GET WEALTHY & STAY WEALTHY

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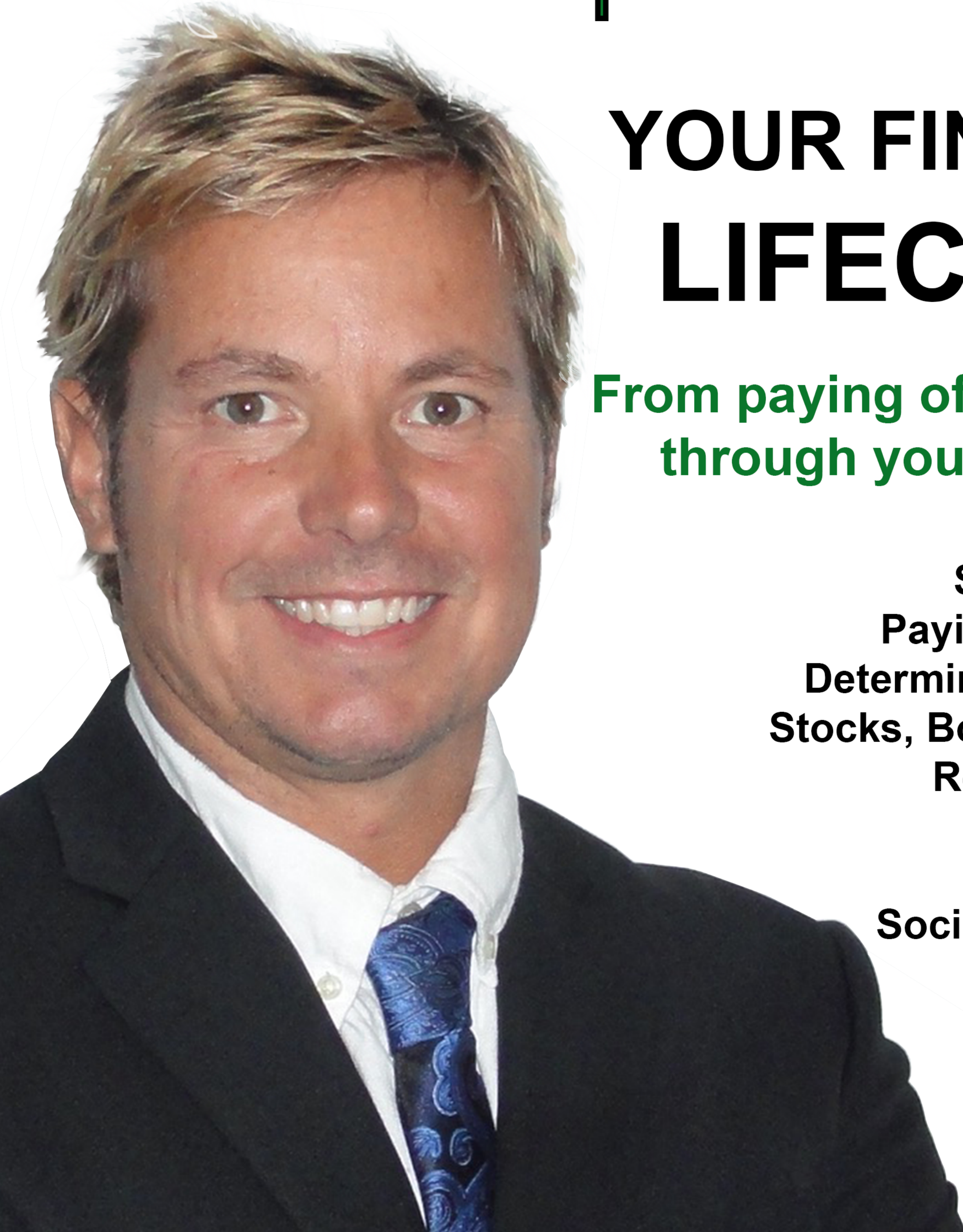

YOUR FINANCIAL LIFECYCLE

From paying off debt to living through your retirement

Savings & Investing
Paying Off Credit Cards
Determining Risk Tolerance
Stocks, Bonds, Mutual Funds
Retirement Accounts
Real Estate
Insurance Benefits
Social Security Benefits

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Savings And Investing

Define Your Goals

To end up where you want to be, you'll need a roadmap, a financial plan. To get started on your plan, you'll need to ask yourself what are the things you want to save and invest for. Here are some possibilities:

- A home
- A car
- An education
- A comfortable retirement
- Your children
- Medical or other emergencies
- Periods of unemployment
- Caring for parents
-

Make your own list and then think about which goals are the most important to you. List your most important goals first.

What do you want to save or invest for?	By when?
1	
2	
3	
4	
5	

Decide how many years you have to meet each specific goal, because when you save or invest you'll need to find a savings or investment option that fits your time frame for meeting each goal.

Many tools exist to help you decide how much you'll need to save for various needs. For example, the Ballpark Estimate, a single-page worksheet created by the American Savings Education Council, can help you calculate what you'll need to save each year for retirement.

The NASD has a college savings calculator, and the Social Security Administration has a benefits calculator to estimate your potential benefit amounts.

To save more, you'll need to figure out your current finances and where you can achieve real savings. You're ready for the next leg of your trip.

Make A Financial Plan

Figuring Out Your Finances

Sit down and take an honest look at your entire financial situation. You can never take a journey without knowing where you're starting from, and a journey to financial security is no different.

You'll need to figure out on paper your current situation— what you own and what you owe. You'll be creating a "net worth statement." On one side of the page, list what you own. These are your "assets." And on the other side list what you owe other people, your "liabilities" or debts.

Your Net Worth Statement

Assets	Current Value	Liabilities	Amount
cash	_______	mortgage balance	________
checking account	_______	credit cards	________
savings	_______	bank loans	________
cash value of life		car loans	________
insurance	_______	personal loans	________
retirement accounts	_______	real estate	________
real estate	_______		________
home	_______		________
other	_______		________
investments	_______		________
personal property	_______		________
total	_______	total	________

Subtract your liabilities from your assets. If your assets are larger than your liabilities, you have a "positive" net worth. If your liabilities are greater than your assets, you have a "negative" net worth.

You'll want to update your "net worth statement" every year to keep track of how you are doing. Don't be discouraged if you have a negative net worth. If you follow a plan to get into a positive position, you're doing the right thing.

KNOW YOUR INCOME	Monthly Income

Small Savings Add Up to Big Money

How much does a cup of coffee cost you?

Would you believe $465.84? Or more?

If you buy a cup of coffee every day for $1.00 (an awfully good price for a decent cup of coffee, nowadays), that adds up to $365.00 a year. If you saved that $365.00 for just one year, and put it into a savings account or investment that earns 5% a year, it would grow to $465.84 by the end of 5 years, and by the end of 30 years, to $1,577.50.

That's the power of "compounding." With compound interest, you earn interest on the money you save and on the interest that money earns. Over time, even a small amount saved can add up to big money.

If you are willing to watch what you spend and look for little ways to save on a regular schedule, you can make money grow. You just did it with one cup of coffee.

If a small cup of coffee can make such a huge difference, start looking at how you could make your money grow if you decided to spend less on other things and save those extra dollars.

If you buy on impulse, make a rule that you'll always wait 24 hours to buy anything. You may lose your desire to buy it after a day. And try emptying your pockets and wallet of spare change at the end of each day. You'll be surprised how quickly those nickels and dimes add up!

Pay Off Credit Card or Other High Interest Debt

Speaking of things adding up, there is no investment strategy anywhere that pays off as well as, or with less risk than, merely paying off all high interest debt you may have. Many people have wallets filled with credit cards, some of which they've "maxed out" (meaning they've spent up to their credit limit).

Credit cards can make it seem easy to buy expensive things when you don't have the cash in your pocket—or in the bank. But credit cards aren't free money.

Most credit cards charge high interest rates—as much as 18 percent or more—if you don't pay off your balance in full each month. If you owe money on your credit cards, the wisest thing you can do is pay off the balance in full as quickly as possible. Virtually no investment will give you the high returns you'll need to keep pace with an 18 percent interest charge.

That's why you're better off eliminating all credit card debt before investing savings. Once you've paid off your credit cards, you can budget your money and begin to save and invest. Here are some tips for avoiding credit card debt:

- **Put Away the Plastic**

  Don't use a credit card unless your debt is at a manageable level and you know you'll have the money to pay the bill when it arrives.
- **Know What You Owe**

It’s easy to forget how much you’ve charged on your credit card. Every time you use a credit card, write down how much you have spent and figure out how much you’ll have to pay that month.

If you know you won’t be able to pay your balance in full, try to figure out how much you can pay each month and how long it’ll take to pay the balance in full.

- **Pay Off the Card with the Highest Rate**

  If you’ve got unpaid balances on several credit cards, you should first pay down the card that charges the highest rate. Pay as much as you can toward that debt each month until your balance is once again zero, while still paying the minimum on your other cards.

  The same advice goes for any other high interest debt (about 8% or above) which does not offer the tax advantages of, for example, a mortgage.

Once you have paid off those credit cards and begun to set aside some money to save and invest, you're in the savings habit! Now that you are freeing up some money to save and invest, it's time to move ahead to the next stop in your journey.

Determine Your Risk Tolerance

You are approaching the half-way point in your journey to saving and investing. This is a good point to make sure that you understand some key concepts:

Savings

Your "savings" are usually put into the safest places or products that allow you access to your money at any time. Examples include savings accounts, checking accounts, and certificates of deposit. At some banks and savings and loan associations your deposits may be insured by the Federal Deposit Insurance Corporation (FDIC).

But there's a tradeoff for security and ready availability. Your money is paid a low wage as it works for you.

Most smart investors put enough money in a savings product to cover an emergency, like sudden unemployment. Some make sure they have up to 6 months of their income in savings so that they know it will absolutely be there for them when they need it.

But how "safe" is a savings account if you leave all your money there for a long time, and the interest it earns doesn't keep up with inflation? Let’s say you save a dollar when it can buy a loaf of bread. But years later when you withdraw that dollar plus the interest you earned, it might only be able to buy half a loaf.

