



AT SMITH BARNEY

DIALOGUES

FINANCIAL STRATEGIES FOR DISCUSSIONSM



A comprehensive approach to wealth management begins with defining important goals and assessing your current financial situation. Next, we create a financial plan that's based on your values and goals. To help you meet your ongoing needs, let's schedule a time to discuss your objectives.

Courtesy of:

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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.

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Playing Catch-Up with Retirement Savings

Lost Time Does Not Mean Lost Hope

You finally decide to sit down and take a serious look at your retirement savings, and what results is a bit of panic. You did not prepare as well as you thought, and now you are afraid you might not be able to afford the lifestyle you love after you retire. The question now: Is there anything you can do at this late date?

You are not alone. With many pensions frozen or nonexistent and Social Security providing only a fraction of pre-retirement income, many people nearing retirement are wondering how they will supplement these traditional sources of retirement income. In fact, in 2006 the Center for Retirement Research estimated that 36% of high-income households won't be able to live as well in retirement as they do today. But even if you are a late saver, your Financial Advisor can show you how to pad your nest egg, whatever its current size.

First, you need to know how much you need for retirement alongside your current assets. Your Financial Advisor will help you tally your current expenses and estimate what they're likely to be during retirement. He or she may ask for paperwork on any pension income or expected distributions from employers and your personalized Social Security statement, which gives an estimate of your monthly benefits. Then they will put it all together in the retirement analysis on the Common Proposal System, leaving you with a documented picture of your estimated retirement income, funds available to cover these expenses and how much you may be able to save over just a few years.

The fastest way to build up retirement funds is to contribute the maximum amount each year to tax-deferred company plans and IRAs. Annual catch-up provisions allow employees age 50 or older to contribute \$20,500 in 2008, versus \$15,500 for clients under 50.

Where Do Leading-Edge Boomers Stand Financially?

Age 55 to 64	Income	Retirement Savings
Top Earners	\$345,149	\$481,925
Upper Income	108,412	272,155
Upper Middle	70,990	112,792

Where Do Continuing Workers Stand?

Age 65 to 75	Income	Retirement Savings
Top Earners	\$339,356	\$716,891
Upper Income	103,925	281,710
Upper Middle	67,894	143,920

Notes: All figures are averages. Savings include retirement plans and the value of pensions among those who save.

Data Source: Federal Reserve Survey of Consumer Finance as of 2004

Catch-Up Strategies

If you are facing a shortfall in retirement funds, there are three major steps you can take:

1. Max out employer retirement plans and IRAs.

The fastest way to build up retirement funds is to contribute the maximum amount each year to tax-deferred company plans and IRAs. Annual catch-up provisions allow employees age 50 or older to contribute \$20,500 in 2008, versus \$15,500 for clients under 50. For example, if you are 50 or over and are able to contribute the maximum catch-up amount to a 401(k) and earn 8%, after ten years your retirement nest egg could have a sizeable balance of \$320,733. If you are also able to max out your retirement savings with ten years of annual contributions of \$6,000 to an IRA, you would have the potential to add another \$93,873.

2. Automate IRA contributions.

Yes, it's only an annual contribution of \$5,000 (or \$6,000 if you are age 50 or older), but if you have an IRA, making sure you fund it annually will significantly add to your nest egg. Rather than risk forgetting annual contributions, ask your Financial Advisor to set up an automatic funds transfer into

your IRA for the beginning of every year. Then your current annual contribution is guaranteed, and if limits go up and you are given an opportunity to save even more, your Financial Advisor will contact you and adjust your transfer amount accordingly. Plus, if you didn't contribute last year, you still have until April 15 to make a deposit, and nonworking spouses can add a matching amount in a separate IRA, thus doubling a couple's savings.

3. Contribute to a Roth IRA, if eligible.

Unlike traditional IRAs, Roth IRAs allow clients to receive 100% tax-free distributions during retirement. For 2007, clients can make full Roth IRA contributions if their modified adjusted gross income does not exceed \$156,000 on a

joint return or \$99,000 on a single return. Starting in 2010, that income ceiling is eliminated, allowing anyone to convert a traditional IRA to a Roth IRA. Even if you don't plan to convert an existing IRA, you might consider opening a new traditional IRA account now in anticipation of converting in 2010. Taxes will be due on the conversion, but assets can grow tax free thereafter.

