



DIALOGUES

FINANCIAL STRATEGIES FOR DISCUSSIONSM



Increase retirement contributions—and still live well today.
Simplify your account paperwork—and get a clearer financial picture.
Update wills and important documents—and feel more secure.
Seek to ensure liquidity—and expand the possibilities for 2008.

Courtesy of:

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How Much Money Do You Need for the Next Phase?

**It depends on the kind of retirement
you envisioned.**

These days, “What’s my number?” is a question millions of baby boomers are asking themselves, as in, “How much money do I need to stop worrying about retirement?” Figuring out that magic number has never been more challenging—or more important.

You have to figure out how to fulfill your retirement goals without sacrificing a comfortable life. Your money has to last, but you don’t know how long your retirement will last (today, the average American can expect to live nearly 78 years). And longevity isn’t the most remarkable aspect of baby boomers heading toward retirement—it’s what they plan to do with those years. Golf and grandchildren still have their place, but people retiring today are just as likely to be balancing tee times and family visits with a second career, entrepreneurship, world travel or pursuing an advanced degree. How can a person possibly fit it all in—and afford it?

Talking is a good start. You may be surprised to learn that your retirement expectations differ from your spouse’s. Perhaps you want to stay put in your suburban house, while your spouse envisions a move to the city. As you work out compromises, each decision will help you assess how much money you will need to finance your retirement.

Identifying your shared goals is vital to successful planning; but crunching the numbers definitely plays a role since the amount of income you’ll need in order to live comfortably once you retire may be higher than you think. So, doing the math and finding your number sooner rather than later are definitely key steps.

Your number is as unique as your set of aspirations and needs. Together, we can work to clarify your priorities and calculate your number—and then help convert this number from a daunting prospect to the retirement you always wanted.

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Memo to Executives:

You *Can* Take Charge of Your Retirement

As a corporate executive, you're probably earning a high salary, along with bonuses, options and other incentives. But even though you're in a sound position now, you may still feel uncertain when you think about the future—namely, your retirement. In fact, according to a 2007 Phoenix Wealth Survey, only 30% of executives say their wealth is either extremely or very secure for the future.

Executives often have complex financial affairs and complicated tax issues. For example, a big part of your compensation may be paid in bonuses. That means, even with a set salary, income can vary. Or maybe your company offers some form of deferred compensation, like employee stock options and restricted stock—making stock-price declines a real threat if you have a large block of that stock.

According to ExecuNet, a nationwide executive-recruiting network, corporate leaders now change companies about every three years. The timing of these career moves gets even harder to control with the increasing market pressures brought on by rising trends in mergers and acquisitions, corporate scandals and outsourcing.

Executive moves are sometimes voluntary, but often they're not. When hunting for a job after a layoff, baby-boomer executives may feel the pinch more acutely—ExecuNet reports that just 21% of executives 41 to 50 years old feel they are being subjected to age bias in their job search, compared with 63% of 51- to 60-year-old executives and 89% of executives older than 60. Because of this, your last layoff may end in forced retirement.

Help Wanted

Even though wealth-concentration issues and job insecurity are creating a lot of anxiety, many executives are not getting the advice they need. According to a 2005 survey from Tiburon Research and Analysis, only 5% of corporate executives said they were getting advice on their stock options—the most common type of equity compensation at many companies.

So, why are so many trying to go it alone? In 2005, Smith Barney conducted a research study to learn what was on the minds of executives. This study found that many executives had tried to get stock-option information from their company's plan administrator, but what they got were vague answers. In the end, they didn't think their administrators had enough knowledge to provide meaningful help, and their search for answers stopped there.

Beyond Asset Allocation

Are you getting the help you need for a complete wealth management picture so that you can make strategic decisions about your future? Are you completely familiar with all your holdings and exactly what they're worth? Here are a few key areas where we can offer guidance and resources to help put you in control of your finances today and of your plans for retirement later.

Cash-Flow Analysis: All investors, high net worth or otherwise, worry about the lifestyle setback that can happen after a financial crisis occurs. As a retired executive, you don't want to sacrifice your standard of living if your company's stock price declines sharply, or if lock-up provisions and trading windows eat into your liquidity. But before you can think about diversification and liquidity, you have to have a good idea of what your annual expenses and cash-flow needs will be when you retire. Here's one way to start thinking about this—ask yourself what you would do on your first day of retirement. In other words, what kind of lifestyle do you want—and what will it cost you?

Asset Protection: You already know that a market decline or health issue could jeopardize a comfortable retirement. In fact, Phoenix reports that senior executives are more worried about health care—and having enough insurance if they get laid off or retire—than others in the high-net-worth market. But there are other risks you may not even have considered. Do you have household employees who could get hurt on your property? Do you have a pool? Do you have a teenage driver in your house? Do you travel outside the country? All these factors could derail your retirement plans if something goes wrong.