That is why many people put some of their money in savings, but look to investing so they can earn more over long periods of time, say three years or longer.

Investing

When you "invest," you have a greater chance of losing your money than when you "save." Unlike FDIC-insured deposits, the money you invest in securities, mutual funds, and other similar investments are not federally insured. You could lose your "principal," which is the amount you've invested.

That's true even if you purchase your investments through a bank. But when you invest, you also have the opportunity to earn more money than when you save.

But what about risk? All investments involve taking on risk. It's important that you go into any investment in stocks, bonds or mutual funds with a full understanding that you could lose some or all of your money in any one investment.

While over the long term the stock market has historically provided around 10% annual returns (closer to 6% or 7% "real" returns when you subtract for the effects of inflation), the long term does sometimes take a rather long, long time to play out.

Those who invested all of their money in the stock market at its peak in 1929 (before the stock market crash) would wait over 20 years to see the stock market return to the same level. However, those that kept adding money to the market throughout that time would have done very well for themselves, as the lower cost of stocks in the 1930s made for some hefty gains for those who bought and held over the course of the next twenty years or more.

Diversification

It is true that the greater the risk, the greater the potential rewards in investing, but taking on unnecessary risk is often avoidable. Investors best protect themselves against risk by spreading their money among various investments, hoping that if one investment loses money, the other investments will more than make up for those losses.

This strategy, called “diversification,” can be neatly summed up as, “Don’t put all your eggs in one basket.” Investors also protect themselves from the risk of investing all their money at the wrong time (think 1929) by following a consistent pattern of adding new money to their investments over long periods of time.

Once you’ve saved money for investing, consider carefully all your options and think about what diversification strategy makes sense for you. While the SEC cannot recommend any particular investment product, you should know that a vast array of investment products exists—including stocks and stock mutual funds, corporate and municipal bonds, bond mutual funds, certificates of deposit, money market funds, and U.S. Treasury securities.

Diversification can’t *guarantee* that your investments won’t suffer if the market drops. But it can improve the chances that you won’t lose money, or that if you do, it won’t be as much as if you weren’t diversified.

Risk Tolerance

What are the best saving and investing products for you? The answer depends on when you will need the money, your goals, and if you will be able to sleep at night if you purchase a risky investment where you could lose your principal.

For instance, if you are saving for retirement, and you have 35 years before you retire, you may want to consider riskier investment products, knowing that if you stick to only the "savings" products or to less risky investment products, your money will grow too slowly—or given inflation or taxes, you may lose the purchasing power of your money.

A frequent mistake people make is putting money they will not need for a very long time in investments that pay a low amount of interest.

On the other hand, if you are saving for a short-term goal, five years or less, you don't want to choose risky investments, because when it's time to sell, you may have to take a loss. Since investments often move up and down in value rapidly, you want to make sure that you can wait and sell at the best possible time.

It's time to move on! You're now ready for the next stop on your journey: Investment Products: Your Choices.

Investment Products: Your Choices

- Stocks and Bonds
- Mutual Funds

When you make an investment, you are giving your money to a company or an enterprise, hoping that it will be successful and pay you back with even more money.

Some investments make money, and some don’t. You can potentially make money in an investment if:

- The company performs better than its competitors.
- Other investors recognize it’s a good company, so that when it comes time to sell your investment, others want to buy it.
- The company makes profits, meaning they make enough money to pay you interest for your bond, or maybe dividends on your stock.

You can lose money if:

- The company’s competitors are better than it is.
- Consumers don’t want to buy the company’s products or services.
- The company’s officers fail at managing the business well, they spend too much money, and their expenses are larger than their profits.
- Other investors that you would need to sell to think the company’s stock is too expensive given its performance and future outlook.
- The people running the company are dishonest. They use your money to buy homes, clothes, and vacations, instead of using your money on the business.
- They lie about any aspect of the business: claim past or future profits that do not exist, claim it has contracts to sell its products when it doesn’t, or make up fake numbers on their finances to dupe investors.
- The brokers who sell the company’s stock manipulate the price so that it doesn’t reflect the true value of the company. After they pump up the price, these brokers dump the stock, the price falls, and investors lose their money.
- For whatever reason, you have to sell your investment when the market is down.

Here are some kinds of investments you may consider making:

Stocks and Bonds

Many companies offer investors the opportunity to buy either stocks or bonds. The following example shows you how stocks and bonds differ.

Let’s say you believe that a company that makes automobiles may be a good investment. Everyone you know is buying one of its cars, and your friends report that the company’s cars rarely break down and run well for years. You either have an investment professional investigate the company and read as much as possible about it, or do it yourself.

After your research, you’re convinced it’s a solid company that will sell many more cars in the years ahead. The automobile company offers both stocks and bonds. With the bonds, the company agrees to pay you back your initial investment in ten years, plus pay you interest twice a year at the rate of 8% a year.

If you buy the stock, you take on the risk of potentially losing a portion or all of your initial investment if the company does poorly or the stock market drops in value. But you also may see the stock increase in value beyond what you could earn from the bonds. If you buy the stock, you become an “owner” of the company.

You wrestle with the decision. If you buy the bonds, you will get your money back plus the 8% interest a year. And you think the company will be able to honor its promise to you on the bonds because it has been in business for many years and is unlikely to go bankrupt.

The company has a long history of making cars and you know that its stock has gone up in price by an average of 9% a year, plus it has typically paid stockholders a dividend of 3% from its profits each year.

You take your time and make a careful decision. Only time will tell if you made the right choice. You'll keep a close eye on the company and keep the stock as long as the company keeps selling a quality car that consumers want to drive, and it can make an acceptable profit.

Mutual Funds

Because it is sometimes hard for investors to become experts on various businesses—for example, what are the best steel, automobile, or telephone companies—investors often depend on professionals who are trained to investigate companies and recommend companies that are likely to succeed.

Since it takes work to pick the stocks or bonds of the companies that have the best chance to do well in the future, many investors choose to invest in mutual funds.

What is a mutual fund?

A mutual fund is a pool of money run by a professional or group of professionals called the "investment adviser." In a managed mutual fund, after investigating the prospects of many companies, the fund's investment adviser will pick the stocks or bonds of companies and put them into a fund. Investors can buy shares of the fund, and their shares rise or fall in value as the values of the stocks and bonds in the fund rise and fall.

Investors may typically pay a fee when they buy or sell their shares in the fund, and those fees in part pay the salaries and expenses of the professionals who manage the fund.

Even small fees can and do add up and eat into a significant chunk of the returns a mutual fund is likely to produce, so you need to look carefully at how much a fund costs and think about how much it will cost you over the amount of time you plan to own its shares.

If two funds are similar in every way except that one charges a higher fee than the other, you'll make more money by choosing the fund with the lower annual costs. To easily compare mutual fund costs, you can use our mutual fund cost calculator.

Mutual Funds Without Active Management

One way that investors can obtain for themselves nearly the full returns of the market is to invest in an "index fund." This is a mutual fund that does not attempt to pick and choose stocks of individual companies based upon the research of the mutual fund managers or to try to time the market's movements.

An index fund seeks to equal the returns of a major stock index, such as the Standard & Poor 500, the Wilshire 5000, or the Russell 3000. Through computer programmed buying and selling, an index fund tracks the holdings of a chosen index, and so shows the same returns as an index minus, of course, the annual fees involved in running the fund.

The fees for index mutual funds generally are much lower than the fees for managed mutual funds.

Historical data shows that index funds have, primarily because of their lower fees, enjoyed higher returns than the average managed mutual fund. But, like any investment, index funds involve risk.

Watch "Turnover" to Avoid Paying Excess Taxes

To maximize your mutual fund returns, or any investment returns, know the effect that taxes can have on what actually ends up in your pocket. Mutual funds that trade quickly in and out of stocks will have what is known as “high turnover.” While selling a stock that has moved up in price does lock in a profit for the fund, this is a profit for which taxes have to be paid. Turnover in a fund creates taxable capital gains, which are paid by the mutual fund shareholders.

The SEC requires all mutual funds to show both their before- and after-tax returns. The differences between what a fund is reportedly earning, and what a fund is earning after taxes are paid on the dividends and capital gains, can be quite striking.

If you plan to hold mutual funds in a taxable account, be sure to check out these historical returns in the mutual fund prospectus to see what kind of taxes you might be likely to incur.

For more information about mutual funds, please read our publication Invest Wisely: An Introduction to Mutual Funds.

Do you need a professional guide to help you complete your saving and investing journey? To answer that question, take the next step to explore the issue of "How to Pick a Financial Professional."

How To Pick A Financial Professional

Are you the type of person who will read as much as possible about potential investments and ask questions about them? If so, maybe you don’t need investment advice.

But if you’re busy with your job, your children, or other responsibilities, or feel you don’t know enough about investing on your own, then you may need professional investment advice.

Investment professionals offer a variety of services at a variety of prices. It pays to comparison shop.

You can get investment advice from most financial institutions that sell investments, including brokerages, banks, mutual funds, and insurance companies. You can also hire a broker, an investment adviser, an accountant, a financial planner, or other professional to help you make investment decisions.

Investment Advisers and Financial Planners

Some financial planners and investment advisers offer a complete financial plan, assessing every aspect of your financial life and developing a detailed strategy for meeting your financial goals. They may charge you a fee for the plan, a percentage of your assets that they manage, or receive commissions from the companies whose products you buy, or a combination of these. You should know exactly what services you are getting and how much they will cost.

People or firms that get paid to give advice about investing in securities generally must register with either the SEC or the state securities agency where they have their principal place of business. To find out about advisers and whether they are properly registered, you can read their registration forms, called the "Form ADV."

The Form ADV has two parts. Part 1 has information about the adviser's business and whether they've had problems with regulators or clients. Part 2 outlines the adviser's services, fees, and strategies. Before you hire an investment adviser, always ask for and carefully read both parts of the ADV. You can view an adviser's most recent Form ADV online by visiting the Investment Adviser Public Disclosure (IAPD) website.

Remember, there is no such thing as a free lunch. Professional financial advisers do not perform their services as an act of charity. If they are working for you, they are getting paid for their efforts. Some of their fees are easier to see immediately than are others.

