citi smith barney

Dialogues » WEALTH STRATEGIES FOR DISCUSSION

Baby Boomers are redefining retirement, and we take a fresh approach to helping clients plan for this new set of values and associated challenges. We advise clients at every stage of retirement planning to be financially prepared in order to live fully during their retirement years.

SPRING 2009

COURTESY OF THE SIDES GROUP

204 N. George St. Suite 300
York, PA 17401
Phone: 717-854-5553
Fax: 717-852-4101
Tollfree: 800-343-5235
thesidesgroup@smithbarney.com
http://fa.smithbarney.com/thesidesgroup

SCOTT SIDES , CRPS®
Senior Vice President-Wealth Management
401(k) Consulting Director

BROCK HIVELY
Second Vice President-Wealth Management
Financial Planning Specialist

JOSHUA SMELTZER
Financial Advisor
Financial Planning Associate

JENNIFER STONER
Financial Advisor
Financial Planning Associate

What's on Your Life List?

Set foot on all seven continents. Learn to play Beethoven's Piano Sonata No. 14 in C-sharp minor. Run the Boston Marathon. Having a "life list" of goals you want to achieve is a growing trend—look no further than the spate of books with the phrase "before you die" in the title, Web sites such as www.43things.com or the movie *The Bucket List*, starring Jack Nicholson and Morgan Freeman.

Similar to making a life list, retirement planning also involves identifying long-term goals. In fact, many of your life-list goals and retirement goals may be one and the same. Whether your retirement is 18 months down the road or 18 years, the planning process can help you identify what matters most to you. And because unexpected or milestone events can shift priorities, both your life-list goals and your overall retirement plan may be subject to change—it is life, after all.

When it comes to discussing your goals and creating your retirement plan, it's never too soon to start. At Smith Barney, we can help guide you through the planning process and access any resources you may require to implement your plan. If you already have a plan in place, it's important to revisit it on a regular basis, to ensure that it's consistent with your life list and the retirement goals you'd like to realize.

Whether it's your life list or your plan for retirement, it's exhilarating to think about the possibilities. But the best part is the clarity you can achieve to help you focus on what really matters—getting the most out of your life. ■

By the Smith Barney Division of Citigroup Global Markets Inc.

Baby Boomers Prepare for Retirement

Just as they've revolutionized American culture, baby boomers are reinventing retirement. They are expected to live longer, play harder and—most telling of all—many are also planning to work in some way in their later years.

Not surprisingly, many are also worried about outliving their savings. With 76 million baby boomers heading toward retirement, it has never been more critical to plan for what lies ahead. Here's a checklist for what you can do now to help position smartly.

> "It has never been more critical to plan ahead."

HEALTH CARE COSTS

We're going to live longer—but we're also going to require more in the way of health care. In your 50s, if not before, start thinking about long-term-care insurance, which may pay for nursing home and in-home care. Also, factor the cost of regular health insurance into your retirement budget. And remember that when you retire from your job, the insurance policy you walk away with, called COBRA, will expire after 18 months unless you convert the policy. The bottom line: Do your homework to see what works best for you.

HAVE A SMALL FOOTPRINT

Be as trim as you can by paying off your debt and investing in capital expenses, such as energy efficiencies, that will reduce bills down the road. And test-drive your retirement plan. Figure out what kind of lifestyle you want and how much it will cost—then live on that budget for a while. Most of your day-to-day expenses probably won't differ that much. As for big-ticket items like travel or that yacht you've always wanted, be brutally honest about just how much you can afford. Also, be sure to build an emergency cushion into the spending plan you construct.

REAL ESTATE OPTIONS

Do you want to live in New Jersey or move to North Carolina? This isn't a trick question. Real estate taxes can take a big chunk out of a fixed income. Think hard about where you want to retire and the economic benefits that different regions bring to the equation in terms of real estate taxes and everything else that will add up to your cost of living. Also, if you're still working and own your home now may be the time to get a loan to finance the second home you may be thinking about buying.

CONSOLIDATE ACCOUNTS

A lot of people leave their 401(k) accounts behind when they job-hop. Before you retire, it's a good idea to consolidate your retirement accounts. With all your financial accounts in one place, you'll recognize whether you're overweighted in a particular sector. Perhaps you'll want to start rebalancing into some fixed-income investments. At this point, if you haven't developed a relationship with a financial advisor, it would be wise to do so.

TAPPING YOUR ACCOUNTS

If you withdraw money from your 401(k) or Individual Retirement Account before you're 59, in most cases you're going to pay regular income taxes on it, plus a 10% penalty tax. After that age, you can take as much money out as you wish, though you'll still pay income taxes. The glory of the retirement account is that your nest egg is growing at a tax-deferred rate. If you have to tap into any account, target your taxable accounts before you hit the tax-deferred ones. Also, be sure your beneficiary forms are up to date on your retirement accounts; the beneficiaries named will take precedence over what your will states.

UPDATE AND RECALCULATE

Make sure you have a durable power of attorney, a living will and a will. It's also important to maintain an updated list of policy numbers and current contact information. (Our firm has a form called a "document locator" that allows you to list all your account information in one place.) Be sure to add all the passwords on your accounts to the form so that your designated beneficiary or trusted advisors can access information on your computer or other electronic devices. A copy of such information should be kept with a lawyer, a trusted relative or in a lockbox.

Everything in retirement begins with a plan. But plans are fluid and circumstances change; you'll likely have to change the plan you start out with. Recalculate on a regular basis. Are you in line with your projections? What life events or circumstances have transpired that might have affected your thinking on retirement? And remember, too, that it isn't only about the money. Are you living the lifestyle you want? ■

Time Is Money:

Deciding When to Take Social Security

One of the few things you can control about Social Security is when to start collecting it. Should you take it when you become eligible at age 62, wait until "normal" retirement age (a function of your birth date) or consider delaying your benefits past normal retirement age?

