

Let's Talk Money™

Compliments of... Peter J. Anderson



FILLING IN THE GAPS OF YOUR RETIREMENT INCOME PUZZLE

Longer life expectancies, increasing health care costs and fewer guaranteed pensions in the form of defined benefit pension plans combine to present a picture that may face many Americans in retirement: they will have gaps in their retirement income. If you fall into this category, consider the following steps to help you fill the gaps.

1. **Save more.** For many people, this is easier said than done. However, if you can find just a few dollars a week and put them into your retirement savings, this can add up over time, thanks to the power of time and compounding. Think of where you can find the extra money, such as impulse buys at the supermarket, the cup of coffee bought outside each day, the restaurant meals and on and on.
2. **Contribute to your workplace plan.** If your company has a 401(k) plan or other qualified retirement program, contribute as much as allowed. Your contributions and potential earnings are tax-deferred. Contribute at least the amount of money your company will match. Failing to do so means you leave what is essentially free money on the table.
3. **Contribute outside the workplace.** Consider investments outside the workplace, such as an IRA. As with a 401(k) plan, potential earnings grow tax-deferred and contributions may be tax-deductible if you meet eligibility requirements. Tax-deferred annuities offer another choice outside the workplace, and they don't have income or contribution limits like other retirement investments.
4. **Keep working.** As a group, today's seniors are more vital than ever. Many have no plans to retire – at least fully – when they become eligible for penalty-free retirement benefits. Consider the benefits of continued work, even if it's part-time, and what this can mean to your retirement income. Also advantageous: continued work and delaying Social Security payments past normal retirement age can increase your Social Security payments when you finally begin to take them.
5. **Insure against risk.** The biggest risk many Americans – not just seniors – face is the potential for staggering health care costs. Retiree health plan benefits are becoming rarer, and there is no guarantee what Medicare will pay in the future. For this reason, you might consider private health insurance or even a Health Savings Account. The latter, when combined with a high-deductible health insurance plan, allows you to contribute tax-deferred dollars toward many out-of-pocket medical expenses during your working years. Distributions taken for medical expenses are tax free. Additionally, you may take distributions for any reason beyond age 65 without penalty, although they will be taxed at ordinary income tax rate levels.



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"Not everything that counts can be counted, and not everything that can be counted counts."
Albert Einstein

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Helping loved ones make the transition from child to adult

It's not easy becoming an adult, and financial competency is among the most perplexing concepts for some young adults. Burgeoning college loans don't help. Neither do automobile insurance rates, which are higher for young drivers than they are for adults, even if the teen has a clean driving record. But the steps you take before your children strike out on their own can help them cope better financially when they finally make the leap.



When they're young, convince your children with actions that financial rewards are better earned than automatically supplied. For example, a younger child may want a video game or item of clothing and "just can't wait" for it. Make them wait and, when possible, work toward it. A paper route, saving a portion of birthday or graduation money and other ways can help your child understand the value of a dollar and appreciate the work that goes into the money needed for each "want."



Also, help your children understand the difference between "want" and "need." They "want" the latest CD. Homeless children "need" a meal and a clean bed to sleep in. Illustrate the difference, even if it means volunteering with your child for the less fortunate. Perhaps encourage your child to contribute a small amount to charity, and



promise to match the contribution to show that you take actions, not just speak words.

As your child nears adulthood, consider the tools that can help them make the financial transition. If you're unsure if your child will become a compulsive spender with a credit card, consider instead a debit/credit card. This type of credit is pre-funded, limiting the cardholder to purchases that can't exceed the money deposited into the account: they can't exceed the limit and suffer over-the-limit charges that regular credit cards levy. And as your child considers the move, promote education by going over college loan repayment schedules, car insurance and apartment leases with your child. The help you provide your children before they leave may help you prevent having to financially rescue them later on.

HEALTH INSURANCE AND YOUR ADULT CHILDREN

It's not unusual for college students to boomerang back home with mom and dad after graduation, hoping to save money for the eventual move on their own. During this time, make sure that your children are insured properly.

Health insurance is typically of little concern to healthy young adults, who may consider themselves indestructible. You, however, may dread the expense that occurs if their health should wane and they don't have insurance. If your children are young enough, they may be able to continue on your health insurance policy. Alternatively, some states in the northeast have enacted some form of universal health insurance, while New Jersey had created a law requiring

most employers to offer employees insurance coverage for their children up to age 30, as long as the child lives in the state and the employee fully pays the premiums.

If you don't live in these states and lose your job, consider COBRA benefits, which can extend previous insurance benefits by at least 18 months. Compare these rates, which aren't inexpensive, to an individual policy for your adult child. The individual policy may be less expensive for a healthy young adult. Also explore a high-deductible plan in combination with a Health Savings Account, which will at least cover catastrophic costs.





Too much or too little?

Do you receive a large refund check from the IRS each year or owe money and penalty taxes? If so, it's time to revisit your W-4 form and adjust your withholding. Other changes, including the addition or subtraction of dependents or a new, large mortgage, can affect your tax bill — and consequently the withholding that you claim. If you need to adjust your withholding, ask your employer for Form W-4 and fill out the form inside it, or get the publication and worksheet at www.irs.gov.



