

Dialogues » WEALTH STRATEGIES FOR DISCUSSION



WINTER
2009

COURTESY OF SAM WEBBER

950 Winter Street
Waltham, MA 02451
Phone: 781-672-5404
Fax: 781-672-5199
Tollfree: 800-444-4495
sam.webber@smithbarney.com
www.samwebber.com

SAM WEBBER

Second Vice President-Wealth Management
Financial Planning Specialist
Investment Management Specialist

We know how hard you worked to accumulate your wealth, and that key concerns go beyond investing in stocks and bonds. We make wealth work by helping you determine what's important to you, then developing actionable strategies to help you realize your goals and guard against the things that might undo them.

Looking Beyond Short-Term Volatility

Whether you get your news from the papers, television or the Internet, you know how quickly the financial markets can change. Some days are euphoric (a key economic report may bolster consumer confidence or a company reports better-than-expected earnings for the quarter, igniting market indexes). Other days, however, aren't as sunny—and some of them may be downright unnerving. So what are some of the possibilities when an inevitable downturn occurs in the market?

An important piece of advice to keep in mind during a market slide is one you've no doubt heard before: Do not overreact. Even though your instincts may be telling you to try to protect your investments by switching to a more conservative approach or to liquidate your positions in hopes of buying them back at lower prices when the worst is over (an approach known as "timing" the market), it's important to keep your emotions in check—and your eyes on the long-term horizon. History tells us that over the long run the stock market can be quite resilient. From wars to natural disasters to economic meltdowns, the market has seen it all—and over time has shown remarkable capacity to bounce back.

While it's not always easy to maintain long-term perspective, overreacting to events as they unfold may compound the damage—and you may end up selling at the bottom or missing part or all of a subsequent market recovery. To help protect against short-term volatility and the anxiety it may create, together, we can help develop a diversified investment plan that reflects your long-term goals and tolerance for risk. By reviewing the investment plan on a periodic basis, we can try to alter it as needs change. At Smith Barney, our primary focus is ensuring that your wealth continues to work hard for you day in and day out. ■

Past performance is no guarantee of future results. Diversification does not ensure against loss.
By the Smith Barney Division of Citigroup Global Markets Inc.

The Changing Landscape of Financing Education

One of the greatest gifts you can give a child is to pay for his or her schooling. Make this loving gesture financially savvy as well.

By *Brendan Coffey*

» Helping to pay for your child or grandchild's education is an act of love, an expression of pride and affection. But it's one that pays more than just emotional dividends. It is, of course, an investment in a young person's future. And increasingly, it's part of a complex financial strategy with many moving parts. "Historically parents have put money in the child's name or transferred appreciated property to them before selling it in order to take advantage of a child's low tax brackets," says Joe Hurley, CEO of SavingForCollege.com. "However, the expansion of the kiddie tax twice in the past three years has really put a stop to a lot of that activity. A lot of the old methods really aren't very good anymore."

The first step toward any sound financial plan is knowing the end goal. Getting a sense of what education costs will be for your children or grandchildren is a must. Over the past 30 years, total charges have risen an average of seven percent a year. While that rate of increase appears to be slowing slightly, it's estimated that for a child born today, four years of a private university will cost over \$350,000. With the cost of education consistently rising faster than the rate of inflation, it makes sense to put your money to work rather

than see it lose ground until your student matriculates. Odds are that even the affluent will need to draw upon several resources to foot the bill.

TAX-ADVANTAGED SAVING

Historically, financing college often involved putting money into a child's name or transferring appreciated assets to minors to take advantage of the lower tax rates. Twice in the past three years, Congress has closed the loopholes that made such strategies attractive, taxing the assets of children up to age 23 (if enrolled in college) at the parents' tax rate.

At the same time, the government has been strengthening the appeal of other strategies, especially **529 College Savings Plans**, according to Hurley. "For most parents and grandparents, a 529 plan is a no-brainer," Hurley notes.

