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A Creative Personal Finance Report



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February 2008

Quantifying Happiness

Happiness is a highly valued matter. For our purposes, we'll define happiness as the degree to which an individual judges the overall quality of his/her "life-as-a-whole" favorably. Within this, there is the hedonic concept (the degree to which pleasant affect dominates) and "contentment" (perceived realization of wants).

Most people agree that it is better to enjoy life than to suffer, endorsing public policies that aim at creating greater



happiness for a greater number of people. Though not everybody accepts the utilitarian axiom that happiness is ultimately the only value, the desirability of happiness as such is almost undisputed. This appears in high ranks for happiness in survey studies about value priorities.

As difficult as happiness is to quantify, Ruut Veenhoven, a Dutch social scientist, has spent years asking people in 82 countries how satisfied and happy they are. After lots of statistical maneuvers (all pretty scientifically acceptable), he comes up with a number between

On Getting Personalized Advice

Laurence J. Kotlikoff is a professor of economics at Boston University and the author of a number of books. In *The Coming Generational Storm*, he makes for interesting reading regarding retiree investment.

He indicates that the general media (like online retirement calculators) are looking for the "magic" single number — the number that everyone should accept as the last word in wealth accumulation for retirement. But, he says, that "one-size fits all" number can lead the pre-retiree and/or retiree astray. Why?

First, if the number errs on the side of being too high, the investor looking forward to a comfortable retirement might look at the "big number," take another glance at his or her time horizon and panic invest in riskier investments than are necessary. If you are 50 and the calculators say that you need to reach a certain number specific and you only have 15 years, more aggressive investments might be chosen. The aggressive investments, while holding out the "hope" of higher potential returns, may be a very questionable alternative.

Second, if the number is too low (although this is usually not the case), the investor may select extremely conservative vehicles and, with inflation and taxes taking their inimitable toll, you might be safely headed for the retirement poorhouse.

Even a moderate or "middle of the road" estimate could be dangerous if your particular circumstance might call for more or less aggressive portfolio balancing.

So, what's the answer? Since there are risks associated with any investment, including loss of principal, use the online calculators for your ball-parking estimates, but get competent, professional advice from someone who really knows your personal and individual/family circumstances: me.

1 and 10 indicating how happy people are, country by country. The Danes are quite pleased (8.2), but Tanzanians are grim (3.2). Other numbers include Switzerland, 8.1; Austria, 8.0; Iceland, 7.8; Finland, 7.7 and USA, 7.4. Others at the bottom: Zimbabwe, 3.3; Ukraine, 3.6 and Armenia, 3.7.

What explains the differences? One of the large factors is wealth, but others include personal pride and cultural disposition. E.g., since Hispanic cultures emphasize personal pride, contentment

rates are high in many Latin American countries even though their economies are no shining stars. Certain Asian cultures are comparatively low on the happiness totem. Explains Veenhoven: "Personal satisfaction is played down in those cultures, meaning that a glass-half-empty rules. Perhaps that's why war-torn Colombia seems to be a happier place than Japan."

You may peruse other "happiness quotients" at <http://www.eur.nl/fsw/research/happiness/>.

Questions & Answers

Q. *I know that, under normal circumstances, I should not consider withdrawing money from an IRA before I am required to do so. Are there prudent reasons to do so, however?*

A. By leaving your retirement funds in your IRA as long as you are able to do so, you increase the benefit of tax deferred (and, potentially, compound) investment returns.

Under what circumstances might you consider withdrawing funds before Minimum Required Distributions?

- If your IRA is funded with more assets than you will need for your own purposes and you wish to leave some or all of those assets to your heirs or others. Why? Capital gains distributions realized outside of an IRA would be taxed at a maximum of 15 percent; IRA distributions are hit with top ordinary income tax rates which currently go up to 35 percent.

- If you were to die and owned your highly funded IRA, it could succumb to double taxation: once in your estate and again when your heirs receive the proceeds. These distributions would be hit with a top estate tax rate of 45 percent (scheduled to decrease in the next few years) and then with ordinary tax rates (up to 35 percent).

