21ST Century Retirement PLANS

Continuing Education

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This text is designed to provide accurate information in regard to the subject matter covered. The readers of this book understand that the author and AACRNTC are not engaged in rendering legal, or financial services. You should seek competent tax or legal advise with respect to any and all matters pertaining to the subject covered in this study book.

This book is updated periodically to reflect changes in laws and regulations. You can call the author at 410-989-0559 to verify that you have the most recent update.

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In the back of this book is a 75-question examination that is to be completed by students who seek C.E Credits. A grade of 70 or higher is required to receive Continued Education credits.

You are to place your answers on the answer sheet that is included in the back of this text and fax to:

410-734-7966

YOU CAN ALSO TAKE THE TEST ON-LINE BY CLICKING ON THE FOLLOWING TEST-SITE:

http://www.colemantesting.com/

ANY QUESTIONS? CALL 443-504-3069

Section 1 Facts to know before Retirement 1

TO RETIRE COMFORTABLY, A PERSON'S INCOME NEEDS TO BE 70% TO 80% OF HIS CURRENT INCOME. WHERE DO RETIREES PLAN TO RETIRE?

STATE TAXES AT A GLANCE

THINGS TO CONSIDER IF PLANS ARE TO RELOCATE

TAX ADVANTAGES

States with no income tax

Alaska
Florida
Nevada
New Hampshire
South Dakota
Tennessee
Texas
Washington
Wyoming

States with no sales tax

Alaska
Delaware
Rhode Island
Montana

TAX DISADVANTAGES

States that tax Social Security benefits

Colorado
Connecticut
Iowa
Kansas
Minnesota
Missouri
Montana
Nebraska
New Mexico
North Dakota
Utah
Rhode Island
West Virginia
Vermont
Wisconsin

West Virginia
New Hampshire
Vermont
Oregon
Wisconsin

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States with no real estate tax breaks for seniors
Florida
Louisiana
Minnesota
Oregon
Vermont
Wisconsin

WHAT RETIREES WANT WHEN THEY RELOCATE

1. LOW CRIME RATE
2. MILD CLIMATE
3. AFFORDABLE HOUSING
4. ATTRACTIVE ENVIRONMENT
5. PROXIMITY TO CULTURAL AND EDUCATIONAL ACTIVITIES
6. STRONG ECONOMIC OUTLOOK
7. EXCELLENT HEALTH CARE

The top ten retirement states:

1. **Fort Collins, Colorado**
2. **Charleston Sea Islands, South Carolina**
3. **Henderson, Nevada**
4. **Wickenburg, Arizona**
5. **St. George, Utah**
6. **Boca Raton, Florida**
7. **Scottsdale, Arizona**

8. Tucson, Arizona
9. Prescott, Arizona
10. Fort Myers, Florida

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ESTIMATING HOW MUCH YOU'LL NEED

PEOPLE MUST SAVE REGULARLY AND INVEST WISELY TO HAVE ENOUGH MONEY FOR A WORRY-FREE RETIREMENT. BUT HOW MUCH IS ENOUGH? INSTEAD OF PANICKING ABOUT FALLING SHORT OR HAVING TO CATCH UP, THINK ABOUT HOW LIFE WILL CHANGE WHEN ONE LEAVES WORK AND THEN ESTIMATE THE COST OF THAT LIFESTYLE.

THE TRADITIONAL RULE OF THUMB THAT RETIREES NEED

80% OF THEIR PRE-RETIREMENT INCOME MAY NOT HOLD TRUE FOR EVERYONE. SOME PEOPLE MAY CONSIDER IT A HARDSHIP TO HAVE TO MAKE DO WITH LESS JUST WHEN THEY HAVE TIME TO ENJOY THE FRUITS OF YEARS OF WORK AND SAVINGS. ON THE OTHER HAND, SOME FRUGAL PEOPLE MAY FIND THEY NEED NO MORE THAN 50% OF THEIR PRE-RETIREMENT INCOME. HEALTH CARE ASIDE, AMERICANS OVER 65 SPEND 25% TO 40% LESS THAN YOUNGER PEOPLE DO ON FOOD, CLOTHING, HOUSING, TRANSPORTING, AND OTHER EVERYDAY EXPENSES. WHETHER TO AIM FOR 50% OR 200% OF PRE-RETIREMENT INCOME DEPENDS ON HOW A PERSON HOPES TO LIVE AFTER HE STOPS WORKING. SOME ENVISIONS A RETIREMENT OF TRAVEL, TWO HOMES AND A COUNTRY CLUB MEMBERSHIP? OR QUIETER YEARS MAKING DO WITH ONE CAR AND FEWER DINNERS OUT? MOREOVER, WITH RETIREMENT POSSIBLY LASTING AS LONG AS 30 YEARS, PEOPLE SHOULD NOT FORGET THAT THIER COSTS WILL DIMINISH AS THEY AGE. EXPENSES TEND TO BE HIGHEST FOR YOUNG RETIREES.

YOUNGER RETIREES USUALLY TRAVEL EXTENSIVELY. OLDER RETIREES TYPICALLY TRAVEL LESS, SPEND LESS ON SUCH

DISCRETIONARY ITEMS AS WELL AS NECESSITIES (EXCEPT HEALTH CARE).

THE COST OF HOUSING WILL CONTINUE TO BE RETIREE'S BIGGEST EXPENSE EVEN IF THEY DON'T HAVE A MORTGAGE. FIGURE THAT PROPERTY TAXES, HOMEOWNERS INSURANCE, UTILITIES AND UPKEEP WILL COST AMERICANS NO LESS THAN

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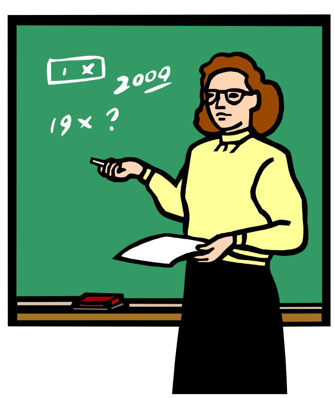
THEY DO NOW UNLESS THEY MOVE TO A SMALLER HOUSE OR TO A LOWER COST AREA.

THE COST OF HOUSING WILL BE REITREES BIGGEST EXPENSE

SOME PEOPLE ARE PLANNING ON ATTENDING SCHOOL DURING RETIREMENT.



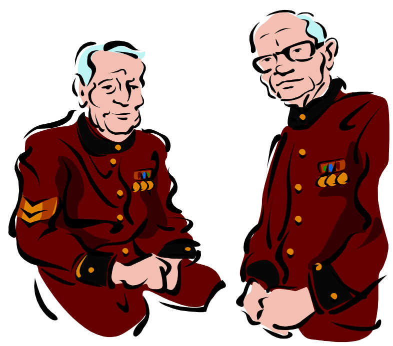
A PERSON’S FOOD COST MAY DECLINE 20% OR SO DOING RETIREMENT IF HE EATS OUT LESS (YOU WON'T HAVE TO BUY LUNCH AT WORK ANYMORE). TRANSPORTATION COST WILL DROP BECAUSE THE RETIREE WILL NO LONGER INCUR COMMUTING EXPENSES. AND HE MAY FIND THAT HE DOES NOT NEED TO REPLACE A CAR SO OFTEN OR EVEN KEEP TWO, ESPECIALLY LATER ON. UNLESS ONE’S JOB NEVER REQUIRED PRICEY SUITS OR DRESSES, RETIREES CAN EXPECT TO SHAVE 20% TO 35% OFF CLOTHES. HOW MUCH TRAVEL AND ENTERTAINMENT COSTS MAY CHANGE DEPENDS ON ONE’S TASTES. IF RETIREMENT MEANS THAT YOU'LL BE GOING ON LONG TRIPS, BUDGET FOR THEM, SINCE TRAVEL IS OFTEN RETIREES' SINGLE BIGGEST NEW EXPENSE.

CHANCES ARE (YOU HOPE) RETIREES WILL HAVE FINISHED PAYING FOR THEIR CHILDREN'S EDUCATION BY THE TIME THEY RETIRE. BUT THEY SHOULD THINK ABOUT WHETHER THEY WANT TO TAKE COURSES THEMSELVES. AS FOR LOAN PAYMENTS, FINANICAL PLANNERS SUGGEST THAT AMERICANS REDUCE CREDIT- CARD AND OTHER DEBT WHILE THEY ARE STILL WORKING.

LIFE INSURANCE COSTS USUALLY GO DOWN OR, IN THE CASE OF DISABILITY INSURANCE, DISAPPEAR IN RETIREMENT, SINCE THEY TYPICALLY WILL NO LONGER HAVE EARNINGS FROM WORK TO PROTECT.

TRYING TO PREDICT MEDICAL EXPENSES IS TOUGH BECAUSE PEOPLE DON'T KNOW WHAT HEALTH PROBLEMS THEY MAY FACE OR THE OUTCOME OF THE REFORM DEBATE IN CONGRESS. IN ADDITION, EARLY RETIREES MAY FACE HIGHER MEDICAL COSTS UNTIL THEY QUALIFY FOR MEDICARE AT 65 IF THEY HAVE TO BUY THEIR OWN INSURANCE, WHICH CAN COST A COUPLE $6,000 A YEAR. ALSO FIGURE ON HEALTH COSTS STAYING HIGH AFTER 65 BECAUSE OF HIGHER OUT-OF POCKET MEDICAL EXPENSES AND INSURANCE PREMIUMS. FOR EXAMPLE, A SUPPLEMENTAL MEDICARE POLICY COULD COST AS MUCH AS $3,000 A YEAR. AND DON'T FORGET ROUTINE DENTAL COSTS, WHICH MAY MOUNT WITH AGE AND ARE UNLIKELY TO BE COVERED BY INSURANCE.

Some retirees are going to have a very inactive life.



Some people are planning on retiring in style!

Other are just planning on relaxing and enjoying
Life!!!!!!!!!!!

SECTION 2 SOCIAL SECURITY

The future of Social Security

For more than 60 years, America has kept the promise of security for its workers and their families. But now, the Social Security system is facing serious future financial problems, and sometime needs to be done soon to make sure that the Social Security system continues to be sound, far into the future. There are approximately 36 million Americans age 65 older. Their Social Security retirement benefits are funded by today's workers and their employers who jointly pay Social Security taxes-just as the money they paid into Social Security was used to pay benefits to those who retired before them. Congress must do something soon to strengthen Social Security because in just 15 years more money will be paid out in benefits then are collected in taxes. Unless something is done, the Social Security Trust Fund will be exhausted by 2042. The number of Americans 65 or older is expected to double by 2042. It is estimated by then, that there won't be enough younger people working to pay all of the benefits owed

to those who are retiring. At that point, there will be enough money to pay only about 75 cent for each dollar of scheduled benefits.

DUE TO THE NUMBER OF WORKERS COVERED BY THE SOCIAL SECURITY UMBRELLA, IT IS APPARENTLY THE MOST IMPORTANT BENEFIT PROVIDED BY THE FEDERAL GOVERNMENT. IT WAS PUT INTO EFFECT BY THE U. S. CONGRESS IN 1935. IT IS A FEDERAL SOCIAL INSURANCE PROGRAM. IT WAS NAMED THE OLD AGE, SURVIVOR, DISABILITY AND HOSPITAL INSURANCE PROGRAM. (OASDHI) AND IT CAME TO BE KNOWN AS SOCIAL SECURITY. MOST PEOPLE DID NOT UNDERSTAND THE PROGRAM AND HOW IT WORKED. IT PAYS BENEFITS MONTHLY WHEN A WORKER RETIRES, BECOMES DISABLED OR DIES. WHEN AN INDIVIDUAL RETIRES, HE AND OTHER MEMBERS OF HIS FAMILY (WIFE, CHILDREN AND OTHER BENEFICIARIES) MAY BE ELIGIBLE FOR BENEFITS. THE BENEFITS ARE PROVIDED UNDER TITLE 11 OF THE 1935 SOCIAL SECURITY ACT. IT IS A LAW THAT HAS BEEN AMENDED MANY TIMES. IT PROVIDES BENEFITS FOR EVERY MAJOR OCCUPATIONAL CLASS, EXCEPT WORKERS COVERED BY ANOTHER PLAN OF FEDERAL GOVERNMENT BENEFITS.

HOW THE SOCIAL SECURITY TAX DOLLARS (FICA) ARE SPENT

$ .70 GOES TO THE TRUST FUND THAT PAYS MONTHLY BENEFITS TO CURRENT RETIREES, THEIR FAMILIES, WIDOW, WIDOWERS, CHILDREN OF WORKERS WHO HAVE DIED AND ADMINISTRATION COST

$ .19 GOES TO A TRUST FUND THAT PAYS FOR THE HEALTH CARE OF ALL MEDICARE BENEFICIARIES.

$ .11 GOES TO A TRUST FUND THAT PAYS BENEFITS TO PEOPLE WITH DISABILITIES, THEIR FAMILIES, AND ADMINISTRATIVE EXPENSES.

SOCIAL SECURITY TAXES ALSO PAY FOR THE ADMINISTRATION OF THE PROGRAM. THE COSTS ARE PAID FROM THE TRUST FUND EXPLAINED ABOVE AND ARE LESS THAN ONE CENT (10) OF EVERY SOCIAL SECURITY (FICA) TAX DOLLAR COLLECTED. ALL DOLLARS NOT USED TO PAY WORKER, FAMILY BENEFITS, OR ADMINISTRATIVE COSTS IS INVESTED U.S. GOVERNMENT BONDS, WHICH IS CONSIDERED THE SAFEST OF ALL INVESTMENT VEHICLES. THE TRUST FUND EARNS INTEREST ON THOSE DOLLARS.

EVERY YEAR, THE SOCIAL SECURITY BOARD OF TRUSTEES GIVES REPORTS ON THE STABILITY OF SOCIAL SECURITY. IT REPORTS ON THE ECONOMIC HEALTH AND FINANCIAL STABILITY OF THE

PROGRAM. THE MOST CURRENT REPORTS STATE BENEFITS WILL BE PAID A FEW YEARS INTO THE NEXT MILLENNIUM. SO CONGRESS HAS TIME TO MAKE ADDITIONAL CHANGES TO THE TRUST FUND TO AVOID IT RUNNING OUT OF MONIES AND NOT BEING AVAILABLE FOR FUTURE RECIPIENTS.

QUALIFICATIONS - RETIREMENT BENEFITS

YOU PAY SOCIAL SECURITY TAXES WHEN YOU WORK (FICA) AND YOU EARN SOCIAL SECURITY CREDITS. YOU EARN ONE CREDIT FOR EACH QUARTER OF WORK. A PERSON CAN EARN UP TO FOUR CREDITS PER YEAR.

YOUR DATE OF BIRTH DETERMINES THE NUMBER OF CREDITS YOU NEED TO RECEIVE SOCIAL SECURITY RETIREMENT BENEFITS. WORKERS BORN IN 1929 OR LATER NEED 40 CREDITS (39 CREDITS NEEDED IF BORN IN 1928; 38 NEEDED IF BORN IN 1927); ETC.

SHOULD YOU STOP WORKING BEFORE YOU HAVE EARNED THE AMOUNT OF CREDITS NEEDED TO RETIRE OR TO QUALIFY FOR BENEFITS, YOUR CREDITS WILL ADDED TO YOUR ACCUMULATED AMOUNT AND YOU THEN CONTINUE TO QUALIFY FOR CREDITS. YOU WILL NOT RECEIVE RETIREMENT BENEFITS UNTIL YOU HAVE THE REQUIRED NUMBER OF CREDITS.

NUMBER OF CREDITS NEEDED TO RETIRE

YEAR BORN	***#CREDITS***	***#QUARTERS***	***PERIOD OFACCUMULATION***
1929 OR LATER	**40**	**40**	**10 YEARS**
1928	39	39	9 YEARS 9 MONTHS
1927	38	38	9 YEARS 6 MONTHS
1926	37	37	9 YEARS 3 MONTHS
1925	36	3	9 YEARS
1924	35	35	8 YEARS 9 MONTHS
1923	34	34	8 YEARS 6 MONTHS
1922	33	33	8 YEARS 3 MONTHS
1921	32	32	8 YEARS
1920	31	31	7 YEARS 9 MONTHS

NUMBER OF CREDITS NEEDED TO RETIRE

YEAR BORN /	*# CREDIT ACCUMULATED*	**# QUARTERS**	*PERIOD OF*
1919	30	30	7 YEARS 6 MONTHS
1918	29	29	7 YEARS 3 MONTHS
1917	28	28	7 YEARS
1916	27	27	6 YEARS 9 MONTHS
1915	26	26	6 YEARS 6 MONTHS
1914	25	25	6 YEARS 3 MONTHS
	24	24	6 YEARS

HOW MUCH WILL YOUR MONTHLY RETIREMENT BE?

YOUR MONTHLY RETIREMENT BENEFIT AMOUNT IS BASED ON YOUR WAGES

AVERAGED OVER THE MAJORITY OF YOUR WAGE EARNING YEARS. THE MORE LIFETIME EARNING YOU MAKE, THE MORE YOUR MONTHLY RETIREMENT BENEFIT WILL BE. IF YOU MISSED YEARS OF EARNING WAGES OR EARNED A SMALL AMOUNT OF WAGES, YOUR MONTHLY RETIREMENT AMOUNT COULD BE LOWER THAN YOU EXPECT, COMPARED TO WORKING AND HAVING A LARGE INCOME EVERY YEAR.

YOUR AGE CAN ALSO AFFECT YOUR MONTHLY RETIREMENT INCOME. YOU CAN START TO RECEIVE YOUR MONTHLY RETIREMENT INCOME AT AGE 62, WHICH IS THE EARLIEST RETIREMENT AGE, BUT IT WILL CAUSE YOUR MONTHLY INCOME TO BE LESS THAN YOU WOULD RECEIVE IF YOU WAITED UNTIL AGE 65.

MAXIMUM RETIREMENT AGE

THE NORMAL AGE FOR PEOPLE TO RETIRE IS AGE 65. SOCIAL SECURITY CALL

THIS "FULL RETIREMENT AGE", AND THE MONTHLY RETIREMENT INCOME AMOUNT PAYABLE IS THE FULL RETIREMENT MONTHLY BENEFIT.

LIFE EXPECTANCY IS A LOT LONGER THAN IT USED TO BE, SO THE FULL RETIREMENT AGE WILL GRADUALLY BE INCREASED, IN PHASES, UNTIL IT REACHES AGE 67. THIS AMENDMENT WILL START IN 2003, AND AFFECTS WORKERS BORN IN THE YEAR 1938 AND LATER.

FULL SOCIAL SECURITY BENEFIT AGE

YEAR OF BIRTH	FULL RETIREMENT AGE
1937 OR EARLIER	63
1938	65 – 2 MONTHS
1839	65 – 4 MONTHS
1940	65 – 6 MONTHS
1941	65 – 8 MONTHS
1942	65 – 10 MONTHS
1943-1954	**66**
1955	66 – 2 MONTHS
1956	66 – 4 MONTHS
1957	66 – 6 MONTHS
1958	66 – 8 MONTHS
1959	66 – 10 MONTHS
1960 AND LATER	**67**

IF YOUR FULL RETIREMENT AGE IS OLDER THAN 62 (MEANING YOU WERE BORN AFTER 1937), YOU WILL STILL BE ABLE TO TAKE YOUR RETIREMENT BENEFITS AT AGE 65, BUT THE REDUCTION IN YOUR BENEFIT AMOUNT WILL BE GREATER THAN IT IS FOR PEOPLE RETIRING NOW.

YOU CAN RETIRE EARLY (EARLY RETIREMENT)

SOCIAL SECURITY MONTHLY RETIREMENT INCOME CAN START AT AGE 62, BUT YOUR MONTHLY INCOME WILL BE LESS THAN YOUR FULL BENEFIT IF YOU WAIT TO AGE 65. YOUR INCOME WILL ALWAYS BE LESS THAN THE AMOUNT YOU WOULD RECEIVE IF YOU HAD WAITED TO AGE 65 OR THE FULL RETIREMENT AGL(65-2 MONTHS UP TO AGE 67). THERE IS A SMALLER REDUCTION EACH YEAR YOU WAIT.

AGE 62 ABOUT 20% REDUCTION IN BENEFITS
AGE 63 ABOUT 13'/2% REDUCTION IN BENEFITS
AGE 64 ABOUT 6 % REDUCTION IN BENEFITS

EMPLOYED WHILE RECEIVING SOCIAL SECURITY

How much can be earned and still get benefits?

If you work and are full retirement age (age 65 and 6 months in 2005) or older, you may keep all of your benefits, no matter how much you earn. If you are younger than age 65 and 6 months all year, there is a limit to how much you can earn and still receive full Social Security benefits. If you are younger than age 65 and 6 months in all of 2005, Social Security will deduct $1 from your benefits for each $2 you earned above **$12,000.**

If you turn 65 and 6 months during 2005, Social Security must deduct $1 from your benefits for each $3 you earned above $31,800 until the month you turn 65 and 6 months.

Other examples:

If you begin receiving Social Security benefits at age 62 in January 2005 and your payment is $600 per month ($7,200 for the year). During the year, you work and earn $20,000 ($8,000 above the $12,000 limit). We would withhold $4,000 of your Social Security benefits ($1 for every $2 you earn over the limit), but you would still receive $3,200 in benefits.

Or, if you were age 64 at the beginning of the year, but reach full retirement age (currently 65 and 6 months) in August 2005. You earned $33,000 in the seven months from January through July. During this period, we would withhold $400 ($1 for every $3 you earned above the $31,800 limit). You would still receive $3,800 of your Social Security benefits. And, starting in August (when you reach 65 and 6 months), you would begin receiving your full benefits, no matter how much you earn.

Your earnings and your benefits--how much will you get?

The following table gives you an idea of how much you will receive in Social Security benefits for the year 2005, based on your monthly benefits and estimated earnings.

For people younger than age 65 and 6 months during the whole year

If Your Monthly Social Security benefit Is	And you earn	You Will Receive Yearly Benefits Of
$500	$12,000 or less	$6,000
$500	$15,000	$4,500
$500	$20,000	$2,000
$700	$12,000 or less	$8,400
$700	$15,000	$6,900
$700	$20,000	$4,400
$900	$12,000 or less	$10,800
$900	$15,000	$9,300
$900	$20,000	$6,800

What income counts...and when does Social Security counts it?