If you are approaching retirement, undoubtedly the question "How much is enough?" is on your mind. Ask your Financial Advisor today, and by tomorrow you could have some answers and a plan in place to help you have enough when the time comes for you to begin to rely on your retirement savings.

IRA Strategies for Each Decade of Life

Whether you have ten years to catch up on retirement savings or 40 years to lay a solid foundation, the fastest way to build funds is to use the tax-deferred compounding that IRAs offer to anyone with earned income.

50s and beyond

If you are in this group, the first years of your retirement beginning to appear on your horizon can look like a time to buy a boat, embrace many of the leisure activities you never had time for before or travel. But, it is important to be careful not to let this enthusiasm create hardship down the road when day-to-day expenses need to be covered.

Contributing to an IRA ten to 15 years before retirement can create a "honeymoon account" that enables you to fund the activities you've been looking forward to without raiding serious retirement funds. For example, a 50-year-old who contributes \$6,000 annually for the next 15 years would end up with a \$176,000 "honeymoon account" at retirement.*

40s

In your peak earning years, you probably contribute fully to a company retirement plan and believe the accumulated savings will be enough to support you during retirement. But you may be able to afford to contribute more, giving you a potentially larger nest egg down the road. Your Financial Advisor can perform a retirement analysis and show how saving an extra \$5,000 annually can impact your

cash flow. For example, a 40-year-old who contributes \$5,000 annually for the next 25 years (not accounting for catch-up contributions) could end up with \$395,000 at retirement.*

30s

If you are in your thirties, you are likely building a career, juggling children, upgrading your home and worrying about college funding. This may make saving for retirement not seem like a priority, and it is tempting to put it off. But borrowing to finance a home or college is often better than sacrificing retirement savings. Also, money in an IRA is not locked in. While not typically recommended, the IRS allows investors to remove funds from an IRA for a first home purchase or college expenses.

20s

With the exception of pre-IPO Googlers, few twenty-somethings have any assets for retirement, though starting now could help you retire as a multimillionaire. You can significantly increase your quality of life down the road by establishing an automatic funds transfer into an IRA. For example, you could transfer funds from a checking, savings or other account into a Traditional or Roth IRA. Assuming you're eligible for a Roth IRA, contributions can be withdrawn free of taxes and penalties five years after opening the account.

*Examples assume 8% annual rate of return.

Retiring Right

Wealth alone is no guarantee of a secure retirement. It's time to start thinking about what you'll need.

Even if you are doing well, plentiful assets and a good income are probably not enough to get rid of your worries about retirement—at least not according to new studies of high-net-worth investors. Thousands of affluent boomers and Gen Xers studied by Wharton and State Street Global Advisors expressed fears about outlasting their money. You may be worried about preserving your standard of living in the face of market downturns, inflation and health care costs during a retirement that may last 30 years. In fact, 57% of those surveyed cited rising health care costs as their number-one concern. And if you're in the younger half of those surveyed, a lack of traditional pensions and Social Security and Medicare safety nets is probably also on your mind.

Experts agree that wealth alone is no guarantee of retirement security; saving too little “runs up and down the income scale and wealth scale,” says Olivia S. Mitchell, an insurance and risk-management professor at Wharton. Comfortable living inevitably translates to spending. Though the wealthy save, Mitchell explained in the Wharton study, “people with high earnings also spend a lot” to keep the lifestyle they enjoy going.

Reasons for Concern

Your retirement isn't likely to be the same as it would have been 50 years ago. The old adage was that you needed 80% of your current income when you retire—but nearly half of the 1,800 millionaires surveyed by the 2007 Phoenix Wealth Survey said they will need more than 100%.

