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THE ADVISOR

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For Participants in the SuperSaver 401(k) Plan

CENTRE FOR FIDUCIARY EXCELLENCE

INSIDE THIS ISSUE

The Tipping Point of Sovereign Debt

By Dr. Ann B. Gillette

Ramifications of the U.S. federal debt downgrade on August 5th, as well as the lingering European sovereign debt crisis, will continue to be at the forefront of financial policy discussion for some time. Uncertainty related to these issues will continue to be felt throughout the world economy until credible, long-term solutions are identified and implemented. The total amount of debt held by U.S. government has increased every year since 1957, and it appears we are approaching a critical point. . . yet there is much debate about the urgency of reducing our national debt. Our U.S. public debt is the money the government has borrowed at any one time by the issuance of securities by the treasury and other federal government agencies. The total debt of the U.S. is comprised of both public debt and intragovernmental trust obligations, such as to Social Security and Medicare. There are differences of opinion on whether the public or the total debt of a country is the most relevant to use for measuring a country's financial distress. The argument is that interest payments on public debt must be made on time while intra-governmental obligations can be postponed. Recently, our annual budget deficits are running

There are differences of opinion on whether the public or the total debt of a country is the most relevant to use for measuring a country's financial distress.

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Did You Know...

Congratulations to The Advisor's Beth Moore, who completed her work requirements this year to become a Certified Financial Planner (CFP®), the recognized standard of excellence for personal financial planning. CFP® status requires candidates to pass a written exam and complete three years of work experience. Beth has been with Advisor Financial Services for a little more than two years, having first worked with Ameriprise. CFP's are required to adhere to a strict code of ethics and conduct, and they also have ongoing education requirements.

The Survivorship Benefit Option: What is the Best Choice for You?

By Gary J. Krasnov, AIF®, CLTC

Most annuitized retirement plans, such as the Pension Benefit Guaranty Corporation (PBGC), a traditional pension plan or a Military Reserve retirement, have a survivorship option that one can choose to provide a surviving spouse a reduced benefit for the remainder of his or her life after the primary pensioner passes away. While certainly this option provides a certain level of security, there are often better and less expensive alternatives.

Different people have different requirements and there is certainly no one-size-fits-all solution to survivor benefit planning.

Let's take a look at an example regarding a PBGC, or pension benefit. We will use "John" as our pension benefit recipient. John is 58 years old and has been working for his current employer for 26 years. His pension benefit statement states that he will receive $5,600 per month if he were to begin taking his benefit at age 60. If he were to elect the 50 percent survivorship option, he would reduce his benefit by $480 per month ($5,760 yearly) and upon his death, his surviving spouse would receive $2,550 monthly.

Using a present value of money calculation, his spouse would need to receive $750,000 now to provide the same benefit. Assuming John is in good health and can qualify for preferred best rates, a 20-year level term life insurance policy would cost him $3,800 per year for a savings of $1,960. If John planned early and applied for the insurance at age 59, he could save an additional $450 per year. Of course he would have to weigh the cost of earlier coverage against the lower premium payment. Another option is for John to utilize two or more policies with varying terms. For instance, he could take out a 10- year term policy and a 20- year term policy, with the 10- year policy representing a fraction of the overall benefit requirement. After 10 years, if John is still alive, the policy lapses, but two financial benefits are realized. First, the total of his annual insurance premiums will be lower than if he put the total initial benefit requirement on one 20- year policy. Second, presumably in 10 years he will need a reduced lump sum for survivor benefits and so will not need to carry the full value of his initial insurance requirement over an extended policy that requires an extended duration of payments - thus further reducing lifetime premium payments.

While certainly this option provides a certain level of security, there are often better and less expensive alternatives.

An additional benefit of using insurance is that if John's spouse were to pre-decease him, the need for the insurance would no longer exist and John could cancel the policy. Different people have different requirements and there is certainly no one-size-fits-all solution to survivor benefit planning. Additionally, how you structure and implement your survivor benefit plan is very important. If done incorrectly, a spouse could very easily end up in the dire situation of having no survivor benefit. If you are nearing the time to make a decision on survivorship benefits, give us a call and we would be glad to work with you to see what options works best for you.