If you work for someone else, only your wages count toward Social Security's earnings limits. If you are self-employed, Social Security count only your net earnings from self-employment. **They do not count income such as other government benefits, investment -earnings, interest, pensions, annuities and capital gains.**

If you work for wages, income counts when it is earned, not when it is paid. If you have income that you earned in one year, but the payment was made in the following year, it should not be counted as earnings for the year you receive it. Some examples are accumulated sick or vacation pay and bonuses.

If you are self-employed, income counts when you receive it--not when you earn it--unless it is paid in a year after you become entitled to Social Security and earned before you became entitled.

Special rules for the first year you retire

Sometimes people who retire in mid-year already have earned more than the yearly earnings limit. That is why there are special rules that apply to earnings for one year, usually the first year of retirement. Under these rules, you can get a full Social Security check for any whole month you are retired, regardless of your yearly earnings.

In 2005, a person under full retirement age (age 65 and 6 months) is considered retired if monthly earnings are $1,000 or less. For example, John Smith retires at age 62 on August 30, 2005. He will make $45,000 through August. He takes a part-time job beginning in September, earning $500 per month. Although his earnings for the year substantially exceed the 2005 limit ($12,000), he will receive a Social Security payment for September through December. This is because his earnings in those months are less than $1,000, the special "first year of retirement" monthly limit for people younger than full retirement age. If Mr. Smith earns more than $1,000 in any of those months (September through December), he will not receive a benefit for that month.

Beginning in 2006, only the yearly limits will apply to him because he will be beyond his first year of retirement.

Also, if you are self-employed, we consider how much work you do in your business to determine whether you are retired. One way is by looking at the amount of time that you spend working. In general, if you work more than 45 hours a month in self-employment, you are not retired; if you work less than 15 hours a month, you are retired. If you work between 15 and 45 hours a month, you will not be considered retired if it is in a job that requires a lot of skill or you are managing a sizable business.

Reporting changes in your earnings

Social Security will adjust the amount of your Social Security benefits in 2005 based on what you told them you would earn this year. If you think your earnings for 2005 will be different than what you originally told them, contact them immediately.

If other family members get benefits based on your work, your earnings after you start getting retirement benefits could reduce their benefits, too. However, if your spouse and children get benefits as family members, their earnings affect only their own benefits.

Will extra earnings increase my benefits?

Your original Social Security benefit was based on your highest years of earnings. But each year, **Social Security reviews the records for all Social Security recipients who work**. If your latest year of earnings turns out to be one of your highest years, Social Security will refigure your benefits and pay you any increase due. This is an automatic process and is usually completed by October of the following year. For example, by October 2005, you should get an increase for your 2004 earnings if those earnings raised your benefit. **The increase would be retroactive to January 2005.**

WHEN SHOULD YOU RETIRE?

YOU SHOULD FIRST CALL SOCIAL SECURITY IF YOU ARE THINKING ABOUT RETIRING AT AGE 62 TO SEE WHAT'S THE BEST MONTH TO FILE FOR YOUR BENEFITS. DON'T WAIT UNTIL YOU ARE 62. CALL 3 TO 6 MONTHS IN ADVANCE BECAUSE THERE IS AN ADVANTAGE TO CHOOSE THE MONTH THAT YOU WOULD RECEIVE MORE INCOME AND BENEFITS FOR YOU AND YOUR FAMILY.

IF YOU ARE A WORKER WHO HAS STOPPED WORKING OR YOUR YEARLY WAGES ARE UNDER THE EARNINGS LIMIT, OR YOU WANT TO START RECEIVING YOUR SOCIAL SECURITY WHEN YOU TURN 62; IT IS TOTALLY YOUR DECISION. SOME OF YOUR DECISIONS WILL BE DIFFICULT, BUT YOU SHOULD DISCUSS YOUR PLANS WITH A REPRESENTATIVE OF SOCIAL SECURITY SO THEY CAN HELP YOU MAKE THE BEST DECISION FOR YOU AND YOUR FAMILY.

SOCIAL SECURITY BENEFITS FOR WIDOW(ER)S

AS EARLY AS AGE 60, A WIDOW(ER) CAN COLLECT THEIR SOCIAL SECURITY MONTHLY INCOME. ALSO, IF YOU ARE DISABLED, YOU CAN BEGIN AT AGE 50. WHEN YOU START RECEIVING WIDOWS OR WIDOWER(S) (INCLUDING DIVORCED WIDOWS OR WIDOWER(S)) BENEFITS, YOU CAN ELECT TO CHANGE TO YOUR OWN RETIREMENT BENEFITS. BUT, YOU MUST BE QUALIFIED AND IF YOUR RATE IS HIGHER THAN THE RATE YOU ARE RECEIVING, YOU CAN BEGIN AT AGE 62. IN A LOT OF SITUATIONS, A WIDOW OR WIDOWER CAN START RECEIVING AN INCREASE AT A LESSER AMOUNT AND THEN SWITCH TO A BENEFIT THAT IS NOT REDUCED AT AGE 65.
Each survivor will usually receive 75% to 100% of the deceased worker's retirement benefits. But at no time will the total amount paid to the survivors will exceed 150% to 175% of the deceased benefits.

BUT, THE RULES DO VARY BASED ON THE CIRCUMSTANCES. SO, AGAIN, IT IS IMPORTANT TO TALK TO A REPRESENTATIVE OF SOCIAL SECURITY ABOUT WHAT MIGHT BE BEST FOR YOU.

FAMILY MEMBERS BENEFITS

WHILE YOU ARE COLLECTING YOUR SOCIAL SECURITY INCOME, SO CAN SOME MEMBERS OF YOUR FAMILY RECEIVE A MONTHLY INCOME.

YOUR WIFE OR HUSBAND AGE 62 OR OLDER

YOUR WIFE OR HUSBAND UNDER AGE 62, IF SHE OR HE IS TAKING CARE OF YOUR CHILD UNDER AGE 16 OR DISABLED. THAT SPOUSE

AND CHILDREN UNDER THE AGE OF 16 WILL SHARE A CERTAIN AMOUNT OF MONEY. ONCE THE CHILDREN ARE 16 OR OLDER, THE SPOUSE WILL NO LONGER BE ABLE TO RECEIVE BENEFITS UNTIL SHE IS AGE 62.

A DIVORCED WIFE OR HUSBAND AGE 62 OR OLDER MAY ALSO QUALIFY.

CHILDREN UP TO AGE 18

Child nearing age 18 is a full-time student or is disabled
Payments to a child will stop when the child reaches age 18 unless he or she is unmarried and either disabled or a full-time student at an elementary or secondary school.

If a child age 18 or over is receiving payments as a student, the Social Security Administration must be notified immediately if the student:

Drops out of school;
Changes schools;
Changes from full-time to part-time attendance;
Is expelled or suspended;
Is paid by his or her employer for attending school;
Marries; or
Begins working.
If a child whose payments were stopped at age 18 becomes disabled before age 22 or is unmarried and enters elementary or secondary school on a full-time basis before age 19, notify us so we can resume sending payments to the child. Also, a disabled child who recovers from a disability can have payments started again if he or she becomes disabled again within seven years

BENEFITS FOR THE WIFE OR HUSBAND

THE SPOUSE COLLECTS ONE-HALF OF THE RETIRED WORKER'S FULL BENEFIT, IF THE ELIGIBLE SPOUSE WAITS TO AGE 65 TO START COLLECTING HIS SOCIAL SECURITY INCOME. IF HE ELECTS TO COLLECT HIS MONTHLY INCOME BEFORE AGE 65, THE SPOUSE RECEIVES LESS.

RETIRED WORKER	HUSBAND OR WIFE RECEIVES
65	50%
64	46%
63	42%
62	37.5%

HOWEVER, IF THE HUSBAND OR WIFE IS TAKING CARE OF A DISABLED CHILD UNDER AGE 16, OR DISABLED AND RECEIVING SOCIAL SECURITY INCOME, THEN THE HUSBAND OR WIFE GETS FULL BENEFITS NO MATTER WHAT THE AGE.

IF BOTH WORKERS (HUSBAND AND WIFE) HAVE QUALIFIED FOR THEIR OWN RETIREMENT BENEFITS AS WELL AS QUALIFY AS A SPOUSE, YOU RECEIVE YOUR OWN BENEFIT FIRST. IF YOUR BENEFIT AS A HUSBAND OR WIFE IS LARGER THAN YOUR RETIREMENT INCOME, YOU'LL GET A COMBINATION OF BENEFITS TOTALING THE HIGHER SPOUSE BENEFIT.

HUSBAND / SPOUSE

WIFE GETS 250.00- HER OWN	**$400.00 AS A WIFE – RECEIVES HER $250.00. SOCIAL SECURITY ADD $150.00 FROM WIFE'S BENEFIT, $400 TOTAL.**

IF SHE ELECTS TO COLLECT BEFORE AGE 65, BOTH INCOMES WILL BE REDUCED.

FAMILY BENEFIT MAXIMUM

WHEN YOU HAVE CHILDREN THAT QUALIFY FOR SOCIAL SECURITY INCOME, EACH CHILD WILL RECEIVE UP TO ONE-HALF OF YOUR FULL BENEFIT. THIS BENEFIT HAS A LIMIT TO THE AMOUNT OF MONEY THAT CAN BE PAID TO A FAMILY UNIT. THEREFORE, IF THE TOTAL BENEFITS FOR YOUR SPOUSE AND CHILDREN EXCEED YOUR FAMILY LIMIT, **THE CHILDREN'S INCOME WILL BE REDUCED PROPORTIONATELY. THE WAGE EARNER'S INCOME WILL NOT BE CHANGED.**

DIVORCED SPOUSE BENEFITS

IF A MARRIAGE LASTS LONGER THAN TEN YEARS AND THEN THEY GET DIVORCED, THE SPOUSE IS ENTITLED TO SOCIAL SECURITY BENEFITS. BUT THAT PERSON MUST BE 62 OR OLDER AND DID NOT REMARRY. WHEN THE WIFE OR HUSBAND HAS BEEN DIVORCED AT LEAST TWO YEARS, HE OR SHE CAN RECEIVE AN INCOME, ALTHOUGH THE WORKER MAY NOT HAVE RETIRED. HOWEVER, THE WORKER MUST BE 62 OR OLDER AND HAVE ENOUGH CREDITS TO QUALIFY. THE AMOUNT OF INCOME THE EX-WIFE RECEIVES HAS NO EFFECT ON THE AMOUNT OF INCOME A CURRENT SPOUSE RECEIVES.

DOCUMENTS NEEDED WHEN APPLYING FOR BENEFITS

- YOUR SOCIAL SECURITY NUMBER
- YOUR BIRTH CERTIFICATE
- YOUR W-2 FORMS OR SELF-EMPLOYMENT TAX RETURN FOR THE LAST 2 YEAR
- YOUR MILITARY DISCHARGE PAPERS, IF YOU WERE IN THE MILITARY
- YOUR WIFE'S BIRTH CERTIFICATE AND SOCIAL SECURITY NUMBER, IF YOU OR SHE IS APPLYING FOR BENEFITS
- A MARRIAGE CERTIFICATE IF APPLYING FOR BENEFITS BASED ON THE SPOUSE'S EARNINGS
- PROOF OF U.S. CITIZENSHIP OR LAWFUL ALIEN STATUS (if not born in the U.S.)
- A DEATH CERTIFICATE IF YOU AND YOUR FAMILY WANT TO APPLY FOR SURVIVOR'S BENEFITS

YOUR CHILDREN'S SOCIAL SECURITY NUMBER AND BIRTH CERTIFICATES, IF APPLICABLE

PROOF OF U.S. CITIZENSHIP OR LAWFUL ALIEN STATUS, IF YOU, YOUR SPOUSE OR CHILD ARE APPLYING FOR ELIGIBILITY AND WERE NOT BORN IN THE USA

YOUR CHECKING AND/OR SAVINGS ACCOUNT NUMBER AND BANK ROUTING NUMBER TO HAVE INCOME DEPOSITED INTO YOUR ACCOUNT DIRECTLY.

WHO IS RESPONSIBLE FOR REVIEW?

ALL WORKERS SHOULD CHECK THEIR SOCIAL SECURITY RECORDS AT LEAST ONCE A YEAR. IT IS UP TO YOU. IT IS YOUR RESPONSIBILITY IF YOU DON'T, IT COULD COST YOU THOUSANDS OF DOLLARS WHEN YOU RETIRE. MOST WORKERS WILL RECEIVE SOCIAL SECURITY WHEN THEY RETIRE. SOCIAL SECURITY IS A VERY IMPORTANT PART OF MILLIONS OF WORKERS'INCOME DURING THEIR RETIREMENT YEARS.

YOU CAN RECEIVE AN ESTIMATE OF WHAT YOUR SOCIAL SECURITY INCOME WILL BE AS OFTEN AS YOU LIKE BY CALLING 1-800-772-1213 AND REQUESTING FORM- 7004. FILL IT OUT AND RETURN IT TO THE SOCIAL SECURITY ADMINISTRATION. IT TAKES FOUR TO SIX WEEKS TO GET THE ESTIMATE OF EARNINGS STATEMENT. YOU WILL ALSO RECEIVE AN ESTIMATE OF YOUR DISABILITY INCOME, SHOULD YOU BECOME TOTALLY DISABLED BEFORE YOU ARE OLD ENOUGH TO RETIRE. IT GIVES YOU THE INCOME FOR YOUR WIFE, IF YOU ARE MARRIED, AND OTHER QUALIFIED MEMBERS DUE TO YOUR RETIREMENT, DEATH, OR DISABILITY. YOU CAN REQUEST IT VIA THE INTERNET AT WWW.SSA.GOV AND THE INFORMATION WILL TAKE ABOUT FOUR WEEKS TO RECEIVE. ALWAYS MATCH YOUR ANNUAL WAGES OF YOUR EMPLOYMENT TO THE WAGES ON THE BENEFIT STATEMENT. THEY SHOULD MATCH. IF THEY DON'T, CONTACT THE NEAREST SOCIAL SECURITY OFFICE. IF YOUR INCOME REPORTED TO SOCIAL SECURITY IS LESS THAN YOU EARNED,

WHEN YOU BECOME ELIGIBLE FOR BENEFITS, THEY WILL BE LESS, BECAUSE BENEFITS ARE BASED ON EARNINGS. SOCIAL SECURITY GIVES YOU THREE YEARS, THREE MONTHS AND FIFTEEN DAYS TO CORRECT THE INACCURATE MATERIAL. IF YOU DON'T CORRECT IT, IT BECOMES ACCURATE AND PERMANENT. SO TAKE TIME TODAY TO CHECK YOUR RECORDS AGAINST YOUR SOCIAL SECURITY RECORDS. MAKE SURE THEY ARE CORRECT.

The Cold Facts about Social Security

Excess Social Security contributions, coming from equal amounts paid by employee and employer taxes, currently provide more money than is currently spent on Social Security benefits. Excess Social Security contributions will accumulate until about 2012 at which time expenditures will exceed contributions. The Social Security Trust Fund will accumulate about 2.6 Trillion Dollars worth of excess Social Security contributions. Increasing numbers of retirees will cause higher Social Security expenditures after 2012 that will exhaust the 2.9 Trillion Dollars in the Trust Fund around 2029.

The excess Social Security contributions said to be in the Trust Fund have already been placed in the General Fund and have been spent.

The more than 100 Billion Dollars in annual excess Social Security contributions have been used to reduce the Federal deficit or produce a "surplus." (The deficit or surplus is basically the amount of money deposited in the general fund minus the amount of money spent.)

The Federal government places nonnegotiable government bonds in the Trust Fund. Government bonds are essentially IOUs that the

Federal Government will attempt to honor through its taxing power, borrowing ability, and money printing authority.

Facts about Social Security

- Approximately 52 million Americans receive monthly retirement, survivor benefits or disability benefits under the Social Security program. In 1940, only 222,488 were receiving monthly benefits.

- A Republican by the name of John Sweeney Jr. was the first person to be awarded a Social Security number. He died at the age of 61 and never received a Social Security check. Fortunately, his widow was able to receive survivorship benefits.

- The first three digits of your Social Security numbers are assigned geographically, starting in the Northeast and moving across the country.

- Age sixty-five became the magic number for retirement for many Americans. Things are a lot different now. In the late 19th century, German Chancellor Otto Von Bismarck set the age for retirement at 65 for the state's soldiers. He craftily calculated that the state would never have to pay pensions to the Prussian Empire's huge military because the life expectancy at that time was in the mid-30s. Other governments including the United States followed this policy. In essence, the vast majority of Americans were never expected to live long enough to enjoy retirement benefits such as Social Security and pensions.

THE SOCIAL SECURITY TRUST FUND

How Money Goes to and from the Trust Fund. An employer pays taxes to the Treasury by periodically sending a check (or electronic transfer) that includes both income taxes and payroll taxes. The check is sent without distinguishing between payroll and income taxes. There is also no indica-tion of which individual employees' taxes are being paid or how much those employees earned.

On a regular basis, the Treasury estimates how much of its aggregate tax collections are due to Social Security taxes and credits the trust funds with that amount. No money actually changes hands: This is strictly an accounting transaction. These estimates are corrected after income tax returns show how much in payroll taxes was actu-ally paid in a specific year. In addition, the Trea-sury credits the trust funds with interest paid on its balances and with the amount of income taxes that higher-income workers pay on their Social Security benefits.

To pay benefits, the Social Security Administra-tion directs the Treasury to pay monthly benefits, and that amount is subtracted from the total in the trust funds. Any remainder is converted into spe-cial-issue Treasury bonds, which are really nothing more than IOUs.

After the trust fund has been credited with the IOUs, Social Security's extra tax revenue is then spent by the Treasury just as any other taxes are spent. If the federal budget is running a surplus, that amount could be used to repay federal debt owned by the public. Otherwise, it is spent on any other type of federal program, ranging from air-craft carriers to education research.

Special Securities Issued to the Trust Funds. The Social Security trust fund consists only of spe-cial-issue Treasury bonds. These bonds are special in that they can only be issued to and redeemed by the Social Security trust funds. They cannot be sold in the open market.

The Social Security trust fund bonds pay the same interest rate as regular Treasury bonds issued on the same day with the same maturity date. When the bonds mature, they are rolled over into new bonds that include both the original issue amount and any interest due. The new bonds also pay the same interest rate as comparable Treasury bonds.

Because these are special-issue bonds that are payable only to the Social Security Administration, the SSA cannot sell them to a third party to raise money to pay benefits. This reinforces the fact that these bonds are really nothing more than IOUs from one branch of government to another. They are not a real financial asset.

Until relatively recently, these bonds existed only as entries in a record book. Now, however, when a new bond is issued, it is printed on a laser printer located at the Bureau of the Public Debt office in Parkersburg, West Virginia. The bond is then carried across the room and put in a fireproof filing cabinet. That filing cabinet is the Social Security trust funds.

How Trust Fund IOUs Would Be Repaid. At some point in the future, probably starting about 2018, Social Security will start to pay more in benefits than it receives from payroll taxes. At that point, it will begin to cash in the bonds in the trust fund. According to the most recent trustees report, Social Security will cash about $5.7 trillion (in 2004 dollars) in special-issue bonds, cashing the first special-issue bond in 2018 and the last bond in 2042.

According to the OMB, there are only four ways that Congress can repay these bonds: raise other taxes, authorize the Treasury to borrow the needed funds from the public, reduce spending on other federal programs and use the savings to redeem Social Security's bonds, or simply reduce Social Security benefits. None of these options is easy or attractive.

Social Security Benefits and additional information

Social Security benefits are based on earnings averaged over most of a worker's lifetime. Most people know about Social Security's retirement benefits, but the program also pays benefits to disabled workers. In addition, families can receive benefits under certain circumstances. The formula that the agency uses to determine the benefits for a worker or the worker's family is complex. Compli-cating matters even more are a number of special circumstances that can alter those benefits.

What follows is a general analysis that is suit-able for policymakers. For individual cases, it would be wiser to seek guidance from either the SSA or other sources.

When Can a Worker Retire? There are two answers to this question. A worker can begin to collect Social Security retirement benefits as early as age 62 but cannot begin to receive full retirement benefits until between ages 65 and 67. The exact age for full benefits depends on the worker's birth date. **Workers born before 1938 can receive full retirement benefits starting at age 65**. The full retirement age increases by two months per year for workers born between 1938 and 1942 and is 66 for those born between 1943 and 1954. The full benefits age then increases by two months per year for those born between 1955 and 1959 and is 67 for anyone born in 1960 or after.

If a worker decides to receive benefits starting at age 62, the monthly benefits will be reduced by a set percentage for each month that the worker receives benefits before full retirement age. As the full retirement age increases from 65 to 67, workers who retire early will receive an even greater reduction in their monthly benefits. Currently, a worker who retires at 62 will receive 80 percent of the full retirement age amount. This will eventually drop to 70 percent for those with a full retire-ment age of 67.

Even after a worker reaches full retirement age, the worker's benefits continue to increase every month until that worker applies to receive retirement bene-fits. This benefit growth continues until age 70.

Qualifying for Retirement Benefits. Not everyone is qualified to receive Social Security benefits. To qualify, a worker must earn at least 40 quarterly credits. A worker earns one credit by earning at least $900 in a three-month period and paying Social Security taxes on that amount. Workers who earn $3,600 during a year earn four credits.

The amount of income required to earn a credit is adjusted annually, but this does not affect credits that have already been earned. Once a worker has earned the required 40 credits, he or she is perma-nently qualified. However, the level of benefits depends on worker's income history.

The Disability Insurance program has similar requirements, but the number of credits necessary to qualify varies depending on the age at which the worker becomes disabled. In general, the younger the person who is disabled, the lower the number of credits required to qualify for benefits.

