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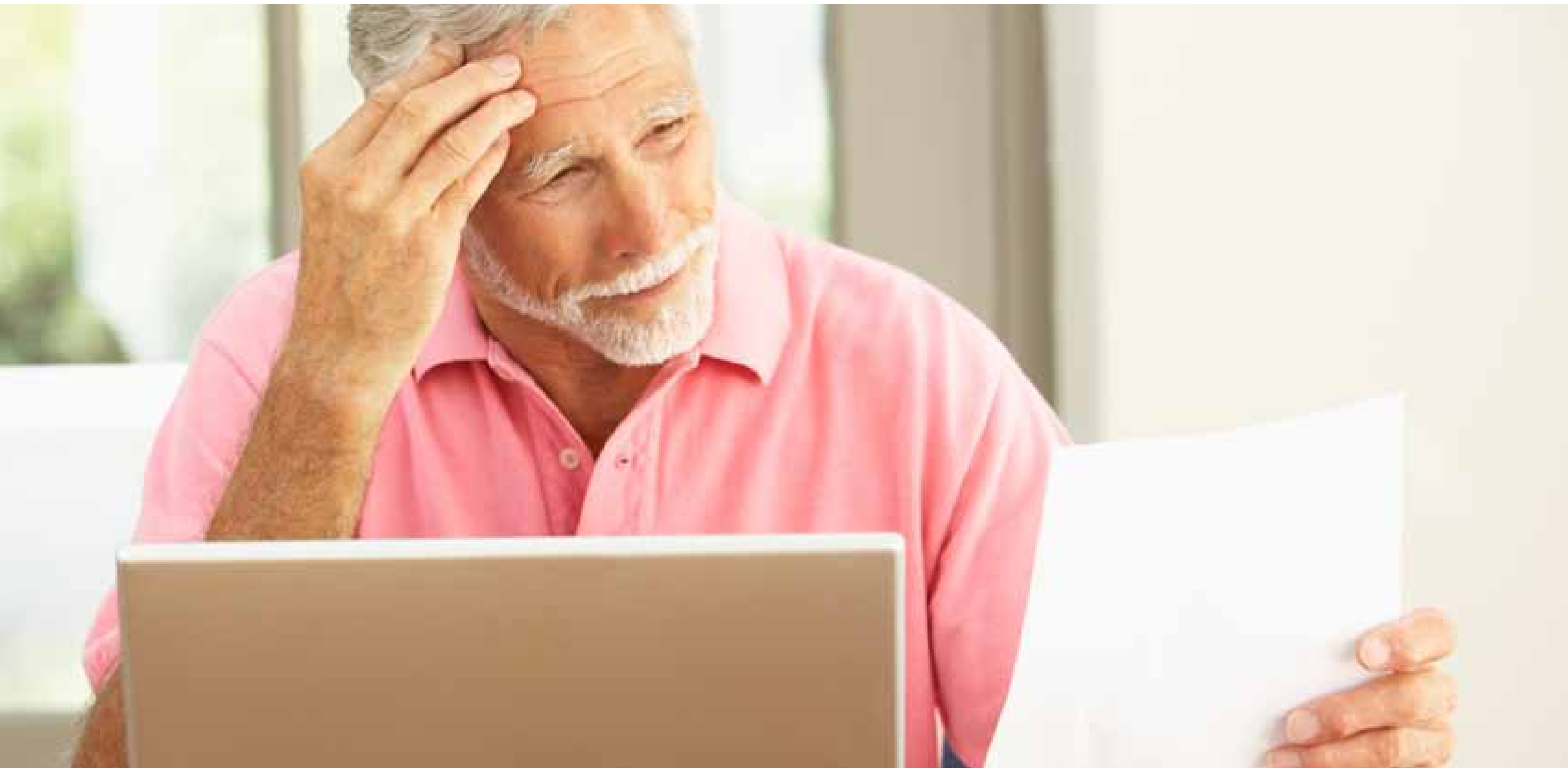
WEALTH MANAGEMENT ADVISOR



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Watch out for potholes that could sidetrack your plans