See your tax advisor for professional guidance regarding your particular circumstances as penalties do apply to some early IRA distributions.

Q. *What is my exact "full retirement age?" I was born in January of 1944.*

A. "Full retirement age" (for Social Security purposes) is based on the year you were born. A complete chart is available at <http://www.socialsecurity.gov/retire2/agereduction.htm>.

Your full retirement age is 66.

We will accept questions from readers and reprint selected answers in this column. Send your question(s) to us; we'll answer as many as we can.

Financial Notes Worth Noting

For Love or Money?

The widowed Mary Anne Wyndham Lewis was twelve years Benjamin Disraeli's senior. When they married in 1839, she brought him a considerable fortune and a handsome house in London. The marriage was a very happy one, according to all accounts. In later years, Disraeli used to joke about his wife, saying he had only married her for her money. She would always reply, "Yes, but if you had to do it again, you'd do it for love."

Emergency Fund Is Crucial To Plan

Financial independence should allow us to protect ourselves and our families against financial losses that unexpected events can cause. Although we cannot eliminate all the negative effects of emergencies, we can do several things.

We can insure ourselves against catastrophes. But we can also maintain sufficient cash in an emergency fund to allow for the meeting of small, unexpected obligations.

These items could include less than catastrophic disability losses, medical emergency and travel expenses, and property losses not covered by insurance. Most of us need a financial "backup" against losses that might come from an inability to earn income. In an era of recession and employment cutbacks, emergency funds take on a new meaning. The dollars in an emergency fund should be readily available and spendable dollars. When that rainy day actually comes, there's no substitute for cold, hard cash.



Love and Money Quotes

You can only become truly accomplished at something you love. Don't make money your goal. Instead, pursue the things you love doing and then do them so well that people can't take their eyes off you. — **Maya Angelou**

If you want to feel rich, just count the things you have that money can't buy.

You can't force anyone to love you or lend you money.

Of all the icy blasts that blow on love, a request for money is the most chilling and havoc wreaking. — **Gustave Flaubert**

The love of money as a possession — as distinguished from the love of money as a means to the enjoyments and realities of life — will be recognized for what it is: a somewhat disgusting morbidity, one of those semi-criminal, semi-pathological propensities. — **John Maynard Keynes**

To be rich in admiration and free from envy, to rejoice greatly in the good of others, to love with such generosity of heart that your love is still a dear possession in absence or unkindness — these are things which money cannot buy.

— **Robert Louis Stevenson**

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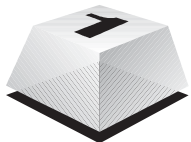
How Do Your Wishes Compare?

Tax Foundation Releases 2008 Tax Wish List

The Tax Foundation staff has released its wish list for tax policy in the new year. Since 2008 is an election year in which a predicted economic slowdown could put pressure on some government budgets, reporters and politicians are likely to give the public a double dose of tax policy.

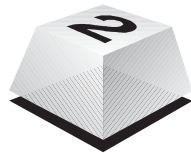
Special interests will, as always, push tax policies that favor themselves at the expense of other taxpayers. Social engineers will continue pushing tax policies that redistribute money based upon health, age, income, and other demographics. And finally, gimmicks like tax holidays and tiny, overhyped tax cuts will be featured in legislatures and political campaigns. Champions of sound tax policy like those at the Tax Foundation will view all these policies with a skeptical eye.

Our Wish List for Tax Policy in 2008



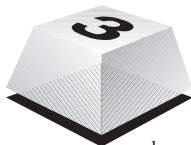
1. Politicians will stop playing word games, and call taxes “taxes” and not “fees,” “surcharges,” or “profits.”

Any assessment that raises money in excess of what is needed to defray costs is a tax.



2. Politicians will stop using the tax code to give even more preferential treatment to sectors

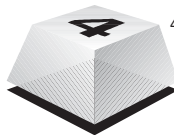
like housing and healthcare that are already tax-pampered. This includes using the tax code as a bailout for homeowners.