The General Formula for Retirement Benefits. **Retirement benefits are based on a worker's highest 35 years of earnings.** Those wages are indexed so that all 35 have the purchasing power of the year when the person retires. The worker's Average Indexed Monthly Earnings (AIME), or average monthly salary, is calculated using the 35 years of indexed earnings. The AIME is then run through a formula that calculates benefits equal to 90 percent of AIME up to a certain level of monthly income, 32 percent of AIME from that level to a higher point, and 15 percent of the remaining AIME.

The dividing points between the three payment levels are known as "bend points." The three payment levels are added up to find the worker's monthly Social Security retirement benefit. Both steps are detailed below.

Determining Average Indexed Monthly Earnings (AIME). Retirement benefits are calculated using a worker's highest 35 years earnings. They do not have to be consecutive years. If the worker has an earnings record for more than 35 years, only the 35 years of highest earnings are included in the calculation; years with lower earnings are dropped. Only those earnings on which the worker paid Social Security taxes are counted. Thus, if the worker earned $100,000 in 2004, that year's income would be counted as $87,900 for determining benefits, since the worker only paid Social Security taxes on the lower amount($90,000 in 2005).

Except for the two years immediately prior to retirement, earnings for previous years are indexed so that all years are measured by the same ability to purchase goods and services; the two years immediately before retirement are not indexed. This indexing increases past earnings to account for both inflation and increases in average wage growth. For instance, it would take $12.05 in 2004 dollars to equal $1.00 earned in 1951, and $1.61 to equal $1.00 earned in 1990.

Once the 35 years of highest earnings are determined, they are totaled and divided by 420 (the number of months in 35 years). The result is the Average Indexed Monthly Earnings, which is used to calculate Social Security benefits.

Some jobs—usually for state or local governments—are not covered by Social Security, and earnings for those jobs are not included in calculated AIME. For the purposes of determining Social Security benefits, those years count the same as if the worker was not employed.

If a worker did not work for a full 35 years— perhaps due to raising a family or because of ill-ness—the missing years are counted as zeros. For example, if a worker is either employed for only 25 years or worked in a job covered by Social Security for only 25 years, the indexed earnings from those 25 years are added together and divided by 420. This lowers that worker's AIME to account for the missing years. Social Security benefits earned by state and local government workers are adjusted in other ways, as explained in the sections on the Government Pension Offset and the Windfall Elimination Provision

Railroad Retirement

If a person worked in the railroad industry for less than 10 years and less than 5 years after 1995, the Social Security Administration will include his railroad earnings when they count his credits and calculate his Social Security benefits. On the *Social Security Statement,* you will be able to see railroad earnings from 1973 to the present in the yearly earnings amounts. Social Security Administration does not display railroad earnings before 1973 on the *Statement,* but they do include them in the benefit estimate calculation.

If you have 10 or more years of railroad work or at least 5 years after 1995, we will not use those earnings in determining your Social Security credits or benefit amount.

SECTION III 401(K) PLAN

THE PLAN

A QUALIFIED PROFIT-SHARING OR STOCK BONUS PLAN WHEREBY PLAN PARTICIPANTS HAVE AN OPTION TO PUT MONEY IN THE PLAN IS A 401K. THE MAXIMUM AMOUNT CURRENTLY $ 11,000 PER YEAR WHICH IS INDEXED FOR INFLATION, THEREBY ALLOWING $11,000 IN 2002 TO BE CONTRIBUTED OR RECEIVED. THE SAME AMOUNT AS TAXABLE CASH COMPENSATION. MONEY CONTRIBUTED TO THE PLAN WITH THIS OPTION IS NOT TAXABLE TO PLAN PARTICIPANTS UNTIL WITHDRAWN. EXCEPT FOR THE FEATURES RELATED TO THE CASH OR DEFERRED OPTION, THE 401 (K) PLAN IS VERY SIMILAR TO A REGULAR QUALIFIED PROFIT-SHARING PLAN.

WHEN TO USE - CHARACTERISTICS

IF AN EMPLOYER WOULD LIKE TO PROVIDE A QUALIFIED RETIREMENT PLAN FOR EMPLOYEES, BUT CAN ONLY AFFORD MINIMAL EXTRA EXPENSE OVER AND ABOVE HIS PRESENT SALARIES AND BENEFIT COSTS.

THE EMPLOYEE GROUP SHOULD HAVE THE FOLLOWING:

0 FLEXIBILITY IN CHOICE OF AMOUNT TO SAVE

0 ABILITY TO CHOOSE METHOD OF PAYMENT (PAYCHECK OR TAX DEFERRED)

0 INVESTMENT RISK OPPORTUNITIES

IF THE EMPLOYEE WANTS AN APPEALING SAVINGS PLAN SUPPLEMENT TO ITS CURRENT DEFERRED BENEFIT, OR OTHER QUALIFIED PLAN FOR RETIREMENT. THIS TYPE OF SUPPLEMENTAL INCOME MAY MAKE THE FRINGE BENEFIT PROGRAM MORE APPEALING TO BOTH OLDER AND YOUNGER EMPLOYEES, BECAUSE IT WOULD OFFER SECURITY OR RETIREMENT INCOME AND THE ABILITY TO INCREASE THE EMPLOYEE SAVINGS AND INVESTMENT ON A TAX-DEFERRED BASIS.

IF THE ORGANIZATION IS A PRIVATE, TAXPAYING, TAX-EXEMPT ORGANIZATION BEGINNING AFTER THE YEAR 1996.

0 GOVERNMENTAL EMPLOYER PROBABLY WOULD NOT ADOPT SECTION 401 (K) PLANS.

THE DISADVANTAGES

THE PLAN MAY NOT BE ABLE TO RECEIVE CONTRIBUTIONS LARGE ENOUGH

AND GROW FAST ENOUGH TO ALLOW OLDER WORKERS THAT ENTERED AT OLDER AGES IN LIFE, TO RETIRE WITH A SUBSTANTIAL MONTHLY INCOME.

THE EMPLOYER MAY OR MAY NOT CONTRIBUTE TO THE PLAN. IF HE DOES,

IT WOULD HELP THE EMPLOYEES TO HAVE MORE IN THEIR ACCOUNT.

A LARGE NUMBER OF WORKERS MAY NOT BE ABLE TO INVEST $ 11,000 (IN

YEAR 2002, $ 12,000 IN 2003, AND $ 13,000 IN 2004). YOU WOULD NEED TO BE EARNING ABOUT $65,000 A YEAR TO TAKE ADVANTAGE OF THIS. THE YOUNGER THE EMPLOYEE, THE BETTER THE PLAN, THE OLDER THE EMPLOYEE, THE LOWER THE RETIREMENT ACCOUNT ACCUMULATION WILL BE AT AGE 65.

MAXIMUM CONTRIBUTION CANNOT EXCEED 15%. CONTRIBUTION MAXIMUM

BREAKDOWN IS 7 ½% BY EMPLOYER AND 7 ½% BY EMPLOYEE.

401(K)'S CAN BE COSTLY AND COMPLEX TO ADMINISTER, DUE TO THE

ACTUAL DEFERRED PERCENTAGE (ADP).

THE PLAN CAN INCLUDE AN AGGRESSIVE PORTFOLIO OF STOCKS.

ANY STOCK PLAN CAN DO POORLY ON INVESTMENT RETURN. IF THE

INVESTMENT RETURN IS LESS THAN ANTICIPATED, FUTURE RETIREMENT INCOME FOR EMPLOYEES WILL BE FAR LESS THAN EXPECTED.

THE ADVANTAGES

CONTRIBUTIONS ARE TAX DEFERRED POSSIBLY TO A TIME WHEN THE

WORKER IS IN A LOWER TAX BRACKET. INCOME IS DEFERRED TO AN OLDER AGE OF THE EMPLOYEE.

EMPLOYEES DECIDE THE AMOUNT THEY WANT TO INVEST UP THE MAXIMUM

ALLOWABLE CONTRIBUTION.

EMPLOYEES CAN FUND THE ENTIRE PLAN THROUGH SALARY DEDUCTIONS.

THEREFORE, THE EMPLOYER'S ONLY EXPENSE WOULD BE THE INSTALLATION AND ADMINISTRATION OF THE PLAN.

THE PLAN COULD CAUSE BOTH STATE AND LOCAL TAXES TO BE LOWER.

THE DISTRIBUTIONS TO THE EMPLOYEES MAY BE ELIGIBLE FOR FIVE YEAR AVERAGING, BEGINNING IN TAX YEARS BEFORE JANUARY 1, 2000 OR 10 YEAR AVERAGING TAX COMPUTATION (ONLY AVAILABLE TO CERTAIN EMPLOYEES BORN BEFORE 1936) OR LUMP SUM DISTRIBUTION THAT MAY REDUCE TAX RATES ON THE INCOME.

A DESIGN FEATURE

IN-SERVICE WITHDRAWALS BY EMPLOYERS FOR CERTAIN HARDSHIPS ARE ALLOWED.

401(K) WITH EMPLOYER CONTRIBUTIONS

MANY OF THE PLANS PROVIDE DIRECT EMPLOYER CONTRIBUTIONS IN ORDER TO CREATE EMPLOYEE PARTICIPATION AND TO SHOW THE EMPLOYEES THE VALUE OF THE PLAN.

CHARACTERISTICS OF EMPLOYER CONTRIBUTION PLANS

FORMULA MATCHING CONTRIBUTIONS: THE EMPLOYER MATCHES THE WORKER'S SALARY REDUCTIONS, BY SOME TYPE OF FORMULA, SUCH AS DOLLAR FOR DOLLAR OR OTHER FORMULA. ANOTHER FORMULA MIGHT BE, THE EMPLOYER CONTRIBUTE 50% OF WHAT THE EMPLOYEE CONTRIBUTES.

DISCRETIONARY MATCHING CONTRIBUTIONS: THE EMPLOYER MAY OR MAY NOT MAKE CONTRIBUTIONS TO THE PLAN EACH YEAR. THE EMPLOYER CONTRIBUTION IS ALLOCATED TO EACH PARTICIPANT'S PLAN IN PROPORTION TO THE DOLLAR AMOUNT

ELECTED BY THE EMPLOYEE AS A SALARY REDUCTION DURING THAT YEAR. EXAMPLE ... THE EMPLOYER AT THE END OF THE YEAR MAY DECIDE TO DO 50% MATCHING CONTRIBUTION. SO, IF THE EMPLOYEE PUTS $5,000 IN, THE EMPLOYER WOULD PUT IN $2,500.

PURE DISCRETIONAR YOR "PROFIT-SHARING " CONTRIBUTIONS: THE EMPLOYER MAKES A CONTRIBUTION OF EACH WORKER'S PLAN, BASED ON EACH WORKER'S SALARY, REGARDLESS OF THE AMOUNT OF SALARY REDUCTION CHOSEN BY THE WORKER.

FORMULA CONTRIBUTIONS: FORMULA CONTRIBUTIONS ARE BASED ON A PERCENTAGE, GOVERNED BY THE EMPLOYEE'S SALARY. EXAMPLE ... 5% IS CONTRIBUTED IF THE EMPLOYEE MAKES LESS THAN $40,000 A YEAR. IF THE EMPLOYEE MAKES $35,000 A YEAR, THE EMPLOYER CONTRIBUTION WOULD BE **$1,750.**

DIRECT (NONELECTIVE) EMPLOYER CONTRIBUTIONS RULES IN 401 (K) PLANS ARE REGULARLY INTENDED TO HELP THE PLAN MEET THE ADP TEST.

401 (K) PLANS MAY INCLUDE NONELECTIVE COMPANY CONTRIBUTIONS THAT ARE NOT INTENDED TO BE COUNTED IN THE ADP TEST. ADVANTAGE:... THE EMPLOYER CONTRIBUTION NEED NOT BE 100% VESTED. GRADED VESTING UNDER THE 3 TO 7 YEAR PROVISION IS USUALLY USED. IT REDUCES EMPLOYER COST FOR THE 401 (K) BECAUSE EMPLOYEES WHO LEAVE EMPLOYMENT BEFORE BEING FULLY VESTED FORFEIT THE NONVESTED PART OF THEIR ACCOUNT BALANCES. THESE FORFEITURES CAN BE USED TO REDUCE FUTURE EMPLOYER CONTRIBUTIONS OR REDISTRIBUTING THE MONEY TO REMAINING EMPLOYEES IN THE PLAN. (FORFEITURES CAN'T BE REPAID TO THE EMPLOYEE IN CASH IN ANY QUALIFIED PLAN.

ANOTHER DESIGN FEATURE

<u>REDUCTION OF SALARY (SALARY REDUCTION)</u>

ALMOST ALL 401 (K) PLANS ARE FUNDED ENTIRELY OR PARTLY FUNDED BY SALARY REDUCTIONS OPTED BY THE WORKERS. ANOTHER OPTION IS FOR THE COMPANY TO PROVIDE ALL WORKERS WITH A YEARLY BONUS. THAN WORKERS CAN EITHER RECEIVE IT IN CASH OR CONTRIBUTE IT TO THE PLAN. IN OTHER WORDS, BOTH OPTIONS ARE THE SAME, BUT THE SALARY REDUCTION APPROACH IS MORE APPEALING, SINCE IT USES EXISTING PAYROLL SCALES AS THE STARTING POINT.

THE EMPLOYEES MUST ELECT SALARY REDUCTION BEFORE IT IS EARNED. IF THE SALARY REDUCTIONS ELECTED AFTER COMPENSATION IS EARNED, IT IS INEFFECTIVE, AS A RESULT OF THE TAX DOCTRINE OF "CONSTRUCTIVE RECEIPT".

THE PRACTICE USUALLY IS TO PROVIDE PLAN PARTICIPATES WITH A SALARY REDUCTION ELECTION FORM THAT THE EMPLOYEE MUST COMPLETE BEFORE THE END OF EACH CALENDAR YEAR. THIS ELECTION SPECIFIES HOW MUCH MONEY WILL BE CONTRIBUTED TO THE 401 (K) FROM EACH PAY CHECK RECEIVED FOR THE COMING YEAR. THE EMPLOYEE CAN USUALLY REDUCE OR ENTIRELY WITHDRAW THE ELECTION FOR PAYMENT EARNED, IF SITUATIONS DICTATE. THE 401 (K) MUST RESTRICT EACH PARTICIPANT'S SALARY REDUCTION TO NO MORE THAN THE ANNUAL LIMIT (INDEX AMOUNT FOR 1997 - $9,500).

THE WORKER IS ALWAYS 100% VESTED IN ANY SALARY REDUCTION CONTRIBUTED TO THE 401 (K) AND ANY 401 (K) PLAN EARNINGS ON THOSE SALARY REDUCTIONS. IF A WORKER LEAVES EMPLOYMENT AFTER A SHORT PERIOD, HIS PLAN ACCOUNT, BASED ON SALARY REDUCTIONS, CANNOT BE LOST. IT IS USUALLY DISTRIBUTED IN A LUMP SUM AT THE POINT OF PARTICIPANT'S TERMINATION.

THE SALARY REDUCTIONS, AS WELL AS ANY OTHER PLAN CONTRIBUTION, IF THE EMPLOYEE HAS THE OPTION TO RECEIVE THE AMOUNT IN CASH, KNOWN AS ELECTIVE DEFERRALS, ARE SUBJECT TO A YEARLY LIMIT. THE EMPLOYEE MUST TOTAL TOGETHER ALL ELECTIVE DEFERRALS AND NOT EXCEED HIS LIMIT. ANY DEFERRALS OVER THE LIMIT THAT WERE ELECTIVE IS TAXABLE INCOME TO THE WORKER.

SECTION 401(K) PLAN DISTRIBUTIONS

MOST 401 (K) PLANS ALLOW DISTRIBUTION IN A LUMP SUM AT TERMINATION OF EMPLOYMENT. ALSO, DISTRIBUTIONS ARE SUBJECT TO THE QUALIFIED PLAN DISTRIBUTION RULES. 401(K) PLANS ALLOW PARTICIPANTS TO MAKE WITHDRAWALS (IN-SERVICE WITHDRAWALS BEFORE TERMINATION OF EMPLOYMENT). BUT, THERE ARE A NUMBER OF RESTRICTIONS THAT MAKE IT UNATTRACTIVE TO DO SO.

A. THERE'S A SPECIAL RULE THAT 401(K) CANNOT BE DISTRIBUTED PRIOR

TO:

DEATH
RETIREMENT
DISABILITY
TERMINATION WITH EMPLOYER
AGE 591/2
THE PLAN TERMINATED BY THE EMPLOYER
HARDSHIP

THESE ARE SPECIFIED CIRCUMSTANCES.

B. THERE IS A 10% EARLY PENALTY FOR WITHDRAWALS ON THE AMOUNT

THAT'S ALSO SUBJECT TO REGULAR INCOME TAX EXCEPT FOR DISTRIBUTIONS...

AFTER AGE 59 1/2
ON THE EMPLOYEE'S DEATH
UPON THE EMPLOYEE'S DISABILITY

PART OF A JOINT OR LIFE ANNUITY PAYMENT FOLLOWING SEPARATION FROM SERVICE

PAID AFTER SEPARATION FROM SERVICE AFTER ATTAINING AGE 55 OR THAT DO NOT EXCEED THE AMOUNT OF MEDICAL EXPENSES DEDUCTIBLE AS AN ITEMIZED DEDUCTION OF THE YEAR.

FROM THE ABOVE LIST OF HARDSHIPS, IT IS PLAIN TO SEE THAT MANY HARDSHIP DISTRIBUTIONS FROM YOUR 401 (K) PLAN WILL BE SUBJECT TO THE 10% PENALTY TAX EVEN THOUGH THEY ARE PERMITTED.

MANY 401 (K) PLANS HAVE PROVISIONS FOR PLAN LOANS TO PARTICIPANTS. THE LOAN PROVISIONS TO PARTICIPANTS IS TREMENDOUSLY VALUABLE TO EMPLOYEES BECAUSE IT ALLOWS THE PARTICIPANT ACCESS TO THEIR MONEY WITHOUT THE HARDSHIP RESTRICTION OR THE 10% EARLY WITHDRAWAL TAX PENALTY.

Should You Borrow From Your 401(K)

(1) Be careful

(2) Good for starting a business, house, or other real-estate.

(3) Good if the effective interest rate (loan rate plus any loss of interest in your account) is lower than you can get somewhere else.

(4) If you are paying a higher interest rate than what your plan is currently paying, your account will build up quicker as you pay back the loan.

(5) Plan on staying with your company for a while. If you leave the company before repaying loan, you may have to pay back the loan immediately. If you don't you'll owe income taxes on the unpaid balance of the loan. Plus, you will have to pay a 10% penalty.

Should You Re-allocate Your Assets During Retirement?

You should be more conservative with your investments during your retirement because you have less time to recover from a financial loss. You also need to place some of your money into investments that will generate some growth to off set inflation. This will help to prevent the value of your nest egg from eroding near the end of your life. So you should still own some stock, but it should make up a small portion of your total portfolio. The rule of thumb is that the percentage of stocks in your portfolio should range from 100 minus your age, for conservative investors, to 120 minus your age, for more aggressive investors. The stocks should be of BlueChip quality and the rest should be top quality bonds.

Summary Plan Description Distribution Requirements

Section 104(b) (11) of Employee Retirement Income Security Act (ERISA) requires the plan administrator to distribute a Summary Plan Description (SPD) to each plan participant and to each beneficiary receiving benefits under the plan within a fixed period of time. For existing plans, a new participant must receive a copy of the SPD within 90 days after becoming a participant. If the participant dies, his or her beneficiary must receive a copy of the SPD within 90 days after first receiving benefits.

For newly created plans, an SPD must be distributed to participants and beneficiaries within 120 days after the plan is first instituted.

401(K) Plans During Times of Trouble

Creditors- The federal laws prohibit what is called 64 alienation of benefits." This rule states that creditors can't seize your 401 (k). The law is very important, and it has protected millions of Americans from allowing a bad situation to become worse.

Divorce- Your current or ex-spouse or your kids (dependents) could get your 40 1 (k) money, but they would have to take their claim to the judge before that can happen. After presenting their case, they would ask for what is called a Qualified Domestic Relations Order (QDRO). A QDRO is a decree, a judgement, or order from the court that says you must give or set aside a portion of your money for a particular purpose. This purpose may be for alimony, child support, settlement of property disputes, or other reasons the court finds acceptable.

Limited Liability for Plan Sponsors

Employers could obtain some protection against law suits from employees for 401(K) investments that performed poorly if they follow certain guidelines. To obtain this limited liability, an employer's 401(k) plan must offer at least three investment alternatives,, not including the employer's stock in the employer's company, with different levels of risk and possible return. A Guaranteed Investment Contract (GIC) may or may not qualify as one of the three choices, depending on the circumstances.

Allow employees to make transfers between their choices at least once every four months.

Provide information regarding the objectives or each investment alternatives, such as prospectus, and information about commission.

Spousal Rights

Your spouse has a certain rights to your 40 1 (K) plan that you cannot give up without his or her consent. Your plan may require that all distributions be paid to you in annuity form, unless you waive your right to that form and your spouse consents in writing to the waiver. By law, your plan must have a spousal death benefit that you can not waive unless your spouse gives a written consent. The written consent must be notarized or witnessed by a plan administration representative.

Sections IV THE ROTH IRA

A Roth IRA is a retirement savings account with specific tax benefits. Don't be fooled by the fact that the Roth IRA is designated as a retirement account because you can actually get some of your money out before you hit retirement age. For this reason, it can be a good investment for Teenvestors who are as much as 50 years away from the retirement age of 65.

Roth IRAs can be established at a bank or through a brokerage account. You must designate that the account is Roth IRA when establishing it. Once a Roth IRA account has been opened, you can buy assets such as stocks, bonds, mutual funds, CDs, and other investments for the account.

An investment (like in a Roth IRA) is considered tax-exempt -- that is, you don't pay taxes on the earnings when you pull the money out of the account. On the other hand, an investment (like in a Traditional IRA) is considered tax-deferred because you pay taxes on the money only when you pull the money out. Some of the specific features of a Roth IRA are described in the following sections.

Contribution Amounts

You can currently contribute no more than $3,000 to a Roth IRA. The box below gives you the contribution maximums for future taxable years for the Roth IRA. The actual amount you can contribute (as opposed to a general contribution limit of $3,000) will depend on your earned income. Because the contributions are made with after-tax dollars, there are no immediate tax benefits However, in the long run, the earnings in the account are not taxable. IRS Publication 590 is a great guide for all the rules applicable to investing in IRAs.

