Financial Insights®

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On Setting Goals That Are In Concert With Making Us WANT To Reach Them

The whole idea of setting goals and objectives sounds so very stodgy and boring, right? All of the books on goal and objective setting give us the rules: make sure they are attainable, reasonable and have strategies attached to each of them, with benchmarks so that you can keep track of your progress.

But, who discusses the motivation we have to get the goals (and objectives and strategies) accomplished? Hardly anyone! Except us!

Consider making your goals exciting! Excitement breeds determination and determination gets things done! For instance, while "financial security" sounds like a positive and worthwhile goal, does it excite you? Probably not. Why? Because it is vague and undefined. It lacks luster and excitement.

How about something like "I want to have enough money socked away by the time I reach age 58 that at a reasonable return of, say, 3 or 4 percent, my annual income will be over $75,000." Now that's a goal that has some meat on its bones. While you may have to adjust the age or the amount, a goal like that might be realistic without causing too much of a stretch.

How about?: "I want to be able to send each of my grandchildren to an out-of-state college which enjoys a national reputation and which costs over $30,000 per year." Very specific and VERY exciting . . . and, maybe, very doable!

Or "I want to spend my retirement in northern Spain, in a home that I know will cost several million dollars."

While there are current financial challenges, these are exciting times — and our goals should reflect them!

Nine Steps Toward Financial Security

First, **encourage yourself to be patient**. Most worthwhile things do not come with immediate gratification parameters.

Use time rather than timing to reach your investment goals (long-term view). Don't try to outguess investment cycles.

Decide how much investment volatility you can withstand and make your portfolio decisions based on that "risk-tolerance" data. Don't go overboard in either direction, however. Try to have a neat package of investments that run the gamut of risk.

Discipline yourself to make investments on a continuous and periodic basis. Stick to your plan!

Diversify, but don't overdo it. Diversification is not a panacea, nor does it ensure a profit or provide a guarantee against loss. But a wide variety of investment vehicles may guard against the volatility of the market. Equilibrium should be the goal and diversity may be achieved through investment objectives (growth, income, balanced) or type of return (e.g., long-term capital appreciation or immediate income).

Utilize, to the fullest extent possible, your qualified plans, at the workplace or on your own, to reduce the tax burden on your investments. Do not make investments based on tax considerations alone, but use the tax laws to your best advantage. If you have more investable cash available after funding your qualified plans, set up regular (taxable) investment accounts to supplement retirement funding.

If you find it necessary to use dollars you have set aside for retirement for another (emergency) purpose, don't just withdraw them: borrow them and pay yourself back with interest.

Enjoy yourself. While wealth is an important part of the "happiness" quotient, it isn't everything.

Start now. And call me if I can be of assistance.

Questions & Answers

Q. Can I make both pre-tax elective and designated Roth contributions in the same year?

A. Yes. You can make contributions to both a designated Roth account and a traditional, pre-tax account in the same year in any proportion you choose. However, the combined amount of all elective contributions made by an individual to an employer-sponsored plan is generally limited to $16,500 for 2009.

An additional $5,500 in catch-up contributions for persons 50 or older (and the 15-years-of-service catch-up available under 403(b) plans) may also be allocated between the traditional and designated Roth accounts.

Q. It's getting close to Social Security time for me. Can you go over the "full retirement age" rules?

A. Sure. These are the Full Retirement Ages, which, as you can see are based on your year of birth

Year of birth*	Full Retirement Age
1937 (or earlier)	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 (or later)	67

* Refer to the previous year if you were born on January 1.

You may begin receiving Social Security benefits at age 62, but those benefits will be reduced since you will be receiving benefits for a longer period of time.

Your full retirement ages may also be different if you are a spouse of a wage earner or a survivor.

Visit www.ssa.gov for more specific information.

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

The Difference Between Five and Ten Percent

Sometimes, if we think about the difference between five and ten percent when we consider a tip in a restaurant or the sales tax on a dollar in certain states, it seems fairly small and innocuous. But when we design charts that show the difference between five and ten percent compounded over time, the differences are truly astounding. Of course, these rates are hypothetical and for illustrative purposes only. They are neither a guarantee of future performance or indicative of the return on any particular investment. The figures do not take taxes, commissions, fees or other charges into account; they are simply shown to portray the effects of compounding on investment amounts.