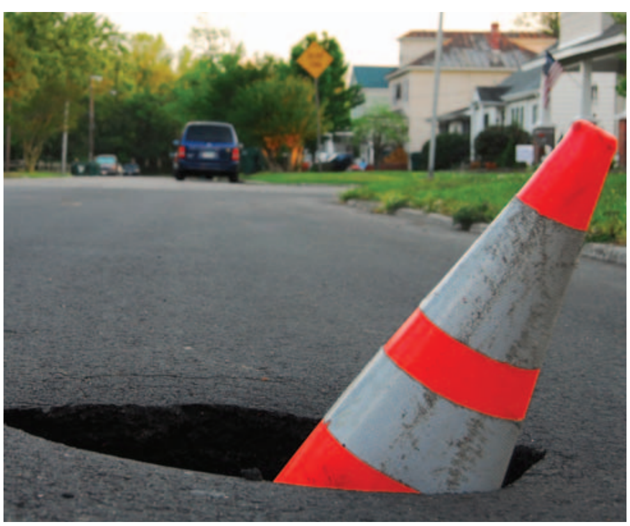
For many, 65 is the traditional age to consider retiring, or at least cutting back on work activities. Even if you love your work and have no intention of retiring when you reach that threshold, it's nice to have choices, and you might wonder if age 65 is a realistic target for you — especially now that the "full" retirement age for Social Security is older. (See "What about Social Security benefits?" on page 3.)

Fate, too, often intervenes in unexpected ways. A serious illness, accident or other misfortune could radically alter how long you can reasonably expect to work. Here are some key factors to consider as you contemplate various retirement scenarios.

Outliving your money

Many people don't realize how long their savings might need to last in retirement. Medical advances have resulted in people living longer than they used to.

The odds are even that at least one member of a healthy 65-year-old couple will live to age 92, and there's a 25% chance that at least one of them will reach age 97, according to mortality figures from the Society of Actuaries. Consequently, if you make it to age 65 in reasonably good health, there's a possibility of needing 30 years or more of retirement income.



The likelihood of a lengthier retirement and the uncertainties of the financial markets can argue for being conservative about withdrawing money from your retirement nest egg. For example, during the 38 years from 1972 to 2009, a person with a $500,000 portfolio consisting of 50% stocks, 40% bonds and 10% cash would have had good results with a 4% annual withdrawal rate but run out of resources far too soon by withdrawing 6% or even 5%.

The moral here: Increasing the pace of withdrawals by seemingly small amounts can have a huge effect over long periods of time. If you start conservatively, you can always boost withdrawals should the markets perform better than you anticipated. On the other hand, it's harder to undo the damage if you begin by withdrawing assets too quickly.

Fighting inflation

Even a relatively subdued level of inflation can meaningfully curb a retiree's purchasing power. For instance, if you start your retirement with $500,000, you'd have only $304,770 of purchasing power left in 25 years, assuming a mere 2% inflation rate. If prices were to rise at a 4% clip — only slightly higher than the recent inflation rate of 3.5% — you'd have just $187,560 of buying power after the same length of time.

So, the message here is: Don't underestimate the impact of inflation — even seemingly low levels.

What about Social Security benefits?

Social Security might not form the centerpiece of your retirement plan, but it can still be a useful component of your postcareer income. You can begin receiving Social Security benefits as early as age 62. However, if you elect to receive Social Security before what the government deems your "full retirement age," your monthly payment will be correspondingly reduced. And age 65 is no longer "full" retirement age for those born after 1937; it goes up incrementally thereafter.

For example, a person born in 1951 has a full retirement age of 66. If that person were due $1,000 a month at full retirement age but elects to begin getting payments in 2013 at age 62, the monthly payment would be $750 per month. Also, limits on how much you can earn without reducing your benefits apply if you take benefits early.

The current full retirement age is 66 for those born from 1943 through 1954, but those born later have a higher full retirement age. For instance, if you were born in 1960 or later, your full retirement age is 67. Given the government's ongoing struggle to keep Social Security solvent over the long term, don't be surprised if these age thresholds get revised upward at some point.

Also keep in mind that, if you delay benefits beyond your full retirement age, you'll receive *larger* monthly payments. Which alternative turns out to provide the greatest lifetime benefit will depend primarily on how long you live.