But, in all cases, you should always feel free to ask questions about how and how much your adviser is being paid. And if the fee is quoted to you as a percentage, make sure that you understand what that translates to in dollars.

Brokers

Brokers make recommendations about specific investments like stocks, bonds, or mutual funds. While taking into account your overall financial goals, brokers generally do not give you a detailed financial plan. Brokers are generally paid commissions when you buy or sell securities through them.

If they sell you mutual funds make sure to ask questions about what fees are included in the mutual fund purchase. Brokerages vary widely in the quantity and quality of the services they provide for customers.

Some have large research staffs, large national operations, and are prepared to service almost any kind of financial transaction you may need. Others are small and may specialize in promoting investments in unproven and very risky companies. And there's everything else in between.

A discount brokerage charges lower fees and commissions for its services than what you'd pay at a full-service brokerage. But generally you have to research and choose investments by yourself.

A full-service brokerage costs more, but the higher fees and commissions pay for a broker's investment advice based on that firm's research. The best way to choose an investment professional is to start by asking your friends and colleagues who they recommend. Try to get several recommendations, and then meet with potential advisers face-to-face. Make sure you get along. Make sure you understand each other. After all, it's your money.

You'll want to find out if a broker is properly licensed in your state and if they have had run-ins with regulators or received serious complaints from investors. You'll also want to know about the brokers' educational backgrounds and where they've worked before their current jobs.

To get this information, you can ask either your state securities regulator or the NASD to provide you with information from the CRD, which is a computerized database that contains information about most brokers, their representatives, and the firms they work for. Your state securities regulator may provide more information from the CRD than NASD, especially when it comes to investor complaints, so you may want to check with them first.

You can find out how to get in touch with your state securities regulator through the North American Securities Administrators Association, Inc.'s website. You can go to NASD's website to get CRD information or call them toll-free at (800) 289-9999.

Opening a Brokerage Account

When you open a brokerage account, whether in person or online, you will typically be asked to sign a new account agreement. You should carefully review all the information in this agreement because it determines your legal rights regarding your account.

Do not sign the new account agreement unless you thoroughly understand it and agree with the terms and conditions it imposes on you. Do not rely on statements about your account that are not in this agreement. Ask for a copy of any account documentation prepared for you by your broker.

The broker should ask you about your investment goals and personal financial situation, including your income, net worth, investment experience, and how much risk you are willing to take on. Be honest. The broker relies on this information to determine which investments will best meet your investment goals and tolerance for risk.

If a broker tries to sell you an investment before asking you these questions, that’s a very bad sign. It signals that the broker has a greater interest in earning a commission than recommending an investment to you that meets your needs.

The new account agreement requires that you make three critical decisions:

1. **Who will make the final decisions about what you buy and sell in your account?**

   You will have the final say on investment decisions unless you give “discretionary authority” to your broker. Discretionary authority allows your broker to invest your money without consulting you about the price, the type of security, the amount, and when to buy or sell.

   Do not give discretionary authority to your broker without seriously considering the risks involved in turning control over your money to another person.

2. How will you pay for your investments?

Most investors maintain a “cash” account that requires payment in full for each security purchase. But if you open a “margin” account, you can buy securities by borrowing money from your broker for a portion of the purchase price.

Be aware of the risks involved with buying stocks on margin. Beginning investors generally should not get started with a margin account. Make sure you understand how a margin account works, and what happens in the worst case scenario before you agree to buy on margin.

Unlike other loans, like for a car or a home, that allow you to pay back a fixed amount every month, when you buy stocks on margin you can be faced with paying back the entire margin loan all at once if the price of the stock drops suddenly and dramatically.

The firm has the authority to immediately sell any security in your account, without notice to you, to cover any shortfall resulting from a decline in the value of your securities.

You may owe a substantial amount of money even after your securities are sold. The margin account agreement generally provides that the securities in your margin account may be lent out by the brokerage firm at any time without notice or compensation to you.

3. **How much risk should you assume?**

In a new account agreement, you must specify your overall investment objective in terms of risk. Categories of risk may have labels such as "income," "growth," or "aggressive growth." Be certain that you fully understand the distinctions among these terms, and be certain that the risk level you choose accurately reflects your age, experience and investment goals.

Be sure that the investment products recommended to you reflect the category of risk you have selected.

When opening a new account, the brokerage firm may ask you to sign a legally binding contract to use the arbitration process to settle any future dispute between you and the firm or your sales representative. Signing this agreement means that you give up the right to sue your sales representative and firm in court.

Ask Questions!

You can never ask a dumb question about your investments and the people who help you choose them, especially when it comes to how much you will be paying for any investment, both in upfront costs and ongoing management fees.

We encourage you to read our publication "Ask Questions" before talking to any investment professional. To get you started, here are some of the most important questions you should ask when choosing an investment professional or someone to help you:

- What training and experience do you have? How long have you been in business?
- What is your investment philosophy? Do you take a lot of risks or are you more concerned about the safety of my money?
- Describe your typical client. Can you provide me with references, the names of people who have invested with you for a long time?
- How do you get paid? By commission? Based on a percentage of assets you manage? Another method? Do you get paid more for selling your own firm's products?
- How much will it cost me in total to do business with you?
-

Your investment professional should understand your investment goals, whether you're saving to buy a home, paying for your children's education, or enjoying a comfortable retirement.

Your investment professional should also understand your tolerance for risk. That is, how much money can you afford to lose if the value of one of your investments declines?

An investment professional has a duty to make sure that he or she only recommends investments that are suitable for you. That is, that the investment makes sense for you based on your other securities holdings, your financial situation, your means, and any other information that your investment professional thinks is important.

The best investment professional is one who fully understands your objectives and matches investment recommendations to your goals. You'll want someone you can understand, because your investment professional should teach you about investing and the investment products.

How Should I Monitor My Investments?

Investing makes it possible for your money to work for you. In a sense, your money has become your employee, and that makes you the boss. You'll want to keep a close watch on how your employee, your money, is doing.

Some people like to look at the stock quotations every day to see how their investments have done. That's probably too often. You may get too caught up in the ups and downs of the "trading" value of your investment, and sell when its value goes down temporarily—even though the performance of the company is still stellar. Remember, you're in for the long haul.

Some people prefer to see how they're doing once a year. That's probably not often enough. What's best for you will most likely be somewhere in between, based on your goals and your investments.

But it's not enough to simply check an investment's performance. You should compare that performance against an index of similar investments over the same period of time to see if you are getting the proper returns for the amount of risk that you are assuming. You should also compare the fees and commissions that you're paying to what other investment professionals charge.

While you should monitor performance regularly, you should pay close attention every time you send your money somewhere else to work.

Every time you buy or sell an investment you will receive a confirmation slip from your broker. Make sure each trade was completed according to your instructions. Make sure the buying or selling price was what your broker quoted. And make sure the commissions or fees are what your broker said they would be.

Watch out for unauthorized trades in your account. If you get a confirmation slip for a transaction that you didn't approve beforehand, call your broker. It may have been a mistake. If your broker refuses to correct it, put your complaint in writing and send it to the firm's compliance officer. Serious complaints should always be made in writing.

Remember, too, that if you rely on your investment professional for advice, he or she has an obligation to recommend investments that match your investment goals and tolerance for risk. Your investment professional should not be recommending trades simply to generate commissions. That's called "churning," and it's illegal.

At this point, you are within two stops of completing your saving and investing journey! Now it's time to move on to the next stop: "

How To Avoid Problems

Choosing someone to help you with your investments is one of the most important investment decisions you will ever make. While most investment professionals are honest and hardworking, you must watch out for those few unscrupulous individuals. They can make your life's savings disappear in an instant.

Securities regulators and law enforcement officials can and do catch these criminals. But putting them in jail doesn't always get your money back. Too often, the money is gone. The good news is you can avoid potential problems by protecting yourself.

Let's say you've already met with several investment professionals based on recommendations from friends and others you trust, and you've found someone who clearly understands your investment objectives. Before you hire this person, you still have more homework.

Make sure the investment professional and her firm are registered with the SEC and licensed to do business in your state. And find out from your state's securities regulator whether the investment professional or her firm have ever been disciplined, or whether they have any complaints against them.

You'll find contact information for securities regulators in the U.S. by visiting the website of the North American Securities Administrators Association (NASAA) or by calling (202) 737-0900. A publication called "Check out Brokers and Advisors" will show you how to research a financial professional.

You should also find out as much as you can about any investments that your investment professional recommends. First, make sure the investments are registered. Keep in mind, however, the mere fact that a company has registered and files reports with the SEC doesn't guarantee that the company will be a good investment.

Likewise, the fact that a company hasn't registered and doesn't file reports with the SEC doesn't mean the company is a fraud. Still, you may be asking for serious losses if, for instance, you invest in a small, thinly traded company that isn't widely known solely on the basis of what you may have read online.

One simple phone call to your state regulator could prevent you from squandering your money on a scam. You can read more on this topic in our brochure, ”

Be wary of promises of quick profits, offers to share “inside information,” and pressure to invest before you have an opportunity to investigate. These are all warning signs of fraud.

Ask your investment professional for written materials and prospectuses, and read them before you invest. If you have questions, now is the time to ask.

- How will the investment make money?
- How is this investment consistent with my investment goals?
- What must happen for the investment to increase in value?
- What are the risks?
- Where can I get more information?

What If I Have a Problem?

Finally, it’s always a good idea to write down everything your investment professional tells you. Accurate notes will come in handy if ever there’s a problem. There are forms for taking notes during conversations with an investment professional.

Some investments make money. Others lose money. That’s natural, and that’s why you need a diversified portfolio to minimize your risk. But if you lose money because you’ve been cheated, that’s not natural, that’s a problem.

Sometimes all it takes is a simple phone call to your investment professional to resolve a problem. Maybe there was an honest mistake that can be corrected. If talking to the investment professional doesn’t resolve the problem, talk to the firm’s manager, and write a letter to confirm your conversation.

If that doesn’t lead to a resolution, you may have to initiate private legal action. You may need to take action quickly because legal time limits for doing so vary. Your local bar association can provide referrals for attorneys who specialize in securities law.

At the same time, call or write to the SEC and let them know what the problem was. Investor complaints are very important to the SEC.

