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How Much Can You Withdraw in Retirement?

How much to withdraw annually from your retirement assets is probably one of the most important decisions you'll make when you retire. Several factors need to be considered when calculating your withdrawal rate, including your life expectancy, expected long-term rate of return, expected inflation rate, and how much principal you want remaining at the end of your life. Unfortunately, life expectancies, rates of return, and inflation are difficult to predict over a retirement period that can span decades. Keep these points in mind:

✔ **Your life expectancy.** While it's easy enough to find out your actuarial life expectancy, life expectancies are only averages. Approximately half the population will live longer than those tables suggest. How long close relatives lived and how healthy you are can help you gauge your life expectancy. Just to be safe, you might want to add five or 10 years to that age. After all, you don't want to run out of money at age 75 or 80, when you might not be able to return to work.

✔ **Rate of return.** Expected rates of return are often derived from historical rates of return and your current investment allocation. Historical rates of return are averages of returns over a period of time. You might want to be more conservative than that, assuming a rate of return lower than long-term averages. Even if you get the average return correct, the pattern of actual returns can significantly affect your portfolio's balance. For instance, if you experience higher returns in the early years of retirement when your portfolio balance is higher and lower returns in the later years when your portfolio's balance is lower, you'll have a higher ending balance than if the opposite occurred. Keep in mind that past performance is not indicative of future results.

✔ **Expected inflation.** While inflation has been relatively tame recently (2.7% over the past 10 years), it was 4.1% in 2007. Over the past 30 years, inflation has averaged 4.2% (Source: Bureau of Labor

Continued on page 3

Consider a Bond's Maturity Date

Bonds can be purchased with maturity dates ranging from several weeks to several decades. Before deciding on a maturity date, review how that date affects investment risk and your ability to pursue your investment goals. Typically, yield increases as the maturity date lengthens, since you assume more risk by holding a bond for a longer time. Investors are often tempted to purchase bonds with long maturity dates to lock in higher yields, but that strategy should be used with care. If you purchase a long-term bond knowing you'll need to sell before the maturity date, interest rate changes can significantly affect the bond's market value.

Although you can't control interest rate changes, you can limit the effects of those changes by selecting bonds with maturity dates close to when you need your principal. In many cases, you may not know exactly when that will be, but you should at least know whether you are investing for the short, intermediate, or long term. Please call if you'd like to discuss bond maturities in more detail. ❍❍❍

Will You Be Able to Work Longer?

Retiring at age 65 without working for the rest of your life is starting to look like a difficult proposition. It was already challenging due to longer life expectancies, uncertain Social Security benefits, declining pension benefits, unknown inflation rates, and low retirement savings. Then, most people's retirement savings decreased significantly over the past couple of years due to declining investment values and lower home prices. The prospect of funding a retirement that could span 30 years is looking very tough. The most common solution to the problem is to work longer than the current average retirement age of 63.

Today's workers are typically healthier and working at less physically demanding jobs than workers in prior generations, which makes working longer seem like an easy solution. But there are a number of factors that might not make that possible. First, approximately 15% to 20% of workers will not be healthy enough to remain in the work force longer (Source: Center for Retirement Research, September 2008). One study found that approximately half of those who retired early did so for health reasons (Source: *The McKinsey Quarterly*, November 2008). Second, since reduced Social Security benefits are available at age 62, a majority of workers claim benefits as soon as they are available. Finally, a significant portion of older workers no longer work for the same employer from middle age to retirement age. If workers want to remain in the work force until their late 60s, they may be forced to find a new job in their 50s or 60s.

A recent study looked at the percentage of men between the ages of 58 and 62 who were working for the same employer they had at age 50. In 1983, 75% of full-time male workers worked at the same employer, compared to only 50% in 2006 (Source: Center for Retirement Research, September 2008). If workers are leaving voluntarily, they are probably moving to better jobs with better pay, which should mean they will stay employed longer. If workers are laid off or forced out of their jobs in their 50s or 60s, they are likely to take inferior jobs at lower pay, which may mean they are less likely to stay employed into their late 60s.