If you are a senior executive, most of your wealth might be tied up in your company's stock directly or through 401(k) plans, deferred-compensation plans, employee stock options and pension plans. If the stock tanks, it could force you to lower your retirement expectations. To be more secure, you should diversify while you can—and you may have more flexibility than you think.

Concentrated Positions: If you are a senior executive, most of your wealth might be tied up in your company's stock directly or through 401(k) plans, deferred-compensation plans, employee stock options and pension plans. If the stock tanks, it could force you to lower your retirement expectations. To be more secure, you should diversify while you can—and you may have more flexibility than you think. Some Securities and Exchange Commission rules and 10b5-1 plans let you sell your restricted stock.

Deferred-Compensation Plans: If your company lets you go for any reason, you could lose some or all of your deferred-compensation benefits. Deferred-compensation plans permit deferral of up to 100% of cash compensation on a pretax basis—and the balance grows tax-deferred until withdrawn. But sometimes these plans can be unclear. Be sure to get a copy of both your deferred-compensation plan and your employment contract if you have one—they will come in handy when creating your retirement plan.

Executive Stock Options: In 2007, employee stock options were included in 47% of all new executive pay packages, up from 36% in 2006 according to ExecuNet. But, in this post-dot-com era, you can't rely on huge gains from selling your employee stock options to give you a cash cushion when you're between jobs. You need to know what will happen if your options go underwater—and stay there after you retire. You may get only a small window of time to exercise your

options before they expire—sometimes the period is as short as one day. The best way to handle these restrictions is to get a program in place, like a 10b5-1 plan, and exercise options while they still have value and trading windows are still open.

Wealth Transfer: You might already be thinking about protecting and preserving wealth for your children or grandchildren, but what about how they will handle that wealth? This is where careful trust and estate planning—and tools like “productive-citizen” clauses—can help. Your Financial Advisor can show you strategies that tie wealth transfer to your equity compensation. For example, it might help if you fund a grantor-retained annuity trust when your company stock is depressed and give to charity when the stock is inflated.

You probably have a relationship with a CPA, an estate-planning attorney, a life insurance agent, an attorney to negotiate severance or all of the above. But what you may need is a quarterback—someone who can help you and your family with your complete picture, including coordination of estate planning, retirement cash flow, tax planning, insurance needs and risk management. At Smith Barney we understand your situation and can collaborate with outside professionals to ensure that everyone is acting with your best interests—and your plans for retirement—in mind.

Diversification does not ensure against loss.

Account Consolidation Can Help Solve the Planning Puzzle

By now most investors are aware of the importance of portfolio diversification to reduce the risk of catastrophic loss, smooth out return volatility and, with luck, improve long-term investment performance.

However, some investors equate portfolio diversification with spreading their money across a large number of investments or other accounts. The two are not necessarily the same thing. In fact, having too many investment “baskets” can be almost as troublesome as—to paraphrase the old adage—putting too many eggs in one of them.

This seeming paradox demonstrates that barnyard proverbs don't always make for the best investment advice. Having a large number of relatively small investment accounts doesn't guarantee your money will be allocated prudently across different asset classes—such as stocks, bonds and cash instruments. It also doesn't ensure proper diversification among industries, credit categories and investment styles.

In fact, by maintaining a hodgepodge of accounts, investors simply may be driving their investment costs up and making effective financial planning even harder than it needs to be. The result is often higher risk and disappointing returns—not to mention a steady blizzard of account forms, statements and other records.

This picture is an all-too-common one for many individual investors, thanks in no small part to the growing popularity of tax-sheltered retirement and educational accounts such as individual retirement accounts, 401(k) plans, educational saving accounts and tuition savings programs offered by states and individual colleges and universities, such as section 529 plans. The rules for these programs encourage investors to fragment their wealth and thereby take advantage of all possible tax benefits.

What's more, the rules governing transfers between these accounts can be complex and paperwork intensive. Many retirement programs are also tied directly to employment, meaning investors may need to open a new account and transfer their assets every time they switch jobs. It's easy to forget or put off dealing with the process, meaning employees often leave a trail of old, inactive accounts behind them.

Mad Money

This trend is worrisome in part because it may reinforce a psychological tendency among many investors to treat different accounts as if they are fundamentally different in nature (e.g., more or less valuable, better or worse for certain uses, etc.), an effect that has been examined over the years by behavioral finance experts such as Richard Thaler in publications such as the *Journal of Economic Perspectives*.