$100 Per Month Invested at 5 Percent and 10 Percent

Years	*Amount Invested*	*At 5 Percent*	*At 10 Percent*	*Difference*
10	$ 12,000	$ 15,593	$ 20,665	$ 5,062
20	24,000	41,274	76,570	35,296
30	36,000	83,572	227,933	144,361
40	48,000	153,238	637,678	432,014

Our second chart shows the difference in a $10,000 lump-sum investment at the two hypothetical rates:

$10,000 Lump Sum Invested at 5 Percent and 10 Percent

Years	*At 5 Percent*	*At 10 Percent*	*Difference*
10	$ 16,288	$ 25,937	$ 9,649
20	26,533	67,275	40,742
30	43,219	174,494	131,275
40	70,400	452,593	382,193

Where Is The . . . ?

If something were to happen to you, would your family members know where to locate your:

- ❒ most recent will
- ❒ safe-deposit box and key
- ❒ birth certificate
- ❒ marriage certificate
- ❒ last 3 years of tax returns
- ❒ employment/pension records
- ❒ insurance policies
- ❒ deeds
- ❒ cemetery plot deeds
- ❒ funeral wishes
- ❒ unpaid bills and liabilities
- ❒ other assets / stock certificates, etc.
- ❒ bank, credit union and credit card account information
- ❒ living will
- ❒ trust documents

Quotable Quote

Not in the clamor of the crowded street, not in the shouts and plaudits of the throng, but in ourselves are triumph and defeat. **Henry Wadsworth Longfellow**

Learn from the mistakes of others; you can never live long enough to make all of them yourself. **Anonymous**

The easiest way to calculate the true cost of living is to take your total family income and add a big bunch. **Anonymous**

Investment Tools

Is The Investment Right for You? Right Now?

1 What is your financial objective?

Before making any investment, you must decide what it is you want to accomplish with your money. Have you established your goals? Is your end the education of your children, retirement, more income now, decreasing taxes?

Every investment should be made with the intention of helping you achieve one or more of your financial objectives.

2 Does the objective of the investment match your financial objective?

If, for instance, your financial objective is income now and your investment is growth-oriented, you obviously have a mismatch. If you are interested in growth for the future and are in an investment that is creating passive income, there's another mismatch. You must make sure that all investments are in line with your objectives.

A certain mix of objectives and investments is often OK.

3 What is the potential return on the investment?

There are three ways of obtaining a return on an investment: a) current income after taxes (interest, dividends, rent, etc.), b) growth or appreciation of your original capital, c) tax savings (few and far between at this time, but still available).

4 What are the assumptions used in determining the potential return?

Since no one can predict the future with any accuracy, certain assumptions are made about investments based on available facts and opinions. Other factors that may be considered include the nature of the investment itself, inflation, economic/political factors and industry or commercial trends.

5 Are your assumptions realistic?

Many assumptions are based on fact and expert opinion, but they must be based on common sense as well. For example, if the potential return on an apartment house is based on the assumption of 100 percent occupancy, then you probably have an unrealistic assumption. If the return on a farm is based on the fact that you'll never have a bad crop year, the assumption may be unrealistic.

6 What's the track record and how good is it?

Look at the people who will manage your investment. What is their track record? How long have they been in business? What is their reputation? What have they accomplished? How much is your investment dependent upon them and their expertise? Sometimes a specific type of investment does not have a good track record itself, but the people who will manage it have a long and successful history.

7 What could go wrong?

There is always the possibility of something unforeseen or unlikely happening. It may be improbable, but at least it should be considered. For example, how would your investment weather these potential negatives: Is your investment inflation-proof? Deflation-proof? Is your investment sensitive to international events? Scientific discoveries? Natural and political disasters? Technological advances?

