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Dialogues » WEALTH STRATEGIES FOR DISCUSSION

Whether you are focused on accumulating assets, preserving capital, generating income or transferring wealth to loved ones, count on us to help you develop an integrated financial plan for life's most important events. Our comprehensive approach to wealth management centers on creating a plan that addresses what is most important to you.

SPRING 2009

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Connecting the Pieces More Critical Than Ever for Business Owners

From the start, your company and your personal wealth were intertwined—you may have even started your business by borrowing against your credit card—and they may continue to be intertwined throughout the life of your business. Given this close relationship, it's helpful to be able to step back and see how financial decisions made on the business side of your life affect your personal wealth situation. And with rising prices and the current economic slowdown weighing on consumers and companies alike, it's more critical than ever to be able to make strategic decisions within the context of a long-term plan that encompasses your complete wealth picture.

The financial tools you need to manage the various pieces of your business and personal finances are available from dozens of firms, each with their own specialties. But this fragmented approach overlooks one important element—someone whose specialty is *you*.

We can help you get your personal wealth and your business wealth working together with an aim to increase the value of both. From cash management systems, employee stock ownership plans and growth capital for your business to estate planning, investment management and asset protection for you and your family, we understand how to connect the pieces of your wealth puzzle to help you get what you want out of life.

Of course, we don't work alone any more than you do. We can consult with other advisors you trust and can access specialists throughout Citi who have years of experience working with just about every challenge—and opportunity—you might encounter. ■

By the Smith Barney Division of Citigroup Global Markets Inc.

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Recapitalizing Your Business: An Alternative to Selling

For the business owner looking to "take some chips off the table" while still remaining involved in their company, a recapitalization can offer an attractive alternative to selling the business outright.

A recapitalization allows you to sell a portion of your business now, thereby achieving some immediate liquidity. And with the retained equity, you have the opportunity to continue to participate in any future success of the business. Meanwhile, your new financial partner will team with you and your management group with the intent to boost sales and earnings beyond what you could have accomplished alone. If the company grows and prospers as planned, you then have the opportunity to participate in a second liquidity event in the future.

HOW IT WORKS

A recap is a two-step process. In the first step, the business owner sells a portion (often more than 50%) of their equity to a private equity group. At this time, a significant portion of the value of the company may be realized in cash. But, importantly, the owner retains some of the equity in the business and continues on managing the daily operations of the company.

In the second step (usually several years later), the business is sold outright or taken public in an initial public offering (IPO). At this time the private equity group cashes in on their investment. Also at this time, the private business owner cashes in on his or her remaining ownership in the company. Since this second payout occurs in concert with a sale or IPO after the business has achieved a desired level of growth and value, it has the potential to exceed the first payout.

PROS AND CONS OF A RECAPITALIZATION

A recap can be an attractive liquidity option for private business owners. Although not guaranteed, a properly structured recap can provide several advantages, including: some immediate liquidity; some retained ownership; the benefits of an experienced financial partner; continued operating control of the company; shared risk with the financial partner; and the possibility of a generous future payout.

Despite these strong advantages, there are some potential challenges as well, including: some loss of management control, both operationally and economically; scrutiny of financial results by the private equity group; additional financial risk, especially if the company is highly leveraged in the recapitalization transaction; potential culture/chemistry conflicts with the private equity group; and the risk that the company will not achieve the goals of the recapitalization, including a future liquidity event such as a sale or IPO.

NOT FOR EVERYONE

While recaps can be an attractive option, they are not appropriate for all businesses. Candidates must have consistent earnings in order to service the debt of the transaction, and the owner generally needs to be available to stay with the company for another three to five years after the original sale, and must be willing to work with a business partner.

Furthermore, all companies are not attractive to the private equity community. Investment firms typically seek to partner with successful owners with a proven track record of growth, profits, and ambition, as well as opportunity for expansion.

When considering a private equity investor, business owners are advised to take the time to get to know the firm and its partners prior to completing the transaction. Private equity groups vary substantially in their expectations, -

motives, strategy and culture. Because they will have a significant influence on the future of the company, the business owner should carefully choose this investment partner.

Another consideration is the environment for recapitalizations, which can vary from year to year. In considering whether a recap is an appropriate exit strategy for your business, you should take into account the current market conditions.

A recapitalization can be an attractive liquidity option for business owners whose exit goals are aligned with the unique characteristics of such a transaction. There are many aspects to consider, ranging from financial considerations to personal factors. For a more in-depth look at recapitalizations, contact us for the Citi Capital Strategies briefing entitled *Recapitalizing Your Business: It's Not All or Nothing.* ■

Private equity groups are not typically interested in the day-to-day operations of the business, but ratherin providing "handsoff support" to management while seeking to achieve significant growth and profitability.