These "Qualified Tuition Programs" were created in 1998, exploding in popularity in recent years thanks to their unique tax advantages. Available in every state, 529s allow tax-deferred investing for college. In 2006, Congress made permanent the tax-free treatment of withdrawals used for educational expenses. Funds in a 529 can be used for everything from tuition to fees to expenses such as textbooks, room, and

board. And any 529 savings plan can be used to fund attendance of a school anywhere in the country as well as accredited foreign institutions.

Many features of 529s are appealing. For one, while 529 plans are for a student, the account owner controls the funds, with a few exceptions. The owner decides how to invest the money within the available options, when to withdraw, and who the beneficiaries are.

When a 529 plan is in the parents' name, federal regulations require that schools treat it as a parental asset. This is significant, since under the current financial aid formula, schools calculate that 20 percent of a student's assets will go to college costs, but only a maximum of 5.64 percent of a parent's assets will. And if a grandparent wishes to help out, 529 assets in their name will not be taken into consideration *at all* when figuring out aid. "Grandparents' possession of a 529 isn't going to show up on radar anywhere," making them excellent tools, says Hurley.

TAX BENEFITS AND ESTATE LEGACIES

The tax-deferral and tax-free withdrawal features aren't the only potential tax benefits; in 32 states, there is an additional state income tax deduction for

529 contributions. The tax structure of 529s make them attractive investment vehicles even for those who could easily fund college education with cash, adds Hurley. “If you have that cash invested and you’re paying tax on the earnings, then why not have it in a 529 and save on income taxes?” Many states also have a **529 Prepaid Tuition Plan**, allowing tuition at a state institution to be paid at once in a lump sum, locking in current tuition rates.

Contributions by anyone to 529 savings or prepaid tuition plans are treated as outright gifts to the student, subject only to the annual gift exclusion (\$12,000, or \$24,000 from a married couple. But even then, the IRS gives a favorable exception, allowing a lump-sum gift of five years’ worth of annual exclusions. While the donor surrenders the ability to make a tax-free gift to the child for five years, this exclusion allows for a gift large enough to realistically meet a good chunk of the cost of college. (There is a caveat: if the donor dies within the five-year gifting period, a portion of those assets must be put back into the donor’s estate.)

People often worry about what will happen with the money in a 529 account should a child need to spend less than the account value for education. Rather than withdraw the funds and pay taxes and a penalty, you can simply change the beneficiary to another relative (most plans limit how often you can change beneficiaries). “Theoretically, the account could last for generations,” explains Hurley.

MORE TOOLS TO CONSIDER

For all their advantages, 529 plans aren’t the sole option for saving for college. Here are some other strategies:

Coverdell Education Savings Accounts.

Money in an ESA grows tax-deferred and may be withdrawn tax-free to pay any tuition, from kindergarten to graduate school. Unlike 529s, which have set investment choices, money in an ESA can be invested according to your wishes. One downside is that contributions are limited to \$2,000 and you must meet income requirements in order to contribute.

However, other individuals can contribute to the account even if the parents aren’t eligible. The account must be depleted when the beneficiary reaches 30 or a new beneficiary is named. Otherwise, gains are taxed and a ten percent penalty is levied.

UTMAs and UGMAs. In many states, minors have no legal right to own securities, annuities or life insurance policies.

Teaching Dollar Values

Most people don’t think twice about paying for a loved one’s education. But many parents and grandparents worry that the advantages of affluence, like having an expensive education paid for, could dull a recipient’s sense of the value of a dollar.

“More and more options to use money have bombarded all of us,” says J.M. Seymour, author of *Stock Market Pie: Grandma Helps Emily Make a Million*, a beginner’s book on financial literacy. “As a result of this growing financial smorgasbord, many young consumers don’t know whether—or how—to spend, save, invest, or borrow money.”