You may think you’re the only one experiencing a problem, but typically, you’re not alone. Sometimes it takes only one investor’s complaint to trigger an investigation that exposes a bad broker or an illegal scheme.

Mutual Funds 101

What they are and how they can make you money

The brain-child of Wall Street, mutual funds are perhaps the easiest and least stressful way to invest in the market. In fact, more new money has been introduced into funds during the past few years than at any time in history. Before you jump into the pool and select a mutual fund in which to invest, you should know exactly what they are and how they work.

What is a mutual fund?

Put simply, a mutual fund is a pool of money provided by individual investors, companies, and other organizations. A fund manager is hired to invest the cash the investors have contributed. The goal of the manager depends upon the type of fund; a fixed-income fund manager, for example, would strive to provide the highest yield at the lowest risk.

A long-term growth manager, on the other hand, should attempt to beat the Dow Jones Industrial Average or the S&P 500 in a fiscal year (very few funds actually achieve this; to find out why, read Index Funds - The Dumb Money Almost Always Wins).

Closed vs. Open-Ended Funds, Load vs. No-Load

Mutual funds are divided along four lines: closed-end and open-ended funds; the latter is subdivided into load and no load.

- *Closed-End Funds*
  This type of fund has a set number of shares issued to the public through an initial public offering. These shares trade on the open market; this, combined with the fact that a closed-end fund does not redeem or issue new shares like a normal mutual fund, subjects the fund shares to the laws of supply and demand. As a result, shares of closed-end funds normally trade at a discount to net asset value.

- *Open-End Funds*
  A majority of mutual funds are open-ended. In simple terms, this means that the fund does not have a set number of shares. Instead, the fund will issue new shares to an investor based upon the current net asset value and redeem the shares when the investor decides to sell.

- Open-end funds always reflect the net asset value of the fund's underlying investments because shares are created and destroyed as necessary.

    Load vs. No Load
    A load, in mutual fund speak, is a sales commission. If a fund charges a load, the investor will pay the sales commission on top of the net asset value of the fund’s

shares. No load funds tend to generate higher returns for investors due to the lower expenses associated with ownership.

What are the benefits of investing through a mutual fund?

Mutual funds are actively managed by a professional money manager who constantly monitors the stocks and bonds in the fund's portfolio. Because this is his or her primary occupation, they can devote considerably more time to selecting investments than an individual investor. This provides the peace of mind that comes with informed investing without the stress of analyzing financial statements or calculating financial ratios.

How do I select a fund that's right for me?

Every fund has a particular investing strategy, style or purpose; some, for instance, invest only in blue chip companies. Others invest in start-up businesses or specific sectors. Finding a mutual fund that fits your investment criteria and style is absolutely vital; if you don't know anything about biotechnology, you have no business investing in a biotech fund. You must know and understand your investment.

After you've settled upon a type of fund, turn to Morningstar or Standard and Poors (S&P). Both of these companies issue fund rankings based on past record. You must take these rankings with a grain of salt. Past success is no indication of the future, especially if the fund manager has recently changed.

How do I begin investing in a fund?

If you already have a brokerage account, you can purchase mutual fund shares as you would a share of stock. If you don't, you can visit the fund's web page or call them and request information and an application.

Most funds have a minimum initial investment which can vary from $25 - $100,000+ with most in the $1,000 - $5,000 range (the minimum initial investment may be substantially lowered or waived altogether if the investment is for a retirement account such as a 401k, traditional IRA or Roth IRA, and / or the investor agrees to automatic, reoccurring deductions from a checking or savings account to invest in the fund.

The importance of dollar-cost averaging

The dollar-cost averaging strategy is just as applicable to mutual funds as it is to common stock. Establishing such a plan can substantially reduce your long-term market risk and result in a higher net worth over a period of ten years or more.

Calculating Mutual Fund Fees and Expenses

Fees and expenses are an important consideration in selecting a mutual fund because these charges lower your returns. Many investors find it helpful to compare the fees and expenses of different mutual funds before they invest.

You can compare the fees and expenses of up to three mutual funds, or the share classes of the same mutual fund on the NASD's Mutual Fund Expense Analyzer. You can also compare the fees and expenses of up to three ETFs using the same tool.

With just some basic information, you can use the tool to compare the costs of different mutual funds in a manner of seconds. That's because the tool automatically provides fee and expense information for you. Simply enter each fund's ticker symbol or select the fund through the drop down menu. If you can't remember the full name of the fund, you can also search for the fund using key words.

A mutual fund's fees and expenses may be more important than you realize. Advertisements, rankings, and ratings often emphasize how well a fund has performed in the past. But studies show that the future is often different.

This year's "number one" fund can easily become next year's below average fund. On the other hand, independent studies show fees and expenses can be a reliable predictor of mutual fund performance.

Of course, selecting a mutual fund involves more than just picking one with low fees and expenses. Before you invest in any mutual fund, decide whether the investment goals and risks of the fund are a good fit for you and determine how it will affect the diversification of your entire portfolio. You can read about a fund's goals, risks, and costs in its prospectus.

The SEC's online, interactive Mutual Fund Cost Calculator can also help you compare the costs of different mutual funds and understand the impact that many types of fees and expenses can have over time. You can find this "classic" calculator at:

http://www.sec.gov/investor/tools/mfcc/mfcc-intsec.htm.

Unlike NASD's Mutual Fund Expense Analyzer, you'll need to enter fee and expense information manually from a prospectus or other disclosure document when using this tool.

REITs 101: What is a REIT?

A REIT is a company that buys, develops, manages and sells real estate assets. REITs allow participants to invest in a professionally-managed portfolio of real estate properties. REITs qualify as pass-through entities, companies who are able distribute the majority of income cash flows to investors without taxation at the corporate level (providing that certain conditions are met).

As pass-through entities, whose main function is to pass profits on to investors, a REIT's business activities are generally restricted to generation of property rental income.

Another major advantage of REIT investment is its liquidity (ease of liquidation of assets into cash), as compared to traditional private real estate ownership which are not very easy to liquidate.

One reason for the liquid nature of REIT investments is that its shares are primarily traded on major exchanges, making it easier to buy and sell REIT assets/shares than to buy and sell properties in private markets

REITs 101: The History of REITs

The origins of the real estate investment trust, or REIT (pronounced "reet") date back to the 1880s. At that time, investors could avoid double taxation because trusts were not taxed at the corporate level if income was distributed to beneficiaries.

This tax advantage, however, was reversed in the 1930s, and all passive investments were taxed first at the corporate level and later taxed as a part of individual incomes.

Unlike stock and bond investment companies, REITs were unable to secure legislation to overturn the 1930 decision until 30 years later. Following WWII, the demand for real estate funds skyrocketed and President Eisenhower signed the 1960 real estate investment trust tax provision which reestablished the special tax considerations qualifying REITs as pass through entities (thus eliminating the double taxation).

This law has remained relatively intact with minor improvements since its inception. REIT investment increased throughout the 1980s with the elimination of certain real estate tax shelters. Investments in real estate provided investors with income and appreciation.

The Tax Reform Act of 1986 allowed REITs to manage their properties directly, and in 1993 REIT investment barriers to pension funds were eliminated. This trend of reforms continued to increase the interest in and value of REIT investment.

Today, there are more than 193 publicly traded REITs operating in the United States their assets total over $500 billion. Approximately two-thirds of these trade on the national stock exchanges.

REITs 101: REIT Classification

In order for a corporation to qualify as a REIT and gain the advantages of being a pass-through entity free from taxation at the corporate level, it must comply with the following Internal Revenue Code provisions:

- Structured as Corporation, business trust, or similar association
- Managed by a board of directors or trustees
- Shares need to be fully transferable
- Minimum of 100 shareholders
- Pays dividends of at least 90 percent of REIT's taxable income
- No more than 50 percent of the shares can be held by five or fewer individuals during the last half of each taxable year
- At least 75 percent of total investment assets must be in real estate
- Derive at least 75 percent of gross income from rents or mortgage interest
- Have no more than 20 percent of its assets consist of stocks in taxable REIT subsidiaries

REITs 101: Types of REITs

REITs fall into three broad categories:

Equity REITs: (96.1%)
Equity REITS invest in and own properties (thus responsible for the equity or value of their real estate assets). Their revenues come principally from their properties' rents.

Mortgage REITs: (1.6%)
Mortgage REITs deal in investment and ownership of property mortgages. These REITs loan money for mortgages to owners of real estate, or invest in (purchase) existing mortgages or mortgage backed securities. Their revenues are generated primarily by the interest that they earn on the mortgage loans.

Hybrid REITs: (2.3%)
Hybrid REITs combine the investment strategies of Equity REITs and Mortgage REITs by investing in both properties and mortgages.

Individual REITs are able to distinguish themselves by specialization. REITs may focus their investments geographically (by region, state, or metropolitan area), or in property types (such as retail properties, industrial facilities, office buildings, apartments or healthcare facilities).

Certain REITs choose a broader focus, investing in a variety of types of property and mortgage assets across a wider spectrum of locations.

- Retail 20.1%
- Residential 21.0%
- Industrial/Office 33.1%

Benefits of REITs

In general, REITs and their performance have some common characteristics with small-cap stocks and bond-like investments. The market capitalization of the average REIT on the Wilshire Real Estate Securities Index is $340 million. REITs comprise 6% of the small-cap index, the Russell 2000.

However, REITs have advantages over stocks and bonds in terms of dividends: between 1995 and 2000, the average dividend yield on REITs (7.3%) is six times that of the Russell 2000 average dividend. Furthermore, all REITs pay dividends, whereas less than half of the Russell 2000 stocks pay dividends.

The long term performance of an individual REIT is determined by the value of its real estate assets at any given time. One of the primary incentives for REIT investment is the low correlation of its value to that of other financial assets.

Because of this, REITs possess low relative historical volatility and provide some degree of inflation protection. In addition to the advantages of an investment which avoids double taxation and requires no minimum investment, REITs offer investors current income that is usually stable and often provides an attractive return.

Another factor attractive to the investor is that a REIT's performance is monitored on a regular basis, by independent directors of the REIT, analysts, auditors, and the business and financial media.

