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SENIORS/BOOMERS NEWSLETTER

"THE RETIREMENT EXPERTS"

February 2011

"Nothing in life is so exhilarating as being shot at and missed" Winston Churchill

This is what it feels like watching the stock market and world events at the same time. Tie those into the economy and you really get a sense of what it must feel like to jump out of an airplane with your parachute cradled in your arms.

There is so much media attention to markets today that you seemed to be pulled in every direction. Listening to 'talking heads' makes you realize why they're called talking heads. Everyone seems to have an opinion that runs contrary to the previous guest just escorted off the set.

So, knowing that most people are capable of making up their own minds…given the facts… I thought I'd like to run through a few here. Some give me comfort; others give me pause.

☹ U.S. national debt just crossed over the $14 trillion line.

☹ The White House is forecasting a $1.416 trillion deficit for fiscal 2011. That's more than a third of the overall budget of $3.8 trillion.

☹ Notwithstanding what we continue to hear about inflation being benign, a recent report studied price increases for a few items many of us continue to purchase. For example, between 2000-2010,

^homeowners insurance is up 108%

^real estate taxes have climbed 77%

^home heating oil has climbed 150%

^electricity is costing us 50% more

^gas has more than doubled

^Medicare Part II premiums are up 143%

^potatoes are costing us 67% more

^the cost for a loaf of bread is +50%

^even the humble egg goes for 67% more

I don't know, but that kind of sounds like inflation to me. You know what they say: the only thing in life that rises and rises and never comes down is our age, and even that stops rising one day. Rising prices are here to stay.

On a happier note,

☺ Corporate profits as a percentage of GDP are at an all-time high. Although this doesn't put any money directly into our pockets, rising stock prices will.

☺ QE2 is well underway injecting a great deal of money into the economy…and much of that money is finding its way into the stock market.

☺ Since the November elections we find ourselves with the White House in the hands of one party and Congress in the hands of the other. This typically is good for stocks.

☺ The current Administration is becoming decidedly less anti-business…which augers well for the markets.

☺ Unemployment is down a little bit…but it's going in the right direction.

☺ The extension of the Bush tax cuts has removed edginess from the market for two more years.

☺ New home sales are appear to be improving.

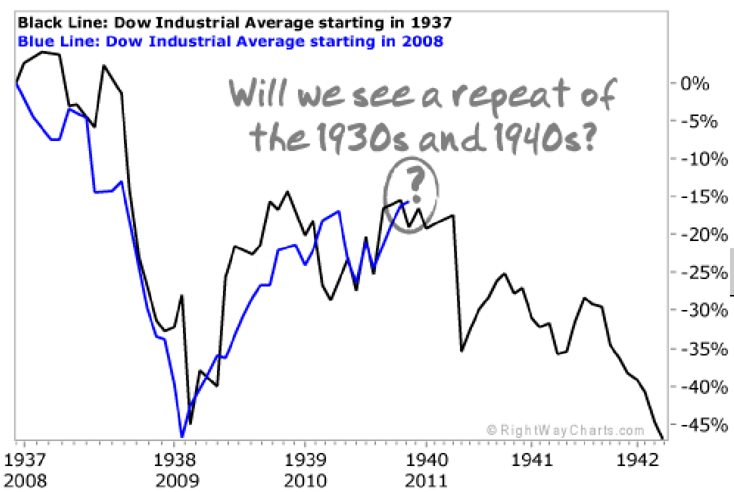
Some of the positive news however, comes with a few caveats:

I think, barring some major world event (and we may have one right now in Egypt), the market is poised to go higher in the short term. The stimulus spending we are getting from quantitative easing is going to act as a tailwind for the economy…until it stops in June. The second half of the year may not be quite as rosy.

Although unemployment is getting somewhat better, it has not reached what we could call a healthy state yet. In fact, Chairman Ben Bernanke has said that the Federal Reserve feels that the job market will need five more years to recover.

Housing seems to be putting in a bottom in several markets, however; RealtyTrac has stated that about 3 million homes have been repossessed since 2006 and they expect another 3 million between now and 2013.

I came across a very interesting chart produced by Stansberry Research. It sort of gives you food for thought:



So where the markets go this year is anybody's guess, but you can and must take steps to weather a potential storm. You can't go out and bury your retirement funds in the back yard – inflation will eat it all away. You should stay the course and make the necessary changes to protect your investments.

WHAT TO DO NOW

1) Only invest in companies with strong balance sheets and no debt.

2) Buy dividend paying stocks. They are where the money goes to in a flight to quality.

3) Corporate, investment grade, bonds are paying much more than Treasuries…but keep their maturities ultra-short.

4) Diversify and Asset Allocate among stocks, bonds, countries, commodities, currencies, precious metals, etc.

5) To hedge against a falling dollar invest in multinationals that get a large share of their profits & revenues from overseas.

6) The Food & Agriculture Organization is predicting much higher global food prices. World population will grow 27% in the next 20 years and arable land will shrink by 18%. Buy companies that help feed the people.

7) JP Morgan Chase chief, Jamie Dimon, has warned that he expects more U.S. municipalities to declare bankruptcy and urged caution when investing in the $2.9 trillion public-debt market. State governments are also in a financial mess. In fact, Illinois just increased their state tax rate by over 80%. They said it will be temporary! But, temporary tax increases are like unicorns. They exist only in legends and fantasies.