3. Elected officials in state governments seeking to give property tax relief to homeowners will not do

so merely by shifting to some other

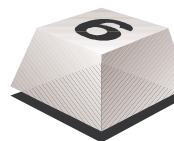
source of tax revenue like sales or income (which usually ends up as a tax increase) or by shifting it all to commercial property owners.



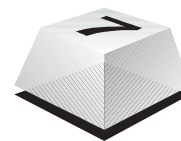
4. Members of Congress will finally realize that two oceans can't protect us from the tax competition sweeping the rest of the world. China is now the latest country to cut its corporate tax rate.



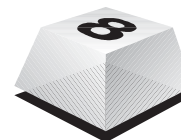
5. Politicians will stop raising taxes on arbitrarily targeted items like cigarettes, alcohol, bottled water, soda, tasty food, adult entertainment, gambling, etc. just because they want to raise revenue for some government program that is supposed to provide broad public benefits.



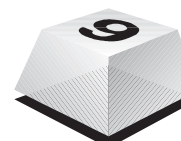
6. State officials will stop obstructing our national market by attempting to export taxes to “out-of-staters.” States should attract investment with pro-growth policies, not by protectionist penalties on the productive.



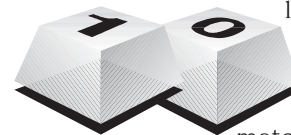
7. At least one of the states that have recently considered lottery privatization will go through with a sale (not a lease!). That will reverse the domino effect of state governments going into the business of promoting gambling.



8. States will eliminate gimmicks like sales tax holidays and instead lower sales tax rates for the entire year.

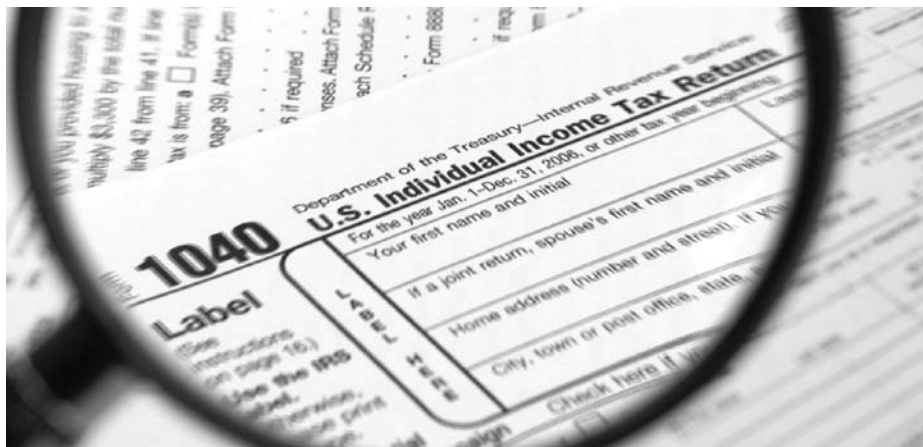


9. TaxReformPanel.gov and TaxFoundation.org will be the most visited web sites of 2008 . . . and our ultimate wish . . .



10. Congress will avoid another AMT ping-pong match in late 2008, instead acting in the public interest by passing fundamental tax reform that merges the good features of the AMT (a broader tax base and lower tax rates) into the regular tax code. You and your family deserve it!

Source: *The Tax Foundation, a non-partisan, nonprofit tax policy watchdog.*



Most Recent Info from Employee Benefit Research Institute

IRA Assets and Contributions

- Record assets in 2006: Individual retirement account (IRA) assets reached a record \$4.23 trillion in 2006, a growth rate of 16.5 percent from 2005, resuming a trend that was interrupted only by the stock market retrenchment from 2000–2002.