Incurring unexpected health care expenses

Inflation can be an even more powerful force when it comes to health care costs: They've been rising faster than the rate of overall inflation.

Health care expenses can scuttle even the best-laid retirement plans. According to 2011 data on health care cost estimates, a typical 65-year-old couple retiring in 2011 will need $230,000 to cover health care costs throughout retirement, even assuming access to Medicare.

That's not including the expense of long-term care, which currently averages about $70,000 per year for a nursing home. For this reason, you might want to consider purchasing long-term care insurance while you're still relatively healthy.

Maintaining adequate growth potential

The final point is to make sure your portfolio is positioned for adequate growth in the years leading up to retirement and even afterward. Being overly conservative can be tempting, given the extreme volatility the stock market has experienced during the past decade.

However, even accounting for all of that volatility and recognizing that the future may not necessarily look like the past, returns of stocks have still beaten those of bonds over most longer periods of time. The challenge is to have enough exposure to stocks to provide for healthy growth while keeping volatility at a level you can live with, bearing in mind your individual risk tolerance, time horizon and resources.

Reaching your retirement goals

The question of when you should or can retire has no easy answer. Whatever your age, your financial advisor can help you sort out what's most important to you and assist you with mid-course corrections to put you on track to reach your retirement goals sooner. ■

Hands off!

4 asset-protection strategies to consider including in your wealth management plan

When it comes to forming a comprehensive wealth plan, including asset-protection strategies is a must. Executed properly, they can reduce the chances of creditors and litigants gaining access to your personal assets. Because the term "asset protection" is rather vague, let's look at four specific strategies.