Real Estate Investing Through REITs

The Benefits of Property Ownership without the Hassle

Prior to the onset of the industrial revolution, wealth and power was measured primarily in terms of the amount of land owned by an individual or family. Although the twentieth century saw the rise of securitization and the resulting increase in stock and bond ownership, real estate investing can still prove a profitable option for those who are actively engaged in an asset allocation program or just looking to diversify their current portfolio.

Real estate investment trusts, or REITs, can be a convenient way for the average investor to profit without the hassle of direct property acquisition.

Prior to 1960, only wealthy individuals and corporations had the financial resources necessary to invest in significant real estate projects such as shopping malls, corporate parks and health care facilities. In response, Congress passed the Real Estate Investment Trust Act of 1960.

The legislation exempted these special-purpose companies from corporate income tax if certain criterion were met. It was hoped that the financial incentive would cause investors to pool their resources together to form companies with significant real estate assets, providing the same opportunities to the average American as were available to the elite. Three years later, the first REIT was formed.

The original legislation had some significant drawbacks, however, in that it required the executives in charge of the business to hire third parties to provide management and property leasing services. These restrictions were lifted in the Tax Reform Act of 1986. Thirteen years later, in 1999, the REIT Modernization Act was passed.

The law allows REITs to form taxable subsidiaries in order to provide specialized services to tenants that normally fall outside the purview of real estate investing. Although the law still has some limitations as to the types of services that can be offered, it is expected that the quality of service at REIT-managed properties will improve significantly as a result of its passage.

Requirements for REIT status

According to Ralph Block in Investing in REITs: Real Estate Investment Trusts, every REIT must pass these four tests annually in order to retain its special tax status:

1. "The REIT must distribute at least 90 percent of its annual taxable income, excluding capital gains, as dividends to its shareholders.
2. The REIT must have at least 75 percent of its assets invested in real estate, mortgage loans, shares in other REITs, cash, or government securities.
3. The REIT must derive at least 75 percent of its gross income from rents, mortgage interest, or gains from the sale of real property. And at least 95 percent must come from these sources, together with dividends, interest and gains from securities sales.
4. The REIT must have at least 100 shareholders and must have less than 50 percent of the outstanding shares concentrated in the hands of five or fewer shareholders."

In addition to the prevention of double-taxation, REITs offer numerous other benefits which include:

Professional management

In most cases, the investor that buys a rental property is left to her own devises. REITs allow the investor the opportunity to have her properties managed by a professional real estate team that knows the industry, understands the business and can take advantage of opportunities thanks to its ability to raise funds from the capital markets. The benefits are not limited to the financial prowess of the management team. Owners of REITs aren't going to receive phone calls at three a.m. to fix an overflowing toilet.

Limitation of personal risk

REITs can significantly limit personal risk. How? If an investor wanted to acquire real estate, it is likely he will take on debt by borrowing money from friends, family, or a bank. Often, he will be required to personally guarantee the funds. This can leave him exposed to a potentially devastating liability in the event the project is unsuccessful. The alternative is to come up with significant amounts of capital by reallocating his other assets such as stocks, bonds, mutual funds, and life insurance policies. Neither alternative is likely to be ideal.

Purchasing a REIT, on the other hand, can be done with only a few hundred dollars as share prices are often as low, if not lower, than equities. An investor that wants to invest $3,000 in real estate will reap the same rewards on a pro-rated basis as those who want to invest $100,000; in the past, it simply wasn't possible to get this kind of diversification in the real estate asset class without taking on partners or using leverage.

THE RIGHT WAY TO INVEST IN REITs

With the stock market potentially retreating and interest rates inching upward, real estate investment trusts--pooled funds that invest in income-producing residential and commercial properties--could be a welcome alternative. Since these securities do not move in sync with equities, brokers stress the diversification appeal of REITs.

The sales pitch is seductive: In 1996, the index of 198 publicly traded real estate investment trusts tracked monthly by the National Association of Real Estate Investment Trusts (NAREIT) returned 35.8%, including dividends, compared with 20% for the Standard & Poor's 500-stock index. Not only did REITs outpace most stocks, but they also offered better yields--some of them as high as 10%--than a lot of bonds.

IPO DELUGE. You may not want to write out that check just yet, though. The REIT index is up a paltry 1.2% through the first two months of 1997, compared with 6.76% for the Standard & Poor's index. Still, a flood of REIT initial public offerings will probably hit the market during the next decade. And as large blocks of U.S. real estate become ''equitized,'' investment opportunities will dramatically expand, says Steven C. Leuthold, chairman of The Leuthold Group, an institutional research firm in Minneapolis.

To find the best plays among the current crop of REITs, investors need to know where to look. First, check the prospectus or annual report for REITs with established track records. Although there are quality managers who have been in business less than a decade, Michael Evans, national director of E&Y Kenneth Leventhal Group, real estate consultants in San Francisco, suggests targeting those that have weathered several real estate cycles, including the REIT debacle of the early 1970s.

Next, focus on high levels of institutional and insider ownership, says Andrew Davis, portfolio manager of Davis Real Estate Fund, in Santa Fe, N.M. If management is selling, why should you be buying? The proxy will tell you how much of the common stock is owned by REIT insiders.

A minimum of 10% of outstanding shares is recommended. Inside ownership averages 18% for the REITs tracked by New York-based Cohen & Steers Capital Management.

Another sign of a high-quality REIT may be found with-in the proxy: executive compensation. If the pay of the firm's top brass is tied to appreciation in the stock price, it is likely that management and shareholders are on the same team.

WIDE RANGE. It's also important to make sure that the individual REITs are diversified by property type and geographic location. ''You can own the best-managed REIT available, but if it is a property type or region that isn't doing well, you won't make money,'' warns Robert H. Steers of Cohen & Steers, whose REITs typically own more than 30 properties ranging from shopping malls to office buildings.

You can call major real estate firms such as Cushman & Wakefield for national or regional reports on the office, industrial, retail, and apartment markets.

Only now are you ready to focus on financial performance. Don't be lured by high yields alone. Too often, REITs with the heftiest dividends are also the ones that carry the most risk. For example, the average factory-outlet REIT pays a generous 8% dividend. But because regional markets can only support a limited number of outlets, future earnings growth may be modest.

Conversely, many low-yielding REITs shouldn't be overlooked. Office REITs, with modest yields of around 5.5% on average, now are the most expensive sector of the market, since their cash flow is expected to grow some 30% in 1997. Since REITs must pay out 95% of their income in dividends to shareholders, investors in the office sector can expect sizable dividend increases in 1998.

Then, check the annual report to determine the amount and type--variable and fixed rate--of debt that the REIT has on its balance sheets. Institutional investors suggest debt levels no higher than 35% of total capitalization. And remember: REITs with lots of variable-rate debt will be hurt if rates keep rising.

Lastly, you'll need to get a sense of whether the REIT is reasonably priced. Ask your broker about adjusted funds from operations, which is how analysts measure cash flow. Current cash flow multiples range from 8 to 15, depending on the properties.

Buying wisely in this market requires extensive analysis. So if your broker cannot explain these basic fundamentals, you shouldn't be buying at all.

By Evan Simonoff
EDITED BY EDWARD C. BAIG

REITs: The Other White Meat[News] October 18, 2000

Looking through the flotsam & jetsam of your portfolio? Need a stock to hang onto? Not to gloat, but I have one. Not just one actually, but several. One of my holdings is up 57%, another 31% and yet another 19%.

Contrarian investing? No. Short selling? No. Boring? Yes. Real estate investment trusts (REITs) have been my savior in this time of crisis. The National Association of Real Estate Investment Trust (NAREIT) index is up 19.4% year-to-date and has a 12.7% annualized return for the last 10 years. Not only can REITs provide a safety net in times like these, but it turns out they hold their own over the long-term as well.

REITs are commonly misunderstood and therefore often undervalued. Negative experiences such as the late '80s real estate debacle and poor returns on tax shelter limited partnerships have also scared away investors.

REITs are a creature of the tax code. They were created by Congress in the 1960s as a way for the common man to reap the benefits of real estate ownership such as tax shelters, inflation hedges, and leveraged buying. Prior to the advent of REITs, only the wealthy could capitalize on the many tax loopholes set up around real estate.

For the history of and a good introduction to REITs, visit the National Association of Real Estate Investment Trusts (NAREIT) website.

Here are a few REIT highlights:

Dividends

The current average dividend yield for a REIT is 8.0%. That's cash in your pocket. And probably the best secret about REIT dividends is that they are not all taxable. A brief calculation of last year's 1099s shows that, on average, 18.5% of REIT dividends were a return of capital (ROC). That means that rather than pay tax on the entire dividend, you reduce the basis of your stock by the ROC amount.

For example: You own 100 shares of Real Assets Company (Ticker: REAC) and it pays a 10% dividend and is trading at $25 per share. Assuming a 20% ROC, you pay ordinary income tax on $200 (0.20 x $250) and reduce the basis of your holdings by $50 ($0.50 x 100 shares).

When you sell your shares -- assuming, like a good Fool, you hold on to them for more than 12 months -- you pay tax at a the capital gains rate (20%) rather than ordinary income rate (up to 39.6%).

Downside protection

REITs own real assets with real values that you can touch. This creates an inherent downside to their value called net asset value (NAV). NAV is basically the real estate value less any debt. The problem here is pinning down a value.

Technology and inflation hedge

Some may like this aspect, others may not. Historically the real estate sector has been the best hedge (high negative correlation) to the technology sector. Also, real estate has always been a good hedge to inflation. Should inflation ever return, REITs may be a safe haven.

Lots of room to run

The entire market capitalization of all equity REITs is $138 billion. That's half the market cap of **Microsoft** (Nasdaq: MSFT). The entire U.S. institutional real estate market is estimated to be worth around $4.0 trillion. REITs are usually classified by sector type -- residential, office, industrial, retail, etc.

They only own small percentages of these sectors leaving plenty of room for growth. Retail REITs have the highest sector penetration at around 50%, but other sectors like office and industrial are below 10%.

The Buffet factor

The Oracle of Omaha, Warren Buffett, has been dabbling in REITs for nearly a year now. Some say he likes the dividends, others say he is bottom feeding. Whatever the reason, it never hurts to keep an eye on the holdings of Wall Street's best known buy-and-hold investor.