8 Is the potential reward worth the risk to you?

There is nothing you can do with money that doesn't involve a risk of some sort. There is a risk of losing your buying power in most guaranteed types of investments (savings account, etc.). There is the risk of losing some or all of your capital in the stock market or in real estate. Some people can accept greater risks than others in order to obtain the opportunity of greater reward. On the other hand, some investors feel much more comfortable accepting a lower potential reward and assuming less risk.

9 Are you overcommitting yourself to this one investment?

No matter how sound an investment may be, it is not wise to commit too large a portion of your assets to any one investment. Diversification provides you with a range of asset alternatives, e.g., differing maturities, differing objectives, etc. Diversification enables you to accomplish overall results that otherwise might not be obtained with one investment. For example, one of your investments could provide you with liquidity, another with income and yet another with long-term growth.

10 Finally, can you live with this investment?

We all come from different places in our lives, with different emotions that are a result of our past experiences, our expectations, our education and our conditioning. Some investors can live with volatile ups and downs in investments; others cannot stand even minimal risk of principal. No matter where you fall in the risk continuum, sleeping soundly is important.

On Working After Retirement

More than three quarters of today's workers (77%) expect to work for pay even after they retire, according to a recent Pew Research Center survey. Most say it's because they'll want to, not because they'll have to.

But whatever the motivation, ***these expectations (70 percent) are dramatically out of step with the experiences of people who are already retired***:

only 12 percent of current retirees are currently working for pay (either part or full time) and only 27 percent of them have ***ever worked for pay while in retirement***, according to a survey this year by the Employee Benefits Research Institute. Along these same lines, there is also a disparity between the age at which today's workers say they plan to retire and the age at which today's retirees actually did retire. The average worker expects to retire at age 61, according to the Pew survey, while the average retiree actually retired at 57.8 years of age. Both of these numbers have crept upward since the mid-1990s; in the decades before that, the age at which people expected to retire had been falling.

The latest Pew findings suggest that retirement is a phase of life about which public attitudes, expectations and experiences are in a period of transition. Demographic changes are afoot: the share of adults ages 65 and older is expected to grow from 2000's 12 percent of the U.S. population to 21 percent in 2050. There are also changes underway in the basic financial framework of retirement: in the past, more employers provided defined benefit pension plans. An evolution toward more individualized retirement plan offerings is likely to continue for years to come.

Retirees who have graduated from college are more likely to be working for pay . . . than are those who have less education . . .

Among the 77 percent of the currently employed (and not retired) public who say they expect to do some kind of work for pay after they retire, there are ***no significant differences by age, income, gender, race, ethnicity, education or region***, with one exception: retirees who have graduated from college are more likely to be working for pay (20 percent) than are those who have less education (9 percent).

In short, this has now become a widely-held expectation among virtually all kinds of people. It doesn't matter if a person is self-employed or not; if a person works for a big organization or a small one; if a person derives a strong sense of identity from work or not; all are equally likely to say they expect to work for pay after they retire.

Source: Pew Research Center, Employee Benefit Research Institute and Social Security Administration

Social Security: How Continuing to Work Affects Your Benefits

You can work while you receive Social Security retirement (or survivors) benefits. When you do, it could mean a higher benefit for you in the future, provided you have not already retired. Higher benefits can be important to you later in life and increase the future benefit amounts your family and your survivors could receive.

While you are working, your earnings will reduce your benefit amount only until you reach your full retirement age.

The Social Security Administration uses a formula to determine how much your benefit must be reduced:

- If you are under full retirement age for the entire year, $1 is deducted from your benefit payments for every $2 you earn above the annual limit. For 2009 that limit is $14,160.
- In the year you reach full retirement age, $1 in benefits is deducted for every $3 you earn above a different limit, but only earnings before the month you reach your full retirement age are counted.
- If you will reach full retirement age in 2009, the limit on your earnings for the months before full retirement age is $37,680.
- Starting with the month you reach full retirement age, you can get your benefits with no limit on your earnings.

If you are not already receiving benefits, be sure to contact the Social Security Administration at the beginning of the year you reach full retirement age. Even if you are still working, you may be able to receive some or all of your benefits for the months of that year until you reach full retirement age.