You may even be thinking of working indefinitely, at least part-time, in order to stay engaged and support a comfortable lifestyle. Also, your life expectancy has increased, even from just a generation ago. Determining your retirement goals is a complex process—one that means taking the time to figure out what it is you really want now and down the road.

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The Plan

Worried as you may be, you may not have begun planning. Fifty-nine percent of high-net-worth investors have no formal written plan for their retirement goals—but Smith Barney's retirement analysis can help. Your Financial Advisor can run this analysis to assess your financial situation, your potential annual retirement income, your savings and investments and your tax situation.

Then, it's time to analyze your retirement goals. Once you know what you want, your Financial Advisor can determine ways to help you get there, whether that involves altering your investment strategy, changing the amounts you contribute or something else entirely. The retirement analysis will provide you with a full report, including savings recommendations and sources for retirement income.

Talk to your Smith Barney Financial Advisor about how a retirement analysis might benefit you.

Will Your Kids Inherit the Wealth Ethic or the Work Ethic?

Help your children and grandchildren learn financial values so they'll become responsible adults.

Growing up affluent is a double-edged sword. Having your children not have to struggle each day for economic survival is a blessing. Yet, it is easy for them to fall prey to the expensive and frivolous.

More than eight in ten parents surveyed in a Smith Barney Working Wealth poll¹ said raising financially responsible children was deeply important, and that they felt more successful and accomplished when their children understood the value of money. Yet 70 percent admitted that having wealth makes the task of teaching that value more challenging. Many expressed fear that they weren't passing down a strong work ethic.

It takes skill to manage money, even with professional help. It also takes character—a wisdom that grows out of virtue and care for others. Your Financial Advisor can help you find the best way to teach those skills. To impart financial values to your children or grandchildren, consider these expert tips for every stage of childhood.

Up to Age 11

Setting limits is one of the most valuable practices. "It's key in wealthy families to be able to say, 'There are ceilings,'" says Judy Barber, a licensed marriage and family therapist with Family Money Consultants LLC in San Francisco. She says that when you "help children learn the difference between needs and wants" you are building a lifelong foundation. Setting limits also prepares kids for a common occurrence in life: Cash flow, even in wealthy families, goes up and down.

1. Explain what you do: Talk to children about money in an age-appropriate way. Explain how you make decisions about buying things and where money goes when you give it away. Explain why you care for others' needs. If they don't see it, they won't know—so bring children along to the neighborhood center where you volunteer, or at holiday time, bring toys to a local homeless shelter together.

2. Keep it simple and immediate: Young children think concretely, so experts say to keep lessons tangible. Get the child a piggybank and when he or she receives money, talk about using some for spending and setting some aside for savings. Saving for goals can begin in elementary school. But if saving takes too long, many children lose interest. That's okay. Some kids are ten before they're able to do long-range planning. Don't rush it.

3. Learn through play: Preschoolers can learn by pretending to shop or run a store. Encourage games with receipt books to tear off, paper money or a cash register. By elementary school, a pet is an excellent tool for learning money management.

4. Make allowance reliable: Whether allowance is tied to chores or not is a parent's decision, but experts concur that families should avoid docking a child's allowance for bad behavior. "Young people need a consistent amount," Barber explains. A study she ran found children whose allowance was reliable were, a decade later, notably more fiscally responsible. Some experts suggest dividing the allowance into separate jars for saving, spending and charitable giving.

5. Invite a child to give: Giving has its own inherent value, and brings the giver joy. It also carries lessons about responsibility and decision making. Perhaps allow a child to hand over a donation when possible—and help children find causes that matter to them. Sabin says, "It invites them to see how they can be responsible for making financial choices. The lesson is the power of your actions can make the world a better place."

When you "help children learn the difference between needs and wants" you are building a lifelong foundation. Setting limits also prepares kids for a common occurrence in life: Cash flow, even in wealthy families, goes up and down.

Tweens and Teens

Emotions run high with independent-minded adolescents, so matter-of-fact education is key. Skip the tales of your youthful privation. "Saying 'Be like me' will fall on deaf ears," says Dan FitzPatrick, CEO of Citi Trust. "Young people have to find their own basis for a sense of self-worth. It's extremely important in families of wealth." So mix objective education with a continuing emphasis on values—which teens can now begin to apply.