HOW IT WORKS—Step 1

As the owner, you would sell a portion (usually a controlling interest) of your equity to a financial sponsor (private equity group). You then reinvest part of the proceeds back into the company (often on a tax-free basis), thereby retaining some ownership. For illustrative purposes, let's assume a company sells for a total enterprise value of $45 million. In this example, a private equity group invests $9 million in cash and funds another $30 million of the purchase price in new bank debt, for a total investment of $39 million. After paying fees and expenses, the owner receives $37.2 million in cash and maintains $6 million in equity in the company. The owner and his or her management team continue to run the business, while the financial sponsor is typically added to the Board of Directors. The private equity group, in theory a sophisticated and experienced financial partner, provides both financial and operational support to expand the business.

HOW IT WORKS—Step 2

Some years later (typically three to five), the private equity group will seek to realize its investment in the business. At this time, it may consider selling the company outright, or taking it public.

Often referred to as "the second bite of the apple," this second transaction represents another payment opportunity for the owner, who still has a stake in the company. Since this second payout would usually occur when and if the business has achieved a desired level of growth and value, it should exceed the equity contributed by the owner in the original transaction.

Navigating Your Expenses Through the Different Phases of Retirement

by Women & Co

Chances are that your life today is different from what it was ten years ago and is likely to be different ten years from now. Yet, when it comes to retirement, we often plan as if life will stand still as soon as we get that gold watch—even though we're likely to live another 25 or even 30 years. And that, says Matt Sommer, Director of the Planning Resources Group at Citi Smith Barney, could put us at tremendous risk of outliving our savings.

Sommer suggests viewing retirement as a progression of phases, just like childhood and middle age. James Yih, in a 2004 article for Canadian Business Online, referred to these phases as the go-go, slow-go and no-go years, loosely corresponding to the first ten to 15 years post-retirement, 15 to 20 years post-retirement and 20 years or more in retirement. Others have described them as active, less active and dependent, or the early, middle and late years. Whatever your preference, having a budget and financial plan for each phase is critical for improving your chances of staying financially fit as your retirement unfolds, says Sommer.

THE GO-GO YEARS

The first ten to 15 years after retirement often are the most active as this is the phase when many retirees travel, go back to school, take up new hobbies or even start a second career or a brand-new business. Because activity level is high, Sommer notes, expenses also tend to be high during these years, which, if not properly planned for, can lead to a cash crunch in later phases. Depending on your age, you may not yet be eligible for Social Security, which could result in larger withdrawals from your savings to fund your activities, adds Sommer, which may or may not be sustainable, depending on how much you saved and how those savings are invested.

If you haven't done so already, Sommer recommends that you consider consolidating all your retirement assets so that you have a complete picture of your investments, especially as you start taking distributions. It also can help your financial and tax advisors better advise you on which assets to tap first, which could have far-reaching implications on your taxes and future financial health. This also may be a good time to explore ways to convert your retirement assets into steady income, adds Sommer.

THE SLOW-GO YEARS

At some point, life in retirement typically starts falling into a pattern. Doesn't everyone have an aunt who shops for groceries on Tuesdays, plays bridge on Wednesdays and meets with her investment club on Thursdays? Although still active, individuals in this phase typically begin scaling back their commitments to enjoy the more leisurely activities of retirement, says Sommer. He adds that this often prompts a review of one's living situation, e.g., whether to keep the house, move closer to adult children or transition to assisted living. While it's difficult to predict how much or what type of care you might need in the future, Sommer encourages clients to review their long-term care preferences and options—and discuss their wishes with key family members.

While a less active lifestyle often means lower day-to-day expenses, health care expenses often increase in the middle years of retirement, says Sommer. The John Hancock Life Insurance Company projects that by 2030, health care costs could eat up 35% of a retired couple's after-tax income. For this reason, Sommer encourages clients to consider long-term care insurance while they can still obtain a policy and to sign up for Medicare as soon as they turn 65. He also recommends keeping your investments well diversified with enough growth potential to keep up with inflation. Updating estate plans, wills and powers of attorney are also important to do, as is regularly reviewing beneficiary designations.

THE NO-GO YEARS

The latter years of retirement tend to be less active, as time and age slow us down. During these years, some level of support for daily activities is likely to be required. According to the National Clearinghouse for Long-Term Care Information, it is estimated that 70% of individuals over the age of 65 will require long-term care services during their lifetime. Over 40% will need care in a nursing home for some

period of time. And women are more likely to need this care because we have a longer lifespan. Consequently, expenses during this phase often are driven by our health and long-term care needs—making it more important than ever to stay on top of our investments.