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Living Expenses Change Throughout Retirement

By Beth Moore, CFP®

When envisioning their retirement, most people want to have a standard of living similar to that of their pre-retirement years. And while some expenses will not change significantly, pre-retirees must carefully consider not only which expenses will increase or decrease when they leave the workforce, but also how expenses will change throughout retirement.

If you are approaching retirement, you'll need to prepare to support yourself financially for at least 20-30 years.

The newly retired find that there are some definite advantages to being a retiree – senior discounts, lower taxes, subsidized healthcare, and regular Social Security checks among them. But mature Americans also find that they must contend with worrisome issues, such as the rising costs of medical care, long-term care, prescription drugs, and even basic necessities such as food and energy. These patterns vary from person to person, but they do follow some general trends.

For example, some may find that their common business expenses, such as weekday restaurant lunches, clothing/dry cleaning costs, and professional dues or subscriptions decrease in retirement, as would be expected. In addition, other expenses may decrease or go away altogether, such as mortgage payments or tuition costs. On the other hand, retirees may discover that other expenses increase, such as travel, leisure and hobby activities, gifts and entertainment, Medicare and Medigap premiums, medical care deductibles, health prescriptions, and long-term care.

Many people want to retire from their full-time jobs when they are in their 50s or 60s. If you are approaching retirement, you'll need to prepare to support yourself financially for at least 20-30 years. When estimating how much you'll need to save for retirement, keep these six areas in mind:

-Medical expenses. Health care is likely to be one of your largest and most unpredictable retirement expenses. It is difficult to foresee exactly what health conditions you might develop and how much care or medication you will require to treat them. Keep in mind that if you retire prior to age 65, you will probably have to pay for your health insurance out-of-pocket until you qualify for Medicare. You'll need to budget for these expenses before you retire.

Start this process by estimating your annual Medicare premiums and likely out-of-pocket costs, including deductibles, co-pays, and co-insurance. Consider what current medications you're taking, your current state of health and think about any hereditary diseases that run in your family. Purchasing a supplemental insurance policy that fills in some of the gaps in traditional Medicare coverage can help make retirement health care budgeting more predictable.

As a retiree, you will no longer need to save for retirement since you'll be living in it.

-Housing. Hopefully, by the time you retire, you will own a house debt-free. Removing the big expense of a mortgage payment should be at the top of your list of things to do before you retire. Whether you plan to stay in your already-paid-off home or move to a new location, you'll need to budget for typical housing costs and fees, such as annual real estate taxes, home insurance and maintenance fees. Many retired couples have found that they can save lots of money by simply downsizing and moving to an area that offers a lower cost of living, which will also reduce your overall home ownership costs.

Like you, your home will continue to age throughout your retirement. Try to take care of foreseeable major repairs before you retire to avoid sudden unexpected costs. You will continue to need an emergency fund in case your roof leaks or washing machine breaks down. You may also need to hire additional help with household chores or yardwork if you become

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"To make money, buy some good stock, hold it until it goes up, and then sell it. If it doesn't go up, don't buy it."

— Will Rogers —

Living Expenses Change Throughout Retirement - Cont. from Page 3

unable or unwilling to perform these tasks yourself.

-Travel, Leisure and Social Activities. Make sure you factor travel and entertainment expenses into your retirement budget. You will have eight hours a day to fill with new activities. Think about the costs of a few vacations each year, as well as monthly leisure and entertainment costs, such as movies, dinner and country club dues.

On a related note, although overall travel expenses may rise, you should be able to travel more cost-effectively in retirement. You'll be free to travel at off -peak times and during the week as much as you want. You'll also have more time to plan your trips to get the best deals.