6 STEPS TO TAKE FOR A ROSIER FINANCIAL FUTURE

New Year's Day and its resolutions may have slipped away, but you can make resolutions any time of the year. Consider these steps you might take to help make your finances healthier.

1. **MAKE A BUDGET.** If you wonder where the money goes, find out by creating a budget and tracking every dime you spend. By doing so, you'll find expenses that you can cut back on or cut out altogether. And, as you'll soon find out, you can put this found money to work for you.
2. **REIN IN YOUR CREDIT CARDS.** Credit card rates have risen with interest rates so that there are few investments that can equal the interest payments you make to your card companies. Consider paying them down and — here's a radical thought — buy on credit only that which you can pay off in full each month.
3. **SHOP AROUND FOR A BANK.** Banks are getting more competitive and offering consumers all sorts of goodies, such as free checking and high-interest savings accounts. Shop around to get the best deal.
4. **CREATE AN EMERGENCY FUND.** Rather than use your credit cards during a financial emergency, why not put a portion of your salary away to meet unexpected future expenses, equal to perhaps six months of salary.
5. **CONTRIBUTE TO YOUR COMPANY RETIREMENT PLAN UNTIL IT HURTS.** This year you can contribute up to \$15,500 to a 401(k) plan, if allowed by the plan, and an additional \$5,000 if you are age 50 or older. (These are 2007 amounts, indexed for inflation.) The sooner you begin saving and the more regularly you save, the more potent the combination of time and compounding becomes.
6. **SAVE SOME MORE.** If you don't have a 401(k) plan or you do but want to contribute more, consider opening a traditional or Roth IRA. Depending on income and eligibility restrictions, you can contribute up to \$4,000

annually, plus another \$1,000 if you are age 50 or older. And of immediate value, you can contribute up to the federal tax filing day — April 15 or the first business day after that if on a weekend or holiday — and have it apply to last year's tax return.

KEEP YOUR CREDIT SCORE HEALTHY

Your credit score is a measure of your credit risk, providing a number that can affect your eligibility and the interest rates you pay on everything from mortgages to credit cards. If you have a good credit score, the following steps are a few ways to keep your score strong.

- Maintain a high available credit-to-balance ratio. Having about 75% of your total credit line available is optimal.
- Don't let your cards collect dust. If you have a credit card only for emergency, consider using it for a purchase once or twice a year, paying off the balance in full each time you receive a bill.

Watch out for multiple credit inquiries. Applying for two or more lines of credit within six to 12 months of each other indicates that you have the willingness to take on more debt, which may not be favorable to your credit score.



Time-honored investment techniques for the average investor



When even the experts disagree about the direction of the markets, how do you as an average investor figure out the world of investments? The answer is you don't. Instead, consider some time-honored investing principals and help make your life easier in the process.

1. SAVE, SAVE AND SAVE.

Time and compounding offer a potent combination, so you may consider saving for long-term goals as early as possible and continue saving regularly and as much as possible.

2. FIND THE RIGHT ASSET ALLOCATION.

The percentage of investments you put into stocks, bonds and money market instruments make up your asset allocation. This is best arrived at by considering your financial goals, timeframe and investment tolerance. Typically, all asset classes do not perform in lockstep, so theoretically the poor performance of stocks, for instance, may be balanced by better bond performance. Generally speaking, the longer you have to save for a financial goal, the more aggressive you can be with your investments. This may give you the time that is necessary to weather the inevitable ups and downs of the market. However, be sure to invest in a way that meets your risk tolerance, no matter what your age.



3. DIVERSIFY APPROPRIATELY.

Within your asset allocation, there are many types of investments that make up each asset class. However, few of us have the financial resources necessary to diversify properly when buying individual securities. For that reason, you may consider mutual funds within each asset class, giving you access to many more securities than you might buy on your own.



4. CONSIDER THE MERITS OF PROFESSIONAL MANAGEMENT.

In addition to natural diversification – some mutual funds invest in hundreds of securities – you also might consider mutual funds for their professional management. Mutual fund companies employ professional analysts and investment managers to monitor the day-to-day gyrations of not only different markets, but individual securities within the markets.



5. REBALANCE REGULARLY.

Developing the right asset allocation isn't the end of investing strategy – it's just the beginning. Performance in one market may throw your asset allocation out of whack over time. To keep your asset allocation on track, you'll need to rebalance periodically, typically every six to 12 months.

Mutual funds involve risk and are offered by prospectus only, which you can get from your registered representative. Because investment return and principal value fluctuate, shares may be worth more or less than original value upon redemption. Carefully consider investment objectives, risks, charges and expenses of the investment company before investing. The prospectus will include this and other information; read it carefully before investing.

Asset allocation won't guarantee a profit or ensure that you don't have a loss, but may help reduce volatility in your portfolio. Also, diversification cannot eliminate the risk of investment losses.

An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the Fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the fund.



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