ROTH IRA CONTIBUTION LIMITS

Tax Year	Maximum Annual Contribution
2003	$3,000
2004	$3,000
2005	$4,000
2006	$4,000
2007	$5,000
2008	$5,000
2009	Indexed (i.e. adjusted by inflation)

How Long Earnings Can Accumulate

Your earnings can accumulate in the account until you are 59½ at which time you can withdraw the money (both your contributions and the earnings in the portfolio) without paying any taxes on it if the account has been open for 5 years. You don't have to withdraw your money at age 59 ½ — in fact, you can keep contributing to the account until age 70 ½, and you can keep the money in the account after that age in order to earn more on your investments if you'd like.

Early Withdrawal

You can withdraw your contributions (as opposed to the earnings you've made in the account) before you are 59½ years old without a 10% tax penalty as long as you have had the account opened for five years. You will, however, owe taxes on any earnings (as opposed to contributions) you withdraw before age 59 ½. Penalty-free withdrawals of earnings are allowed after the account has been open for five years in a number of limited instances including purchase of a first home, if you are disabled or payment is made to a beneficiary or to your estate after your death. An additional 10 percent penalty is imposed on withdrawals prior to the expiration of the five year period except in a number of limited instances including purchase of a first home, paying for major medical or higher educational expenses or you are disabled.

Anyone who works and thus receives earned income, or more specifically, taxable compensation (defined to include wages, salaries, tips, and amounts received for providing personal services), during the year can establish a Roth IRA.

The issue of what qualifies as earned income, for purposes of the Roth IRA, has generated a great deal of discussion in investment and tax circles. Everyone agrees that if a Teenvestor receives a W-2 form from a business (such as fast food restaurants, copy center, the local mall, etc.), this qualifies as proof of earned income for purposes of establishing a Roth IRA. But what about those situations where a Teenvestor does work around the neighborhood such as lawn mowing, or gets paid by his parents for work done in the home? These "jobs" do not generate a

W-2. Some experts say that even in these situations, the Teenvestor has received earned income and is eligible to establish an IRA as long as the employee and the employer (parents, relatives, friends, neighbors, etc.) keep a record of the type of work performed, the number or hours worked, and the wages received.

We suggest that you consult your parents and a tax professional on the matter if you think you have earned income that can't be substantiated by a W-2. The law is just not clear-cut in this area

While a Teenvestor can have more than one type of IRA in addition to the Roth IRA, such as a traditional IRA, his combined contributions to a Roth and traditional IRA can't exceed the lesser of his total yearly wages or $3,000 (see maximum limits for each year). This means that if your taxable compensation is less than $3,000, you may only contribute as much as you earn. If you earn more than $3,000 per year, the maximum amount you can contribute each year is $3,000.

Teenvestors can't contribute to their IRA in years in which they have no earned income. On the other hand, once the IRA is established, it is not necessary to contribute to it for every year in which income is earned. Contributing more than the amount allowable for the year to "make-up" for years in which little or no contribution was made is not permitted.

Eligibility

You can invest in a Roth IRA if you can show proof of earned income as we described in the previous section. A job for which you receive a W-2 form for your taxes is proof that you have earned income. If you don't have a regular job but you get money for providing services to your parents at home or you even have your own business, some financial experts say that you can invest in a Roth IRA if you keep good records of how you have earned that income. Assuming you qualify to invest in a Roth IRA, the following sections summarize some of the considerations in opening an account.

Finding An Instituition That Will Open A Roth IRA For You.
Banks and Credit Unions. When you invest in a Roth IRA, you are actually opening an account to deposit money to purchase investments. If you want very conservative investments, you probably need look no

further than your local bank or credit union for a place to open a Roth IRA to purchase Certificates of Deposits and Money Market investments. You can establish these types of IRAs with as little as $200 or less.

Mutual Fund Companies. If all you want are the mutual funds of one mutual fund company such as Vanguard in your Roth IRA, you can go directly to that company to establish a Roth IRA with them. In this case, the funds that you deposit in your Roth IRA would be used to purchase mutual fund shares of the company. You can also just as easily establish a Roth IRA with a mutual fund company that has a wide variety of funds. If you are interested in purchasing mutual funds, doing so through an IRA is a good idea because you will find that the minimum balance requirements are often much lower than for investing in regular mutual fund accounts. For example, the investment minimum for a regular Vanguard 500 Index mutual fund is $3,000 but for an IRA, it is $1,000. The table below shows investment limits for IRAs in some popular no-load mutual funds.

IRA Accounts In No-Load/Low-Balance Index Funds

Fund	Symbol	Index	Minimum Balance for Regular Account	Minimum Balance for IRA	Phone/Website
Vanguard 500 Index	VFINX	S&P 500	$3,000	$1,000	800-871-3879 www.vanguard.com

USAA S&P 500 Index
USSPX
S&P 500
$3,000
$1,000
800-382-8722

www.usaa.com

Scudder S&P 500
SCPIX
S&P 500
$2,500
$500
800-728-3337

www.scudder.com

T. Rowe Price Equity Index 500
PREIX
S&P 500
$2,500
$1,000
800-225-5132

www.troweprice.com

Schwab S&P 500 Fund
SWPIX
S&P 500
$2,500
$1,000
800-225-8570

www.schwab.com

Vanguard Total Stock Market Index
VTSMX
Wilshire 5000 Index
$3,000
$1,000
800-871-3879

www.vanguard.com

T. Rowe Price Total Market Index
POMIX
Wilshire 5000 Index
$2,500
$1,000
800-225-5132

www.troweprice.com

Vanguard SmallCap Index
NAESX
Russell 2000 Index
$3,000
$1,000
800-871-3879

www.vanguard.com

Discount Brokers. If you want to include a combination of stocks and mutual funds in an IRA, you would go to your online discount broker to see if they offer such retirement accounts and offer the varieties of

mutual funds and stocks you would want to select for them. Of course, when you choose individual securities to put into your IRA, you pay a commission on each trade. As a start, you can check our list of affordable brokers.

Roth IRA Direct Purchase Plans. If you remember from an earlier section, Direct Purchase Plans allow you to buy shares of stock directly from the company. Look into companies that offer Roth IRA Direct Investment Plans. Exxon Mobil, for example, has a Roth IRA Direct Investment Plan.

Section V

INDIVIDUAL RETIREMENT ACCOUNT (IRA)

TYPES OF IRAs **TRADITIONAL IRA.** YOU MAY MAKE A TRADITIONAL IRA ANNUAL CONTRIBUTION OF UP TO $ 3,000.00**(in 2002-2004**) OR 100% OF YOUR COMPENSATION, WHICHEVER IS LESS.

SPOUSAL IRA. IF YOU AND YOUR SPOUSE FILE A JOINT FEDERAL INCOME TAX RETURN, YOU MAY MAKE A IRA CONTRIBUTION TO A SEPARATE IRA ACCOUNT FOR YOUR SPOUSE, EVEN IF YOUR SPOUSE HAS NOT RECEIVED COMPENSATION DURING THE TAX YEAR. CONTRIBUTIONS TO YOUR SPOUSE'S IRA MUST NOT EXCEED $ 3,000.00**(in 2002-2004**) OR 100% OF YOU AND YOUR SPOUSE'S COMPENSATION, WHICHEVER IS LESS.

ROLLOVER IRA. IF YOU RETIRE OR CHANGE JOBS, YOU MAY BE ELIGIBLE FOR A DISTRIBUTION FROM YOUR EMPLOYER'S RETIREMENT PLAN. TO AVOID MANDATORY WITHHOLDING OF 20% OF YOUR DISTRIBUTION FOR FEDERAL INCOME TAX, AND TO PRESERVE THE TAX-DEFERRED STATUS OF THIS DISTRIBUTION, YOU CAN ROLLOVER DIRECTLY TO A ROLLOVER IRA. IF YOU CHOOSE TO HAVE THE DISTRIBUTION PAID DIRECTLY TO YOU, YOU WILL BE SUBJECT TO MANDATORY FEDERAL INCOME TAX WITHHOLDING AT THE RATE OF 20%. YOU MAY STILL REINVEST UP TO 100% OF THE TOTAL AMOUNT OF YOUR DISTRI13UTION WHICH IS ELIGIBLE FOR ROLLOVER IN A ROLLOVER IRA BY REPLACING THE 20% WHICH WAS WITHHELD FOR TAXES WITH OTHER ASSETS YOU OWN. THIS MUST BE DONE WITHIN **60 DAYS** OF RECEIPT OF YOUR DISTRIBUTION. THE AMOUNT INVESTED IN A ROLLOVER IRA, WHETHER AS

A DIRECT ROLLOVER OR WITHIN 60 DAYS OF RECEIPT, CAN BE EXCLUDED FROM YOUR TAXABLE INCOME FOR THE YEAR IN WHICH YOU RECEIVED THE ELIGIBLE ROLLOVER DISTRIBUTION FROM YOUR EMPLOYER'S PLAN.

IRA ELIGIBILITY. EMPLOYERS AND SELF-EMPLOYED INDIVIDUALS WHO ARE UNDER AGE 70 1/2 AND WHO HAVE COMPENSATION (OR EARNED INCOME, IN THE CASE OF A SELF-EMPLOYED INDIVIDUAL) ARE ELIGIBLE TO CONTRIBUTE TO AN IRA.

CONTRIBUTIONS GENERAL. YOU MAY MAKE ANNUAL CASH CONTRIBUTIONS TO AN IRA IN ANY AMOUNT UP TO 100% OF YOUR COMPENSATION FOR THE YEAR OR $ 3,000.00 **(in 2002 – 2004),** WHICHEVER IS LESS. YOUR EMPLOYER MAY CONTRIBUTE TO YOUR ACCOUNT, BUT THE TOTAL CONTRIBUTIONS FROM YOU AND YOUR EMPLOYER MAY NOT EXCEED THE LIMITATION. CONTRIBUTION (OTHER THAN ROLLOVER CONTRIBUTIONS) MUST BE MADE IN "CASH'AND NOT INKIND. NO PART OF YOUR CONTRIBUTION MAY BE RE-IVESTED IN LIFE INSURANCE OR BE COMMINGLED WITH OTHER PROPERTY, EXCEPT IN A COMMON TRUST FUND OR COMMON INVESTMENT FUND.

COMPENSATION. REFERS TO WAGES, SALARIES, PROFESSIONAL FEEES, OR OTHER AMOUNTS DERIVED FROM OR RECEIVED FOR PERSONAO SERVICE ACTUALLU RENDERED AND INCLUDES THE EARNED INCOME OF A SELF-EMPLOYED INDIVIDUAL, AND ANY **ALIMONY** OR SEPARATE MAINTENANCE PAYMENTS INCLUDIBLE IN YOUR GROSS INCOME. FOR SELF-EMPLOYED INDIVIDUALS, COMPENSATION MEANS EARNED INCOME.

ADJUSTED GROSS INCOME IS DETERMINED PRIOR TO ADJUSTMENTS FOR PERSONAL EXEMPTIONS AND ITEMIZED DEDUCTIONS.

TIME OF CONTRIBUTION. YOU MAY MAKE CONTRI13UTIONS TO YOUR IRA AT ANY TIME UP TO AND INCLUDING THE DUE DATE, EXCLUDING EXTENSIONS, FOR FILING YOUR TAX RETURN FOR THE YEAR (GENERAL APRIL 15TH) FOR WHICH THE CONTRIBUTION IS MADE. YOU MAY CONTINUE TO MAKE ANNUAL CONTRIBUTIONS TO YOUR IRA UP TO (BUT NOT INCLUDING) THE CALENDAR YEAR IN WHICH

YOU REACH **AGE 70 1/2.** YOU MAY CONTINUE TO MAKE ANNUAL CONTRIBUTIONS TO YOUR SPOUSE'S IRA UP TO (BUT NOT INCLUDING) THE CALENDAR YEAR IN WHICH YOUR SPOUSE REACHES **AGE 70 1/2.**

ROLLOVER IRA CONTRIBUTIONS. QUALIFYING DISTRIBUTIONS FROM EMPLOYER- SPONSORED RETIREMEMT PLANS (FOR EXAMPLE, 401 (K), PENSION, PROGIT-SHARING, AND KEAGH PLANS) MAY BE ELIGIBLE FOR ROLLOBER INTO YOUR IRA. HOWEVER, REGARDING THESE RESTRICTIONS. **STRICT LIMITATIONS APPLY TO SUCH ROLLOVERS, AND YOU SHOULD SEEK COMPETENT TAX ADVICE.**

EXCESS CONTRIBUTIONS. CONTTRBUTIONS (INCLUDING AN IMPROPER ROLLOVER) WHICH EXCEED THE ALLOWABLE MAXIMUM PER YEAR ARE CONSIDERED EXCESS CONTRIBUTIONS. A NONDEDUCTIBLE PENALTY TAX OF 6% OF THE EXCESS AMOUNT CONTRIBUTED WILL BE INCURRRED FOR EACH YEAR IN WICH THE EXCESS CONTRIBUTION REMAINS IN YOUR IRA IF YOU MAKE A CONTRIBUTION (OR YOUR EMPLOYER MAKES A

CONTRIBUTION) TO YOUR IRA, (INCLUDING A SALARY REDUCTION CONTRIBUTION, ON YOUR BEHALF) IN EXCESS OF YOUR ALLOWABLE MAXIMUM FOR ANY TAXABLE YEAR, YOU MAY CORRECT THE EXCESS CONTRIBUTION AND AVOID THE 6% PENALTY TAX FOR THAT YEAR BY WITHDRAWING THE EXCESS CONTRI13UTION AND ITS EARNINGS, IF ANY, ON OR BEFORE THE DUE DATE, INCLUDING EXTENSIONS, FOR FILING YOUR TAX RETURN FOR THAT YEAR

DEDUCTIBLE IRA CONTRIBUTIONS

IF YOU ARE MARRIED AND FILE A JOINT TAX RETURN , AND NEITHER OF YOU ARE CONSIDERED AN ACTIVE PARTICIPANT IN AN EPPLOYER- SPONSORED RETIREMENT PLAN, YOU AND YOUR SPOUSE MAY EACH MAKE A FULLY DEDUCITIBLE IRA CONTRI13UTION OF S 3,000.00 OR 100% OF YOUR COMBINED COMPENSATION WHICHEVER IS LESS.

ANNUAL CONTRIBUTIONLIMIT FOR TRADITIONAL AND ROTH IRAs

Year	**Under age 50**	**Age 50 and older**
2001	**$2,000**	**$2,000**
2002-2004	**$3,000**	**$3,500**
2005	**$4,000**	**$4,500**
2006-2007	**$4,000**	**$5000**
2008	**$5,000**	**$6,000**

New income limits for IRA deductibility

Tax year	Joint Filers	Single Filers
2001	$53,000	$33,000
2002	$54,000	$34,000
2003	$60,000	$40,000
2004	$65,000	$45,000
2005	$70,000	$50,000
2006	$75,000	$50,000
2007	$80,000	$50,000

SINGLE TAXPAYERS. IF YOU ARE NOT MARRIED AND ARE NOT AN ACTIVE PARTICIPANT IN AN EMPLOYER-SPONSORED RETIREMENT PLAN, YOU MAY MAKE A FULLY DEDUCTIBLE IRA CONTRIBUTION IN ANY AMOUNT UP TO 100% OF YOUR COMPENSATION FOR THE YEAR OR $ 3,000.00, WHICHEVER IS LESS(in 2002-2004). THE PHASE- OUT RANGES FOR DEDUCTING AN IRA CONTRIBUTION FOR SINGLE TAXPAYERS WHO ARE CONSIDERED ACTIVE PARTICIPANT ARE PROVIDED IN THE TABLE BELOW.

ACTIVE PARTICIPANT. WHETHER YOU ARE AN " **ACTIVE PARTICIPANTIV DEPENDS ON THE TYPE OF PLAN MAINTAINED BY YOUR EMPLOYER. YOU SHOULD CHECK WITH YOUR EMPLOYER FOR YOUR STATUS IN THIS REGARD.**

LIMITS ON DEDUCTIBLE CONTRIBUTIONS. IF YOU (OR YOUR SPOUSE ARE FILING A JOINT TAX RETURN) ARE NOT ELIGIBLE FOR A FULLY DEDUCTIBLE IRA CONTRIBUTION, YOU MAY BE ELIGIBLE FOR A PARTIALLY DEDUCT1BLE IRA CONTRIBUTION IF YOUR ADJUSTED GROSS INCOME DOES NOT EXCEED CERTAIN DEDUCTIBILITY LIMITS, WHICH ARE DISCUSSED BELOW. FOR "ACTIVE PARTICIPANTS" IN AN EMPLOYER-SPONSORED RETIREMENT PLAN, FULL DEDUCTION IS PHASED-OUT BETWEEN THE FOLLOWING NEW AGI LIMITS:

NONDEDUCTIBLE IRA CONTRIBUTIONS. EVEN IF YOUR INCOME EXCEEDS THE LIMITS DESCRIBED ABOVE, YOU MAY STILL MAKE A NONDEDUCT113LE IRA CONTRIBUTION UP TO THE LESSER OF **$ 3,000 (in 2002-2004)** OR 100% OF YOUR COMPENSATION TO A TRADITIONAL IRA. YOU ARE REQUIRED TO DESIGNATE ON YOUR TAX RETURN THE EXTENT TO WHICH YOUR IRA CONTRIBUTION IS NONDEDUCTIBLE. THEREFORE, YOUR DESIGNATION MUST BE MADE BY THE DUE DATE (INCLUDING EXTENSIONS) FOR FILING YOUR TAX RETURN FOR THE YEAR FOR WHICH THE CONTRIBUTION IS MADE. IF YOU OVERSTATE THE AMOUNT OF NONDEDUCTIBLE CONTRIBUTIONS FOR A TAXABLE YEAR, A PENALY OF $ 100 WILL BE ASSESSED FOR EACH OVERSTATEMENT UNLESS YOU CAN SHOW THAT THE OVERSTATEMENT WAS DUE TO A REASONABLE CAUSE.

PREMATURE DISTREBUTIONS. DISTRIBUTIONS FROM YOUR IRA MADE BEFORE YOU REACH AGE 59 1/2 WILL BE SUBJECT TO A NONDEDUCTIBLE 10% EARLY WITHDRAWAL PENNALTY (IN ADDITIONAL TO BEING TAXABLE AS ORDINARY INCOME) UNLESS THE DISTRIBUTION IS AN EXEMPT WITHDRAWAL OF AN EXCESS CONTRIBUTION, OR THE DISTRIBUTION IS ROLLED OVER TO ANOTHER EMPLOYERSPONSORED RETIREMENT PLAN, OR THE DISTRI13UTION IS MADE ON ACCOUNT OF YOUR DEATH OR DISABILITY, OR IF THE DISTRIBUTION:

1. IS PART OF A SERIES OF EQUAL PERIODIC PAYMENTS MADE NOT LESS FREQUENTLY THAN ANNUALLY OVER YOUR LIFE EXPECTANCY OR THE JOINT EXPECTANCIES OF YOURSELF AND YOUR BENEFICIARY,

2. IS FOR QUALIFIED MEDICAL EXPENSES IN EXCESS OF 7.5% OF YOUR AGI,.

3. IS TO COVER QUALIFIED HEALTH INSURANCE PREMIUMSOF CERTAIN UNEMPLOYED INDIVIDUALS,

**4. IS USED TO ACQUIRE A FfRST-TfME PRINCIPAL RESIDENCE FOR YOU,
OR YOUR SPOUSE, YOUR OR YOUR SPOUSE'S CHILDREN, OR YOUR
GRANDCHILDREN, OR ANCESTORS (SUBJECT TO A $ 10,000 LIFE-TIME LIMIT),**

**5. IS USED TO PAY QUALIFIED HIGHER EDUCATION EXPENSES FOR YOU,
YOUR SPOUSE, YOUR CHILDREN, OR YOUR GRANDCHILDREN OR ANY CHILDREN OR GRANDCHILDREN OF YOUR SPOUSE.**

THERE IS A PENALTY FOR FAILING TO WITHDRAW AFTER AGE 70 1/2. THE PENALTY IS 50% OF THE AMOUNT NOT DISTRIBUTED ACCORDING TO LIFE EXPECTANCY.

PRECLUDED INVESTMENTS

AN IRA IS PRCLUDED FROM INVESTING IN COLLECTIBLES, WHICH ARE DEFINED AS WORK OF ART, RUG OR ANTIQUE, METAL OR GEM, STAMP, ALCOHOLIC BEVERAGE, MUSICAL INSTRUMENT, HISTORICAL OBJECTS AND MOST COINS (CERTAIN GOLD AND SILVER COINS AND BULLION ARE EXEMPT).

RECENT LEGISLATIVE CHANGES. THE TAXPAYER RELELIEF ACT OF 1997 EXPANDED ALLOWABLE INVESTMENTS IN GOLD, SILVER, PLATINUM BULLION AND PLATINUM COINS THAT CAN BE PURCHASE IN AN IRA. THE BULLION MUST BE OF A FINENESS EQUAL TO OR EXCEEDING THE MINIMUM FINENESS REQUIRED FOR METALS WHICH MAY BE DELIVERED IN SATISFACTION OF A REGULATED FUTURES CONTRACT SUBJECT TO REGULATION BY THE COMMODITY FUTURES TRADING COMMISSION.

Section VI ANNUITIES AND RETIREMENT PLANS

ANNUITY

Annuities are the opposite of life insurance. While life insurance pays off when the policyholder dies, an annuity contract is designed to pay off while the policyholder is still living. In its most basi form an annuity provides you with a guaranteed flow of income during your retirement for as long as you live. Annuities are issued by insurance companies only.

TYPES OF ANNUITY CONTRACTS

Fixed Annuities-The insurance company guarantees dollar payments to the annuitant for the life of the contract. If the contract owner - elects to annuitize the contract, for example, a fixed annuity might pay $500.OO per month for the life of the annuitant (policyholder).