REITs offer the most efficient and economical method of real estate ownership and I expect the benefits of public, rather than private, ownership will drive REIT growth for years to come. REITs are not for everyone, but they can play a role in an age-old investment strategy known as diversification. Maybe you've heard of it?

International REIT Investing

Here's the REIT way for small investors to tap Realty Market

Small investors would soon be able to participate in the booming realty sector as the government plans to introduce a new instrument-real estate investment trusts (Reits)-in the Indian securities market.

Reits are trusts that own and operate real estate assets to generate income through lease rentals and property appreciation. They are like "listed landlords", as an analyst puts it, which pass on the profits to its stockholder in the form of dividends.

The Securities & Exchange Board of India (Sebi) has said last week it is in favour of introduction of Reits in India. The regulator's decision comes at a time when the realty sector is booming and companies are going for listing to tap the stock market.

The global listed real estate market is expected to grow from $23.6 trillion in 2006 to $33.3 trillion in 2010 while the Indian real estate market for 2006 was pegged at $0.15 trillion, according to ING Clarion Real Estate Securities Research.

Apart from enabling companies to raise funds, Reits bring in professional management in the realty sector. The returns offered by Reits could be very attractive at times. For instance, the Chinese Reits have given an average return of 100% this year.

The US created Reits in 1960 to enable retail investor participate in large-scale, income-producing real estate assets. Now they have become pretty common in developed markets such as the US, the UK, Japan and Australia as well in emerging economies of

Singapore and China. At present, Sydney, Tokyo, Hong Kong and Singapore are the four major Reits listing centres, said Vineet K Vohra, MD & CEO of ING Investment Management (India) Pvt Ltd.

According to analysts, to have an adequate regulatory apparatus for Reits, the government needs to work on property valuation norms and accounting guidelines, not to forget the supportive taxation regime.

Sebi has tasked the Institute of Chartered Accountants of India to look into the valuation issue and once ICAI clears the norms, the regulator is expected to formalise the rules. The regulator's urgency also stems from the fact that a number of Indian companies were planning listing Reit-like structures on the Singapore Stock Exchange as India currently does not allow listing on domestic bourses.

One of the challenges being faced the Indian authorities is to how to give recognition to revenues arising of real estate assets. ICAI, chairman (corporate law committee), Vinod Jain said the Institute was studying various property valuation methodologies as well as accounting norms to calculate cash-flow arising put of real estate assets.

"We are considering global practices as well as dynamics of the Indian real estate sector to formalise relevant norms. An internal committee of ICAI would finalise its views in next 3-4 weeks and send them to SEBI," Jain said.

Industry experts say the government also needs to address the issue of high property taxes and stamp duties in order to facilitate cost-effective transfer of properties. "This would ensure easier registration of property transactions," said DLF CFO Ramesh Sanka.

By Indian Express
Tuesday, November 27

Receiving a Lump Sum Payout Soon?

Lump Sum Payouts: Questions You Should Ask Yourself Before You Invest a Dime

Receiving a lump sum payout can be very exciting because for many individuals it's rare to have the opportunity to spend or invest a large amount of money at one time. But figuring out what to do with a lump sum payout also can be very stressful, especially if you aren't comfortable making financial decisions.

Once you fully understand all of your options, you'll be in a better position to make a good financial decision. So try to resist the urge to make a quick decision regarding how you'll use your lump sum payout. Many experts recommend that you should take several months or even a year to decide how you'll use the money, especially if the payout is tied to an emotional event, such as a death of a family member or a separation from your job.

While we can't tell you what to do with your lump sum payment, we can help you make an informed decision. Before you decide, consider these questions:

Am I carefully avoiding fraud?

Your lump sum payout may make you a target for scams, particularly if reports of coming payments have been in the news. You should be particularly wary if someone approaches you, instead of the other way around, to discuss what to do with the money.

Often, you can avoid fraud by asking questions and doing research on any financial professionals or investment opportunities you are considering. You should also beware of the warning signs for fraud, including promises of quick profits or guaranteed returns, and pressure to send money immediately. Walk away from those so-called "opportunities."

What is my current financial situation?

Maybe you've never had a financial plan or lived on a budget. Now's the time – even before you buy that boat you've been eyeing. If you sit down and take an honest look at your entire financial situation, you will be in a better position to use your lump sum payout wisely.

A lump sum payout may give you the opportunity to buy a home, live a comfortable retirement, save for a child's education or reach another investment goal. Make your own list of investment goals – including that boat – and then think about which goals are most important to you.

Many tools exist to help you put a financial plan together. For example, the Ballpark Estimate, a single-page worksheet created by the American Savings Education Council, can help you calculate what you'll need to save each year for retirement.

FINRA has a college savings calculator, and the Social Security Administration has a benefits calculator to estimate your potential benefit amounts.

For more information about making a financial plan, read Get the Facts on Saving and Investing and Beginners' Guide to Asset Allocation, Diversification, and Rebalancing.

Do I need the help of a financial professional?

If you’re the type of person who will read as much as possible about your options and ask the right questions about them, you may not need expert advice.

But if you’re busy with your job, your children, or other responsibilities, or you don’t feel comfortable making important financial decisions on your own, then you may need professional advice. Financial professionals offer a variety of services at a variety of prices. It pays to comparison shop.

While most financial professionals are honest and hardworking, you must watch out for those few unscrupulous individuals. Even if a financial professional has been recommended by friends and others you trust, we encourage you to thoroughly evaluate the background of any financial professional with whom you intend to do business.

Before you hand over any portion of your lump sum payment, make sure your financial professional is licensed, and always check and see if the financial professional or his or her firm has had run-ins with regulators or other investors.

Check Out a Financial Professional

You can verify a broker's disciplinary history by checking the Central Registration Depository (CRD). Either your state securities regulator or FINRA can provide you with CRD information. Your state securities regulator may give you more information from the CRD than FINRA, especially when it comes to investor complaints, so you may want to check with them first.

You'll find contact information for your state securities regulator on the website of the North American Securities Administrators Association. To contact FINRA, visit FINRA's BrokerCheck website, or call them toll-free at (800)289-9999.

You can find out about investment advisers and whether they are properly registered by reading their registration forms, called the "Form ADV." You can view an adviser's most recent Form ADV online by visiting the Investment Adviser Public Disclosure (IAPD) website.

At present, the IAPD database contains Forms ADV only for investment adviser firms that register electronically using the Investment Adviser Registration Depository. You can also get copies of Form ADV for individual advisers and firms from the investment adviser, your state securities regulator, or the SEC, depending on the size of the adviser.

Have I paid off my high interest credit card debt?

There is no investment strategy anywhere that pays off as well as, or with less risk than, merely paying off all high interest debt you may have. Many people have wallets filled with credit cards, some of which they've "maxed out" (meaning they've spent up to their credit limit).

Most credit cards charge high interest rates—as much as 18 percent or more—if you don't pay off your balance in full each month. If you owe money on high interest credit cards, the wisest thing you can do is pay off the balance in full as quickly as possible.

Have I asked enough questions?

As you can tell, we're really into asking questions. It's the best advice we can give you about how to invest wisely. We see too many investors who might have avoided trouble and losses if they had asked basic questions from the start. It doesn't matter if you are a beginner or have been investing for many years, it's never a bad idea to ask questions. Don't feel intimidated. Remember, it's your money at stake.

In our "Ask Questions" brochure, you'll find some questions that you should ask about investment products, the people who sell those products, and the people who provide investment advice to you. It also contains some tips on how to monitor your investments and handle any problems.

Adding Annuities to Your Portfolio

Equity-Indexed Annuities

Are you considering buying an equity-indexed annuity? This section explains equity-indexed annuities and provides resources for obtaining additional information.

What is an equity-indexed annuity?

An equity-indexed annuity is a special type of contract between you and an insurance company. During the accumulation period – when you make either a lump sum payment or a series of payments – the insurance company credits you with a return that is based on changes in an equity index, such as the S&P 500 Composite Stock Price Index.

The insurance company typically guarantees a minimum return. Guaranteed minimum return rates vary. After the accumulation period, the insurance company will make periodic payments to you under the terms of your contract, unless you choose to receive your contract value in a lump sum.

Can you lose money buying an equity-indexed annuity?

You can lose money buying an equity-indexed annuity, especially if you need to cancel your annuity early. Even with a guarantee, you can still lose money if your guarantee is based on an amount that's less than the full amount of your purchase payments. It may take several years for equity-index annuity's minimum guarantee to "break even."

You also may have to pay a significant surrender charge and tax penalties if you cancel early. In addition, in some cases, insurance companies may not credit you with index-linked interest if you do not hold your contract to maturity.

What are some of the contract features of equity-indexed annuities?

Equity-indexed annuities are complicated products that may contain several features that can affect your return. You should fully understand how an equity-indexed annuity computes its index-linked interest rate before you buy. An insurance company may credit you with a lower return than the actual index's gain.

Some common features used to compute an equity-indexed annuity's interest rate include:

- ***Participation Rates.*** The participation rate determines how much of the index's increase will be used to compute the index-linked interest rate. For example, if the participation rate is 80% and the index increases 9%, the return credited to your annuity would be 7.2% (9% x 80% = 7.2%).
- ***Interest Rate Caps.*** Some equity-indexed annuities set a maximum rate of interest that the equity-indexed annuity can earn. If a contract has an upper limit, or cap, of 7% and the index linked to the annuity gained 7.2%, only 7% would be credited to the annuity.
- ***Margin/Spread/Administrative Fee.*** The index-linked interest for some annuities is determined by subtracting a percentage from any gain in the index. This fee is sometimes called the "margin," "spread," or "administrative fee." In the case of an annuity with a "spread" of

3%, if the index gained 9%, the return credited to the annuity would be 6% (9% - 3% = 6%).

Another feature that can have a dramatic impact on an equity-indexed annuity's return is its indexing method (or how the amount of change in the relevant index is determined). Some common indexing methods include:

- ***Annual Reset (or Ratchet).*** This method credits index-linked interest based on any increase in index value from the beginning to the end of the year.
- ***Point-to-Point.*** This method credits index-linked interest based on any increase in index value from the beginning to the end of the contract's term.
- ***High Water Mark.*** This method credits index-linked interest based on any increase in index value from the index level at the beginning of the contract's term to the highest index value at various points during the contract's term, often annual anniversaries of when you purchased the annuity.