-Transportation. Retirees generally drive less than workers who commute to their jobs every day, thus spending less on automobile maintenance, tolls, gasoline, etc. Some retired couples will only need one or two vehicles after retirement. If you eliminate an unnecessary car, you can save money on insurance and maintenance – not to mention putting instant money in your pocket from the sale of this vehicle. You will need to budget for future car payments or purchases, as most people will need to replace their vehicle(s) at some point in their retirement. Down the road, you may be able consider going completely vehicle-free if you live in a compact community or have easy access to public transportation.

To help estimate these expenses during retirement, think about your needs in the following stages of your retirement: early, middle, and late.

-The expense of saving and taxes. As a retiree, you will no longer need to save for retirement since you'll be living in it—no more contributions to your retirement funds. And you'll also get to skip paying payroll taxes since you won't have a job (unless of course you are working part-time). You will have to pay income tax on traditional 401(k) and IRA withdrawals, but most retirees find their overall tax expense is less than during their working years.

-Your children and grandchildren. Most people have children who will be self-sufficient by the time they retire. College costs, dependent insurance coverage, and living expenses for your children should be minimal to non-existent. However, with the recent sluggish economy, more adult children are moving back in with their parents after college or a job loss. Another increasing trend shows retirees raising their grandchildren. Whether you are housing adult children or grandchildren, these scenarios add to your household expenses.

Along the lines of dependents, another trend indicates that more and more retirees are having to care for their aging parents. In some cases their parents cannot afford assistance living or nursing home care, and the only alternative is moving in with their children. This can increase overall household expenditures.

Estimating Expenses During Three Phases of Retirement

Earlier in this article, we identified various areas of expenses that may increase or decrease during retirement. To help estimate these expenses during retirement, think about your needs in the following stages of your retirement: early, middle, and late.

The rule of thumb for professional retirement planners is that most people will need 80% or more of the income they were receiving before they retired to maintain the same standard of living.

-Early years: Keep in mind you may need more money in the early years of retirement. Typically, newly retired persons spend more money on travel, home improvements, recreation and hobbies, and new wardrobes. These items can raise expenses beyond previous workday levels. In addition, if applicable, caring for elderly parents generally comes into play during one's early retirement years.

Active retirees may consider continuing to earn some money during those first lively and expensive years of retirement to 1) keep themselves satisfied and 2) bring in enough cash to pay for those extras. Medically and financially, it may make much more sense to go with a pseudo-retirement that includes part-time or consulting work. Furthermore,

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Living Expenses - Cont. from Page 4

recent studies show that retirees who take on part-time work lower their risk of diabetes, cancer and a host of other illnesses.

-Middle years: The second and usually longest phase of retirement is a time in which you (and your spouse) have "settled down." During these years, you may consider issues such as relocation and decreasing your spending. It may become necessary to replace an aging car. Budgeting becomes more important during this phase.

-Later years: Studies show that underestimating your expenses in this third phase of retirement is a common mistake. Medical and personal assistance expenses can be quite large during this phase and can quickly use up what is left of your retirement savings.

In conclusion, the rule of thumb for professional retirement planners is that most people will need 80 percent or more of the income they were receiving before they retired to maintain the same standard of living; 100 percent or more may be needed if you plan to live more lavishly. When you plan to retire, where you plan to live, and how you plan to spend your time will all have an impact on how much you may need to be financially prepared.

The more detailed and realistic you are in understanding your retirement expenses and how they will potentially change, the better prepared you will be to plan for those needs. You should review your retirement needs at least once a year, as your financial situation and your needs will change often.

The Tipping Point of Sovereign Debt - Cont. from Page 1

about 8 percent of Gross Domestic Product (GDP). Currently the total U.S. debt stands at more than $14 trillion dollars: 68 percent is public debt held by investors – of which approximately half is held by foreign investors and a sizable portion by the Federal Reserve System as part of monetary policy. China, the largest foreign investor, owns roughly 16 percent of total U.S. public debt. The central banks of Japan, UK, and Brazil are the next largest holders. The remaining 32 percent of total debt is held in non-marketable securities by intragovernmental trusts.