Here are three tips from Seymour on how to help your children or grandchildren get started:

- » **Walk the Talk:** Kids learn to spend and save from watching you. Include kids in discussions of family finances, letting them hear how major purchases—including education—are made.
- » **Get Real:** Open a savings or investment account together, then help your kids find good investments and use a simple way to keep track of ups and downs.
- » **Make It Fun:** The earlier you practice good investing habits, the better. But it has to be fun and rewarding so that kids stick with it. For example, discover a publicly traded company by searching for new products at the mall or online. Or have your kids explore Smith Barney’s Young Investors Network (www.smithbarney.com/yin).

Bonds are subject to interest rate risk. When interest rates rise bond prices fall; generally the longer a bond’s maturity, the more sensitive it is to risk. Bonds may also be subject to call risk, which allows the issuer to retain the right to redeem the debt, fully or partially, before the scheduled maturity date. Proceeds from sales prior to maturity may be more or less than originally invested due to changes in market conditions or changes in the credit quality of the issuer. Municipal bonds may be subject to state and local taxes, and/or the alternative minimum tax.

“Your child can borrow for education, but you can’t borrow for retirement.”

Custodial accounts like UTMA and UGMA allow children to take ownership of assets without having to create a trust. With the recent closing of the “kiddie tax” loopholes, custodial accounts like these have become much less attractive for those seeking tax advantages, but they still may have a place in an overall strategy.

Zero-coupon bonds. “Zeroes” are bonds that pay no interest as they mature and instead pay it all at maturity. In exchange for foregoing the interest, or “coupon,” the bond is purchased at a substantial discount to face value. Consider laddering the bonds to mature over the time the child is in college.

IRAs and Roth IRAs. These aren’t just for retirement planning. These accounts can be used for educational purposes without incurring distribution penalties. A child with earned income can fund an IRA in his own name that can be used for education expenses, if desired. Withdrawing funds from a parent’s IRA to fund a child’s education isn’t recommended (even though

it’s allowed without the ten percent penalty) since it may jeopardize their own plans for retirement. (The value of a child’s education cannot outweigh your financial security, though. Quite simply, your child can borrow for education, but you can’t borrow for retirement.)

Asset-based borrowing. If you don’t want to liquidate securities or sell other appreciated assets, you can tap a securities-secured loan or home equity line of credit to pay tuition. Checks written directly from either account to an educational institution incur no gift tax. Even for nonqualified expenses like off-campus housing, a car, or other expenses, the tax-deductibility of home equity loans may provide an attractive option.

BALANCE YOUR GOALS

Education is a worthy goal in and of itself; however, there’s also hard data that college graduates earn more than nongraduates. “When you compare the cost of education to the salaries graduates make, it puts college

costs in context,” says Mark Kantrowitz, founder and publisher of FinAid.org, a website on financing education.

No matter what your needs and resources are, we can help offer insight into what options may work best for your situation. We can also provide an Education Funding Analysis, which will estimate costs for a specific institution based on its historical tuition inflation rate, or for general categories, like private or public colleges. And of course we’re in a perfect position to help you integrate college savings into your overall financial plan. ■

529 funds not used for qualified educational expenses are subject to applicable taxes and penalties. Please consider the investment objectives, risks, charges, and expenses associated with municipal fund securities before investing. The offering statement contains this and other important information. To obtain an offering statement, please call your Financial Advisor or visit www.smithbarney.com to locate a Financial Advisor in your area. Read the offering statement carefully before investing. Before investing, investors should consider whether tax or other benefits are only available for investments in the investor’s home-state 529 college savings plan.

Ten Big Retirement Mistakes

by *Women & Co.*

What is your retirement dream? Traveling, spending time with family, going back to school? Will you have enough money saved to make those dreams a reality? A sound retirement requires careful planning.

» The fewer mistakes you make along the way, the more likely you will be to have the savings to fund those dreams. Take a look at these ten common retirement mistakes to avoid.

