directly into your bank account.** That way, you'll be less tempted to cash part of your paycheck and spend it.
- **Contribute to your 401(k) plan.** Not only will this help with your retirement goals, it can help with your current financial situation. Any contributions you make are deducted before income taxes (unless contributing to a Roth 401(k) plan), so you don't pay any current federal income taxes on your contributions. In addition, many employers match some portion of your contribution, which can substantially increase your 401(k) balance at no cost to you.
- **Check out your 401(k) investments.** Your job isn't finished once you make contributions to your 401(k) plan, since you are also responsible for investing

those contributions. Make sure you are familiar with all options in your plan and review those options at least annually. Even if you only increase your rate of return by a percent or so, that can make a significant difference in your ultimate 401(k) balance over several decades.

- **Review your health insurance coverage.** If your employer offers more than one option, review those choices carefully to select the most appropriate insurance for the least cost. When your spouse also has coverage, review options from both employers and determine which is the best alternative for you.
- **Take a look at other fringe benefits offered by your company.** Many employers provide a variety of fringe benefits. Usually, you do not have to pay any income taxes on these benefits. Thus, carefully assess your company's fringe benefit package to ensure you are utilizing all appropriate ones.

Please call if you'd like to discuss this topic in more detail. ■■■

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. ■■■

Assisting Your Parents

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healthy and young enough to qualify for reasonable premiums. If they aren't interested in coverage, but you fear the burden of long-term care will fall on you, you may want to obtain the insurance for them.

- **Do they have up-to-date estate planning documents?** Don't ask for specifics, just make sure documents are in place so their wishes can be carried out. Find out if they have a durable power of attorney and health care proxy. With a durable power of attorney, they designate someone to control their financial affairs if they become incapacitated. If your parents are concerned that this person may assume control prematurely, suggest leaving the document with their attorney, who can deliver it to the appropriate person when necessary. A health care proxy delegates health care decisions to a third person when your parent is unable to make those decisions. Usually, this document also outlines procedures to be used to prolong life.
- **What are their preferences for the future?** Find out where your parents would like to live if they're not physically able to live in their current home. Do they want to move in with relatives or live in an assisted-living facility? Discuss in detail what procedures they want performed to prolong life in the event of a terminal illness. Determine their preferences for funeral arrangements.

While these topics are sometimes not easy to discuss, they are important to know in case you need to help your parents with their financial matters. ■■■

Raising Financially Responsible Children

It's not unusual to have concerns about the impact money may have on your children's lifestyles. Even beyond basic financial responsibility, you want to make sure that wealth does not remove your children's incentives to work hard, to pursue meaningful careers, or to care about other people. How do you help your children obtain the values you'd like them to have? Consider these tips:

- **Lead by example.** Of course, you want to have many discussions with your children about the values you consider important, including the value of hard work, caring about others, and preserving their legacy. But it is equally important to ensure that your behavior supports these values, since children watch their parents' actions closely. Make sure your handling of spending, debt, asset purchases, investments, and charitable donations support the behaviors you are trying to instill in your children.
- **Teach financial basics.** Encourage your children to take finance courses in high school and college that help explain the basics of investments and personal finance. Include your children in discussions about significant financial decisions, such as which investments to select, which charitable organizations to support, and which major assets to purchase.
- **Allow your children to make their own financial decisions.** Don't just give them money every time they want to make a purchase. Give your children an

allowance that increases as they get older to cover certain expenses, such as entertainment, lunches, clothing, and gasoline for their car. Let them learn how to spend the money, but don't give them extra money if they make bad choices. It is important for your children to learn from their mistakes. You can discuss options with them, but the final decisions should be theirs.