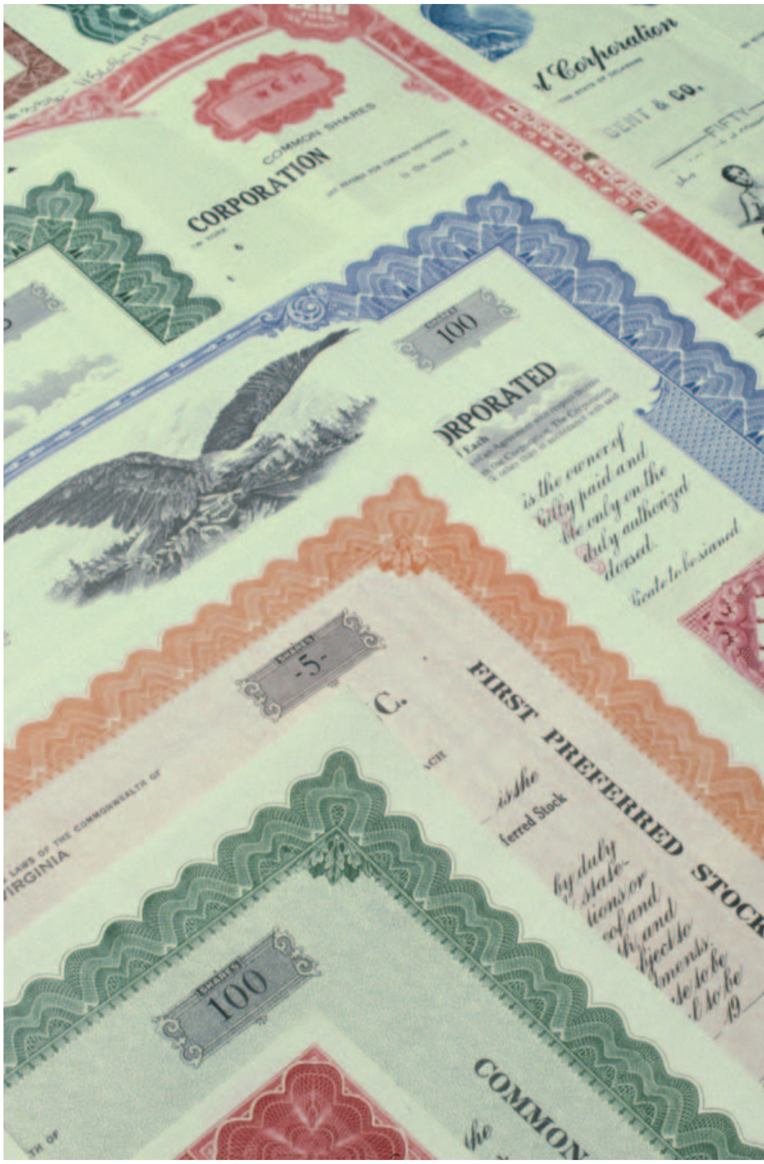
1. Review your insurance coverage

The first line of defense in your asset-protection strategy is having complete insurance coverage. Liability insurance is a critical front-line protection for your assets. You certainly already have such coverage as part of your homeowners' and auto policies. But is your coverage sufficient?

When determining how much coverage you need, consider the property's or vehicle's value and the likelihood of a liability-generating event. Consider purchasing an umbrella policy that can provide supplemental coverage at a smaller cost than purchasing additional coverage for each property or vehicle.

Because a serious accident or illness can quickly deplete your assets, adequate health insurance is key to any asset-protection plan. Disability insurance, while frequently overlooked, can protect your earning power in the event of extended health challenges.

Life insurance proceeds can help preserve wealth for your heirs if estate taxes are due at your death. If you're a business owner, life insurance can also supply working capital for the continuation of your business and provide wealth equalization for heirs not involved in your company.



2. Shelter assets in retirement accounts

With proper planning, Employee Retirement Income Security Act (ERISA) provisions can be implemented to keep creditors from delving into your retirement fund. Examples of plans covered by ERISA include qualified profit-sharing plans, defined benefit plans and 401(k)s. Contributing to such a plan may be done primarily to fund your retirement in a tax-efficient manner, but asset protection is an important added benefit.

If yours is a non-ERISA plan, creditors can access plan assets unless a state law prevents them from doing so. IRAs and qualified plans in which the only participant is the owner (or also the owner's spouse) are examples of non-ERISA plans. Check to see if your state provides IRAs with asset-protection capabilities.

3. Separate business interest into different entities

If you own a business, consider dividing it into separate entities to reduce risk. However, be sure to balance the benefits of forming separate entities with the complexity of setting up each entity, the costs involved and the burden of ongoing administration. How far you should go in segregating your business's assets depends on the level of your litigation risk and the value of the assets you could lose in a lawsuit.

If you have strong family relationships, consider divvying up ownership among your family members. If your company is structured as a corporation, whoever holds more than 50% of the voting stock has control. So, transferring voting stock to family members through direct gifts may be a viable asset-protection strategy. In addition to preventing a creditor from taking control of the corporation, dividing corporate stock in this way can provide substantial income and estate tax savings.

Limited liability companies (LLCs) and limited partnerships (LPs) also provide valuable asset-protection opportunities. Although LLCs and LPs are similar, they have distinct differences. In an LLC, all owners receive the benefit of liability protection from business debts and claims, and none are excluded from management functions. In an LP, on the other hand, the general partners are personally liable for business debts and the limited partners are excluded from managing the business.

4. Create a trust

Certain trusts can provide another line of defense in asset protection. Although revocable grantor trusts (often referred to as "living trusts") provide no legal protection from creditors, irrevocable trusts generally offer some protection.

When you place property in an irrevocable trust for the benefit of your spouse, children, grandchildren or other heirs, future creditors generally can reach the assets only by convincing a court that the transfer was made to intentionally "hinder, delay or defraud" current or potential creditors of the grantor, and that you became insolvent as a result of the transfers to the trust. The downside of such trusts is that you no longer have access to the assets in the trust.

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If you'll need access to the trust assets, an alternative is to set up an asset-protection trust. This is typically established in an offshore jurisdiction (or one of the handful of states that allow such a trust) to insulate assets against creditor attack.

Keeping what's yours

Because of today's uncertain economic environment and litigious society, incorporating asset-protection strategies into your wealth plan is a smart move. Your financial and legal advisors can help you determine which ones are appropriate for your situation. ■

Should you reinvest dividend income?

Reinvesting dividends can make your investments grow faster through compounding. For many investors, that is a compelling enough reason to do so. However, reinvesting dividends may not be a good call in all situations.