To help you make this decision, consider that, on average, Americans are living longer than ever before. Clearly, the longer you expect to live, the more sense it makes to delay taking Social Security. But of course, each person's circumstances and needs are different—here's a look at how timing can affect the benefits you receive.

EARLY BENEFITS

The soonest you can collect Social Security is age 62. But taking payments at 62 will result in a permanently reduced benefit, ranging from a 20% reduction for people born in 1937 up to 30% for those born in 1960 or later. You may want to consider early benefits if you need income but prefer to leave your portfolio intact, or if you intend to invest the benefits to try to earn a more competitive return (though there's no guarantee you will do so).

FULL BENEFITS

Eligibility for full Social Security benefits varies according to the year you were born. Depending on how long you worked and how much you earned over your lifetime, the maximum benefit you could collect at normal retirement age (65 years and 10 months) is $2,185 per month in 2008. Consider waiting for full benefits if you plan to work until age 65, if you want to ensure a larger survivor's benefit for your spouse or if family history and good health may lead to an above-average life expectancy. Refer to the Social Security website (http://www.socialsecurity.gov/OACT/quickcalc/when2retire.html) to calculate your "breakeven" age, when the accumulated value of higher benefits from postponing retirement will start to exceed the value of lower benefits from choosing early retirement.

THE DOLLAR BENEFITS OF EARLY, NORMAL AND DELAYED RETIREMENT

Assumptions
Date of Birth: 01/01/1948
Current Earnings: $100,000

	Monthly Benefit in Future Dollars[1]
Start at Age 62	$1,612
Start at Age 66	$2,392
Start at Age 70	$3,680

Source: Social Security Administration Web Site: Quick Calculator

[1]Assumes increase in future prices and earnings

AGE TO RECEIVE FULL BENEFITS AND REDUCTION FOR EARLY BENEFITS

Year of Birth	Normal Retirement Age	Percentage of Full Benefits at Age 62
1937 or earlier	65	80.0
1938	65 and 2 months	79.2
1939	65 and 4 months	78.3
1940	65 and 6 months	77.5
1941	65 and 8 months	76.7
1942	65 and 10 months	75.8
1943 – 1954	66	75.0
1955	66 and 2 months	74.2
1956	66 and 4 months	73.3
1957	66 and 6 months	72.5
1958	66 and 8 months	71.7
1959	66 and 10 months	70.8
1960 or later	67	70.0

Source: Social Security Administration 2008

DELAYED BENEFITS

If you continue working beyond your normal retirement age, you will be eligible to collect a permanently increased Social Security benefit when you do retire. Approximately 8% more per year will be added automatically to the permanent benefit amount for every year you wait. Delaying benefits past age 70 will generally add nothing more to your monthly benefit.

To help assess your situation, refer to your personalized Social Security Statement, which estimates the monthly Social Security benefits you may qualify for (go to http://www.socialsecurity.gov/mystatement for a copy of your statement). Decisions regarding retirement, including when to take social security, can have a significant impact on your financial security. Talk to us today about scheduling a personal retirement check-up, or about our wide-ranging collection of resources available to assist you in your planning needs. ■

It's Up to You

You will not automatically receive Social Security benefits when you become eligible. You must apply for the benefits, which can be done online, by calling 1-800-772-1213 or by visiting a Social Security office. And remember, Social Security benefits are taxed as ordinary income in the year of payment.equal parts.

Essential Retirement Plan Information

2009 Retirement Plan Limits Cost-of-Living Adjustments

» PLAN LIMITS	IRS CODE	2009	2008
Defined Benefit Plans Annual Benefit	415(b)(1)(A)	**$195,000**	$185,000
Defined Contribution Plans Annual Contributions	15(c)(1)(A)	**$49,000**	$46,000
Qualified Plan Annual Compensation Limit	401(a)(17) and 404(1)	**$245,000**	$230,00
Highly Compensated Employees[1] Compensation Level	414(q)(1)(B)	**$110,000**	$105,500
401(k) Elective Deferrals	402(g)(1)	**$16,500**	$15,500
401(k) Maximum Deferral with Catch-up[2]	414(v)(2)(B)(i)	**$22,000**	$20,500
SEP Minimum Compensation Amount	408(k)(2)(C)	**$550**	$500
SEP Compensation Limitation Amount	408(k)(3)(C)	**$245,000**	$230,000
SIMPLE Plans Maximum Deferral Limit	408(p)(2)(E)	**$11,500**	$10,500
SIMPLE Maximum Deferral with Catch-up[2]	414(v)(2)(B)(ii)	**$14,000**	$13,000
457[3] Plans Maximum Deferral Limit	457(e)(15) and 457(c)(1)	**$16,500**	$15,500
457 Maximum Deferral with Catch-up[2]	414(v)(2)(B)(i)	**$22,000**	$20,500
Key Employee Compensation Level[4]	416(i)(1)(A)(i)	**$160,000**	$150,000
Social Security Wage Base		**$106,800**	$102,000

[1] Any individual who is a 5% or more owner of the employer is also considered a Highly Compensated Employee, regardless of his or her compensation.

[2] Catch-up provisions only apply to individuals age 50 or over under code sec. 414(v).

[3] A special 457 plan provision allows a participant to double the current year's maximum deferral limit not including the "catch-up" contribution. This election only applies to the three full calendar years prior to their normal retirement age under the plan.

[4] A key employee is defined as (1) an officer with compensation greater than $160,000, (2) a 5% owner, or (3) a 1% owner with compensation greater than $160,000.