While it is difficult to determine why workers changed jobs, the wages of workers who switched jobs were approximately 75% of the wages of those with the same employer (Source: Center for Retirement Research, September 2008). ❍❍❍

Buying When Prices Are Low

For some investors, a long or steep decline in the price of a stock is a signal to beware. For others, it's a temptation to pick up a bargain at a steep discount and make a handsome profit when the stock rebounds. In practice, it takes a lot of savvy to accomplish. Here are a few tips that help you know when and when not to buy.

Pay attention to the market trend. Most stocks follow the market trend. When you're investing in a stock that's become exceedingly unpopular, it stands to reason that you've got a better chance of making money when the trend is up than when it's flat or down.

Know the reasons for the stock's decline. You may think you know a company because it has a big name and has been around for a long time, but that alone is hardly insurance against its near-term demise. Before you snap up any shares, you need to do your homework and find out why the stock has declined. Is it just bad press over a minor mistake, or is the company's whole business model no longer valid?

Look at the fundamentals. If you're putting your hard-earned money into a troubled enterprise, you owe it to yourself to examine some of the key ratios that indicate the company's underlying strength. These include revenue and profit trends, return on equity, debt-to-equity ratios, and dividend payout ratios.

Check out the stock's PEG ratio. One of the most well-known barometers of the value of a stock is its price to earnings, or P/E, ratio. This compares the price of the stock to the company's per-share earnings. An even better indicator of the value is a stock's PEG, or price to earnings growth, rate. The PEG incorporates analysts' estimate of the company's future prospects to its current stock price. A PEG ratio below one means the stock may be underpriced.

Look at the stock's technical indicators. Technical analysts examine a stock's chart of price movements and changes in volume of trading over time to try to estimate which way the stock price will move in the future. While not infallible, some key technical indicators can help you gauge whether the time is right to buy a given stock.

If all of these considerations sound complicated, that's probably a good thing if it makes you hesitate. Please call if you'd like to discuss purchasing stocks in more detail. ❍❍❍

How Much?

Continued from page 1

Statistics, 2008). Inflation of 4% can have a dramatic impact on your money's purchasing power over a long retirement. For instance, at 4% inflation, $1 is worth 68¢ after 10 years, 46¢ after 20 years, and 31¢ after 30 years.

So what is a reasonable percentage to withdraw on an annual basis? To be conservative, it is typically recommended that you only withdraw modest amounts from your retirement savings, especially in the early years of your retirement. A common rule of thumb is to withdraw no more than 4% in your first year of retirement, adjusting that amount annually for inflation.

With an asset allocation of 60% stocks and 40% bonds, one study found that over a 30-year period, withdrawing 4% initially and increasing withdrawals by 3% annually would result in an 87% probability of ending that period with assets remaining. A 5% withdrawal rate would reduce the probability to 63%, with the probability going down to 38% with 6% withdrawals and 19% with 7% withdrawals (Source: *AAII Journal*, August 2008).

Consider these tips when deciding how much to withdraw:

✔ **Use a modest withdrawal percentage to ensure you don't deplete your assets.** While you should go through the process of determining how much to withdraw based on your unique circumstances, be prepared for modest withdrawal percentages. With a $1,000,000 portfolio, a 4% withdrawal equals $40,000.

✔ **Stocks can remain a component of your portfolio after retirement.** While the recent stock declines have been difficult to deal with, especially for recent retirees, stocks can still remain a component of your retirement portfolio.

✔ **Review your calculations every year.** This is especially important during your early retirement years. If you're depleting your assets too rapidly, you can make changes to your portfolio, reduce your expenses, or consider going back to work. As you age, your options tend to become more limited.

✔ **Work as long as you can.** Supporting yourself for a retirement that could span 25 or 30 years requires huge sums of money. Consider working at least a couple of years longer than originally planned. During those years, you continue to build your retirement assets, and you delay making withdrawals from those assets. Once you retire, consider working at least part-time to reduce your withdrawals from your retirement assets. Even modest earnings can help tremendously. For instance, if you earn $20,000 annually, that is the equivalent of a 4% withdrawal from a $500,000 portfolio.