1. Enlarge allowance—and responsibilities: It's probably time to discuss increasing tasks and upping allowance to \$25 per week or more, as well as increasing the number of items the young person must buy, many experts say. They might include toiletries, birthday gifts, or clothing. Barber cautions, however, against loading that duty onto a highly pressured, tightly scheduled child. It may be too much responsibility.

2. Ratchet up the terminology: By middle school, introduce more sophisticated terms, like "compound interest" and "mutual funds." In order to give them a larger picture, expose kids (calmly) to financial unpredictability. Offer assurance that you could weather a downturn. "Explain that you get advice from experienced financial planners and the value of that," Stewart says. Consider visiting a Financial Advisor together. If you have a college investment account, look together at how it's doing. Explain what college costs and what your current savings will buy.

3. Encourage employment: Some students are too overloaded, but if you have a business or a local office, encourage your adolescent to do some filing, errands, repairs or data entry. It will be harder to squander money that's taken time and effort to earn.

4. Shape a wise consumer: Continue explaining your thought processes—now at a higher level—ahead of big purchases, and help with research. "My daughter began shopping on the net for clothing," says Stewart. "No one could believe it when she found a beautiful, barely worn homecoming gown for \$24." When children blow their money, don't bail them out. Mistakes are learning opportunities.

5. Preserve volunteering time: Allow time for and encourage volunteerism. Research shows that charitable activity makes kids happier as they help others find happiness and teaches self-esteem, teamwork and financial and analytical know-how. Direct involvement also helps kids connect to the fate of others. If your child or grandchild isn't interested, sit tight; it can take time for a young imagination to spark.

Cyber Finance, KID Style

Kids don't have to look far for a seasoned guide through the world of finance. At the Young Investors Network (smithbarney.com/yin/home), the ins and outs of investing, budgeting and saving come in jargon-free, easy-to-grasp digital doses with real-life examples and fun hands-on tools—including video games. The site helps young people think through their immediate short- and long-term financial goals and provides a "goals calculator" to formalize the experience. After mulling over what they want, they can even use a savings and budget calculator to figure out how to get there.

Getting the terms: One part of the neon-bright Web portal introduces young investors to the terms and meanings of stocks and dividends through a scenario in which a teenage character, Mandy, starts a company selling old clothes from her grandmother's attic and pays her investors small dividends from her earnings.

Taking part: Young investors can get involved more actively by creating their own "cyber portfolio" for a taste of stock investing. There's a quick lesson on the difference between short-term investing (saving for your first car, say, over one to three years) and how that can be accomplished with bonds,

versus funding an immediate need, such as a laptop, by investing in cash equivalents like money-market funds.

Understanding time: Finally, the merits of long-term (more than five years) investing are noted, such as funding college tuition with growth vehicles like stocks. When it comes to college, there's also a college-cost calculator. Along the way, they learn the tradeoff between risk and return. There are discussions on philanthropic experiences, risks and rewards and the downside of getting too deeply in debt. And so you don't miss out, there are areas geared toward parents and classroom teachers as well.

College and Young Adults

This is the time when the important pieces can fall into place. Take some sophisticated financial and values-oriented education, add technology and expert guidance from the pros (Financial Advisors, trustees, philanthropic mentors) and emphasize the importance of giving and you will have a young adult capable of understanding the sacrifice that earning money entails—one who's serious about treating it with care.

1. Offer independence slowly: ATMs can teach discipline: by 17 a young adult is ready for an ATM card linked to an account with a fixed amount of money in it, earmarked for certain expenses for a month—or even a quarter. That teaches budgeting and impulse control, ahead of the real independence of college. Another useful tool is tax-planning software: ask a high-school senior to track his or her spending using tax-planning software for one semester to learn where the money goes. Then, send a college student off with only as much as he or she can handle. And when they err, dispense with harsh judgments. Have a talk about how to avoid it in the future.