With a fixed annuities, the insurance company guarantees a minimuw interest rate to be paid on the annuitant's investment. To minimize the interest rate risk the insurance company will fund the fixed annuity out of its general account. With a fixed annuity, the insurance company bears all investment risk.

The portfolio of the general account is invested in medium term fixedincome producing debt securities, such as bonds and real estate mortgages.

Variable Annuity - The insurance company does not guarantees a fixed dollar payment. Paxments will vary according to the performance of separate account.. which is used to fund the variable annuity contract. The insurer makes no guarantee as to the amount of payment which will be received by the annuitant, only that the annuitant will receive payments for life.

Because the yield is variable, the annuitant, not the insurance company, bears the investment risk. Variable annuities are classified as securities.

Combination annuity - combines the guarantee fixed payment of a fixed annuity with the variable payment of a variable annuity.

PURCHASE OF ANNUITIES

You can either buy an annuity far in advance of your retirement, in which case you would be buying a deferred annui~z, or you can wait until you retire, in which case you woula be buying an **<u>immediate annuity.</u>**

If an immediate annuity is purchased, your periodic checks from the insurance company will begin soon after you purchase the annuity, or within one ear of making the purchase. People often buy immediate annuity with a lump-sum payments they receive from their company pension -or profit-sharing plan or from saving they accumulated over the years. The size of your monthly, quarterly, or semiannual checks will depend on the following:

(1) How much you put in your account

(2) The actuarial assumption as to how long you will live

(3) The rate of return the insurance company figures it can earn on investing your money

Deferred annuities have two component: a savings or "accumulation period and a payout phrase."

During the accumulation period, you will pay preiums to the insurance company. The insurance company will invest the funds on your behalf and the money in your account will grow as it earns intereet from the investment. Interest and dividends are allowed to grow tax-free during the accumulation period, which lets your investment grow faster than if part of-the money 1-~re taxed away each year.

At a specified time,whenever you desire but usually when you retire - your account will switch into the payout phrase. The payout works the same way as the immediate annuity . At payment time, you can take your money in a lump-sum and run if you don't like the payout schedule offered by your insurance company, even take it to another insurance company with a more generous payout schedule and buy an "immediate" annuity.

But historically, the contract owners will stay with the insurance company they started out with and annuitize the contract.

The annuitant (contract owner) will then select a payment option offered by the insurance company. The annuitant turns his account over to the insurance co. which in turn offers periodic payments to the annuitant for life.

life only annuity

Under this ar-rangemen-t. payments continue throughout the annuitant's life. When he dies, the payments stop. There will be no payments for any dependents.

Joint life with last Survivor

This plan will provide monthly payments for as long as either you or spouse live. The payments will be smaller than a life only annuity, since the payment will usually have to stretched over a longer period.

life Annuity with Period Certain

Here the client selects a minimum period of time for which payments are guaranteed. The period may be five, ten, twenty years, and so on. Thus, if someone buys what is known as a "ten- year-certain contract" and he dies a-year after the payout begins, a beneficiary will be able to receive payments for another nine years.

Cash or Unit Refund Life Annuity

In this case, should the client die before an amount equal to the value of the annuitant's account has been dispensed, the account will be cashed in and sent to the annuitant's beneficiary in lump sum payment.

The Separate Account

The variable annuity separate account is very similar to a diversified portfolio of a mutual fund - made up of stocks, bonds, money market instruments.

The insurance co. must register the separate account as either a Unit Investment Trust or an open-end investment co.

The distinction between an Unit Investment Trust and an open-end investment co. is: with the Unit investment Trust, the separate account does not manage the securities, but only holds mutual funds shares purchasea in trust for the--Fe-nefit of the contract holders. With an open-end investment company, the contract holder's money is invested in a portfolio of individual securities actively managed by the separate account.

Professional Management

The separate account has a board of managers :and an investment adviser who serve the same functions as an investment adviser ano tne board of directors of a mutual fund.

Voting Rights

Contract owners have voting rights that are very similar to those of mutual fund shareholders. But contract owners purchase accumulation units in the eeparate account instead of shares. Like mutual funds shares, the units vote for the board of managers not the contract owners.

INVESTMENT CBJECTIVES

The investment objectives of a variable annuity is usually preservation and long-term growth of capital.

The separate account earns interest and dividend.income from the securities held in the investment portfolio. it also earns realized capital gains from the sale of securities. The investment return is reinvested in the contract owner's account and is not distributed, and therefore the tax on the earnings is deferred.

Valuing A Variable Annuity Contract

The separate account of a variable annuity varies each day, just like a mutual fund. The value is the total market value of all securities in the separate account's portfolio (determined at the close of the market).minus any liabilities.

Accumulation Units

Accumulation units represents an annuitant's proportionate share in the separate account and are very similar to a share of a mutual fund.

Insurance companies may deduct sales charges (maximum of 8 1/2 %, just like a mutual fund) and fees for expenses from each annuitant's payment to the separate account. After these deductions, the remainder or net payment, buys accumulation units.

The number of accumulated units purchased depends upon the current value of an accumulation unit. The value of one accumulation unit depends, in turn, on the total value of the separate account and the total number of accumulation units outstanding. The value of the annuitant's interest is simply the value of one unit multiplied by the number of units owned.

For example, the current value of an accumulation unit in the ABC variable annuity might be $5.00. Tom owns 10,000 units and so the value of Tom's account at that time equals $50,000.

If the value of the accumulation units increase or decrease, the value of Tom's account would do the same.

DEATH BENEFITS

Contract owners may purchase insurance protection to cover the annuity account during the accumulation period. If the client dies during the accumulation phraseq the insurance company will pay the client's beneficiary either the greater of the total payments made by the client, or the current value of the account.

If the client has no insurance coverage, the beneficiary will receive only the current value of the account.

Annuity Units

Annuity unit is the accounting device insurance companies use to determine the amount of payout to the annuitant. Unlike the number of accumulation units which increases with each payment into the separate account, the number of annuity units remain fixed. The first step in determining this fixed number is to find the dollar value of the accumulation account that is the contract holder's interest in the separate account. This is done by simply multiplying the number of accumulation units in the contract holder's account by the value of each unit. The second step in the process of finding the number of annuity units is to determine what the first monthly payment to the annuitant will be. Insurance companies annuity tables, which take into account the annuitant's age and sex, the payout option chosen and the interest rate assumed give the monthly annuity payment per $1000 applied.

For example, suppose that the annuitant transfers $100,000 from the accumulation account and the table shows a value of $5 per $1,000.00. The first monthly payment to the annuitant would be 100x$5, or $500.

If the annuitant chose a fixed annuity, he would receive that first month's value $500, for the remainder of the contract. But with a variable annuity this figure is converted into annuity units by dividing the first monthly payments by the value of an annuity unit at the time. If the first monthly payment is $500 and the value of an annuity unit is then $10, the annuitant will own 50 annuity units. Once established, this number will never change.

This number of annuity units remains fixed throughout the remainder of the contract, but the annuity payment will vary according to the value of an annuity unit. If the value of an annuity unit is $15 the next month, the annuitant in the example would receive 2750. If it is 08 the following month, the annuitant would receive S,1400.

Assumed Interest Rate

The assumed interest **rate is used as a** projection; it is not guaranteed. The insurance companyq when calculating the number of annuity units to be redeemed each month for the annuitant, uses an assumed rate of return for the separate account selected by the annuitant or mandated by **the state law.** The rate provides an earnings target for the separate account and is usually conservatively estimated. If an assumed interest rate of 4% was used, then the separate account must continue to earn at 4% in order for the annuitant's payments to remain at $500 per month. If the actual return is higher than 4% then the annuitant will receive more than $500; the reverse, of course, is true.

Taxation of Individual Annuity Contracts

During Accumulation Period

Since dividend distribution and capital gain distribution must be reinvested by buying more accumulation units, the annuitant received no constructive receipt-therefore no tax liability. Taxes are deferred until payout, at which time the annuitant will pay ordinary income tax on the growth.

If the annuitant decides not to annuitize the contract and wish to make random withdrawals from the account, he will be required by law to use LIFO when taking distributions. Meaning'all growth will be taxed and all amounts that exceed growth will not be taxed (cost base). The annuitant will also be subject to a penalty of 10% on any amount withdrawn over the cost base if done before age 59 1/2.

Variable vs Fixed Annuities

Fixed Rate

All fixed rate annuities have the following features, which will be explained in detail:

- A guaranteed amount at the end of a specific time period
- A free bailout option
- The ability to add new contracts
- A secured future program, and
- Tax benefited annuitization.

The *guarantees* of a fixed annuity are guaranteed every day; a person can count on that. At the end of a certain period of time, you can count on the amount.

When a person decides to invest in a fixed rate annuity, they decide the rate of return to lock in. Normally, the longer a person is willing to commit, the higher the rate will be. When looking at annuity contracts, a person makes choices like:

- one year at 6%
- three years at 6.33%, or
- five years at 7.10%

Whatever the person decided to choose, the rate of return would be guaranteed to be what is stated. If the person chose the three-year option at 6.33 percent, the person would be guaranteed 6.33 percent for exactly three years whether or not the interest rates went up or down, the stock market declined or the economy went into recession. Again, these are just examples of the options a person may encounter. These will vary from company to company and annuity to annuity. Normally the rates offered by annuity contracts are higher than those offered by CDs or money market accounts.

At this point, an investor may wonder how long they should tie up their money. The answer depends on what one thinks will happen to interest rates in the future. If they think the interest rates will go up during the next several years, they may want to choose a one-year contract. At the end of that year, they could roll over the annuity into a higher rate, whether they stay with that company's annuity or switch to another. If, though, the person thinks interest rates are going to fall, they may choose one that offers the longest term, which is usually five to ten years. If the person is uncertain about the direction of the interest rates, they can opt for a term in the middle, maybe a two, three or four year guarantee period. It may allow the investor to be a little more versatile than the longer terms.

In addition to the previously mentioned guaranteed rates and periods, fixed rate annuities provide an absolute minimum guarantee, exclusive of other interest rates or the state of the economy. This exclusive rate ranges from four percent to six percent, but normally it is four percent.

The **free bailout option is** closely tied to the guaranteed interest rate provision of a fixed rate annuity. This can be very advantageous to the investor, the contract owner.

Since we have already discussed the bailout option, we will just briefly review it. If, after the guaranteed interest rate period is over the renewal rate is ever less than one percent of the previously offered rate, the investor can liquidate all or part of the annuity - principal and interest without cost, fee or penalty. This gives the investor the security that they will always be receiving a competitive rate. If the investor wants to change, and the renewal interest rate is not less than one percent of the previously offered rate, the insurance company may charge a back-end penalty.

Normally if a person wants to **add to their annuity contract**, they must purchase another annuity. The fixed rate annuity is a contractual relationship. The insurance company is guaranteeing a rate of return on the specific invested amount - no more, no less. Only a few insurance companies allow a person to add to an existing annuity contract.

The fixed rate annuity always **provides a secure future** in that you always know where you stand. There will be an exact amount of money at the end of the specified period. The annuity contract will spell out what a person can expect in the way of growth of principal, and it will detail the exact amount of any penalties or fees that may exist and when and if such costs disappear.

Annuitization provides an even distribution of both principal and interest over a period of time. The amount of each check can depend on:

- The competitiveness of the insurance company,

- The level of current interest rates,
- The amount of principal that is to be annuitized, and
- The duration of the withdrawals.

Competitiveness will vary from company to company. Shopping around for the insurance company that offers the best interest rates is an obvious chore, but one may not realize that insurance companies vary also in the returns they hand out during distribution (annuitization). When a person is initially shopping for an annuity contract, this may be a factor to consider. A person could also decide to change insurance companies when they go to annuitize. Whichever they choose, knowing there are options available can be very advantageous.

When an investor decides to annuitize, the amount of each check on a fixed rate annuity will depend on the current interest rates. A person can decide to only annuitize a portion of the contract so that some of the investment left invested is still earning interest.

The amount of the check received depends on the amount of the investment annuitized. The larger the investment is, the larger the check received will be.

The time allotted to the annuitization will also affect the size of the check received. Obviously the check will be large if a shorter annuitization period is selected (such as ten years versus 20 years).

When a person is applying for an immediate annuity, a payment mode is selected. This may be either a monthly, quarterly, semiannual or annual payment. The first annuity payment must be made no later than the end of the modal period selected.

There are tax advantages in annuitization. Disbursements are tax favored. Systematic and/or sporadic withdrawals are not. The disadvantage is that once the process is started, it cannot be altered and the rate of return during annuitization may be artificially low.

Variable Rate

Inflation can cause a person to think twice before choosing a fixed rate annuity. When a person invests in a government, corporate, or municipal bond, either directly or indirectly through a mutual fund, they are investing in something that is referred to as a **fixed rate instrument**. This fixed rate of return would be ideal for every one if we lived in a fixed rate world with fixed rate expenses. Unfortunately, we do not. Inflation hits us all, and it is constantly going up. Thus when expenses go up so does the need for the income to rise. The variable annuity was designed to overcome the problem of inflation-depleted income.

The more an investment outperforms inflation, the riskier it becomes. So, before a person rushes out to invest all their money in an investment that is considered an inflation hedge, they must first determine the risk level. For the agent recommending such investments, they need to understand the entire scope of the investment. This then can be translated to the investor so that they can invest their money with all the information, including the risks, they will need to have. No matter how much the inflation threat worries a person, there is always a price to pay for an investment that has the potential for growing at rates far above guaranteed accounts. One price can be some sleepless nights due to increased volatility of the investment chosen.

There are various investment options available to the variable annuity investors. We will be elaborating on each option. The options available are:

1. Aggressive Growth
2. Growth
3. Growth & Income
4. International Stocks
5. Balanced (Total Return)
6. Corporate Bonds
7. Government Bonds
8. High-Yield Bonds
9. Global & International Bonds
10. Specialty Portfolios

The **Aggressive Growth** objective is maximum growth of the investment. These types of funds usually invest in the common stock of very young companies and tend to stay fully invested over the market cycle. These portfolios, or sub accounts of an annuity, may at times use leverage and may even engage in trading stock options or index futures. Many aggressive growth sub accounts concentrate their assets in just a few industries or segments of the market. The degree of diversification may not be as great as other types of funds. These investment strategies result, of course, in increased risk.

Aggressive Growth portfolios can provide low-income distributions. This is because they tend to be fully invested in common stocks that pay small or no cash dividends. A small or nonexistent dividend stream is unimportant for the annuity investor since tax consequences are not an immediate concern. A high turnover rate can result in a large capital gain liability for the mutual fund investor, but not for the annuity investor who has opted for deferred growth.

Long-term investors who need not be concerned with monthly or yearly variations in the investment return may find aggressive growth investing rewarding. Though, short-term investors who are uncomfortable with the extreme volatility of return may find that these funds can be offset by a greater allocation of an investor's total assets to a relatively risk-free investment, such as a money market fund. During a prolonged market decline, aggressive growth funds can sustain severe declines in net asset value.

In the book, All About Annuities by Gordon K. Williamson, he stated that there are over two billion dollars invested in aggressive growth sub accounts. The average portfolio is 59 million in size. At the beginning of 1992, there were 34 variable annuity sub accounts that were classified as "aggressive growth." Only one of these accounts was at least ten years old. There were nine aggressive growth portfolios that have been around five to nine years and only 21 that have existed for three to four years.

The **Growth** accounts normally are more stable than the aggressive growth portfolios. They normally do not engage in speculative tactics such as using financial leverage. They invest in growth-oriented firms that pay cash dividends. The concentration of assets is not as limited as the aggressive growth subaccounts. Moreover, these accounts tend to move from fully invested to partially invested positions over a market cycle. They build up cash positions during uncertain market environments.

During prolonged market declines growth portfolios can sustain severe declines. Since some portfolio managers of growth accounts attempt to time the market over a longer cycle, switching these funds often may be counterproductive. Although market timing is strongly discouraged, doing so with variable annuities will not trigger a tax event that may occur with mutual fund market timing.

There is over six billion dollars invested in growth sub accounts. The average portfolio is 59 million in size. At the beginning of 1992, there were 101 variable annuity sub accounts that were classified as "growth." There were 15 of these accounts that were at least ten years old, 53 growth portfolios have been around for five to nine years and 81 have existed for three to four years.

The **Growth and Income** sub accounts normally invest in the common stocks and convertible securities of well-established, dividend paying companies. Most of these companies attempt to provide shareholders with income along with long-term growth. One tends to find a high concentration of public utility, common stocks and corporate convertible bonds in the growth and income portfolios. The accounts also provide higher income distributions, fewer variations in return and greater diversification than growth and aggressive growth positions. Equity income, income and total return are sub accounts that are characteristics of growth and income portfolios.

The tax consequences should be kept in mind because of the high current income offered by these kinds of investments. Use variable annuities whenever possible. It has been suggested that growth and income may be the most cautious US stock play an investor can make.

There are over five billion dollars in growth and income subaccounts. The average portfolio is 104 million in size. At the beginning of 1992, there were 48 variable annuity sub accounts that were classified as "growth and income." There was only one of these accounts that was at least ten years old. There were 11 growth and income portfolios that had been around for five to nine years and only 37 that had been around for three to four years.

International Stocks invest in securities of foreign companies only. They do not invest in US stock at all. Some portfolios specialize in certain regions, such as the Pacific Basin or Europe. Global funds invest in both foreign and US stocks. International funds provide an investor with added diversification. The most important thing to factor in when diversifying a portfolio is selecting assets that do not behave the same under similar economic scenarios. Within the US, investors can diversify by selecting securities of firms in different industries. In the international realm, investors take the diversification procedure one step further by holding securities of different firms in different countries. The more independently these foreign markets move in relation to the US market, the greater the diversification potential for the investor, thus lowering the total risk to the investor. International stock overcomes some of the difficulties investors would face in making foreign investments directly. The individual investor would have to understand thoroughly the foreign brokerage process, international taxes, and various marketplaces and their economics. They would have to be aware of currency fluctuation trends as well as access to reliable financial information so a proper investment decision can be made. This is nearly impossible for the individual investor; it would take much time that the individual may not be able to afford.

Investing abroad may be a wise consideration since different economic experience prosperity and recession at different times.

The economic outlook of foreign countries is the major factor in international investing. A secondary concern may be the value of the US dollar relative to the foreign currencies. A strong dollar will lower a foreign portfolio's return. A weak dollar will enhance international performance. Investors who do not wish to be subjected to the currency swings may opt to use a variable annuity sub account that practices currency hedging. **Currency hedging** is basically an insurance policy to protect one's investment if the dollar is making a killing in currency futures contracts. It only pays off if the dollar becomes strong, increasing in value against the currencies represented by the portfolio. The cost of such insurance contracts becomes part of the cost of doing business. In the case of currency contracts, the contract expires and a new one is purchased, covering another period of time. When properly handled, the gains in the futures contracts (the insurance policy) can offset most or all of the security losses attributed to a strong dollar. A person may believe that buying currency contracts is a risky business for the fund, but if done properly it is not.

The key thing to remember is that international investing reduces the overall risk of an investor's portfolio. Besides reducing risk, they can also provide excellent returns. According to a Stanford University study, overall risk is cut in half when a global portfolio of stock is used instead of one based on US issues alone.

There are over one billion dollars in international stock accounts. The average portfolio is 33 million in size. At the beginning of 1992, there were 30 variable annuity sub accounts that were classified as "international stock." None of these portfolios has existed for five or more years. Only 11 of these portfolios had been around for three to five years.

The **Balanced or Total Return** accounts mix investments in common stocks, bonds and convertible securities to decrease volatility and stabilize market swings.

Balanced portfolios, like the growth and income accounts, provide a high dividend yield that is sheltered from taxation within a variable annuity, but not within a mutual fund. High tax-bracket investors should consider this point before they invest their money in a mutual fund.

The main objective of balanced sub accounts is to provide both growth and income. This is done by taking advantage of market rises through stock holdings and providing income with bond holdings. Balanced portfolios provide neither the best nor the worst of both worlds. They often outperform the different categories of bond funds when things are good, but suffer greater percentage losses during stock market declines. When the interest rates are on the rise, balanced accounts will typically decline less than bonds. When rates are falling, balanced sub accounts will also outperformed a bond portfolio if stocks are doing well.

Balanced accounts provide a buffer against market volatility for those investors who want to avoid such things. Balanced portfolios have outperformed the bond indexes since this category of annuities includes common and preferred stocks. The bond index did better over a ten-year horizon because the bond market experienced its best decade ever during the 1980s.

There is over six billion dollars invested in balanced accounts. The average portfolio is 85.7 million in size. At the beginning of 1992, there were 70 variable annuity sub accounts that were classified as "balanced" or "total return." Only one of these portfolios had existed for ten years or more. Fifteen total return portfolios had been around for five to nine years and 43 had existed for three to four years.

The ***Corporate Bond*** subaccounts invest in debt instruments issued by corporations. Bond portfolios have a wide range of maturities. The name of the portfolio will often indicate if it is composed of short term or medium term obligations. If the account does not specify one of these two, then the average of maturities is over 15 years. The greater the maturity, the more the portfolio's unit price can change. There is an inverse relationship between interest rates and the value of a bond. When the one moves up the other goes down.

Corporate and Government bonds normally generate high interest payments so the ideal investment vehicle is the holding of such an instrument in a variable annuity. The risk reduction that bonds provide coupled with a tax deferral benefit, make a strong case for owning these within a variable annuity contract. There has only been six years over the last 66 years in which both bonds and stocks declined.

There are over two billion dollars invested in corporate bond accounts. The average portfolio is 32 million dollars in size. At the beginning of 1992, there were 62 variable annuity sub accounts that were classified as "corporate bonds." Six of these portfolios had existed for ten years or more. Thirty-four corporate sub accounts had been around for five to nine years and 55 had existed for three to four years.

The **Government Bond** sub accounts include both mortgage backed securities and US Treasury obligations. These portfolios can be attractive to bond investors because they provide diversification and marketability that are not as readily available in direct bond investments.

As with all bonds, government bonds have a wide range of maturities. These bonds sub accounts can provide diversification. Investors will want to invest in the larger portfolios because these tend to operate more efficiently in economies of scale.