The benefits

First and foremost, dividend reinvestment continually boosts the number of shares an investor owns. And the dividends on the additional shares allow you to purchase more shares. And so on, and so on. But this compounding isn't the only potential benefit of dividend reinvestment.

Reinvesting dividends also helps you automatically acquire shares at different price points. This allows you to purchase more shares when prices are lower and fewer when valuations are higher.

What's more, when you reinvest, it's easier to calculate the true return of an investment. Why? Because, if you've reinvested dividends all along, that income component already is reflected in your current holdings.

Another benefit is that many companies offer dividend reinvestment plans to make reinvesting as painless as possible. When you use these plans, there are no transaction costs, as there typically are if you choose to receive your dividends as cash and then make a purchase through a brokerage account.

Reasons to consider *not* reinvesting

Despite these advantages, there are legitimate reasons for many investors to forgo reinvesting.

For example, you might need the dividend income to cover current spending needs.

Alternatively, you and your advisor might decide to build up a cash balance to make periodic rebalancing of your portfolio easier. In that case, forgoing dividend reinvestment can allow you to have the necessary cash on hand if, for example, you need to increase your stake in certain asset classes as part of the rebalancing process.

Another consideration is that reinvesting requires extra record keeping for taxable accounts, in which you'll have to keep track of your cost basis for each lot of stock or other securities purchased, including each reinvested dividend.

The good news is that this formerly onerous task is being made considerably less daunting. New tax rules require brokerage firms to track and report your cost basis to the IRS.

These rules are being phased in: Starting in 2011 the cost basis of stocks acquired during the tax year had to be reported to the IRS; in 2012 the same thing will happen with mutual funds, exchange-traded funds and dividend reinvestment plans; and in 2013 fixed-income investments and options will follow the new reporting requirements.

Not an "either-or" decision

As you consider whether to reinvest dividend income, you might find that some kind of middle position may suit your needs best. In other words, you might decide to reinvest a sizable portion of your dividend income to take advantage of compounding — especially in retirement accounts — while designating some dividends for income or other purposes. Your financial advisor can help you understand the potential benefits or consequences that may apply to your situation. ■

A blended family can benefit from a QTIP trust

When Ted and Barb married, they became a "blended" family, because each had children from a previous marriage. Ted has significantly greater wealth than his wife, and he wants to be sure it ultimately will be distributed to his biological children per his wishes. But he also wants to provide for Barb and help her provide for her own children while they're growing up.

These estate planning goals essentially are competing — to the greater extent one is achieved, to the lesser extent the other will be achieved. Ted's estate planning advisor suggests using a qualified terminable interest property (QTIP) trust to keep the family harmonious and balance these interests.

A QTIP trust is a marital trust, but a unique variety. How so? A marital trust qualifies for the estate tax marital deduction; thus, any assets Ted transfers to the trust won't be taxed at his death. The QTIP trust is unique in that it will provide Barb with income for life but maintain the principal for Ted's biological children.

After Barb's death, the QTIP trust assets will be included in her taxable estate, even though they'll pass to Ted's children per the trust's language. If the value of Barb's estate (including the QTIP trust assets) is more than her available estate tax exemption at the time, her estate will be liable for estate tax.

Ted can minimize the potential estate tax hit by transferring some of his assets directly to another trust for his children's benefit. In this case, a credit shelter trust may be appropriate because it can also provide income to Barb, but the transfer is taxable for estate tax purposes. This allows Ted to take advantage of his own estate tax exemption.

To determine if a QTIP will be beneficial for your blended family, talk to your estate tax advisor.

Your source for customized investment and financial planning

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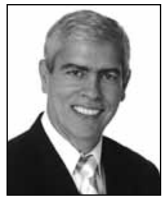
By working with our experienced team of advisors, you will benefit from the independent and objective perspective necessary to make your financial vision a reality.



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Stephanie serves as a financial consultant and operations analyst for the firm. She is responsible for quarterly reporting and billing, maintaining the firm's portfolio management system, and ensuring the accuracy of account data. Stephanie also assists with financial planning, portfolio analysis and marketing.

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