Financial experts call this tendency “mental accounting,” and it can have a powerful effect on investment behavior. Investors often are willing to take bigger risks with funds they regard as “speculative money” than with sums they consider “long-term savings.” They may refuse to invest the latter in anything with more risk than a certificate of deposit while recklessly buying penny stocks with the former.

These distinctions not only are irrational, they also violate one of the main premises of sound planning—that investment decisions should be based on the investor's objectives and time horizon and should be made on a portfolio-wide basis—and not piecemeal. It also can be an extremely costly way to manage your financial affairs. When assets are scattered across a host of different accounts, each of which may offer only a limited number of investment choices, it's easy to lose sight of the big picture—and even easier to make big financial mistakes.

Working Assets

This trend towards financial fragmentation can be seen in the multiplication of different tax-favored savings vehicles. Part of the problem is the increasingly footloose behavior of the American workforce. According to the Bureau of Labor Statistics, the average employee now changes jobs ten times over the course of a career. Leaving an old job often means leaving behind an old 401(k) plan as well. In many cases, job hoppers have to either leave their accumulated balances in their old plans or roll them over into a new plan or an IRA.

There may be logical reasons to leave money behind. An old employer's 401(k) plan may offer more benefits to the participant. IRA holders can invest in a wide range of assets, vehicles and styles, and these may be more attractive than the options available in either the old employer's plan or the new one.

For many investors, the end result of all these trends is an increasingly fractured financial situation, a tendency that is likely to intensify in coming years as the baby boomers start to reach the age when they can take from their retirement plan distributions—including lump-sum distributions—without penalty.

Analysts speculate that many employees will use this opportunity to transfer at least part of their savings from company-sponsored plans to IRAs and other personal accounts. Boomers could use this reshuffling process to consolidate accounts and simplify their financial lives. But their financial behavior so far suggests they may do the opposite, further scattering their wealth across an even greater number of accounts and financial services providers.

Mix and Match

To be sure, financial diversity has some benefits. By mixing and matching different vehicles and providers, investors may be able to find the ones that offer the highest-quality service or that are most appropriate for their specific needs. But the tradeoffs, in terms of effective financial management, can be considerable and this strategy does not protect against loss. Some common problems include:

- **Inadequate diversification.** Some investments maintain large positions in the same stocks or other securities—particularly if they specialize in the same asset class or investment style. Investors need to be aware of these overlaps when designing their overall asset allocation plan.
- **Ineffective rebalancing.** Most studies suggest investors can lower volatility—and thus reduce short-term portfolio risk—by periodically adjusting their asset allocations back towards their original mix. However, investors wishing to do this may have to pay fees or other costs to transfer funds between different accounts or providers.
- **Poor reporting.** Financial providers don't always provide investors with the same level of information about their accounts. This may make it difficult to evaluate performance or create trouble at tax time.

The most serious risks, however, may be psychological. Recent research has shown that investors often think about different financial accounts in different ways simply because of the type of account itself—rather than based on the assets they contain or even the intended uses of those funds. Unless investors have a sound, well-thought-out financial plan to help them make critical decisions, these habits can lead to serious mistakes.

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Conclusions

In a perfect world, investors would be able to consolidate their accounts, let one company handle all the paperwork—and still be free to choose the right investment vehicles and the best managers for each allocation in their total portfolio.

The world, of course, is not perfect, and a certain amount of financial fragmentation is unavoidable—if only because of tax laws. But Smith Barney has developed a wide range of products and services designed to encourage a more integrated approach to investment management.

Your Financial Advisor can help you develop a wealth management plan that takes all of your assets into consideration. We can decide which accounts should be consolidated—and where, as well as help you review the many planning and investment vehicles available through Smith Barney, including a range of products and services provided by independent, third-party firms.

Whatever you decide, you will receive detailed, consolidated statements showing the performance of all assets invested with Smith Barney. What's more, through our website at www.smithbarney.com, you'd be able to monitor most, if not all, of your outside investment accounts—as well as your bank and credit card accounts, airline mileage accounts and more.

Even under the best of circumstances, financial planning can be a tricky jigsaw puzzle. But, like most puzzles, it's easier when it has fewer pieces. Talk to us today about prudent consolidation ideas that may work for your portfolio.

Diversification does not ensure against loss. The information set forth was obtained from sources believed to be reliable, but we cannot guarantee its accuracy or completeness. Past performance is no guarantee of future results.

Don't Let Health Care Costs Hamper Your Retirement

Today, your health insurance premiums and medical expenses could be eating into a huge part of your retirement savings—and the future doesn't offer much encouragement. Health care costs will probably continue to grow faster than inflation, and a lot of employers are reevaluating if they will be able to continue to offer the same level of retiree health insurance coverage.