Since variable annuities charge a mortality charge of normally one percent, it is best to minimize bond sub account holdings. Expenses can eat away at the returns. For bond accounts to be most effective, they would need to be held on average at least ten years to make them more worthwhile than mutual funds or direct ownership.

There is over two billion dollars invested in government bond accounts. The average portfolio is 50 million dollars in size. At the beginning of 1992, there were 40 variable annuity sub accounts that were classified as "government bond." Only two government portfolios had existed for ten or more years. Eleven government sub accounts had been around for five to nine years and 19 had existed for three to four years.

The **High-Yield Bonds** invests in lower-rated debt instruments. Bonds can either be characterized as "bank quality," (also known as "investment grade") or "junk." On the rating scale, bank quality bonds are those that are either AAA, AA, A or BA. Junk bonds would be on the other end of the scale of BB, B, CCC, CC, C and D. High-yield bonds can offer the investor higher returns due to the additional risk of default. High-yield bonds are subject to less interest rate risk than regular corporate or government bonds. However, when the economy slows or investors panic, these bonds can quickly drop in their value. The high current income can only be sheltered in a retirement plan or variable annuity. A dividend and/or interest reinvestment program with a mutual fund does not minimize any taxes due.

The world of bonds is not black and white as other investments may be. There are several categories of high-yield bonds. The junk bonds on the higher end of the rating system have been able to withstand the general beating that was incurred during the late 1980s and early 1990s. Moderate and conservative investors who want high-yield bonds as part of their portfolio should focus on sub accounts that have a higher percentage of their assets in higher rated bonds.

There are over one billion dollars invested in high-yield bond accounts. The average portfolio is 28.5 million dollars in size. At the beginning of 1992, there were 35 variable annuity sub accounts that were classified as "high-yield." No high-yield portfolios had existed for ten or more years. Twelve junk bond sub accounts had been around for five to nine years and 27 had existed for three to four years.

The **Global and International Bond** portfolios invest in foreign **fixed-income securities**. These fixed-income obligations are denominated in various currencies such as francs, pounds, yen and deutsche marks. The fixed-income markets do involve some risks, which can be reduced through global diversification.

Since countries move in different economic cycles, so do the capital gain prospects of the bonds issued in those countries. At any one time, a certain country may offer the highest returns. As global economic cycles shift, a different country may then hold out the greatest opportunities. International bond portfolios have out performed their US counterparts over the past 25 years. Global diversification also reduces the investor's risk level. There are not many variable annuities that have international or global bond sub accounts, but they are not impossible to seek out if this is a portfolio that is chosen.

Prospective investors need to be aware of the potential changes in the value of foreign currencies relative to the US dollar when investing in international sub accounts. Global portfolios invest in securities all over the world, including the United States. A global account usually invests in bonds issued by stable governments from a handful of countries. Management tries to avoid purchasing foreign government debt instruments from politically or economically unstable nations.

Global bond accounts seek higher interest rates no matter where the search may take them. **Inclusion** in the portfolio depends on management's perception of interest rates, the country's projected currency strength against the US dollar and the country's political and economic stability.

Foreign markets do not necessarily move in tandem with US markets. Each country represents varying investment opportunities at different times.

Variable annuities that invest in global securities, particularly those that have a high concentration in foreign issues, are an excellent risk-reduction tool that the vast majority of investors should look into.

There are over 141 million dollars invested in global bond accounts. The average portfolio is ten million dollars in size. At the beginning of 1992, there were 14 variable annuity subaccounts that were classified as "global bond." None of these portfolios had existed for ten years or more. In fact, only three of these portfolios had been around for five to nine years and only eight had existed for three to four years.

Variable annuities that are described as ***sector*** or ***"specialty" portfolios*** invest primarily in stocks of a single industry. Using specialty portfolios should not dominate the total holdings. In fact, it has been suggested that it only takes up to 15 percent of the total holdings. There are two reasons why this limitation may be recommended. They are:

- By choosing a specialty account, the investment is tying investment management hands. Their ability to find worthy stocks is limited by **prospectus** to a certain industry. If this industry or sector is not performing well, the sub account will not do well either, no matter how experienced the management team is. This would hinder the versatility of the investment.
- Specialty or sector plays are considered very risky. The entire sub account is prone to the fortune or misfortune of particular industries. Equally important, if a person reviewed the performance of all sector and specialty portfolios combined, they would find that they have the worst of both worlds: substandard performance <u>and</u> above-average risk.

Even though we have just stated some very big disadvantages, there are some advantages that should not be overlooked. First, these accounts allow a person to invest in, for example, real estate without going through the trouble of buying and managing their own properties. The second advantage is that sector plays combined with a well-considered portfolio can actually reduce the overall volatility. When combined with other categories such as growth, international and high-yield, this can lower the total risk of the investment.

There is over 237 million dollars invested in specialty accounts. The average portfolio is 10.7 million dollars in size. At the beginning of 1992, there were 22 variable annuity sub accounts that were classified as "specialty." None of these accounts had existed for five or more years and eight had been around for three to four years.

Agents are often called upon to answer questions for their clients that can be answered by their own in initiative. Informing the policyholders of this can alleviate some questions that someone else can answer.

Can an investor find out how their chosen investment is performing?

One of the advantages of annuity investing is that a person can <u>always</u> find out how their investment is performing. Most annuity companies have toll-free telephone numbers that the investor can call to find out how their investment results. This may be a favorable feature for the investor. People may like that they can call up any time to find out how their investment is doing. Several of the companies have automated services that can give information 24 hours a day. This is a selling point to remember.

Besides calling the insurance company for performance results, are there any other sources that a person can go to?

A person that is concerned about their investment could also subscribe to one of several periodicals such as Barron's, a weekly publication that lists several hundred variable annuities. The Wall Street Journal has increased its coverage of annuities, running periodicals on the performance figures of the best and the worst performing variable annuities.

Agents may be able to divert questions that can eat up precious time by pointing the clients to other means of finding their answers.

What is DCA?

Any investor that is concerned about the risk involved can opt for the solution of **dollar-cost averaging (DCA)**. This is a simple yet effective way for an investor to reduce risk, whether they are investing in stocks and/or bonds. The principle behind dollar-cost averaging is that if several purchases of a variable annuity are made over an extended period of time, the unpredictable highs and lows will average out. The investor ends up with buying some units at comparatively low rate and others at a much higher rate.

Dollar-cost averaging assumes that investors are willing to sacrifice the possibility of having bought all their units at the lowest price in exchange of knowing that they did not also buy every unit at the highest price. This is a compromise, a risk reduction decision. Dollar-cost averaging is based on investing a fixed amount money in a given annuity at specific intervals. Normally the investor will add a specified amount into the annuity contract at the beginning of each month. Dollar-cost averaging works best for the investor if they continue to invest on a pre-established schedule. A person will be buying more units when the price is down, but when the price is going up they will buy less. The bright side of this is that existing units are gaining value. If this program is followed, losses during market declines are limited while the ability to participate in gold markets is maintained.

Another advantage to DCA is that is increases the likelihood that an investor will follow the investment program. When goals are set, they are more likely to be met.

Is DCA similar to SWP?

A type of dollar-cost averaging in reverse is a **systematic withdrawal plan (SWP)**. This allows the investor to have a check for specified amount sent to them monthly or quarterly, or sent to anyone they designate from the annuity. There is normally no charge for this service, depending on the insurance company. This method is ideal for the income-oriented investor.

When the market is low, the number of units that is being liquidated will be higher than when the market is high.

Another selling point is this: A systematic withdrawal plan is designed to maximize the income and offset something the CD, T-bill and bond sellers never mention - inflation. This program can easily be used with annuities as well as mutual funds.

What is an allocation portfolio?

For investors that do not like or want to make all of the investment decisions, they can opt for experts to make the choices for them. This is called an **allocation portfolio**. Professional managers view current market and economic conditions to determine the best mix of investments of achieving a portfolio's objective at any time. The objective of an asset allocation portfolio is to provide a predetermined level of total return consistent with long-term preservation of capital.

An investor can change their investment portfolio whenever they wish. But they should not overlook that monies left in investments for longer periods of time achieve maximum growth. There are normally no restrictions on sub account switching within variable annuity contracts.

Annuities versus IRAs

IRA stands for Individual Retirement Account. IRA contributions can be fully tax deductible for many people and many more can deduct a portion of the contributions. The tax write-off gives the policyholder long-term savings. Even if a person is not able to deduct the contribution from their taxable income, the earnings still build up tax-deferred, just like an annuity.

Participation in IRAs has been lackluster. The Economic Growth and Tax Relief Reconciliation Act of 2001 has tried to combat this by increasing the maximum annual contribution amounts and also what is termed "catch-up contributions."

The IRA rules for tax deductible contributions are as follows:

- A person can deduct the full IRA if they do not participate in any company retirement plan. If the person has a non working spouse, they would follow the same rules. The person can participate if they are eligible for the company's defined benefit plan, even if not yet vested. If the person is covered only by a defined-contribution plan, they do not participate until money goes into the plan on their behalf, which may not happen in the first year of employment. So for that first year, they would be able to take a tax-deductible IRA.
- A person can deduct the full traditional IRA even if they participate in a company retirement plan but only if their modified adjusted gross income (MAGI) does not go over the specified amount. The Economic Growth and Tax Relief Reconciliation Act of 2001 did not change the MAGIs.
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The modified adjusted gross income (MAGI) phase out limits for taxpayers who are active participants in employer-sponsored plans are:

Taxable Years	Single Taxpayers	Joint Returns
2001	$33,000 - $43,000	$53,000 - $63,000
2002	$34,000 - $44,000	$54,000 - $64,000
2003	$40,000 - $50,000	$60,000 - $70,000
2004	$45,000 - $55,000	$65,000 - $75,000
2005	$50,000 - $60,000	$70,000 - $80,000
2006	$50,000 - $60,000	$75,000 - $85,000
2007 *and after*	$50,000 - $60,000	$80,000 - $100,000

If the individual is not an active participant in an employer-sponsored plan, but their spouse is, the phase out for taxpayers with MAGI is between $150,000 and $160,000.

For the Roth IRA it is phased out for single taxpayers with a MAGI between $95,000 and $110,000 and for married couples filing jointly $150,000 and $160,000.

For Education IRAs, the Economic Growth and Tax Relief Reconciliation Act of 2001 did raise the modified adjusted gross income (MAGI) amounts starting in 2002 for single taxpayers and married taxpayers with a MAGI up to $190,000, with the limit phasing out at $220,000. This is double the phaseout range for single taxpayers.

January first to April fifteenth is what is often referred to as "double IRA season." It is the time when a person may make a contribution to a retirement account that will apply to the previous year.

The Economic Growth and Tax Relief Reconciliation Act of 2001 also raised the annual contribution limits to the traditional and Roth IRAs. Individuals can invest in any one-tax year:

Year	Contribution Limit
2002-2004	$3,000
2005-2007	$4,000
2008 *	$5,000

** After 2008, the $5,000 limit is adjusted annually for inflation in $500 increments.*

The Economic Growth and Tax Relief Reconciliation Act of 2001 also made available the ability for "catch-up contributions." Individuals who have attained age 50 may make:

Year	Contribution Limit
2002 - 2004	$3,000 + $500 = $3,500
2005	$4,000 + $500 = $4,500
2006 - 2007	$4,000 + $1,000 = $5,000
2008 and after	$5,000 + $1,000 = $6,000

If a person wanted to withdraw from the IRA, they are only taxed on the portion of each withdrawal that equals the percentage of tax-deferred money in all of the IRAs. There may also be a penalty if the policyholder is under the age of 59½. If the IRA is in a bank certificate of deposit (CD) or an annuity, the policyholder may owe early withdrawal penalties to the investment sponsor as well.

A person can switch from one investment to another within the same institution or to another one entirely. With a self-directed IRA, which is just like a regular brokerage account, one can change investments as often as one wants. There are two ways of switching from one account to another. The person can either (1) direct an IRA-to-IRA transfer or (2) take a payout in which the person must roll into the new IRA within 60 days. Each IRA can be rolled over only once a year. This is different from a 1035 exchange that applies to annuity investments. A 1035 exchange can be done as often as the policyholder wants, subject only to the insurer's penalties.

An investor has the ability to tap into their IRA if they need a bridge loan, perhaps while waiting for a mortgage to come through. It is called the **rollover rule**. This rule lets the person take the money out of their IRA and use it, as long as they put it back within 60 days. The policyholder is allowed to do this once each year. If the person still needed money after 60 days, they could roll an equivalent amount into a second IRA, leave it there one day and then draw it out for another 60 days.

The Economic Growth and Tax Relief Reconciliation Act of 2001 gives the IRS the authority to waive this rule in some circumstances. In cases where the policyowner suffered a disability, hospitalization, incarceration or restrictions imposed by a foreign country, postal error or disaster or other events beyond the reasonable control of the policyowner, they may not be subject to the 60-day requirement.

Annuities and IRAs differ in a number of significant areas. When contributing to an IRA, the policyholder is limited to the yearly contribution limits annually. There are no limits with an annuity investment. IRA contributions may be tax deductible. Generally there are no deductions allowed for payments to an annuity investment.

If the policyholder is eligible to make tax-deductible payments to an IRA, they may want to consider an individual retirement annuity, which allows them to enjoy the advantages of both the IRA and the annuity.

Annuities allow the policyholder the advantage, when they annuitize, of receiving money for life. With most IRAs there are normally no such guarantees.

In many ways, an IRA is similar to a Keogh plan. Money deposited into the IRA and the interest earned is free from current taxes. Like annuities, traditional IRAs are tax deferred, not tax-free. The dollar limit of an IRA is lower than that of a Keogh plan. Another difference between a Keogh account and an IRA is the taxation on the accumulation if taken in a lump sum. A person may be wise to consult a CPA or tax expert.

As with an annuity, a traditional IRA must be given up at the age of 70 ½ or income must be taken. The Roth IRA does not require money to be taken out at age 70 ½. Money may be able to be taken directly from the IRA without actually making any investment changes in the investment vehicle.

Investment gains and losses can affect the IRA account each year. It is for this reason that annuities are an excellent vehicle for holding IRA money since they tend to be more predictable.

There are a few flaws in using life insurance to replace traditional IRAs. If the policyholder puts in only a few payments, there will not be much cash in the policy. As every life insurance agent knows, such policies must have time on their side in order to produce a quantity of income or cash.

Annuities verses Mutual Funds

There is more information on mutual funds than annuities. Mutual funds are easier to understand. Popular publications emphasize the performance and features of mutual funds with much greater frequency. The brokerage industry can make more money selling mutual funds than annuities. The insurance industry does not spend as much money promoting annuities as fund executives spend promoting mutual funds. One cannot make blanket statements such as "Annuities are always a better choice than mutual funds." Such statements are dogmatic. Variable annuities are an alternative to mutual funds, just as fixed rate annuities are an alternative to CDs.

Some common features are:

- professional management.
- Both offer outstanding track records and several different investment options.
- Both can have money added to or taken out at any time.
- Both offer dollar-cost averaging and systematic withdrawal programs.
- Both can be started with as little as $250.
- Both can have part or all of the investment moved within the family of investment options offered by the mutual fund group or variable annuity contract. Both are easy to monitor and invest in.

Some differences in annuities verses mutual funds are:

- Commissions,
- Taxation,
- Performance,
- Withdrawal options,
- Investment choices, and
- Safety.

We will be discussing these differences. Since most Continuing Education Guidelines in most states does not allow CE credit on information about mutual funds, it will be kept brief and closely tied to information that will be counted for CE hours/credits.

1. Most mutual funds charge some type of commission, ranging from one percent to nine percent. This commission is subtracted from the investor's investment. Remember, annuity commissions are paid by the insurance company, not subtracted from the invested amount. Whenever a person invests in an annuity, 100 percent of the investment is building and compounding interest for the policyholder. The same is true if any additional contributions are made to the initial investment. With all the money earning interest in an annuity, the policyholder is earning a higher rate of return. The commission costs of a mutual fund could go to earning the investor more retirement dollars.

2. When a person owns a mutual fund, there are three potential sources of income tax:
   (a) The dividends or interest thrown off by the securities in the portfolio,
   (b) The capital gains realized whenever the fund manager sells stocks or bonds,
   (c) The resulting profits when shares of the mutual fund are sold or changes made within the mutual fund family.
3. A person cannot control the first two situations. The only tax aspect of a mutual fund that can be controlled is the investor's own purchase and sale of fund shares. The investor decides when part or all of the account should be liquidated or switched from the ABC bond fund to the XYZ stock or money market fund. Some people believe that switching their money among different funds within the same family can avoid a tax event. Not so. The IRS considers this to be a sale and a subsequent purchase, which is a taxable event.

When a person invests in an annuity (variable or fixed rate) money grows and compounds tax deferred indefinitely. The only time a person pays income taxes is when withdrawals are made. In an annuity, assets can be repositioned to accommodate such changes without a tax event to the policyholder.

The track record of the best performing variable annuities is often better than those of the top mutual funds. This is because the portfolio managers of variable annuities are overseeing a smaller pool of assets than their mutual fund counterparts. In fact, the same individuals and groups that oversee mutual funds manage many variable annuities.

Most mutual funds are forced to buy stocks and bonds that may not be their first or even hundredth choice. This is because the **Securities Exchange Commission (SEC)** requires a diversified mutual fund to follow certain rules of diversification. A variable annuity can load up on the stock and/or bonds it really wants. This is particularly true in the case of an initial public offering (IPO).

All mutual funds keep a certain amount of assets in cash. These reserves are partly to satisfy investors' demands for partial or complete liquidations. Fund managers do not want to sell off securities in order to pay off shareholder requests. Annuities do not face this problem. The fixed and variable rate annuities have withdrawals taken less frequently. The entire portfolio can be invested in stock and/or bonds making the accounts operate more efficiently and increasing long-term results.

Comparing the performance of individual stocks and bonds, as well as mutual funds and annuities to various indexes and averages is often unfair to the security or portfolio being scrutinized. Such comparisons are not totally correct because of three things:

1. Transaction costs,
2. Convenience features, and
3. Management expenses.

Comparing the operating expenses of variable annuities versus mutual funds, the typical mutual fund charges 1.25 percent annually while the variable annuity charges 0.77 percent. This means that the variable annuities are 38 percent more efficient in this area. Variable annuities charge a mortality fee, which does not apply to mutual funds. This mortality fee may make the annuity more expensive to run each year than mutual funds.

The publication Morningstar studies and tracks the performance of mutual funds and variable annuities in a wide range of publications.

4. Annuities and mutual funds allow the policyholder to make withdrawals or complete liquidations at any time. Only annuities offer lifetime options in which the policyholder cannot outlive the income stream.

5. Mutual fund family investing has limits in the options and management styles available. Several variable annuities offer the policyholder a choice of many different management styles within the same contract.

6. Mutual funds are prohibited from guaranteeing the rate of return or the safety of the principal. Fixed annuities can guarantee this. Fixed annuities can guarantee exactly the rate of return ranging from one to ten years. These same annuities also guarantee that the principal is secure every day; variable annuities offer the guaranteed death benefit. No one has ever lost money in a fixed rate annuity. Mutual funds have lost millions of dollars.

Mutual fund investors have begun to move a record number of their assets over to annuities. While mutual funds have been and still are a major investment area, many people have experienced losses. Often these people are ready for a change into something stable and growth oriented. Mutual funds do vary, but generally speaking, over the past five years annuities have had equal growth in comparison to mutual funds. An investor would have had little difference in growth between the two. Some experts feel that annuities have done slightly better than mutual funds have. Although there are some investments that may outperform annuities for short time periods, for long-term safety and return of an investment, annuities continue to be one of the best places a person can invest.

UNDERSTANDING INDEX ANNUITIES

ONE OF THE BASICS of investing is to never put money in anything you don't understand.

That's important to remember when it comes to equity-indexed annuities, which are touted as a way to participate in the stock market's growth without any downside risk.

But anytime you invest there's risk. And there's mounting concern among regulators and others that these complex annuities are being hyped to investors without fully pointing out the risks, including the possibility of losing money.

Sales have surged in recent years, from $14.4 billion in 2003 to $23.1 billion in 2004, according to the National Association for Variable Annuities.

What are Annuities?

An annuity is a contract with an insurance company. Money grows tax deferred, and investors often choose to receive a payout in retirement over a certain period of time.

Basically, an equity-indexed annuity promises a minimum return, often 3 percent a year on 90 percent of premiums paid. But it also offers investors the chance to earn a higher rate — within limits — by linking their return to an index, **frequently the S&P 500.** So, if stocks soar, investors can see a bump up in interest earned, but not as high as the index gain.

Indexed annuities are complicated insurance contracts. There are so many in the marketplace and each has its own twists that even the most vigilant of investors will have difficulty comparing one with another.

The methods for calculating indexed interest are particularly complex.
Investors often receive interest on a portion of the index gain, and there can be an additional cap as to how much they can earn. There are multiple formulas for measuring changes in the index. And when that interest is credited, the annuity varies.

Contracts can last five or 10 years, or longer. The annuities typically carry steep surrender charges if investors bail out early, causing them to lose money. For instance, an investor may forfeit 10 percent by cashing out the first year, with the charge gradually dropping over time.

It could take five or six years before the surrender charges go down.

Investors typically can withdraw up to 10 percent a year without penalty, although they might forfeit indexed interest on that amount.

Most equity-indexed annuities are not registered as a security, so they come under regulation of state insurance regulators. That means 50 variations of regulations, and some states are tougher than others.
Securities and Exchange Commission is looking into the regulation of these annuities because they are marketed for their stock index feature.

The NASD, an industry group that regulates its brokerage members, offered guidance to brokers who might sell them.

Investors should ask a lot of questions before considering purchasing indexed annuities. What index is being used? Some are more volatile than others.
What are the surrender charges? How is the indexed interest calculated and when is it credited to the annuity? Ask what commission the salesperson will receive, and how that compares with those on other products does.

"Under what scenarios can they lose money? Is it 90 percent guaranteed principal or 100 percent guaranteed?"

Investors should make sure the company backing the annuity is a reputable company. If it's not, the insurer may not be in business when it's time for the investor to get his money.

