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Ready… Plan… ACTION

Creating a financial plan takes time, attention and effort, but it can allow you to accomplish what you want in life—for example, living your dream retirement lifestyle.

Planning is an ongoing process. Creating your plan is just the first step. Equally important is following up to make sure you stay on track and reach your goals.

Break it down

Your financial master plan is made up of smaller pieces. Each specific goal should have its own timeline and investment account. Your time frame for each goal should guide your investments and asset allocation.

Long-term goals, such as retirement, may call for more aggressive investments (stocks). Short-term goals, such as a vehicle purchase or college tuition in a year or two, are well served by more conservative investments (bonds, money market instruments or certificates of deposit). An intermediate-term goal—college tuition for a pre-teen, for instance—might call for a mix of stocks and bonds.

Annual review

Your annual financial review is a key part of the process. It's not the only thing you should do each year to manage your finances, but it's the most comprehensive. Meet with your financial planner if you have one. If you're a do-it-yourselfer, set aside time to review all your latest investment and bank account statements plus an up-to-date insurance policy.

Focus on:

Asset allocation. Make sure your asset allocation hasn't shifted. If it has, restore it to your original mix by selling shares in an asset class (stocks or bonds) that have risen in value and buying shares in one that has lagged. That can help to prevent your portfolio from becoming too risky or too conservative. Also, as you approach your goal, gradually tone down risk and focus more on protecting your principal.

Investment performance. Compare how well each investment is performing against a suitable benchmark index as well as your progress toward specific goals.

Net worth. This is a financial snapshot that helps you chart your overall progress in building wealth. Take everything you own (assets) and subtract what you owe (liabilities).

Protection. Check your insurance policies—life, health, disability and property. Make sure you have enough coverage and that your deductibles are at the right level. Strike a balance between your deductibles and premiums. Higher deductibles mean lower premiums; lower deductibles mean higher premiums.

Tax planning

Making timely tax-smart planning decisions is critically important. This includes:

- Investing in tax-deductible accounts in time to qualify for end-of-year deadlines
- Making charitable donations by December 31
- Taking all of your allowable tax deductions and credits.

Review your tax situation periodically throughout the year to make sure you take advantage of all possible tax-saving opportunities.

Periodic reviews

In addition to your annual review, conduct a briefer semi-annual review, focusing primarily on your investment performance. Monitor your emergency fund, which should be large enough to cover three to six months' worth of expenses in the event of a financial crisis. When you receive quarterly investment statements, review them briefly to stay on top of your account performance and your progress towards your goals.

Financial planning is a year-round activity. *What should you do in the next month or two to monitor the state of your finances? Do you have a regularly scheduled annual financial review? If not, set one up now.*

There's no time like the present to shape your future finances.

A Lifelong Game Plan

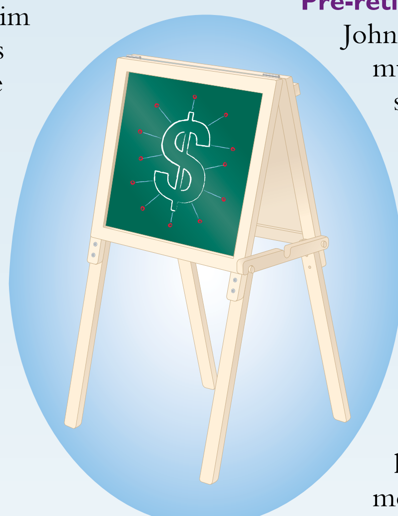
Stay Financially Focused Throughout Life's Stages

Financial planning is an ongoing endeavor. Revisit it as you go through all of life's stages. You'll set goals, review priorities, put plans into action, and then follow up periodically.

Let's apply this to five stages of life:

Teenager: Jason, 16. *Goals: Save for a car; save for college*
Jason works part-time, bagging groceries and he's yearning to buy a car. His dad showed him some numbers. Based on how much he's saved, how much he earns, and the price of a used vehicle, everything Jason earns in his 12-hour-a-week job may go towards gas, insurance, paying off a small loan, maintenance and car repairs. He'll still have to pay for part of his college expenses up front or through a student loan.

After he weighs the pros and cons of delaying his car purchase, Jason concludes that he simply must have a car. College expenses will have to wait.



Young adult: Kim, 23. *Goals: Pay off student loans; avoid credit card debt*
Last year, Kim graduated from college with a nursing degree and $20,000 in student loan debt. She plans to pay off her loan as quickly as she can—in five years. She's determined to put that debt aside so she'll be free to save for some big goals—the down payment on a home and retirement. In addition to paying off her loans, she's doing her best to stay away from high-interest credit card debt. Every month she pays down her loan and pays off her credit card balance in full.

Married with children: Mike and Sally, 40. *Goals: Save for college; save for retirement; pay off mortgage*
Mike and Sally have a lot on their plate. They're trying to be financially responsible without denying life's current pleasures. Meanwhile, they're taking a slow, steady approach toward their two major savings goals—college tuition for their three children and their retirement. Every year, they meet with their financial planner and review their progress.

Pre-retiree: John, 55. *He has multiple goals.*
John plans to retire in 10 years. He's saving as much as he can and he believes that making small sacrifices now will pay off for him through a financially secure retirement. He's also paying attention to retirement expenses and income. How much will everything cost? And how will he pay for it? In addition, he's tapering down his investment risk by shifting some stocks to bonds, and he's revisiting his estate plan.

Retiree: Jane, 70.
She's been retired a half dozen years and has managed fine financially. She regularly monitors her income and expenses, making adjustments as necessary. She's currently reviewing and updating her estate plan, checking to make sure that the beneficiaries are up-to-date and that everything in the plan still makes sense.