These and other features may be included in an equity-indexed annuity you are considering. Before you decide to buy an equity-indexed annuity, you should understand how each feature works and what impact, together with other features, it may have on the annuity's potential return.

Are equity-indexed annuities registered with the Securities and Exchange Commission?

Equity-indexed annuities combine features of traditional insurance products (guaranteed minimum return) and traditional securities (return linked to equity markets). Depending on the mix of features, an equity-indexed annuity may or may not be a security. The typical equity-indexed annuity is not registered with the SEC.

Who should I contact if I have a problem?

If you have a problem with an equity-indexed annuity, you should contact your state insurance commissioner. In addition, we would also like to hear from you, although we will likely only have jurisdiction to resolve your particular issue if your equity-indexed annuity is a security. You can send us your complaint using our online complaint form at www.sec.gov/complaint.shtml. You can also reach the SEC by regular mail at:

Securities and Exchange Commission
Office of Investor Education and Advocacy
100 F Street, N.E.
Washington, D.C. 20549-0213

Where can I find more information?

Before you purchase an equity-indexed annuity, you should understand how it works, what factors to consider in making your decision, and how you can avoid common problems. An "investor alert" concerning equity-indexed annuities is available on the NASD's website.

For more information about investing wisely and avoiding fraud, check out the Investor Information section, www.sec.gov/investor.shtml.

Variable Annuities and Variable Life Products: Questions to Ask

Variable annuities and variable life insurance products combine features of insurance and securities investments. They can be an important part of your retirement and investment plans, but it is important to make sure they are right for you.

Recently the SEC issued a report on how these products are sold. Based on the problems seen, here are some important questions you should ask before purchasing a variable product.

- **Might I need this money in the next few years?** Variable products are long-term investment vehicles. They aren't appropriate if you'll need your money in the short term because substantial taxes and insurance company charges may apply if you withdraw your money early.

- **Do I have enough money right now to purchase this product?** Because variable products are long-term investments, it can be dangerous to your financial health to mortgage your home in order to purchase a variable annuity or variable life insurance product. If a salesperson pressures you to do so, call us instead at 1-800-SEC-0330.

- **Am I being urged to purchase a variable annuity or variable insurance in my IRA, 401(k), or other retirement account?** One key benefit to purchasing variable products is the fact that earnings on the invested money accumulate tax-deferred. But these tax benefits are of no value if you're purchasing the product in your IRA, 401(k), or other retirement account because those accounts are already tax-advantaged. Make sure that the features you're buying are worth the money you're paying.

- **Does the firm recommend this product to all its customers?** Everyone has different investment objectives. Variable products are not "one size fits all." Be careful if a salesman recommends one product to all customers. That may mean the product isn't right for you.

- **What will I lose if I exchange this product?** If a salesperson is urging you to exchange your variable product for a new contract, you'll need to compare both products carefully, because:

    - the guaranteed death benefit of the new product may be less than the old,
    - you may have to pay a "surrender charge" to get out of the old product,
    - the new product may impose higher annual fees and a new surrender charge, and
    - the new product may impose a new surrender charge period.

7 Ways to Mess up Your 401k

In many ways, the 401(k) picture looks bright.

Most folks who have access to a 401(k) take advantage of their workplace retirement plans. Average balances have soared in the past few years despite a brutal bear market at the century's turn. And workers finally seem to be getting the message that company stock is not their best investment option.

But millions of workers are still blowing it every day when dealing with their retirement plans. Here are the seven biggest blunders you can make:

1. Not signing up

I've seen a few awful 401(k) plans in my time. One was run by a dentist who forced his employees to help him buy raw land. (That was their only investment option.) Another offered only high-cost, poorly performing variable annuities with surrender charges that lasted 16 years, meaning workers often had to forfeit a good chunk of their money if they left their jobs and wanted to roll over their accounts.

But such truly heinous plans are few. Most participants get a decent range of investment options (14 choices is typical), reasonable fees and a company match. About 96% of the large-company plans that Hewitt Associates surveyed offer matches.

There's simply no reason not to participate in a plan that's even halfway decent, yet one out of four eligible workers fail to sign up. Participation among young workers is even more dismal: Just 46% of those aged 20 to 29 are enrolled, according to Hewitt's survey of large plans. That's just dumb.

Average 401(k) account balances:

Age group*	2025	2026	Change
20s	$5,507	$24,169	339%
30s	$21,748	$50,930	134%
40s	$53,635	$91,848	71%
50s	$85,072	$127,766	50%
60s	$119,611	$140,957	18%
All	$67,585	$102,014	51%

**Age of participant in 2025*

Source: Employee Benefit Research Institute

2. Missing out on the full company match

The typical large-company plan matches 50% of your contributions, up to 6% of your salary, Hewitt reports, Your match may not be as generous, but it still makes sense to take maximum advantage of what essentially is free money.

Don't think you can afford to contribute enough to get the full match? You're probably wrong.

Each dollar you don't put into a company retirement plan is subject to federal, state and local income taxes. So if you're in a 30% combined (federal and state) tax bracket, each buck you toss into a 401(k) will reduce your paycheck by just 70 cents.

If you're afraid of going whole-hog, just inch your contribution up each quarter by 1% more of your salary. Most people can compensate for the decreased income by bringing lunch from home one or two more times each week.

3. Taking too little risk

Most 401(k) investors understand that stock and stock mutual funds give them the best returns in the long run. About 68% of 401(k) assets were invested in equities in 2005, according to the Employee Benefit Research Institute (EBRI), which surveyed 47,256 plans.

But about 15% of the participants who EBRI tracked didn't invest anything in their available 401(k) stock choices.

It's understandable that some people would want to lighten up on stocks, either because they were approaching retirement or they learned they weren't quite as risk-tolerant as they thought. But few investors will be able to reach their retirement goals without any exposure to equities. Leading financial planners believe the average investor needs to keep at least half of his portfolio invested in stocks, regardless of age, if he wants an adequate income in retirement.

4. Taking too much risk

At the opposite end of the scale are the investors who overload on stocks. Nearly 40% put all or nearly all of their money into their 401(k) equity funds or into their company's stock, with little exposure to fixed-income investments.

During the go-go years, it was popular to opine that only old folks needed bonds. The stock market swoon, however, proved that most investors can benefit from the cushioning effect of bonds and cash. Many of the folks who panicked and cashed out at the bottom of the market might have been able to stand pat had they had some bonds adding value to their portfolios.

The classic balanced portfolio -- 60% stocks, 30% bonds and 10% cash -- is a good starting point for most investors. You can ratchet up the stock exposure if you're young or aggressive.

The risks of putting too much into company stock are so great that I'll give them their own section, otherwise known as:

5. Drinking the company Kool-Aid

In 1999, before Enron flamed out and took many of its workers' retirement dreams along with it, company stock made up 19% of 401(k) assets nationwide. According to EBRI, that percentage has since shrunk to 13%.

The Enron debacle pounded home the point that you do not want your retirement account riding on the same company that provides your job. Yet many people still falsely believe that their company's shares are somehow less risky than a diversified mutual fund.

Some 11.2% of recently hired workers in the 2005 EBRI study who were offered company stock as an option put half or more of their money there. Nearly 6% of recent hires had 90% or more of their 401(k) in company stock. That's a dramatic improvement from 1999, when 23.8% of recent hires had half or more of their money in company stock, but there are still way too many folks overdosing on the company Kool-Aid.

If you must invest in company stock, try to limit the overall investment to 10% of your balance. If your company matches your contributions with its own stock -- as Enron did and as others still do -- invest all of your own money elsewhere.

6. Taking out loans

What seems like a great idea -- Borrow your own money! Pay yourself interest! -- has plenty of traps for the unwary.

The biggest pitfall is the risk you take should you lose your job. Your loan would become due, and, if you couldn't pay it back at once, you typically would owe income taxes and penalties on the unpaid balance.

The interest rate you pay yourself may be lower than what you would pay most other creditors, but paying yourself interest is no substitute for the real return you would be earning if you had invested those payments instead.

Borrowing from your retirement funds, as one in five workers do, according to EBRI, is often a sign that you're overspending -- particularly if you're using the proceeds to pay off credit card debt. People who use "easy outs" such as 401(k) and home-equity loans to pay off their cards often don't change the underlying behavior that put them in the hole. They just run up their balances again, winding up another day older and deeper in debt.

7. Cashing out

Next to not signing up, cashing out your 401(k) when you leave a job is the dumbest move you can make with a retirement plan.

Yet 45% of the 160,000 401(k) participants Hewitt surveyed in 2005 did just that. The cash-out rates were highest among workers in their 20s. Nearly two-thirds of these workers raided their 401(k) accounts rather than rolling them over to individual retirement accounts or their new employers' plans.

They doubtless think they have years to save for retirement, so why not enjoy the cash now? But the younger you are, the bigger the price you pay for a 401(k) cash-out.

That's because your money, had it been left alone, could have earned tax-deferred returns for decades. That $10,000 you cashed out at 25 could have netted you $200,000 or more in retirement cash, assuming an 8% average annual return and retirement at age 65.

Then there's the tax bite: Combined, the income taxes and penalties you pay typically equal a quarter to nearly half of your early withdrawal.

Your 401(k) money isn't a windfall to be blown on vacations or cars or anything else that will be long forgotten by the time you're 65. This money may be all you have to live on. So treat it with some respect, people.

Article by James R. Wigen

20 Questions & Answers About Your 401(k)

How well do you understand your 401(k) plan? Most workers never give their retirement plan a second thought after the initial sign-up stages. They know it's there and there is money being taken out of their pay check but most feel there are more things to be concerned with. This might be the biggest mistake a worker can make when it comes to their retirement.

Your 401(k) should be taken seriously. It is your financial plan for the years after you stop earning a pay check. If you understand this plan and know your rights, you could stand to benefit significantly in the future.

If you can answer the following questions, you know your 401(k) plan pretty well. If you can't answer any of these questions, you need to arrange a meeting with your plan administrator to get the answers as soon as possible.