Legacy, says Sommer, also tends to be a focus of many retirees at this point in life. He recommends reviewing financial and legal documents to make sure they are consistent with your wishes, including your power of attorney and living will. As difficult as it is, Sommer encourages that you talk to your family about your values and beliefs about the care and extent of life-saving measures that you would like to receive if, at some point, you become incapacitated and are unable to speak for yourself.

Whatever your age, your Financial Advisor can help you prepare for all the phases of your life, including those in retirement. Remember, taking action now can give you more control and choice over your future—and improve your chances for building a nest egg that will outlive you. ■

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.

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.

Paying for Retirement

Identify your expenses and examine your household budget.

WRITE YOUR ESTIMATED MONTHLY RETIREMENT EXPENSES IN THE APPROPRIATE COLUMN—EITHER ESSENTIAL OR DISCRETIONARY

		ESSENTIAL	DISCRETIONARY
Housing	Mortgage/Rent/Condominium Fees	$	$
	Property Taxes	$	$
	Utilities	$	$
	Homeowners Insurance	$	$
	Household Maintenance	$	$
Food	At Home *(groceries, etc.)*	$	$
	Dining Out	$	$
Transportation	Vehicle Purchases or Lease Payments	$	$
	Auto Insurance & Taxes	$	$
	Fuel & Maintenance	$	$
	Public Transportation	$	$
Health Care & Insurance	Health Insurance	$	$
	Co-pays & Medical Service *(those not covered by insurance)*	$	$
	Medicare/Medigap Premiums & Expenses	$	$
	Drugs & Medical Supplies	$	$
	Dental, Hearing or Vision	$	$
	Life Insurance	$	$
	Long-Term Care Insurance	$	$
	Disability Insurance	$	$
Personal Care	Clothing	$	$
	Products & Services *(for example, haircuts, dry cleaning, etc.)*	$	$
Other	Gifts/Charitable Contributions	$	$
	Entertainment/Recreation	$	$
	Travel/Hobbies	$	$
	Education	$	$
	Family Care *(parents, children, grandchildren)*	$	$
	Income Taxes	$	$
	Other	$	$
	Subtotal	$	$
Total Essential & Discretionary Monthly Expenses		$	$

	ESSENTIAL EXPENSES		DISCRETIONARY EXPENSES		TOTAL ESSENTIAL AND DISCRETIONARY EXPENSES	
	MONTHLY	X12=ANNUAL	MONTHLY	X12=ANNUAL	MONTHLY	X12=ANNUAL
Total	$	$	$	$	$	$

Do You Know Who Your IRA Beneficiary Is—and Why It Matters?

Deciding whom to designate as a beneficiary for your IRA might seem like a no-brainer—you probably want your money to go to someone near and dear to you.

But is the person (or people) you're thinking of actually the one(s) you named on the IRA beneficiary form all those years ago when you opened the account? To be certain, it's wise to review your beneficiary designation form at least every few years, or whenever you've had a change in circumstances, such as a divorce. Changing your beneficiary is easy—you simply complete a new beneficiary designation form. Keep in mind that a will or trust does not override this form unless you name your estate or trust as your beneficiary; however, spouses may have special rights under state law (community property statutes vary by state). Because beneficiary designations are important estate-planning documents, you may want to review them with your attorney before filing them with your IRA custodian.

Beneficiary designation forms offer the option of naming primary and contingent beneficiaries. The primary beneficiary is your first choice to receive your retirement benefits and can be more than one person or entity. If you choose more than one primary beneficiary, you may specify a percentage to be paid to each person and indicate whether a beneficiary's share will be void if he or she predeceases you or if that share will pass to his or her children. This situation typically comes into play when you designate equal shares to all your children. (See sidebar for more information on primary beneficiaries.) You also can name a minor as a direct beneficiary of an IRA, but your local probate court may require the appointment of a guardian for the minor.

A Primary Beneficiaries Primer

When naming a primary beneficiary, some designations to be familiar with are all my children, per stirpes and per capita. Terminology and definitions may vary from state to state, however, so you should consult with an attorney before making a final decision.

All My Children: If you use this term or name each child specifically, your IRA assets will be divided among your surviving children only. If one of your children dies before you, the remaining children will share equally in the deceased child's portion.

Per Stirpes: Also known as "rights of representation" in some states, per stirpes means that the children of a beneficiary who predeceases you will share equally in the portion of your IRA originally left to the now-deceased child.