And if investor experiences immediate buyer's remorse, the situation isn't hopeless. Annuities offer a "free look," which gives them 10 to 30 days to back out of a contract without penalty.

Section VII Variable life Insurance Contracts

1 Variable Life is any policy that provides for insurance protection that varies according to the investment performance of one or more separate accounts.

2. The cash value and death benefit of an variable life contract may increase or decrease depending on the investment performance of the separate account. Cash values may decline to zero, but the death benefit may never decline below the minimum guaranteed.

3. The variable death benefit is that amount of insurance above the minimum guaranteed which may increase or decrease depending on the performance of the separate account.

4. Separate accounts established for the variable life insurance contract may only be used for the variable life contract.

5. The agent must be licensed to sell life insurance and variable life insurance and the insurance company must also be authorized to offer variable life insurance within the state.

6. Non-forfeiture provisions offered in a variable life contract may be variable or fixed; however, extended term insurance may be on a fixed basis only.

7. The statement regarding variable life is as follows: The purpose of the variable life insurance contract is to provide insurance protection. No claim is made that the contract is in any way similar or comparable to a mutual fund.

8. 75% of the cash value is the minimum which must be available in a variable life contract.

9. If the person managing the separate account is not a registered investment adviser, then the insurance company must report this to the commissioner and set up specific guidelines for the individual to follow. A person convicted of a felony involving securities or securities related transactions within ten years cannot manage the account unless the commissioner approves the individual to act as manager.

10- Policy holders must be allowed to convert their variable life insurance into a whole life policy within the first two years of the contract. The time will begin from the date of the contract.

11. Sales load is deducted from the gross premium; the other fees (mortalltY risk fees, expense fees, and an amount to provide for insurance are deducted from the separate account (benefit base). Premium taxes also deducted from gross premium.

12. The maximum which may be charged for expense and mortality fees is the maximum stated in the contract.

13. The policy loan is 75% of the contract's cash value.

14. If the separate account earns at a rate which is greater than the assumed rate, the extra earnings may lead to an increase in the death benefit and cash value.

15. A prospectus must be given to an applicant prior to or during a solicitation for sale.

16. The net premium will increase the c~sh value in the contract but does not affect the death benefit. Death benefits are affected by increases and decreases in the earnings of the separate account only.

17. The maximum rate of interest which may be charged on premiums in default for the purpose of reinstating a policy is limited to 6%.

18. Variable life contracts may allow fixed or flexible premiums.

19.According to the Act of 40, if the policy holder cancels the plan within the free look period, the client will receive all monies paid.

20. The maximum sale charges is limited to 9% of the contract's LIFE.

21. If within a two year period, a variable life contract holder terminates the policy the contract holder must receive as a refund (1) The current cash value of the contract plus all sale charges deducted in excess of 30% of the premium in the first year and 10% of the premium in the second year.

22. The following statement regarding variable life contracts must appear on the front of the policy. THE PURPOSE OF THIS VARIABLE LIFE INSURANCE CONTRACT IS TO PROVIDE INSURANCE PROTECTION. NO CLAIM IS MADE THAT THE CONTRACT IS IN ANY WAY SIMILAR SYSTEMATIC INVESTMENT PLAN OF A MUTUAL FUND.

Section VIII SIMPLE IRA

Employees 'in today's job market are continuously seeking more than competitive salaries; they are looking for additional benefits-predominately retirement plans. An estimated 80% of large corporations offer employees 40 1 (k) retirement plans while approximately one *in four small businesses can afford to sponsor such a plan. The cost of administrating and the time "involved with recordkeeping hinder these small entities from offering retirement plans. Due to the fact that Social Security benefits may not provide substantial income to cover retirement expenses, these small business owners and their employees are placed at risk for not having saved enough for their future.

Fortunately, a solution has evolved that saves employers time, money, and adds incentives. It went into effect January 1, 1997. It's called a SIMPLE IRA - an acronym for Savings Incentive Match Plan for Employees. A SIMPLE IRA is a retirement savings program designed for sole proprietors, and employers who have 100 or fewer employees and do not have an existing plan. This plan helps bridge the gap between Social Security income and retirement expenses by enabling all employees to save for their own retirement.

A SIMPLE IRA is similar to a 401 (k) plan. Each pay period, employees decide how much they wish to have deducted from their salary on a pretax basis, and the employer makes up to a 3% matching contribution or a 2% non-elective contribution to each employee's account. Contribution limits allow employees to defer up to $6,000 a year to their savings. Additionally, a SIMPLE IRA plan is tax deferred until withdrawn at age 59 '/2 and offers participants various 'investing options through third-party administrators such as a mutual fund, money managers, or brokerage firms. Unlike 401(k) plans, employer contributions to a

SIMPLE IRA plan are mandatory and employees are immediately vested. Loan provisions do not exist.

Generally, SIMPLE IRA PLANS are available to employees who

I . Have worked for the company for at least two years.

2. Have earned at least $5,000 in compensation from the company during any prior two years.

3. Are expected to earn at least $5,000 in compensation from the company for the
current year

However, employers can liberalize these requirements. They have the option of including all employees permitted under a plan, without regard to any eligibility requirements.

Small business owners obtain numerous benefits by providing their employees a method to save for their retirement. By offering this alternative, employers will appreciate the features listed below.

I . Contributing to employee plans is tax deductible as a business expense.

2. Establishing and maintaining this type of plan is relatively uncomplicated since the IRS does not require the filing of Form 5500 as it does with a 401 (k) plan.

3. Administering yearly nondiscrimination testing is not required-savMig employers money and time involved with the complicated calculations.

4. Offering this plan helps attract and retain valuable employees.

5. Providing employee reports is 'inexpensive. Typically, employers only need to provide employees with an annual report detailing yearly contributions.

6. Funding responsibilities are shared with the employees.

Section IX Nonqualified Deferred Compensation Plans

These nonqualified plans do not require IRS approval and therefore may be discriminatory-employers can offer it to key employees. The deferred compensation plan is simply a contractual agreement under which the employee agrees to defer receipt of part of his compensation until retirement, disability or death. The employee does not have to pay income taxes for the deferred amount until he has actually received the benefits. The employer does not receive a deduction for contributions until payments are made to the employee.

One thing to remember, the employee has,no guarantee ' that the employer will make the agreed payments -at a later date. If the employer becomes bankrupt, the employee will become an unsecured creditor of the business.

Section X ERISA
(Employees Retirement Income Security Act)

The chief purpose of ERISA was to protect the interest of employees and their beneficiaries by defining certain standards as follows:

Participation - Cannot be unreasonable for an employee to become eligable for plan participation.

Funding - Provisions must be provided for to assure money is available to pay benefits at retirement.

Vesting - Certain minimum periods must be,established to assure that an employee will receive at least some benefits at retirement.

Fiduciaries - Retirement funds must be handled prudently by the appointed trustees.

Non-discrimination - Plan must not discriminate in favor of the highly paid employees.

Taxation of withdrawals - All withdrawals from qualified plans will be taxable as ordinary income in excess of the plan's cost basis.

KEOGH PLANS

Self-employed workers, including individuals who earn money from a sideline business they run, are eligable to set up Keogh retirement plans.

With a Keogh plan, deposits are tax deductible, regardless of your income- and money in the plan allowed to grow and to compound tax-free until withdrawal.

Funding

Contribution to Keogh plan may be invested in mutual funds, bank accounts, trust account, life insurance contracts, and various other investments, except collectibles (arts, antiques, stamps etc.).

Eligibility and employee coverage

The minimum age and service requirements for em loyees participating in the plan is one year of service (1,000 houM and be at least 21 years of age. Employees must be fully vested-after fiye years.

Section XI Qualified Corporate Retirement Plans

Defined Contribution Plans

With a'defined contribution plan, the employer contributes a predetermined amount to the employee's retirement account. Employee's benefits will depend upon length of time the employee is under the plan and the amount contributed on his behalf.

Defined benefit Plans

These plans are designed to provide a predetermined benefit to participants and the contribution to the plan is based on an amount necessary to provide those benefits. Corporations desiring to set-up a defined benefit plan will need the aide of an actuary. T~e actuary will make use of an actuarial formula to determine the amount of contribution necessary to fund the retirement plan.

DEFINE BENEFIT PENSION

PRIVATE PENSIONS

The first private pension plan in the United States was established *in 1875 by the American Express Company and was soon followed by pensions provided by utilities, banking, and manufacturing. Almost all of the early pension plans were defined benefit plans that paid workers a specific monthly benefit at retirement. For the most part, these pension plans were funded entirely by the employer. During the early part of the 1900's , there was movement toward defined benefit plans that required some worker contributions. However, the number of these plans was insignificant and remains so.

Until 1974, there was little or no protection for pensions. Because of shocking *instances of workers losing their retirement benefits (most notably in 1963 when 4,000 Studebaker auto workers lost some or all of their promised benefits), Congress in 1974 took action to prevent such tragedies by enacting the Employee Retirement Income Security Act (ERISA).

ERISA set strict requirements for private pension plans. The U.S. Dept of Labor (DOL) is responsible for seeing that pension plans are properly operated and that their assets are managed *in a prudent manner. The Internal Revenue Services is responsible for pensions plan funding and vesting requirements, and for ensuring compliance with tax laws. Equally important, ERISA established the Pension Benefit Guaranty Corp. (PBGC), a federal agency, to ensure the pensions of workers covered by private defined benefit pension plans.

TRADITIONAL PENSION PLANS

Defined benefit pension plans may state the promised benefits as an exact dollar amount (for example $500 per month at retirement) or the benefit is calculated by use of a formula based in such factors as salary and service (for example $20 per month for every year of service with the company, or a percent of a worker's salary times years of service). Generally, a company funds the pension plan and its assets are collectively invested, usually by a professional money manager. Importantly most private define benefit plans are insured by PBGC.

PREDICTABLE, SECURE LIFETIME BENEFITS

Defined benefit pensions plans offer workers a number of advantages when compared to other workplace retirement plans. They provide workers with a predictable and secured benefit for life.

Predictable Benefits:

(1) Workers are promised a specific benefit at retirement.

(2) Workers can know "in advance what benefits they will receive.

(3) The benefits of workers are certain, not subject to fluctuation of the stock and bond markets.

(4) Employers, not workers, are responsible for providing the retirement benefits, and the benefits are not dependent upon the amount of salary workers are willing or able to contribute.

Secure Benefits:

(1) The Pension Benefit Guaranty Corp. pays the worker's pension up to the guaranteed limits if the employer can not afford to pay the benefits or goes out of business. In most cases, the PBGC guarantees covers all the earned benefits.

(2) A worker can earn a reasonable retirement benefit under a defined benefit plan, even if the worker has not had an adequate retirement plan or has not been covered by a retirement plan earlier in a career.

Lifetime Benefits:

A defined benefit plan must offer to pay an annuity, like a monthly benefit, for the life of a retired worker, no matter how long the worker lives. If the value of the benefit is $5,000 or less, the plan may pay the benefit in a single payment.

(2) A defined benefit plan must also pay an annuity to the worker's surviving spouse for the spouse's life, unless the worker and spouse elect otherwise.

Additional Beneflt Possibilities:

Defined benefit plans can provide additional valuable benefits to workers, such as early retirement benefits, extra spousal benefits, Disability benefits, or cost-of-living adjustments.

Basic Pension Plan Provisions Generally, defined benefit pension plans require workers to meet age and service requirements before they can participate 'in the plan. Workers can not be excluded for being to old, even if they are hired within a few years of the normal retirement age specified in the plan. Usually, plans allow workers to participate if they are at least 21 years old and have completed one year of service with the company.

Accruing Benefits:

Workers begin to earn (accrue) retirement benefits as soon as they become a participant in a defined benefit pension plan. However, they do not obtain a permanent right to the benefits (become vested) until they have worked a minimum period of time, as specified 'in the plan. The workers will then have a legal right to receive a portion, or all, of the benefits at retirement age, even if they change jobs, and go to work for another employer before reaching retirement age. Workers may lose their accrued benefits if they leave their job before becoming vested, even if they return to the same employer in later years.

Vesting:

Being vested means that a worker covered by a defined benefit pension plan has completed sufficient years of service and is entitled to receive beriefits accrued under the plan, whether or not the worker continues with the company until retirement. Pension plans have one of two vesting schedules: Cliff or Graded vesting.

(1) Cliff vesting, workers must be fully vested after five years of Service. The plan however, could specify a shorter period of service. Workers have no vested rights until this service is completed.

(2) Graded vesting, workers must be at least 20 percent vested after Three years of service and receive an additional 20 percent vesting For each of the next four years, with full vesting, coming no later than at the end of seven years of service.

When workers leave a job 'in which they have earned the right to a pension, they must be provided information about their benefits. Participants should verify the information before they leave. Most important former workers should keep the plan administration advised about any change of address or marital status.

Payment of Benefits:

Workers are eligible to begin receiving pension benefits when they reach the normal retirement age spelled out *in their pension plan. For many pension plans, the normal retirement age is 65. But it could be different. Workers should check their pension plans for the normal retirement age and become familiar with the other provisions of the their plan. Many pension plans allow workers to take early retirement upon completing a certain number of years of service and/or reaching a given age. However, if workers decide to retire early, they will probably receive a lower monthly benefit than they would at normal retirement age, because the benefits will be paid over a longer period of time.

Survivor Benefits:

Define benefit pension plans normally provide survivor benefits if a worker dies either before or after retirement benefits begin. This means that if the worker is partially or full vested, the spouse will automatically receive survivor benefits if the worker dies unless the worker and spouse have specifically declined the survivor option in writing.

Normally, if a worker dies before the retirement, the plan will not pay the benefits to the spouse until the earliest date that the decreased worker could have begun receiving retirement benefit payments.

If the worker dies during retirement the surviving spouse will receive at least 50 percent of the benefits the retiree had been receiving. The benefits will continue until the spouse dies. Because this type of annuity takes into account the combined life expectancy of the worker and the spouse, and often is paid out over a longer period of time, the worker's monthly pension payment is usually less than it would have been if the worker and the spouse had declined the survivor coverage.

Generally, pensions cannot be attached for debts owed. However, in the event of a divorce or separation, a judgement, decree or order made pursuant to a state domestic relation law can direct the pension plan to pay a share of a worker's pension directly to a spouse, former spouse, child or other dependents. For this to occur, the order must be a Qualified Domestic Relations Order (QDRO).

Pension Plan Funding

Defined benefit plans usually are funded entirely by the employer. Employers generally contribute enough annually to cover the normal cost of the plan - an amount that is at least the value of the benefits that participants in the plan have earned that year. In addition, employers may have to make additional contributions for various reasons, such as to make up for any investment losses by the pension fund.

PENSION PLAN ADMINISTRATOR

The person who administers the pension plan is known as the plan administrator. The plan administrator's responsibilities 'include keeping the workers fully informed of their rights and benefits, making pension payments to retirees and beneficiaries, paying insurance premiums to PBGC, and making reports to plan participants and to DOL, IRS, and PBGC as required by ERISA.

Pension Plan Termination

Pension plans are initiated voluntarily by employers. Employers may terminate defined contribution plans at any time, but they may terminate defined benefit plans insured by PBGC only in two ways. Standard or Distress termination. In addition, there is an involuntary termination. Under certain conditions, PBGC may terminate a plan, even if a company has not filed to terminate the plan on its own initiative.

Standard termination - a plan may be ended only if there is enough money to pay all pension benefits earned by workers as of the termination date. The plan administrator will pay the promised benefits - usually by purchasing annuities from a private insurance company or making lump-sum. payments to participants. If there are insufficient assets to meet all benefits liabilities or the proper procedures were not followed, PBGC may issue a notice of noncompliance that nullifies the proposed termination.

Distress or Involuntary Termination - a plan that does not have enough money to pay all pension benefits earned by workers. A plan can end 'in a distress termination only if the employer meets one of the following distress criteria:

(1) Chapter 7 bankruptcy liquidation

(2) Chapter I I bankruptcy reorganization. The employer must demonstrate to the court that liquidation would necessarily follow If the pension plan were not te I-minated.

(3) A determination by PBGC that the employer is in such poor financial condition that unless the plan terminates the employer cannot pay its debts when due and cannot continue in business.

(4) A determination by BBGC that, due solely to a decline in the employer's workforce, pension cost have become unreasonably burdensome.

In a distress or involuntary termination, PBGC determ Mies how much of the promised benefits the plan can provide. If the plan does not have enough money to pay guaranteed benefits, PBGC will step 'in and take over the plan as trustee, and use its insurance funds to make sure the guaranteed benefits are paid to the plan participants due.

Cash Balance Plans

A cash balance plan is a defined-benefit pension plan with features similar to defined contribution plans like a 401(K). Like a traditional pension plan, the company funds the pension, controls the investments, bears the investment risks and guarantees a benefit payout at retirement. However, like a defined contribution plan, the employer contributions are based on a percentage of employee's wages, and the plan sets up a hypothetical "account" for each worker that shows how much has accumulated in the worker's pension account at any given time.

In a traditional pension plan, a typical formula multiplies the years of service times a percentage of pay earned in the last few years of work. This formula favors employees who stick with a company for a long time, when pay is much higher in their latter years, versus employees who don't stay as long.

Under cash balance plan, the company annually credits to the employee's account a set percentage of his salary, for example, five percent. Some plans may pay a flat dollar amount. In addition, the account is guaranteed to earn a specified minimum interest rate.

The rate might be a set rate or one tied to an index such as the Consumer Price Index or the going rate for three-month U.S. Treasury bills.

The interest credit typically will vary from year to year. The amount the company contributes will increase as the employee's pay increases over the years, but unlike a traditional pension plan, there's no heavy back loading, where the employee might earn half of his pension in last few years. At retirement, he receives either a lump sum or a guaranteed annuitized payout.

Vested employees leaving the company typically are more able to roll their credited amount in a cash balance plan into an IRA. This portability and the relatively even-handed contribution and crediting by the employer, makes cash balance plans appealing to workers who changes jobs several times in a lifetime. The Employees Benefit Research Institute estimates that the plan favors workers who stay less than 15 years. Workers who stay at least 25 years would fare better under a traditional plan.

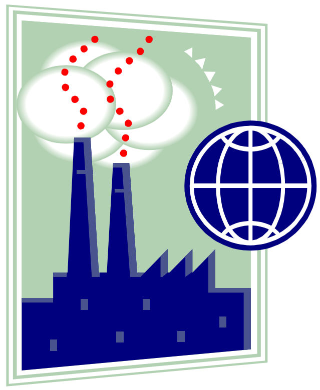
Section XII Disability Income Insurance

History

Disability income insurance came about during the American Industrial Revolution. This was a period when workers experienced an increased risk of bodily injury at work. Many factories were unsafe and dangerous for workers. Early disability income policies were restrictive and only covered disabilities that resulted from accidental injury. The insurance did not cover sickness and workers employed at hazardous occupations were often unable to obtain coverage.

The situation gradually changed as work facilities improved and state workers compensation laws began to seriously address the issue of disability benefits. Insurers start adding disability coverage for both sickness and disease. Accidental death and dismemberment coverage become available to workers and renewal options were better.

Unfortunately, these improved benefits along with workers remaining disabled for a longer period of time, caused insurers to lose a substantial amount of money. The result, more and more insurance companies began to pull-out of the disability income insurance market. The insurance became more difficult to obtain because less and less insurers were offering coverage



1950-60 Recycled benefit Period

During the early 1950's insurers began issuing disability contracts with a recycled benefit period. This new feature allowed policyholders to have a new benefit period for each disability. The benefit periods were usually restricted to two, three, five or ten years.

Throughout the 50's large amounts of accident-only policies were sold. Although insurers offered accident and sickness coverage, accident-only contracts were sold at a much higher pace because the premiums were significantly lower.

During the 50's most disability income policies terminated at age 60. A few contracts extended beyond that period if the disability occurred before age 60. The practice changed during the 50's and extended the maximum life of the policy to age 65. Since many individuals continued to work after age 65, some insurers began selling disability policies that extended the contract to age 72, as long as the insured remained active at work.

Individual disability income policies continued to grow during the 1950's and early 1960's. Non –cancelable and guaranteed –renewable contracts also began to appear at that time. These contracts usually carried a guaranteed renewable provision beyond age 65. The premium remained level to age 65, but after that point insurers had the option of increasing the premium for individuals who desired to keep their policy enforced. It was not until the mid 1970's when insurance companies began to experience claim problems that insurers started to increase the premiums on this block of business.

In the early 1960's insurers started to add language to the contract that would limit the problem of over insurance. The new clause, "Relation to Earnings Provision", was very popular with insurers.

The "Relation to Earnings Provision" was very popular with insurance companies that provided disability income policies with long periods of benefits. The industry recognized that there is a relationship between the amount of insurance people buy and the amount of income they earned. Data gathered by insurers revealed that the closer the insurance was to the actual loss, the greater the tendency for claims.

Unfortunately, the language allowed under the Uniform Provisions was so complicated and very difficult to administer and explain, that the issuers eventually removed it from their contracts.

Up through the early 1960's the maximum liability for an insurer for one claim was rarely more than $500 a month for ten years or $60,000. By 1970, the potential liability for one disability on a $2,000 – per month contract with a benefit period to age 65 represented a total liability of $720,000 at age 35 and of course even greater amounts at the younger ages. In a ten year span, liability had increased more than 12-fold.

Government Encroachment

In 1958 Congress enacted legislation that provided disability benefits under the Social Security program for individuals disabled after age 60. In 1965, this was extended to essentially all participants in the Social Security program, although an elimination period of one year was necessary. Also during the 60's several states considered developing their own cash sickness or disability programs to cover disabilities that were not covered under the Workers Compensation program.

By the late 1960's the level of both federal and state disability payments had reached the point at which insurers recognized that they could no longer ignore these benefits in considering applicants for private individual disability income coverage. It is an accepted fact that the greater the amount of disability benefits available to an insured, the greater the possibility of claim and the greater the chance of a claim being extended.

Insurers, therefore, began to reduce the normal amount of disability benefits they would write, dependent upon the level of governmental coverage.