- 1. Not starting early, taking breaks or cashing out.** Starting early and saving consistently is the best gift you can give your future self. If you delay saving or cash out your retirement funds (for instance, when you change jobs), you are not taking advantage of compounding interest and you may miss out on matching programs and other retirement benefits your employer offers. If you do step out of the workforce temporarily, perhaps to care for children or parents, you can still continue to save. Talk to your Financial Advisor about a spousal IRA or other saving options.
- 2. Not setting goals.** How do you want to spend your time in retirement? When do you want to retire? And, finally, how much will you need to fund your retirement? If you do not ask yourself (and your spouse/partner) these questions and set goals, it will be difficult to adequately fund your retirement. You need to know where you want to go in order to develop a sound plan to help get you there.
- 3. Putting college savings ahead of retirement savings.** It's tempting, especially today when a college education no longer seems optional, to put money aside for your children's college instead of retirement. Quite simply, there are other options to fund college—grants, loans, scholarships, etc.—but there are no other options for funding your retirement. Ideally, you can start early and save for both at the same time. If you can't, save for your retirement first.
- 4. Not understanding your sources of retirement income.** When are you eligible for Social Security? How much will you receive? Do you get a pension through your employer? Are you contributing the maximum to your 401(k) or 403(b) plan? Are you taking advantage of employer matching programs? What about an IRA? Determine if what you are saving is likely to generate enough income to meet your retirement needs. If it's not, then take steps to increase what you're saving through these programs.
- 5. Planning for an average life expectancy.** According to the U.S. Department of Health & Human Services, the average life expectancy for women is 80 vs. 75 for men. How many years does your retirement plan

cover? Make sure your plan accounts for the possibility that you outlive your spouse/partner.

6. Counting on your home value.

Even if your home has maintained its value with the recent market turmoil, it may be difficult to extract the gains to fund your retirement. Do you want to move out of your home? Are you willing to relocate to an area where the real estate is more affordable, even if it is far away? Have you taken into account moving costs, real estate commissions, tax implications and the cost of a new home? Your home may be one component of your overall plan, but don't count on it to subsidize a significant portion of your retirement.

7. Not considering long-term care insurance.

Among people age 75 or older, women are 60% more likely than men to need help with one or more activities of daily living.* Long-term care insurance is designed to help protect personal assets from the cost of a long-term expenditure, maintain financial independence and provide the options necessary to receive quality care and services. Talk to your Financial Advisor about your specific needs and determine if it's right for you.

8. Investing too conservatively. By and large, women tend to invest more conservatively than men.** However, if you are too conservative, you may not lose what you've invested, but you do risk not having any real growth of your money—that is, your return after inflation, taxes and fees. Talk to your Financial Advisor about how these and other factors impact expected returns and your chances of meeting your goals. Your Financial Advisor can help you develop an asset allocation that balances your risk preferences with your return objectives and where you are in the retirement planning cycle (e.g., 20 years to retirement, retiring in five years or already retired).

9. Not diversifying your investments. We've all heard the adage "don't put all of your eggs into one basket." Sound advice, yet people often don't follow it. Diversification not only can help you spread investment risk, but it also helps make your portfolio less

vulnerable to the ups and downs of a single holding or the market, potentially resulting in steadier returns. This is a critical safeguard, even for those who think they are playing it safe by investing only in the largest, most well-known companies.

10. Not rebalancing. While diversifying is important, it doesn't do much good if you don't regularly rebalance your portfolio to keep it aligned with (or in sync with) your risk tolerance, return objectives and time horizon. Over time, market forces will tend to push your portfolio away from its original target allocation. If stocks experience a period of significant growth, for example, your portfolio of 50% stocks and 50% bonds could shift to 70% stocks and 30% bonds, leaving you exposed to more risk than you may want or expect. Leaving your portfolio draft untended is like leaving a toddler alone in a room with a hot stove—the outcome depends far too much on the forces of chance.

