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.

FIRST QUARTER
2009

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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 hange—it is life, after all.

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

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

By the Smith Barney Division of Citigroup Global Markets Inc.

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Funds for School

529 Plans Benefit Students and Donors Alike

With college costs rising faster than both wages and inflation year after year, it's not surprising that thousands of parents have seized the tax advantages of 529 savings plans to ease the strain of educating their children.

But parents aren't the only ones. Thousands of grandparents are finding that 529s provide both an efficient estate-planning tool and a way to help their loved ones surmount one of life's greatest economic challenges.

The idea behind 529 plans is simple. Similar to a 401(k) retirement plan, a 529 is an investment account in which savings can grow on a tax-deferred basis until they are needed. The difference between 529s and IRAs, though, is that 529s enable you to designate a beneficiary who will ultimately use the money for educational expenses. When the money is withdrawn, there are no federal income taxes, as long as the money is used for qualified expenses, such as tuition, room and board, or textbooks.

Many states offer tax breaks as well. Legislation allowing for the plans was enacted in 1996 by the federal government but the plans are sponsored by state governments and available through brokers or direct.

GENERATION TO GENERATION

Many grandparents are finding that 529s allow a convenient and tax-effective way to pass money along to their descendants—money that might otherwise have remained in their estates and been subject to hefty estate taxes before their descendants could inherit it. One of the primary advantages of 529s is that the person setting up the plan (the donor), not the person who will receive the money (the beneficiary), maintains control of the assets. With a trust, a child assumes complete control of the assets at a predetermined point in time.

If the beneficiary decides not to go to college, the 529 plan assets can be transferred to a new beneficiary. In fact, there are no restrictions on the number of times the plan can be transferred to a new beneficiary. If a donor ultimately decides not to use the money for education, capital gains must be paid, plus a 10 percent penalty, but only on the gain, not the principal.

> "Why stop at the grandkids? A beneficiary may use the money at any time, as long as it goes toward qualified expenses."

FLEXIBILITY MATTERS

"One widespread misperception about 529s is that they must be used at specific universities, such as a state college," says Sheryl Colyer, Smith Barney Private Client Group. In fact, many 529 savings plans are administered through individual states and can be used at any approved educational institution. While all plans offer relief from federal capital gains taxes, some states further sweeten the pot by offering reductions in state taxes. Also, each state has a different cap on the total that can be invested in a single plan. Donors can purchase plans offered by any state, whether they live there or not, and can buy plans for as many beneficiaries as they like.

So why stop at the grandkids? After all, there's no limit on when the plans can be used. A beneficiary may use the money at any time, as long as it goes toward qualified expenses, Colyer says. With retirees living longer and more vibrantly than ever before, donors might even want to establish a 529 to go back to school themselves. ■

Baby Boomers Prepare for Retirement

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

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

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

HEALTH CARE COSTS

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

HAVE A SMALL FOOTPRINT

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

REAL ESTATE OPTIONS

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

CONSOLIDATE ACCOUNTS

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

TAPPING YOUR ACCOUNTS

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

UPDATE AND RECALCULATE

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

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

Begin with the Basics: Creating a Solid Investment Policy

Most builders understand that laying a strong foundation is the key to constructing a good home. Do the job right and the structure will be stable. Do it wrong and it could collapse.

The same logic applies to investment portfolios. Investors are more likely to achieve their financial goals if they have a clearly defined investment strategy. And they're more likely to create an effective strategy—one they can stick with over the long term.

The process of drafting an investment policy statement typically begins with the collection of all relevant data about the investor, such as basic financial data, broad investment objectives, target rates of return, expected future cash flows, investment time horizon and investment constraints.

Based on these and other factors working together, the investor and Financial Advisor can create a comprehensive asset allocation plan, one that determines how the assets covered by the policy statement are to be divided among the various asset classes. One of the benefits of this process is that it compels investors to reconcile potential conflicts among their different objectives—before those conflicts negatively impact portfolio performance.

Of course an effective investment strategy also must be based on reasonable estimates of future returns for the various asset classes included in the portfolio. In addition to the investment strategy—and its expected performance—the policy statement should describe the process to be followed in executing that strategy.

Investors also should establish procedures for reviewing and, if necessary, altering their strategy or their portfolio management team.

An investment policy statement can be a powerful tool for refining and focusing a portfolio strategy so that it best serves the investor's specific needs. But a policy statement is only as good as the process that produces it. By developing a clear investment policy statement, and sticking to it, investors can at least be sure their portfolio rests on firm foundations. ■