In a recent study from Phoenix Marketing International, a U.S.-based marketing-research firm, investors with \$1 million or more in investable assets said that the rising cost of health care was their number-one concern.

Not having a plan in place to take care of your health care costs could take a big bite out of the retirement savings you've worked so hard to accumulate. Having the right amount of funding ready begins with understanding how much you will need to save—and what your options are for saving.

How Much Will You Need?

According to the 2007 Retirement Confidence Survey¹ from the Employee Benefit Research Institute®, assuming Medicare benefits remain at current levels, couples will need approximately \$300,000 to cover health expenses in retirement if living to average life expectancy, and as much as \$550,000 if living to age 95.

Top Concerns Regarding Issues Related to Savings and Investments for Investors with \$1 Million+ in Investable Assets (June 2007)

1. Rising cost of health care	57%
2. Protecting current wealth	55%
3. Increased energy prices	48%
4. Minimizing taxes	45%
5. Terrorism	36%

Data Source: Phoenix Affluent Marketing Service Tracking Program (U.S.) as of June 2007

Health Savings Accounts

As health insurance costs have gone up, a new type of plan—the high-deductible health plan—has been designed for people who don't have a current, frequent need for health care but still want insurance coverage in case something unexpected happens. Because the premiums are lower (15% to 45% lower than other plans) the plan carries relatively high deductibles. But, to help pay these deductibles, the federal government has created legislation that lets people establish a tax-advantaged account known as a health savings account, or HSA.

An HSA combines an individual's current health insurance plan with a tax-deductible savings account. Small-business owners who offer a high-deductible plan as an employee benefit could also use an HSA. Proponents of HSAs believe they are important because they help reduce the growth of health care costs and improve the efficiency of the health care system.

HSAs were created to encourage people to save for their future health care expenses and adopt high-deductible health plans, which make clients more responsible for their own health care choices. In 2007, 3.2 million people were covered by HSA-type insurance plans. This growth is predicted to continue: 14 million HSA policies are expected to be opened by 2010.

At Smith Barney, we understand the risks and challenges involved in growing and protecting your wealth. Talk to your Financial Advisor about putting a plan in place that takes into account the impact future needs in health care may have on your retirement.

¹The 2007 Retirement Confidence Survey is based on telephone interviews using random digit dialing conducted in January with 1,252 Americans ages 25 and older. The margin of error for all respondents is plus or minus 3 percentage points. EBRI is a private, nonprofit research institute based in Washington, DC, that focuses on health, savings, retirement and economic security issues. EBRI does not lobby and does not take policy positions. www.ebri.org

Life insurance and long-term care insurance are medically underwritten. As such, your actual premiums are not guaranteed and may vary from any initial quotation you receive. You should not cancel your current coverage until your new coverage is approved and in force. A change in policy may be subject to additional insurance and investment-related fees as well as increased risks, and may also require a medical exam. New surrender charges may be imposed with a new contract or may increase the period of time for which the surrender charges apply. Surrenders may be taxable. You should consult your own tax advisors regarding tax liability on surrenders.

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.

Early IRA Withdrawals Can Be Costly

If you are thinking of taking early IRA withdrawals to fund a new venture, consider the consequences first.

People often want to tap their IRAs prior to age 59½ to change careers or fund other endeavors that require a good chunk of money. But be forewarned: It's generally unwise to take early IRA withdrawals. Not only will early withdrawals likely cost you money, but they also could adversely affect your retirement plan.

For starters, most early withdrawals from a traditional IRA incur income taxes and a 10% penalty. (Withdrawing nondeductible contributions only triggers the penalty.) And while certain strategies and situations allow you to avoid early withdrawal penalties, you will still pay income tax on the money you take out. For example, you can take annuitized distributions—often referred to as “substantially equal periodic payments”—for at least five years or until age 59½, whichever is longer—but you must adhere precisely to the Internal Revenue Service's formula. So, it's important to consult a professional before setting this up.

You can also make early withdrawals penalty free for a first-home purchase (up to \$10,000 total), in case of complete disability, to pay education costs, to put toward high medical expenses (more than 7.5% of your adjusted gross income) or to cover health insurance premiums while unemployed.

Early withdrawals likely cost you money, but they also could adversely affect your retirement plan.

Still, it's best to avoid withdrawals even if you won't be penalized, because any money you pull out of your IRA today will lose its ability to generate potential tax-sheltered gains. Such moves will make it much harder for you to meet your financial goals in retirement.

At Smith Barney, we understand the risks and the challenges involved in growing and protecting your wealth. Your Financial Advisor can guide you in developing an overall financial plan that takes into account all of your personal goals and needs.

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