Please call if you'd like help with this decision. ❍❍❍

Reevaluate Your Life Insurance

As retirement age approaches, it's usually a good time to reassess your life insurance policies to see if your needs have changed. Especially if your insurance premiums are high, you may be tempted to cancel the policy, take the cash surrender value, and enjoy retirement. Before doing that, however, make sure there aren't other uses for your life insurance policy, such as:

✔ **To leave a legacy to heirs** — Even if the money isn't needed for your children's support after your death, many people like the thought of leaving a large inheritance to their children or grandchildren.

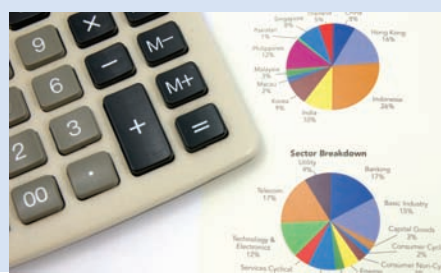
✔ **To pay your grandchildren's college expenses** — With the rapidly increasing costs of college making it more and more difficult for parents to cover this cost, you might want to use an insurance policy as a college fund for your grandchildren.

✔ **To support adult children** — There are a variety of reasons why you might want to provide financial help to an adult child. Perhaps your child is a doctor, but has significant debt from college. Or your child might work at a job that doesn't pay a substantial amount of money.

✔ **To provide a large charitable contribution** — A life insurance policy can serve a couple of purposes when making a large charitable contribution. You can name the charity as the beneficiary of the policy. Or you can leave other assets to the charity that would have been included in your estate.

✔ **To help deal with long-term-care costs** — Many individuals don't purchase long-term-care insurance, believing their spouse will take care of them. However, when one spouse dies, there may not be anyone to take care of the surviving spouse. The proceeds of a life insurance policy can be used to provide long-term care for the surviving spouse.

✔ **To optimize pension benefits** — When retiring, irrevocable decisions about pension plan benefit payments must typically be made. You could use the proceeds from a life insurance policy as a source of income for your spouse after your death. ❍❍❍



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The Fundamental Investing Principle

The whole point of an investment program is to accumulate sufficient funds to meet your financial goals. So what is the most fundamental investment principle — selecting the proper investments, accumulating the correct combination of assets, or timing the market to avoid corrections? Actually, the principle may not even sound like an investment principle at all. To help ensure you meet your financial goals, you must save significant sums of money on a consistent basis. That one habit will do more to help you reach your financial goals than anything else. The sooner you start this habit, the less you need to save. Consider the following example.

Fresh out of college and 25 years old, you decide you'll need $1,000,000 when you retire at age 65. You can save on a tax-deferred basis through your employer's 401(k) plan and expect to earn a hypothetical return of 8% compounded annually. If you start at age 25, you'll need to invest $3,860 a year for 40 years to reach your goal. However, you decide to wait 10 years. At age 35, you now need to invest $8,827 per year for 30 years. Still seems like too much? Consider that at age 45, you need to invest $21,852 annually. The really bad news is that someone waiting until age 55 will need to invest $69,029 annually to reach that goal. By postponing investing, you lose time, and with it, the ability for compounding returns on your contributions to perform much of the work of attaining your goals.*

Let time work for you instead of against you. Please call to review your investment program. ❍❍❍

** This example is for illustrative purposes only and is not intended to project the performance of a specific investment. It does not consider the payment of income taxes. Keep in mind that a plan of regular investing does not assure a profit or protect against loss in declining markets.*

Time to Straighten Out Your Finances

It's not uncommon to accumulate things over the years without taking time to straighten them out periodically. If you feel it's time to straighten out your finances, consider these steps:

✔ Make a list of all your assets and debts. List each one individually, so you have a sense of how many different accounts you're dealing with.

✔ Go through each one of your investments. Make sure you understand why you own each one. Assess the prospects of each investment and decide whether you should continue to own it.

✔ Look for ways to consolidate accounts. Try to get down to one bank account, one brokerage account, and one IRA. This can significantly reduce the time needed to review and reconcile accounts.

✔ Assess your outstanding debts. Do you really need all those credit cards? Consider keeping only one or two cards, so it'll be easier to monitor balances. Look for ways to reduce the cost of your borrowing. Is it time to take another look at refinancing your mortgage? ❍❍❍

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