Per Capita: This method divides your IRA assets among your beneficiaries and the descendants of any beneficiary who dies before you. For example, if you name your three daughters as your primary beneficiaries and one of them dies before you, each of her own three children will receive a share equal to that of your other two daughters—splitting the IRA into five equal parts.

A contingent beneficiary is someone you designate to receive your IRA only if all primary beneficiaries predecease you, die simultaneously with you or disclaim their rights to the IRA assets. These are the only circumstances under which a contingent beneficiary would be entitled to the assets in your IRA.

If you have special circumstances (for example, you would like to leave dollar amounts rather than percentages to your beneficiaries), it is possible to customize a beneficiary designation. We can provide more information on this and guide you toward the resources available to you as a client of Smith Barney.

A tax advisor can work together with you and your Financial Advisor to help you weigh the pros and cons carefully in order to make sure your wishes are executed in a tax-efficient manner.

Selecting your IRA beneficiaries can be challenging, both emotionally and financially, given the potential tax implications. Remember to look at your IRA assets in context with the rest of your estate before making any decisions. To help ensure that your wishes can be executed as you intended, discuss your beneficiary designations, wills and other estate matters with your tax and legal advisors, as well as your Financial Advisor.

"Distributions from an IRA may have tax consequences for your beneficiaries. While taxes shouldn't be the primary determining factor in naming your beneficiaries, ignoring the impact of taxes could have significant consequences for your family."

Why Use Customized Beneficiary Forms?

With traditional beneficiary designation forms, you can generally choose individuals as the primary or contingent beneficiaries. While these choices are sufficient for many account owners, for others additional choices may be necessary. You may want to use a customized beneficiary designation form:

- If you want to retain a degree of control over the IRA assets after your beneficiaries inherit the IRA;
- To facilitate the use of disclaimers (this may allow your beneficiaries to transfer assets out of their estate);
- In situations where you wish to use actual dollar amounts rather than percentage shares;
- Where the beneficiaries are charitable organizations.

Preparing a customized beneficiary form can help ensure that your ultimate wishes are carried out.

Customized Beneficiary Designation Forms at Smith Barney

If you have needs beyond those covered on the standard Smith Barney beneficiary designation form, you can work with your attorney and Financial Advisor to draw up a customized beneficiary designation form. Once the customized beneficiary designation form is drafted, it is reviewed internally by a team of Smith Barney professionals who will either accept it or indicate what changes are necessary for the designation form to be approved.

Why Investing in a 529 Plan Makes Sense in 2009

Now more than ever, saving for your child's college education is crucial.

According to The College Board®, the average 2008 – 2009 tuition increase was 5.9% at private colleges, and 6.4% at public universities. The ten-year historical rate of increase is approximately 6%. Not only are these figures substantially higher than the general inflation rate, they are also much higher than the average increase in personal incomes.

Unfortunately, current economic concerns have caused 34% of parents to decrease the amount they are saving, or stop saving altogether, for their children's educations.[1]

Recently, industry leaders have criticized the federal rule that permits 529 college savings plans to allow investors to change their investment options on existing contributions once per year. Many believe this rule is too rigid, pointing to last year's turbulent market as a reason for more investment flexibility.

To that end, for calendar year 2009 only, 529 college savings plans may permit investors to switch the investment options on their existing contributions twice per year instead of once per year.[2] That's one more reason to continue investing in your child's future.

Here's something else to consider: Those who continue to invest in a 529 plan are on track to cover 40% of their children's college expenses—double the nationwide rate.[3] ■

Projected 4-Year Tuition and Fees

Type of Institution	Today (Enrolling 2009)	In 18 Years (Enrolling 2027)
Private College	$116,600	$332,800
Public/University (in-state resident)	$30,500	$87,200
Two Years Community College & Two Years Private College	$66,900	$191,200

(Based on average tuition and fees for 2008 – 2009 as reported by The College Board® and assumed to increase 6% annually.) The figures above do not include other costs such as room and board, books, supplies, equipment and transportation.

[1],[3] Fidelity Investments' second annual College Savings Indicator.

[2] IRS Notice 2009-01.

Investor's should consider, before investing, whether the investor's or designated beneficiary's home state offers any state tax or other benefits that are only available for investments in such state's qualified tuition program.

Please consider the investment objectives, risks, charges, and expenses associated with municipal fund securities before investing. The offering statement contains this and other information. To obtain an offering statement, please contact a Financial Advisor or go to SmithBarney.com to locate a Financial Advisor in your area. Read the offering statement carefully before investing.

Investments are subject to market risk and may fluctuate in value

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