Recent 2011 reports indicate the U.S. public debt as a ratio of annual GDP is 96 percent. This number fluctuates with GDP projections. Spikes in debt levels historically occur around periods of war, and the highest level recorded for the U.S. is in the aftermath of World War II when it reached 119 percent. Just this past year, in the first quarter of 2010 when GDP numbers were lower, the U.S. total debt again hit these levels: 117 percent of GDP. Table 1 highlights public debt to GDP in 2010 for selected countries as recorded by the IMF. Japan has the highest debt burden of all nations at 225 percent, while Libya and Hong Kong have the lowest, close to zero.

Recently, several countries have dropped their demand for the U.S. dollar as the reserve currency.

What are the costs of high sovereign debt levels? A country's long-term wealth costs are similar to the idiosyncratic differences that individuals and corporations face with high debt burdens --- for a country it typically translates into lower long-term economic growth, relatively high unemployment, rising interest burden, devaluation of the currency, and inflation. Recent research by Reinhart and Rogoff [1], have identified a significant tipping point for developed countries when their debt levels reach 90 percent of GDP. In particular, with debt above 90 percent of GDP, countries have median growth rates roughly 1 percent lower and mean levels of growth about 4 percent lower relative to those countries below the threshold. Importantly for the U.S. economy, their data analyses shows that the average GDP growth rate has been around 3 to 4 percent when our debt levels are below the 90 percent threshold, but a minus 1.8 when above it. Other studies [2] reinforce the concept that debt levels have negative consequences for subsequent economic growth. Another cost to high sovereign debt levels is currency fluctuations. Recently, several countries have dropped their demand for the U.S.

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The Tipping Point of Sovereign Debt - Cont. from Page 5

dollar as the reserve currency.
In particular, Kuwait and Syria started pegging their currency to a basket of currencies instead of the dollar, and China, India, and Russia have made overtures to hold fewer treasuries.
While we are all aware of the recent Congressional battles over the debt ceiling, how many realized that the policies instituted only reduced the current debt by roughly 6 percent, with an additional $1.5 trillion over the next 10 years to be decided on by the end of the year? In essence, the best-case scenario is approximately a 16 percent reduction in our debt level over the next 10 years. Financing larger debt levels will only increase interest rates over time as we compete with other countries and corporations for funding in a global lending market. While interest rates and inflation can

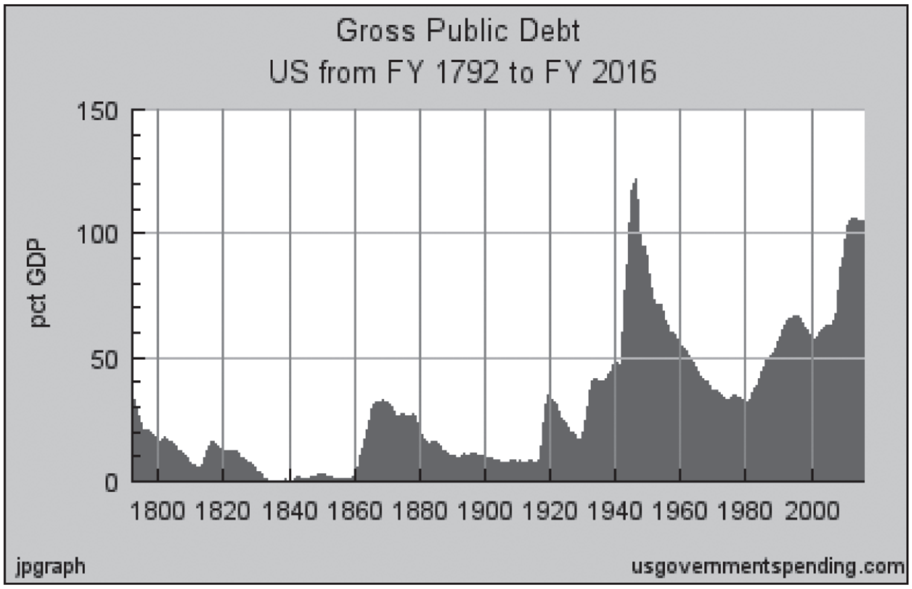
Financing Larger Debt levels will only increase interest rates over time as we compete with other countries and corporations for funding in a global leading market.

change quickly, sovereign debt levels change slowly. Although Greece is an extreme financial distress example, we have recently witnessed that it clearly reached a tipping point related to its sovereign debt. Their cost of debt skyrocketed even with EU support --- going from 4.53 percent in

Selected countries from CIA's World Factbook, 2010. Data collected by IMF (International Money Fund).