Planning for your retirement is a journey you don't have to take alone. Talk to your financial and tax advisors about your goals and work with them to come up with a comprehensive plan to help get you there. ■

Women & Co. is a financial education program from Citi that addresses the unique financial needs women face over the course of their lives. As part of your financial network, Women & Co. complements the services that I provide to make sure that as a woman, you have confidence in your knowledge and ability to help make important decisions. As a Smith Barney client, you/your spouse may be eligible for complimentary membership. Ask me if you are interested in learning more.

* AARP Public Policy Institute, *Women & Long-Term Care*, 2007.

** U.S. Department of Labor, *Women and Retirement Savings*, 2008.

Women & Co. is a division of Citi, registered service mark of Citigroup Inc., and an affiliate of Smith Barney. For more information about Women & Co. or to enroll, go to www.womenandco.com/sbenroll or ask your Smith Barney Financial Advisor.

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 post-

poning retirement will start to exceed the value of lower benefits from choosing early retirement.

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. ■

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

¹Assumes 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

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.

Simplify Your Financial Life with a Unified Managed Account

» The ever-increasing complexity of investment management can leave investors with fragmented portfolios and investment plans—and often with no clear idea how their investments match up with their long-term goals.

For many in this situation, it may seem as though there are too many accounts to oversee, too many investment strategies to consider, too many reports to review and too many tax statements to organize.

Over time, widely dispersed investment accounts become much more than a bookkeeping nuisance—they can actually be detrimental to the decisions you make about your money. You may be incurring more risk than you think, you may not be taking full advantage of certain investment opportunities and you might be creating headaches for your heirs in the event that something happens to you.

The only way to get the best advice about your wealth is if you and your Financial Advisor are looking at the whole picture.

Components of wealth don't stand alone; it is only when you see them together that you get answers to critical questions. How much risk is in your combined portfolio? Does borrowing make sense? What needs to be in place to protect what you have? From this perspective, consolidating your accounts isn't just a convenience. It is a step toward a much richer approach to managing wealth—one that may encompass a broader range of possibilities than you imagine.

A unified managed account, or UMA, can help streamline your financial life, saving you time and sparing you frustration. UMAs represent the next stage in the evolution of managed accounts and give you the opportunity to combine separately managed accounts, mutual funds, exchange-traded funds and even alternative investments—all within a single account structure and asset allocation model. This structure means simplicity for you, as you sign only one contract and receive one monthly statement, one performance report and one consolidated year-end tax statement.

Not only do UMAs offer you the opportunity to consolidate your investments and simplify your financial life, they allow you to do so without compromising on the features, diversification benefits and quality of your investment choices. Along with helping you set your financial objectives and determine the most appropriate asset allocation model to meet your needs, we can analyze the holdings of your proposed investment products to help avoid heightened exposure to a stock, an economic sector or another type of security that may undermine the diversification benefits of the proposed asset allocation model for your UMA.

Speak with us for more information on unified managed accounts—including Select UMA, the new program from Consulting Group, Smith Barney's managed money unit—and to determine whether this approach to investing might be suitable for you. ■

Unless you are otherwise advised in writing, Smith Barney is acting as a broker-dealer and not as an investment advisor.

Citigroup Inc. and its affiliates do not provide tax or legal advice. To the extent that this material or any attachment concerns tax matters, it is not intended to be used and cannot be used by a taxpayer for the purpose of avoiding penalties that may be imposed by law. Any such taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

© 2009 Citigroup Global Markets Inc. Member SIPC. Securities are offered through Citigroup Global Markets Inc. Smith Barney is a division and service mark of Citigroup Global Markets Inc. and is used and registered throughout the world. Citi and Citi with Arc Design are trademarks and service marks of Citigroup Inc. and its affiliates, and are used and registered throughout the world. Working WealthSM is a registered service mark of Citigroup Global Markets Inc. Citigroup Global Markets Inc. and Citibank are affiliated companies under the common control of Citigroup Inc.