- **Encourage philanthropic values.** If charitable causes are important to you, require your children to contribute a certain percentage of their allowance to a charity of their choice. Get children involved with charitable organizations that you are involved with. If you have a charitable foundation, find a role for your children in the foundation. Include children in discussions of how family funds will be used for charitable causes.
- **Counsel your children on continuing your financial legacy.** You should have plans in place to help ensure your financial legacy lasts for an extended period of time. That could include setting up trusts that will distribute funds to your children gradually, such as in thirds when each child reaches age 25, 30, and 35. Or, you may want to structure distributions to promote behavior that is important to you. Once your plans are in place, explain them in detail to your children so they understand what you are trying to accomplish. ■■■

Business Data



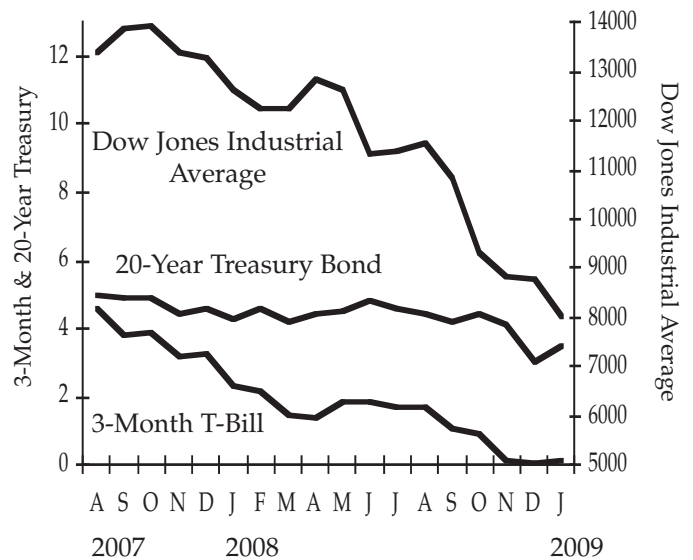
Indicator	Month-end				
	Nov-08	Dec-08	Jan-09	Dec-07	Jan-08
Prime rate	4.00	3.25	3.25	7.25	6.00
3-month T-bill yield	0.15	0.05	0.15	3.28	2.34
10-year T-note yield	3.38	2.26	2.56	4.12	3.72
20-year T-bond yield	4.14	3.04	3.52	4.58	4.32
Dow Jones Corp.	8.12	7.16	6.58	5.89	5.44
GDP (adj. annual rate)#	+2.80	-0.50	-3.80	+0.60	+0.60

Indicator	Month-end			% Change	
	Nov-08	Dec-08	Jan-09	YTD 12 Mon.	
Dow Jones Industrials	8829.04	8776.39	8000.86	-8.8%	-36.8%
Standard & Poor's 500	896.24	903.25	825.88	-8.6%	-40.1%
Nasdaq Composite	1535.57	1577.03	1476.42	-6.4%	-38.2%
Gold	812.50	846.75	919.50	8.6%	-0.4%
Unemployment rate@	6.50	6.80	7.20	—%	46.9%
Consumer price index@	216.60	212.40	210.20	—%	-0.4%
Index of leading ind.@	99.40	99.20	99.50	—%	-26.5%

— 2nd, 3rd, 4th quarter @ — Oct, Nov, Dec

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

18-Month Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield August 2007 to January 2009



News and Announcements

Be Prepared for a Layoff

In these economic times, job security is a notion from the past. All workers should be prepared financially for the possibility of a job layoff. Here are some tips to help with that process:

- **Stay on the lookout for signs of potential cutbacks.** Those signs could include layoffs at competitors, declining financial performance, top management changes, or a major tightening of expenditures. Under federal law, only companies with 100 or more workers are required to give 60 days notice of layoffs or plant closures.
- **Set up a cash reserve of at least three to six months of living expenses.** It typically takes at least that long to find a new job. It may take even longer in this economic environment or if you are middle-age or older.
- **Apply for a home-equity line of credit or other type**

of loan. It is usually easier to obtain credit when you are employed, so get borrowing options in place to help during a layoff.

- **Look for ways to cut your living expenses.** Avoid nonessential expenses like extravagant vacations, clothing, and entertainment. Even if you aren't laid off, you can use those savings to increase your retirement savings.
- **Keep your resume up to date.** While you may not want to actively start looking for another job, be aware of the current job market and expand your professional contacts.
- **If faced with a layoff, don't just accept your employer's severance package.** Try to negotiate for more severance pay or for an extension of your health insurance benefits. Also check whether the company offers services to help you find another job.

FR2008-1027-0053

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