MISCELLANY ☺

☺You can access a very interesting article published by Morningstar entitled "Five Retirement Pitfalls to Avoid" by going to this link
http://news.morningstar.com/articlenet/article.aspx?id=366837

☺If you're searching for a web site that finds ALL the lowest air fares (including companies that don't pay commissions for referrals), go to:
www.momondo.com

☺How about car rentals? Check them out at www.autoslash.com

☺Hotels anyone? www.hotelscombined.com

☺Here's a sign of the times. In 1980, 28 million people lived in a multigenerational home (2 or more adult generations living together). By 2008, that figure had risen to 49 million American residents.

☺Finally, here's one of those 'it kind of restores your faith in humanity' types of stories. Warren Buffet, legendary investor and chairman of Berkshire Hathaway, who has repeatedly said that he 'tap dances to work every morning' has a commanding salary of $175,000/year. I wonder if I could hire him???

Still Working & Over 70 ½ ?

After you turn 70½, the IRS specifies that you must begin taking Required Minimum Distributions (RMD) from your traditional IRAs. But what if you are still working or have other types of retirement accounts? Will you have to start removing money and paying more taxes?

Anyone who is over the age of 70½ is required to initiate the liquidation of their IRA, SEP-IRA, and Simple-IRA, regardless of employment status. Roth IRAs, on the other hand, are exempt from this rule and do not have any distribution requirement. The regulations on qualified retirement plans, though, are somewhat more involved.

Qualified plans are those offered through an employer. These can include 401(k)s, 403(b)s, profit sharing, and Keogh plans. If you are an employed participant in such a plan, and over the age of 70½, you can delay the RMD until April 1 of the calendar year after you retire. That is, as long as you do not own 5% or more of the business.

There could possibly be more good news for employed seniors who also own IRAs…the government allows rollovers from IRAs to most employer-sponsored qualified plans. This means that if you are required to take a RMD from your IRA and still work, you might be able to roll your account into your employer's plan. Then you could temporarily avoid taking distributions and paying the associated income tax.

Even though qualified plans are allowed to accept money from IRA rollovers, they are not required to. Therefore, you should check with your employer's benefit department before you undertake this tax-savings strategy.

Still have questions on IRA rollovers? Write them down and either call, fax or e-mail me.

Are You at Risk of Outliving Your Money?

Could underestimating your longevity mean you'll run out of retirement money?

At age 65, the average life expectancy is 81.8 years for a man and 84.8 yeazrs for a woman. At age 75, the average life expectancy is 85.5 years for a man and 87.6 years for a woman.[1] With recent advances in medical science, it's no longer a stretch to think that you could live to be 100. In fact, the U.S. Census Bureau projects that by 2050, there will be nearly one million centenarians.

No one wants to die *sooner*, so that's great news. The problem: If your retirement plan doesn't recognize the possibility of a long retirement, then you could potentially outlive your money.

Consider the following hypothetical example. Assume you're 64 years old and earn $60,000 per year. You plan to retire next year at age 65. You've accumulated $1,000,000 in retirement savings, which you think will return a hypothetical 6 percent per year throughout your retirement. And, you have a $60,000 annual retirement need (excluding Social Security). If you have a 15-year retirement from ages 65 to 80, you'll have no shortfall in retirement funds; in fact, you'll end up with almost $696,000 to pass on to your heirs. On the other hand, if you have a 30-year retirement from ages 65 to 95, you'll run out of money at age 88. The table below illustrates how this plays out.

Hypothetical retirement savings

Age	Savings	Retirement savings needed
64	$1,000,000.00	$0.00
65	$1,059,999.94	$0.00

66	$1,058,028.28	$61,860.00
67	$1,053,905.60	$63,777.66
68	$1,047,439.82	$65,754.77
69	$1,038,425.39	$67,793.17
70	$1,026,642.42	$69,894.76
71	$1,011,855.72	$72,061.50
72	$993,813.88	$74,295.41
73	$972,248.18	$76,598.57
74	$946,871.51	$78,973.12
75	$917,377.18	$81,421.29
76	$883,437.69	$83,945.35
77	$844,703.39	$86,547.66
78	$800,801.08	$89,230.64
79	$751,332.50	$91,996.79
80	$695,872.80	$94,848.69
81	$633,968.79	$97,789.00
82	$565,137.20	$100,820.46
83	$488,862.75	$103,945.90
84	$404,596.18	$107,168.22
85	$311,752.06	$110,490.44
86	$209,706.59	$113,915.65
87	$97,795.12	$117,447.03
88	$0.00	$0.00
89	$0.00	$0.00
90	$0.00	$0.00
91	$0.00	$0.00
92	$0.00	$0.00
93	$0.00	$0.00
94	$0.00	$0.00
95	$0.00	$0.00

Source: Burling Bank. Assumes $1,000,000 in retirement savings has already been accumulated; another $60,000 is added. The money grows at a hypothetical 6 percent pear year; $60,000 (in today's dollars) in withdrawn each year. This example above is hypothetical and for illustrative purposes only. It is not meant to represent performance of any particular product.

Of course, this example above is purely hypothetical and for illustrative purposes only. It is not meant to represent the performance of any particular product. **Nor does it take into account inflation which has averaged 4.7% over the past 50 years.**

Will you run out of retirement money? We can do a complimentary analysis for you. Contact us now.

If you would like free information on any of the subjects discussed in this month's newsletter, please call my office for a free personal or telephone consultation.

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