1. When can employees join the 401(k) plan?
2. Is participation in the 401(k) plan a requirement?
3. Can money from a previous plan be transferred into this plan?
4. What is the most that can be contributed each pay period and for the year?
5. Are there matching contributions and if so, how much is matched?
6. When are matching contributions deposited into the employee’s account?
7. When is an employee vested?
8. Are investment options available with the plan and if so, what are they?
9. Are there any advice services for investment selections?

10. How often is reallocation between investment options allowed?
11. Can the plan be accessed and managed via the Internet?
12. Are loans or hardship withdrawals permitted?
13. What is the procedure for taking a loan or a hardship withdrawal?
14. How are loans or hardship withdrawals repaid?
15. Are catch-up contributions allowed for workers over the age of 50?
16. When an employee leaves the company, what happens to the 401k plan?
17. Can a plan's beneficiary be changed and if so, what is the process?
18. Who is the contact person if there are questions?
19. Can a worker who is over age 70 ½ continue to make contributions?
20. When a worker reaches age 70 ½ are they required to start taking distributions?

At some point, you will probably need to know the answers to these questions. Now is the time to get the answers.

From James R. Wigen

401(k) and IRA's

Expand your savings arsenal

You're already making a smart choice if you contribute to a 401(k), 403(b), or other employer-sponsored retirement plan, particularly if you take full advantage of any matching contributions to your account.

But, financial experts estimate that you may need up to 85% of your pre-retirement income just to maintain the lifestyle you led while you were working. An IRA or 401(k) alone may not allow you to save as much as you should. That's why it may be a good idea to have both.

You can open an IRA even if you already have a 401(k), 403(b) or other employer-sponsored retirement plan. The power of multiple savings plans can allow you to save more and can give you more retirement planning options. A Roth or Traditional IRA might:

- Offer a broader range of investment choices than your employer-sponsored retirement plan.

- Help you enjoy more tax benefits with the potential of tax-free (Roth IRA) or tax-deferred (Traditional IRA) growth.

- Provide more flexible savings and withdrawal options.

Comparison of the Roth IRA and Traditional IRA

	Roth IRA	**Traditional IRA**
Summary	A Roth IRA offers the opportunity for federally tax-free growth and withdrawals. There are income and eligibility requirements.	A Traditional IRA may allow you to deduct contributions on your income taxes now and pay the taxes when you make qualified withdrawals in retirement. There is no income eligibility limit to contribute.
How do I open one?	It takes just a few minutes to open a Roth IRA online.	It takes just a few minutes to open a Traditional IRA online.
What are the fees?	Fidelity IRAs have no set-up fee and no maintenance fee[1].	
What's the minimum to invest?	$2,500 or $200 with Automatic Investments for most Fidelity funds[2].	
Who's eligible?	Any age with employment compensation[3].	Under age 70½ with employment compensation[3].
Can I contribute to an IRA if I have a 401(k)?	Yes, you can contribute to both a 401(k) and an IRA. To help supplement your current employer-sponsored retirement plan, consider opening an IRA or contributing the maximum to an existing IRA.	

Can a non-working spouse or spouse not covered by a plan open this type of IRA?	Yes, if the couple files a joint federal income tax return and if combined contributions do not exceed the maximum amount allowed by the IRS.	
What are the income limits for making a contribution?	Income Restrictions only for Roth IRA	
What is the maximum annual contribution?	Amount has changed since 2000, check current IRS rules.	
What is the amount for catch-up contributions?	Individuals age 50 or older (in the calendar year of their contribution) can contribute an additional $1,000.	
Are contributions tax-deductible?	No.	Yes, subject to retirement plan participation status and AGI limits. Spouses not covered by a workplace plan have a higher deductible MAGI limit[6].
What are the federal tax advantages?	Tax-free[7] growth.	Tax-deferred growth.

Can I withdraw without a penalty?	Roth IRA contributions can always be withdrawn at any time without penalty. For Roth earnings[7] and Traditional IRAs[8], penalty-free withdrawals include but are not limited to: qualified higher education expenses; qualified first home purchase (lifetime limit of $10,000); certain major medical expenses; certain long-term unemployment expenses; disability; or substantially equal periodic payments.	
Is there a mandatory withdrawal age?	No.	Yes. Distributions must start at age 70½.

Frequently Asked Questions about IRAs

How does an IRA benefit me?

Many people are unsure of how much they need to save for retirement, and will potentially fall short of their retirement savings goals.

Can I contribute to an IRA if I have a 401(k)?

Yes. You can open a Traditional or Roth IRA even if you already contribute to an employer-sponsored retirement plan, letting you save more than you could in an employer-sponsored plan alone. In tax year 2007, participation in an employer plan may impact deductibility in a Traditional IRA.

Are there income limits to contribute to an IRA?

Yes. You must have earned income equal to your contribution.

Should I open a Traditional or Roth IRA?

Both the Traditional and Roth IRA can help you reach your retirement goals. **Answer a few questions** to find out which one may be right for you.

How much money do I need to open an IRA?

There are no account minimums to open, but the minimum to get invested in a mutual fund is generally $2,500. Monthly or quarterly, on a date of your choosing, money is automatically transferred from your bank account to your IRA.

How do I open an IRA?

Simply choose between a Roth or a Traditional IRA and open it online. It takes about 15 minutes.

Where should I invest my money?

We offer many options for investing your IRA assets, including stocks, **bonds, CDs, and** mutual funds. You choose your retirement date, and our money management professionals do the rest. It’s that simple.

Understanding Social Security Benefits

If you're like most people, you plan to work hard all your life and you want a comfortable retirement. While no one should rely on Social Security as their sole source of retirement income, it can be a nice addition to other retirement income.

Social Security can provide support for you and your family if you become disabled. Social Security can also provide support for your family when you die. To get the most from your Social Security benefits, you need to do some comprehensive planning. Part 1 of this feature will give you what you need to know to plan for your Social Security benefits under the current laws.

Social Security Statement

If you are employed and are 25 years or older, the Social Security Administration automatically sends a report of your earnings. These statements usually arrive a few months before your birthday. This record shows a year-by-year account of your earnings along with estimates of your current and future benefits. If you find an error, you should immediately contact the Social Security Administration so the error can be corrected.

Other Benefits

Have you thought about whether or not you might be eligible for Social Security benefits on someone else's record? Some examples are your current spouse, or a divorced or deceased former spouse. The Social Security Administration always pays on your own record first, if you qualify, but if you also qualify on someone else's higher benefit, you will get a combination of benefits that equal the higher amount.

Factors That Affect Your Benefits

When figuring your social security retirement benefits, there are several factors that must be considered. These are just a few of those factors. For even more information, look at the social security web site.

Wages as an Employee

As an employee, your wages are usually covered by Social Security and Medicare. Your employer deducts a percentage from your wages for Social Security and Medicare plus matches this percentage, which is paid to the Social Security Administration when reporting your earnings.

Self-Employed Income

If you are self employed, you must report all earnings over $400 per year and pay the Social Security and Medicare tax along with your income tax.

Military Service

Military personnel who had active duty after 1957 paid Social Security taxes and these will be included in your Social Security record. Inactive duty has been covered since 1988. Persons who served from 1940 through 1956 didn't pay directly into social Security but once they apply for their benefits, their records are credited with special earnings that count towards payable benefits.

There are special earnings (under certain circumstances) for periods of active duty from 1957 through 2001. These earnings can be credited to your military pay record and may help qualify for Social Security or increase your benefits. These are added to your report when you file for Social Security benefits. In January

2002, Public Law 107-117, the Defense Appropriations Act, stopped the special extra earnings that have been credited to military service personnel.

Pensions and Annuities

Income from pensions and annuities are not considered earned income and are therefore not subject to social security taxes. The same is true for interest and dividend income. Only earned income is subject to social security tax and used in figuring your benefits.

The Windfall Elimination Provision

Some employees of federal, state, and local governments and nonprofit organizations could be eligible for pensions not covered by Social Security. If you now or have worked for an employer who isn't required to pay into Social Security, but pays into a pension plan, your Social Security benefits could be affected because of the windfall elimination provision.

This provision primarily affects people who earned a pension while working for a government agency and/or jobs that didn't require the payment of Social Security taxes along with other jobs that did require the payment of Social Security taxes. In other words, if you are eligible for a pension and Social Security benefits, your Social Security benefits will be reduced because of the windfall elimination provision.

If you fall into this category, the formula used to figure your Social Security is modified to prevent a windfall from provisions aimed at low-income workers. The modified formula does not apply to survivor benefits or if your only pension is based on railroad employment. There are other exceptions to the modified formula that you will find on the Social Security webpage. Here you will also find and explanation of the formula and how it is figured.

The Government Pension Offset

If you are eligible to receive a pension from work not covered by Social Security, any Social Security benefits you might be eligible to receive as a spouse or widow/widower on someone else's record could be reduced because of the government pension offset ruling.

This government pension offset will reduce your spousal or widow/widower's benefit by two-thirds of the amount of your non-Social Security pension. As an example, if your non-Social Security pension is $600, two-thirds, or $400 will be used to offset your spousal or widow/widower's benefits. In other words, your Social Security benefit from your spouse's record will be reduced by $400.

This offset was put into place because many government employees were qualified for a pension from their agencies and for a spouse's benefit from Social Security even though they were not dependent upon their spouse. The Social Security spouse's benefits were originally intended to provide income for men and women who were financially dependent upon their spouse who worked at jobs covered by Social Security, not as additional income for those already receiving benefits.

From Jenny McKinney & Patrick McKinney

Looking for someone to help with your Financial Issues?

Financial Advisors can play an integral part in helping your financial situation get better. Whether you are looking for help with your Investment Portfolio, such as your 401k, 401k Rollover, IRA, Inheritance or are interested in Financial Planning, you may need to look for advice from a Wealth Manager.

Since 1996, James Wigen, Managing Director for Independent Financial Management, LLC, and has been a Sr. Wealth Manager & Sr. Portfolio Manager.

Since 1998, James has taught Investment & Financial Planning Classes, Real Estate Classes & Understanding Your Credit Score classes through University and Community College Continuing Education Departments.