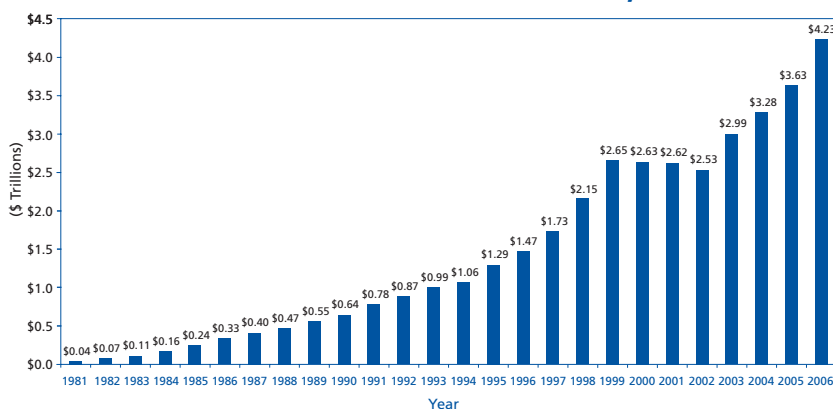
- Rollovers still account for most growth: IRA growth continues to be fueled by rollovers from employment-based tax-qualified retirement plans (amounting to about \$200 billion annually). Contributions to IRAs pale in comparison.

- Changing market share: The growth in IRA assets has been mostly in mutual funds and self-directed accounts. Almost half (47 percent) of all IRA assets were held in mutual funds in 2006.

- IRAs are the largest repository of retirement funds: Total IRA assets are larger than those in either private-sector defined benefit (pension) or defined contribution (401(k)-type) retirement plans.

- Traditional IRAs still dominant: More than 90 percent of all IRA assets were held in traditional IRAs in 2002 (the latest available), compared with 3 percent in Roth IRAs and just over 5 percent in other IRAs.

Total Individual Retirement Account Assets,* 1981 - 2006



Source: Investment Company Institute (ICI) using their own data and data from the Federal Reserve Board, American Council of Life Insurers, and Internal Revenue Service Statistics of Income Division. The most recent data from ICI can be found in Investment Company Institute, "The U.S. Retirement Market, 2006," *Fundamentals*, Vol. 16, No. 3 (Investment Company Institute, July 2007), www.ici.org/stats/res/11m-v16n3.pdf

* The asset level of IRAs for depositories include Keogh accounts held there.

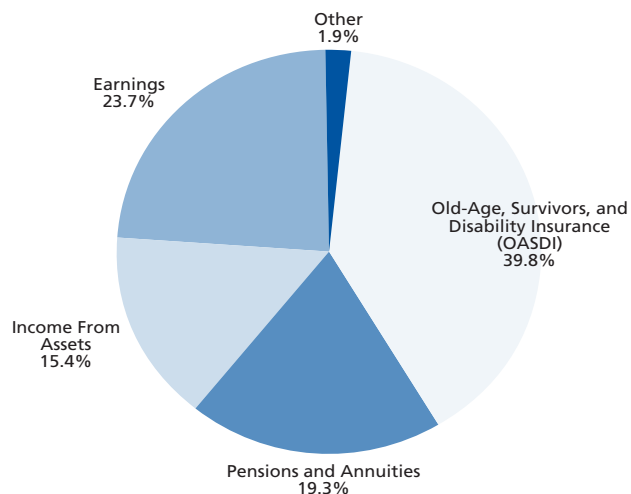
Income of the Elderly Population Age 65 and Over

- Modest income levels: Median (midpoint) annual income for the elderly population was \$16,770 in 2006. Median income of the elderly increased at an average annual rate of 1.0 percent from 1989–1999 and by 0.34 percent from 1999–2006.

- Gender Differences: Women receive a larger share of their income (47.8 percent in 2006) from Social Security than men (34.0 percent in 2006). The percentage of an elderly woman's and elderly man's income coming from Social Security has changed little over time: In 1975, 36.0 percent of an elderly man's income came from Social Security compared with 52.0 percent for an elderly woman.

- Age Differences: The older a person is, the greater share of his or her income comes from Social Security. In 2006, 30.1 percent of an elderly person's (age 65–69) income came from Social Security, compared with 54.3 percent for a person age 85 and over.

Distribution of the Older Population's Income, 2006



Source: EBRI estimates of the March 2007 Current Population Survey.

Source: for both graphs and technical data from the most recent Employee Benefit Research Institute reports, December 2007