Country	Public Debt/GDP
Japan	225.8 percent
Lebanon	138.9 percent
Greece	130.2 percent
Italy	118.4 percent
Belgium	100.2 percent
Ireland	93.6 percent
United States	**92.7 percent**
France	84.2 percent
Portugal	83.1 percent
Canada	81.7 percent
UK	76.7 percent
Israel	76.1 percent
Germany	74.3 percent
India	71.8 percent
Brazil	66.8 percent
Spain	64.5 percent
Argentina	52.2 percent
Kenya	52 percent
Yemen	45.8 percent
Mexico	45.2 percent
Switzerland	39.5 percent
South Africa	34.1 percent
South Korea	32.1 percent
Syria	26.9 percent
United Arab Emirates	24.7 percent
Australia	21.9 percent
Iran	21.7 percent
China	19.1 percent
Saudi Arabia	12.9 percent
Russia	11.1 percent
Hong Kong	0.7 percent

The Tipping Point of Sovereign Debt - Cont. from Page 6



July 2007 for two-year Greece government bonds to 26.65 percent in July 2011.

Currently in the U.S., interest payments on public debt is the fourth largest single budgeted federal government category behind defense, Social Security, and Medicare. In the last several years, interest payments have cost us 5 percent to 9.5 percent of our annual expenditures ---depending on the level of market interest rates. Is the pressure of potentially rising borrowing costs forcing a re-evaluation of our fiscal policies? Are we in the U.S. on the verge of our own tipping point?

Footnotes:

[1] "Growth in a Time of Debt," by Carmen M. Reinhart and Kenneth Rogoff, American Economic Review, May 2010.

[2] "Public debt and Growth," by Mohan Kumar and Jaejoon Woo. IMF Working Paper WP/10/174, July 2010, and "(Still) Tempting Fate," by Alan Auerbach and William Gale, National Bureau of Economic Research Working Paper, August 30, 2011.

Selected countries from CIA's World Factbook, 2010. Data collected by IMF (International Monetary Fund).

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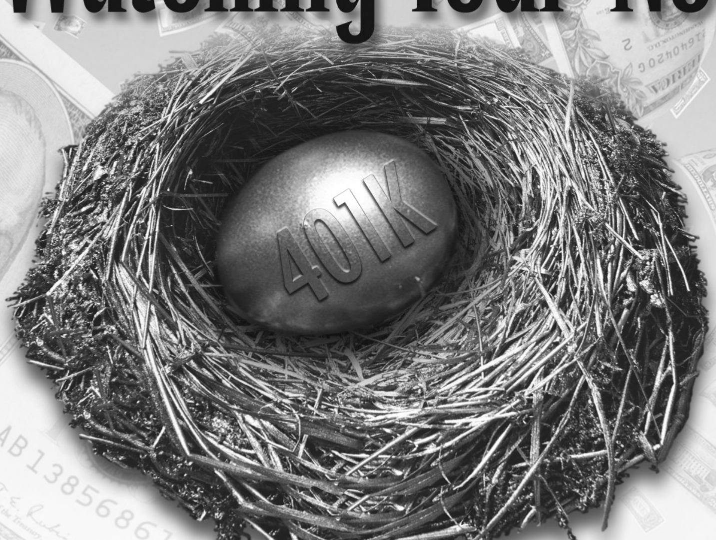

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- Do you know how much it earns for you each year?
- What investments make up your portfolio?
- Are you spending the necessary research time to choose the best funds?

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