2. Withhold financial support until age 30: Between 21 and 30 “is a tender time in the development of one’s identity as it relates to work,” Barber says. It may be fine to fund post-graduate studies (or make a loan, in a businesslike way, to an entrepreneurial child). But if you just hand over money, you can remove the motivation to earn. Your Financial Advisor may be able to set up a fund that controls the amount available to your adult child, or even include it as part of an estate-planning process.

3. Use trusts to teach: “The majority of parents or grandparents don’t think about the boundless opportunities a trust presents as a teaching tool,” says Steven Chill, a trusts and estates attorney at Golenbock Eiseman Assor Bell & Peskoe LLP in New York. Lessons include how to grow assets to stay ahead of inflation, balance a portfolio to manage risk and choose the right investment manager. Sometimes parents

“enroll” their children in financial education by having “lessons” written right into the language of the trust itself. But Chill says families get much more flexibility—to respond to changing circumstances and their children’s different personalities—when they simply tell the trustees to impart instruction, without the constraint of written mandates.

4. Ramp up philanthropic involvement: Beginning in college, young people are ready to participate more actively in philanthropy, whether that means spending time volunteering or attending annual family-foundation meetings. This is a great age for them to participate in independent charitable work, when they have energy, time and expertise to spare. If there is a family foundation, their interest areas should also be considered for grants. This is a good way for the to learn about governance, family values and other relevant matters.

5. Keep wealth from overshadowing personal choices: Some young people feel their world overshadowed by a wealthy family tree, Barber says. They may feel they can never live up to that greatness, or sense they won’t be loved or valued if they choose a low-paying path. Another tension: When a family requires prenuptial agreements, it can seem like a personal insult. For young adults to find out who they really are, the family—including its money—should stay on the sidelines, says Barber. “You need to figure out what’ll get you up every day, what’s meaningful and important—even if your parents disagree.”

Building financial responsibility requires parents with a value system, children who rise to the occasion as their money duties increase and families that put good tools in place. But experts agree that the most fundamental element is parents’ actions. “Children learn by what we do, not what we say,” says author Sabin. “You teach your children by walking the walk.”

[†]The Smith Barney Working Wealth poll was conducted with investors who have at least \$100,000 in financial assets (excluding real estate and employer retirement plans), a definition that describes approximately 25% of all U.S. households. Investors with \$1 million or more represent 44% of the interviews.

Do You Have Time to Manage Your Investments?

Today's investment landscape is more complicated than ever before. New and complex financial products and services pop up and take root before investors have an opportunity to adapt.

Before investors ever get a chance to familiarize themselves with the current terrain, they must quickly adjust to a new landscape. Is it any wonder why staying informed and managing assets can easily become a full-time job? Weighing the available investment options and choosing wisely among them can require more time than investors have to give.

Which begs the question—how much time do investors have to give for managing their wealth? According to statistics from the U.S. Department of Labor (Bureau of Labor Statistics)—very little.

In the recent *American Time Use Survey 2004*, persons who worked full-time (worked 35 hours or more per week) on an average weekday spent 9.2 hours working, 7.5 hours sleeping, 3.0 hours doing leisure or sport activities and 0.9 hours doing household activities. The remaining 3.4 hours were spent in a variety of other activities, including eating and drinking, attending school and shopping.

With so much to do and so little time, how can any investor expect to stay informed and effectively manage their investment portfolios? That's why it's wise to consider partnering with an experienced investment professional, someone who will take the time to listen and understand your unique circumstances and design an investment strategy that can help you reach your long-term financial goals.

Whether you're investing for a child's education, managing your wealth for retirement or preserving assets for family heirs, we can design personalized investment strategies that can adapt to your individual circumstances and help you achieve your objectives.

Average Work Day

Do you have time to manage your wealth?



- 9.2 hours working
- 7.5 hours sleeping
- 3.4 hours eating, drinking, shopping, school, etc.
- 3.0 hours leisure or sports
- 0.9 hours household activities

Source: U.S. Dept. of Labor, *American Time Use Survey, 2004*

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