These hypothetical examples illustrate the importance of always having a financial plan, revisiting your goals, selecting new ones, and monitoring your progress. This steady approach pays off in the long run.

What's your life stage? What are your goals and time horizon? What risks do you face? Do you have a clear financial strategy? Are you monitoring your progress towards all goals?

Mistakes to Avoid: A Dozen Do-Not-Do's

Just as to-do lists can be a key part of planning, do-not-do lists can be helpful reminders to avoid mistakes that others have made. If you steer clear of the do-not-do's, the to-do's should propel you toward your financial goals.

1. **Impulse investing.** Avoid investing based on a whim or a tip. Don't invest a certain way just because a friend or colleague does. Instead, be thoughtful and strategic.

2. **Lacking an overall plan or strategy.** Don't look at financial decisions in isolation. Think about how they affect or are affected by other elements. For example, when deciding on your asset allocation, keep all of your investments in mind, not just those in a particular account.

3. **Not paying yourself first.** Saving should be your top priority. Put money aside with every paycheck. It's easy to do through payroll deduction or a similar automatic system.

4. **Not taking advantage of time.** Compound growth is like a gift from Father Time. If you wait too long to save for retirement, you will have lost tremendous potential growth. As a result, you might have to save significantly more later in your career, when many financial needs compete for your attention and your budget.

5. **Not paying attention to risk.** Risk and return tend to go hand-in-hand. Investments that offer higher potential returns, such as stocks, have elevated levels of risk. In contrast, conservative investments, such as money market funds or stable-value investments, fluctuate very little, but they offer limited growth potential. Think about risks as well as expected returns.

6. **Not diversifying.** The more concentrated your investments, the higher the risk of a substantial loss. Limit your risk by owning a variety of investments, and don't invest too heavily in your employer's stock.

7. **Relying on someone else to handle your investments.** It's fine to consult with someone whose opinion you respect, but be ready to question anyone's suggestions. Ultimately, you must decide for yourself on the best strategy for your situation.

8. **Not working with your spouse toward the same goals.** Couples should talk about their financial goals and coordinate their investing strategies and budgetary practices.

9. **Not maximizing your retirement plan.** Your employer-sponsored retirement plan is one of your most important benefits. If you receive a matching contribution from your employer, contribute at least enough to the account to qualify for the full match. Anything less is like walking away from free money.

10. **Cashing out or borrowing from your 401(k) account.** In a financial emergency, you might have no choice but to make an early withdrawal from your retirement account. But taking money from your account is like borrowing from your future to pay for your present needs. Look for alternatives before you resort to that.

11. **Ignoring tax or inflation when estimating your net retirement income.** For anything other than a tax-free account, such as a Roth IRA or Roth 401(k), you'll owe taxes on your withdrawals. Similarly, remember that inflation will reduce your purchasing power.

12. **Not following your investments.** Monitor your investments and make sure they are performing roughly as you expect them to do. If they are not, try to understand why, and be ready to make changes if you need to.

Retirement in Motion

TIPS AND RESOURCES THAT EVERYONE CAN USE

Boomers on the Brink

Issues facing participants approaching retirement

Baby boomers projected to migrate
As the baby boomers—currently 45 to 63 years old—reach retirement age, they could lead a major migration trend toward rural and small-town destinations, according to a U.S. Department of Agriculture report. Researchers found that people in their 50s and 60s have a strong tendency to move from urban or metropolitan areas to more isolated places that offer lower housing costs and a more relaxed pace. "If baby boomers follow past migration patterns, the non-metro population age 55-75 will increase by 30% between now and 2020," the report concludes. This could have major social and economic implications for baby boomers' chosen destinations as well as the areas they leave.

Source: http://www.tinyurl.com/BabyBoomMigration

Q & A

Common questions asked by retirement plan participants

Should I do a Roth IRA conversion? What does it involve?

A Roth IRA conversion involves converting a traditional IRA to a Roth IRA. If you have made a pre-tax contribution, you'll have to pay tax in the year of the conversion. That would enable you to withdraw money eventually from the Roth IRA on a tax-free basis. Until now, only people who earned less than $100,000 were eligible. As of 2010, that restriction will be removed, presenting a big opportunity for people who had been ineligible. Also, just for 2010, you'll be able to postpone and split tax liability for your Roth conversion to 2011 and 2012.

Tools & Techniques

Resources and ideas to guide you in your retirement planning efforts

Bond laddering
When you invest in an individual bond, you can hold it until it matures. At that point, you might invest the proceeds in a new bond at the prevailing interest rate. But what if interest rates are low then? To protect yourself from having all your bonds mature when interest rates are low, you could arrange a bond ladder, in which a group of bonds matures at one-year intervals. If you were buying bonds today to set this up, you could put one-tenth of your money in each of 10 bonds maturing in one to 10 years. Then, you could keep reinvesting each rung of your ladder of bonds as they mature.

Quarterly Reminder

Have you looked at your latest Social Security benefits statement?
This statement of benefits should form the core of your retirement income planning, but Social Security benefits will likely provide only a part of your income in retirement. The rest will have to come from other sources, such as your employer-sponsored retirement savings plan, personal savings, a company pension if you have one, and part-time earnings. When you receive your annual Social Security benefits statement, check to make sure your earnings are accurately posted. You can also estimate your Social Security benefits with an interactive calculator available at www.ssa.gov.

Corner on the Market

Basic financial terms to know

Longevity risk
One of the biggest risks you face is longevity risk, the chance that you could outlive your life savings. The best way to protect yourself is to save enough to be financially secure in retirement. You could save more each year while you work. Delaying your retirement could also make a difference. Once you have retired and are making account withdrawals, you can try to limit your annual withdrawals to no more than 4% or 5% of your account balance initially. Also, buying a lifetime annuity will guarantee that you'll always have some monthly income.

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