By 1977 the disability income trust fund under Social Security was rapidly being depleted and Congress was faced with taking immediate corrective action. Legislation was passed in 1978 that began to correct some of the over insurance problems that existed within the Social Security system – the most important of which was removing and correcting that part of the law that provided for benefits increasing at almost twice the rate of inflation. In 1980 additional legislation was passed that tightened up still further on the disability income part of the Social Security system.

By the early 1980's the industry began to reestablish its confidence in the underwriting disability income insurance. The industry experienced substantial growth through 1986. Many life insurance
companies began to commit more resources towards their disability income product line, a partial reaction to the readjustment of their portfolios as a result of the problems of universal life products. Sales and profits in life insurance had become more difficult and consequently disability income became more attractive.

Selection and Underwriting

The disability income underwriting process is very similar to life underwriting. Attending physician statements are frequently ordered; large indemnity amounts usually require inspection reports; medical examinations are also required for larger coverage's and those that have longer benefit periods. Supplementary information is often requested – such as detailed income questionnaires, blood pressure and diabetes questionnaires.

The indemnity income approved by the underwriters must bear a direct relationship to the applicant's earnings. Every applicant is classified into one of four or five occupational class groups. These class groups determine the level of risk and premium rate.

A smaller percentage of life applicant's are rejected each year by insurers, usually one to three percent, compared to disability income insurance applicants who are rejected.

Each year, life insurers reject approximately one to three percent of the applicants who apply for life insurance. The rejection rate is six to ten percent when applicants apply for disability income insurance.

Claims Handling

The most important distinction between life and disability claims handling is that there is only one death claim per insured. There can be many disability claims associated with an insured of a disability income policy.

An important point to remember about a disability claimant is that he has some control over the extent of the claim itself. The claimant's stability, employment, and motivation all are important in determining the length of a claim as in the nature of the disability itself. In life insurance the determination of the claim is quite definite; but in disability insurance, claims are frequently quite subjective and vulnerable to abuse through malingering.

Sales

Most insurance salespeople are trained first in life insurance and consider this their primary product line. If they sell disability income at all, it is clearly as a secondary product.

Many of the large disability income issuers firmly believe that the disability income sale is the most fundamental and basic personal insurance sale that should be made to the consumer. The argument is that the odds of suffering a long term or permanent disability before an individual retires are much greater than the odds of dying before retirement. With the proper protection for disability income, the insured not only can provide income for the family but can also pay for his or her life insurance premium.

The agent is in the best position to measure the stability, motivation and general character of the applicant in the disability income process, and this evaluation has a much more direct bearing on the claim experience than would be true in life insurance.

If a prospect has a need and the producer has the solution for that need, a sale is more likely to occur. But sometimes producers have to help customers recognize a need. The need for disability insurance is a perfect example.

Government Influence

Many states require filing and approval of disability income premium rates before contracts can be sold. This requirement does not apply to life insurance.

State cash sickness benefits and Workers' Compensation benefits provide governmental benefits that place them in competition with private insurers of disability income insurance.

Over the years, insurers have been developing disability income products that program and coordinate around government coverage, such as, Social Security disability income benefits.

Disability income is an infant when with the sophistication and reliability of data available in life insurance. On the other hand, this lack of maturity represents tremendous opportunity for experimentation and innovation in a product line that is not yet fully developed and mature. It presents an opportunity for creativity, along with the excitement and challenges associated with a volatile product.

Who needs disability income insurance?

If customers understand why income protection is important and how disability insurance provides that protection, they are more likely to see the need for it.

Primary specifications of a disability insurance policy include:

(a). What determines if insured's are disabled?

(b). How much insured's receive if they are disabled?

(c). How long insured's have to wait until benefits begin?

(d). How long will insured's receive benefits?

The Three Primary Specifications:

(1). Benefit amounts – how much the insured receives in benefits?

(2). Elimination periods – how long insured's have to wait until
benefits begin?

(3). Benefit periods – how long insured's can receive benefits?

A benefit amount depends on an employee's salary. It is usually expressed as a percentage of an employee's salary.

A typical benefit amount may represent 50 percent of an employee's salary. In that case, the insurer would cover 50 percent of the insured's salary. But, there may also be minimums and maximums- and there may be dollar figures or percentages.

Flat benefit amount options may range from a minimum to a maximum of $200 to $4,000.

Sometimes, an employee may not qualify for the amount he or she wants and that is where income requirements come into play.

Example:

Lorraine earns $40,000 annually. What is her monthly salary?

answer: $3,333.00

Lorraine wants $2,500 of monthly benefits. What percentage of her monthly salary is that?

answer: 75%

Is Lorraine eligible for the $2,500 monthly benefit?

answer: No

Lorraine requested monthly benefits of $2,500 is below the maximum monthly benefit. But it represents 75 percent of her salary, above the maximum percent of salary.

How much can Lorraine receive in monthly benefit amounts?

Most insurers sell payroll disability benefit amounts in units.

1 unit = $100 of Coverage

Partial units are not usually available.

Insurers usually round down to avoid over insurance.

Example: Lorraine is eligible for $575 in monthly benefit amounts.

Lorraine has how many units?
answer : 5

How much in monthly benefit amount?
Answer: $500.00

Monthly salary is simply basic monthly earnings. It does not include bonuses, overtime or any compensation other than the monthly basic salary.

Most insurers offer a range of elimination periods options.

The elimination period is usually expressed as an accident/sickness figure. Example, 0/7.

0/7 means, the insured is covered from the first day of a disability resulting from a covered accident and on the eighth day of a disability resulting from a covered sickness.

Other examples are:

0/14 – the insured has coverage from the first day for a covered accident; from the 15th day for a covered sickness.

60/60 – Insured has coverage form the 61st day for a covered accident; from the 61st day for a covered sickness.

Recurrent disability

If the insurer pays benefits for a period of total disability and the insured becomes totally disabled again as a result of the original disability within six months after returning to work, the insurer usually treats it as a recurrent disability. This simply means the insured does not have to wait through another elimination period before the insurer starts paying the benefits.

Elimination Period / Benefit Period

The benefit period begins when the elimination period ends.

The benefit period is the length of time an insurance company pays benefits. Most insurers offer a variety of benefit period options.

For example: Short term disability policies usually have benefit periods ranging up to two years.

Long Term disability policies have benefit periods ranging up to five years or to age 65.

Factors the customers should consider when choosing the benefit period:

(1) Savings

(2) Sick Leave

(3) Other sources of income

(4) Employee – sponsored disability plans.

(5) Other disability plans.

Other Terms

(1) **Portability**- Insured's can keep the coverage on an individual basis if they change jobs or retire. This policy will be converted from a group policy to an individual policy.

Accidental injury and sickness

The purpose of disability income insurance is to insure against income loss from accident or sickness. A fundamental part of the contract is the definition of total disability. Insurance companies typically have two definitions for totally disability, “own occupation” and “any occupation.”

Own Occupation

The insured is considered to be totally disabled if he is unable to work in his or her regular occupational endeavor-even when the insured may be able to earn as much or more income in another occupation.

Any Occupation

This definition of total disability is strictly determine by the insured’s ability to work in “any occupation,” and has a maximum period for which benefits are to be paid that is usually no longer than two to three years.

The amount of indemnity in the disability income contract may be stated on a daily, weekly, or monthly basis and is comparable to the face amount on a life insurance contract. In a disability income contract the insurer and underwriter must determine whether the amount of insurance applied for bears a reasonable relationship to the applicant’s current income. The indemnity amount is usually stated on a monthly basis and can range from $ 50 per month to several thousand dollars per month.

Presumptive Disability

Many disability income policies include language that waives the requirement of total disability under certain circumstances. For example, if the insured suffers loss of sight or loss of hearing, he or she is presumed to be totally disabled. The benefits under the contract will be payable for either the length of the benefit period or for life, without the requirement that the claimant in fact be no longer earning income. In addition to the above two circumstances, it is frequently for presumptive disability clauses to also include loss of speech and loss of two limbs.

Partial Disability

Partial disability benefits have existed in disability policies as an option for many years. They typically pay 50 percent of the basic disability benefit during any period of partial disability and where partial disability is carefully and specifically defined in the contract. These benefits are normally paid to the insured for six months. The insured is allowed to return to work on a limited basis and still receive a partial disability check from the insurer. The purpose is to encourage the disabled claimant to return to work.

Residual Disability

Residual disability benefits are partial benefits that are based on the percentage of lost income. Their purpose is to encourage the insured to return to work, even if on a limited basis, while at the same time paying limited benefits if the claimant is unable to earn at the same level that he or she was able to earn prior to disability.

Recurrent Disability

Under the recurrent disability clause the insurance company will define how it will treat disabilities that recur for the same accident and sickness. The specific purpose of the clause is to state how long a period of time must lapse between disabilities for the same physical impairment in order to be considered an entirely separate disability. Without language defining recurrent disability, the insurance might unreasonably require that another elimination period be fulfilled before resuming benefits. On the other hand, an individual with a two-year disability income policy might become totally disabled, collect benefits for two years, then return to work for a brief period, go back out on disability and collect benefits for another two years. **Therefore, the recurrent clause states that any disability that recurs within six months following the original disability is deemed to be a continuation of the original disability.**

Workers' Compensation

Workers' Compensation coverage was the first broad-based governmental disability program enacted in the United States. These programs represent 51 separate programs, 50 of which are controlled by state governments and 1 controlled by the District of Columbia. The programs are significantly different from one state jurisdiction to another, both in the areas of benefit payments and the administrative rules that govern those payments.

Highly industrial states were the first to enact Worker's Compensation legislation. States that were less industrialized were the last to pass legislation. The Workers' Compensation programs in liberal states typically have more liberal benefits than less industrialized states.

Some provisions

All programs are designed to primarily cover the needs of the lower-middle-and lower-income working class and are not designed to fully cover the needs of the upper-middle- and high-income earners. The length of benefit payments has gradually been liberalized over the years and generally is coordinated with Social Security disability benefits, so that the two programs do not pay simultaneously.

The Social Security program is the primary payer, and Workers' Compensation benefits generally cease after a worker is approved for Social Security disability benefits.

One of the areas of greatest difference from one state program to another is in the amount of increased benefits based upon the number of dependents. In most cases the amount of benefits is adjusted substantially, based upon the number of dependents of the disabled workers.

Coordinating Benefits

Many insurers have developed either special contracts or special amendments to their disability contracts that guarantees to pay the indemnity when Workers' Compensation benefits are not paid to the workers. These contracts or amendments are frequently referred to as non-occupational coverage since they are designed and priced to pay benefits for accidents and illnesses that occur away from the insured's occupation. The main purpose of these amendments is to leave the on-the-job accidents to be covered by the state's Workers' Compensation program. These non-occupational coverages are frequently the only type of private insurance available in the lower-occupation classes in which earned incomes are approximately $ 15,000 per year.

Social Security Disability Program

The definition of disability under Social Security has been changed slightly since its inception in 1956. The current definition provides for disability benefits to commence after five months of disability if it can be presumed that the disability either will last more than 12 months or will end in death. At the one-year point the requirement that the disability be permanent is no longer applicable. As long as the disability is total and the claimant is unable to engage in another occupation, benefits are normally payable. It is in this area of whether or not the claimant can engage in another occupation that the greatest differences exist between Social Security disability and private insurance programs. Private insurers, under their definition of total disability, usually require that the claimant be unable to engage in any occupation for which he or she was reasonably fitted by education, training, experience, and prior economic status. This definition tends to be somewhat more liberal in granting disability benefits than is Social Security, which essentially requires that the claimant be unable to engage in "any occupation."

Accidental Death and Dismemberment

This benefit is very similar to life insurance which provides a flat face amount payment for accidental death and also for dismemberment. Dismemberment is defined differently in different insurance contracts but normally pays a portion of the face accidental death amount if the insured loses a limb or sight. The amount of accidental death and dismemberment is normally a multiple of the base monthly indemnity.

Uniform Policy Provisions

The disability income contract is regulated by the various state insurance departments through a set of specified language in the Uniform Provisions. The regulatory guidelines are very similar to those for life insurance, and the premium payment, contestability, and grace period language follow closely the pattern of life insurance contracts. The major contractual provisions are listed below. **Some provisions have been mentioned previously in this material and are not listed.**

1. Insuring Clause – The disability contract contains an insuring clause defining the general condition of insurance. It states the length of the insuring period – normally to age 65, but in some instances for a longer period of time.

2. Wavier of Premium – This benefit is very similar to that for life insurance policies. Usually this provision will waive the payment of any premium that becomes due after 90 days of total disability. Some disability contracts will refund any premium that became due during that 90-day period.

3. Preexisting Conditions – This provision states that the insurer has a contestable period of two years and at the same time indicates that benefits are not payable for disabilities that occurred prior to the issuance of the contract.

4. Exclusions – Most contracts today carry exclusions for only “acts or accident of war.”

5. Relationship of Earnings – This provision allows the insurer to reduce the level indemnity payment if the insured at time of claim is found to carry more disability insurance than his or her income would justify. Here the insurer would reduce the premium and in fact refund premium in certain instances.

Disability Income Future

The economic climate in which insurers operate and the level of unemployment will continue to have a direct impact upon disability income marketability. Will double-digit inflation return to impact our economy? If this proves to be the case, it will have a direct effect on expense rates, product design, and the general stability of in-force business. Inflationary periods tend to increase lapses and policy makeovers, since the contract fails to cover the insurer’s income needs after a short period of time.

Insurers will continue to experience periodic recessions, some steeper than others, with generally the some effect on their business as in the past. Morbidity will increase during recessionary periods, and the steeper the recession, the higher the morbidity. A true economic depression will have financial consequences similar to those of the 1930s depression. The volatility of disability experience is so directly tied to the economy and unemployment that adverse financial consequences cannot be avoided. The successful disability insurer will be the one that can significantly blunt such adverse effects

Section XIII Long Term Care Basics

What is LTC

Long term care, also called “custodial care” is help a person receives when he needs assistance performing activities of daily living-such as eating, bathing, or dressing himself. This service helps the insured live as he or she is presently. It is not design to help to correct or improve medical impairments. Long-term care services may also include home health care, respite care, adult day care, care in a nursing home, in an assisted living facility, and hospice care.
For example, there may come a time when a person needs help getting in and out of bed, eating or bathing. It also includes the kind of care that a person may need if he or she had a severe cognitive impairment like Alzheimer’s disease or dementia.

Long term care may also include care management services, which will evaluate the needs, monitor and coordinate the services. People with cognitive impairment usually need to be watched, supervised, protected or reminded to do daily activities.

The need for long term care usually arises from injury, disability, age or chronic illness. Approximately 60% of Americans who reach age 65 will need long term care before they die.

The need for long term care services can strike at any time. About 40% of people receiving long term care services are working age adults, between the age of 18 and 64.

Long term care is the type of care that people may need if they can no longer perform **activities of daily living by** themselves. The following is a list of examples of **Activities of Daily Living.**

Bathing:
- getting into a tub or shower; and
- getting out of a tub or shower; and
- washing your body in a tub, shower or by sponge both; and

- washing your hair in a tub, shower or sink

Dressing:
- putting on and taking off any necessary item of clothing,

Transferring:
- getting in and out of bed, wheelchair or chair

Toileting:
- getting to and from the toilet; and
- getting on and off the toilet; and
- performing associated personal hygiene.

Continence:
- maintaining control of bowel and bladder function; or
- when unable to maintain control of bowel or bladder function, performing associated personal hygiene

Eating:
- feeding yourself by getting food into your mouth from a container
  (such as a plate or cup), including use of utensils when appropriate
  (such as a spoon or fork); or
- when unable to feed yourself from a container, feeding yourself by a
  feeding tube or intravenously.

If the insured needs substantial assistance from another person to complete any one of these **daily activities**, he or she is considered to be dependent for **Activities of Daily Living.**

Cognitive Impairment

Many long term care insurance policies will pay benefits for "cognitive impairment" or mental inability. If you are unable to pass certain tests of mental function, the insurance police will then start paying you benefits.
Cognitive impairment means a deterioration or loss in intellectual capacity (such as may occur with Alzheimer's disease or dementia) that (a) places a person in jeopardy of harming him/herself or others and therefore the person requires substantial supervision by another person; and (b) is measured by clinical evidence and standardized tests which reliably measure impairment in: (1) short or long term memory; (2) orientation to people, places or time; and (3) deductive or abstract reasoning.

Dementia

Dementia is impairment of brain functions such as reasoning, memory, and judgment so severe that it affects a person's ability to function at his or her usual level. The severity of dementia depends on the number and location of brain cells (neurons) that are damaged or destroyed.

Memory loss is the most common symptom of dementia. People also may have difficulty using or understanding words or become lost in previously familiar places. They may have difficulty performing tasks that require organization, such as going to a shopping mall, balancing a checkbook, or making list of daily chores. Dementia can cause- depression, aggression, irritability, and personality changes. **Alzheimer's disease is the most common cause of dementia**.

Most states do not allow long term care policies to limit benefits because the insured has a cognitive impairment, such as, **Alzheimer's disease.**
Alzheimer's disease is the # 1 reason for long term care claims – cancer, strokes, and accidents are some other reasons. Every

day on average, 986 Americans are diagnosed with Alzheimer's, and the decision to tell friends, relatives, employers is often an agonizing one. They fear they'll be branded with a scarlet **A.** Alzheimer's disease steals a person's lucidity thought by thought. Since Alzheimer's was identified in 1906, most families and patients have suffered silently until the symptoms were too noticeable for others to ignore or deny. But in recent years, emboldened by the examples of former **President Ronald Reagan** and actor **Charleston Heston**, more people with early-stage Alzheimer's have chosen to speak for themselves while they still can.

About 75% of care for people with Alzheimer's disease is provided for at home.

Long term care services can be received in a variety of setting, including your own home, assisted living facilities, adult day care centers or hospice facilities. The services can be covered completely or in part by long term care insurance. Many plans let you choose the amount of the coverage you want, as well as how and where you want to use your benefits. A comprehensive long term care policy includes benefits for all levels of care,
custodial to skilled medical care.

Long term care isn't the type of care that people receive in the **hospital or their doctor's office**. It isn't the medical care they need to get well from a sickness or an injury. **It isn't short-term rehabilitation from an accident or recuperation from surgery.** Surprisingly, long term is not always administered in a nursing home. **In fact, more than 80% of all people receiving long care benefits and assistance are not in nursing homes.**

Caregivers save health care organizations billions of dollars every year in America.

The Cold Facts

There are numerous myths about long term care. Some people think that only senior citizens need to worry about long term care so they put off preparing for the possibility. The cold fact is that unforeseen accidents or illnesses can strike at any age. While 60% of people who will need long term care are 65 or older, 40% are working age adults between the ages of 18 and 64.

People of any age can develop serious conditions that require assistance with routine daily activities for an extended period of time and such help could be very costly. Long term care insurance can help cover the cost of this care and protect ones assets.

Some believe that once they are stricken with an accident or sickness, their family will take care of them. In today's society, children may live across the country or around the globe. And many women are active in the workforce, with less time to fulfill their traditional caregiver role.

More cold facts:

- By 2030, American age 65 and older will double.
- Americans age 85 and older will triple by 2030

- The longer people live, the greater the chance of becoming ill.
- Approximately 43 % of Americans 65 and older will need long term care before they die.
- The average stay in a nursing home is approximately 456 days.
- 30% of the elderly people who stay three months or longer in a nursing home would become impoverished.
- 80% would be impoverished with a stay of 104 weeks
- Over 25 % of Americans households are providing traditional long term, approximately 22.5 million families.
- Women generally outlive men, and they face a 50% greater probability than men of entering a nursing home after age 65
- By 2005 approximately nine million Americans will need some kind of long-term care. By 2020, 12 million will need long-term care
- A study by the Dept. of Health and Human Services indicates that 10% of the people, age 65 and residing in a nursing home, will stay there five years of longer.
- The longer you live, the greater the chance that you will
  need some type of long-term care.

Since 1987, the number of Americans who've purchased a long term care policy has grown at an annual rate of 18%, according to the Health Insurance Association of

America, but the vast majority of that growth has taken place in recent years. In 1999, more than 750,000 policies were purchased. This was a 40% increase from the previous year. More than seven million Americans have now purchased a Long Term Care Policy. Currently there are over 35 million Americans age 65, so the market is still enormous.

NURSING HOMES

What is a Nursing Home?

A nursing home is a residence that provides room, meals, help with activities of daily living, recreational activities, protective supervision, and monitoring of residents. Typically, nursing home residents have mental and physical impairments which keep them from living independently at home. Nursing homes are certified to provide different levels of care, from custodial to skilled nursing. They are designed to meet the needs of acute or chronically ill patients. People who require less than skilled care, or who require skilled care for a brief or long period of time, should consider a nursing home. For some, a nursing home may be a viable alternative to home health care, especially if the person has a chronic or acute illness that requires a level of care that cannot be easily provided at home.

Visiting Nursing Homes

A visit to a nursing home will provide an opportunity for the caregiver and patient to talk to nursing home staff, and observe the people who live and receive care at that facility. Visitors will also be given the opportunity to examine the nursing home's most recent **survey report**. By law, this report must be posted in the nursing home in an area that is accessible to visitors and residents

What is a Survey report?

All nursing homes that are certified to participate in the Medicare or Medicaid programs are visited by a team of trained State surveyors approximately once a year. These surveyors examine the nursing home for several days. They will inspect the performance of the nursing home in numerous areas-including the quality of life and quality of care. At the conclusion of the survey, the team reports its findings to the Medicare or Medicaid Administration. Nursing homes that receive a deficiency report are subject to fines and other penalties if they are not corrected in a specified period of time.

Rights of nursing home residents

Over the last decade, different laws and regulations have been enacted to raise the standards of nursing home care, particularly with respect to quality of life. **The law currently requires that residents receive the necessary care and services that will enable them to reach and maintain their highest practicable level of physical, mental and social will-being**. In addition, civil rights law ensures equal access in all nursing homes regardless of race, color, or national origin.

ASSISTED LIVING

Assisted Living facilities provide a variety of services that emphasize both comfort, and convenience. The following is a list of the typical things that are offered to all residents:

- A choice of apartments complete with full bath and kitchenettes
- Senior-focused features like: showers with seats, grab bars in the bathroom, night lights, raised electrical outlets.
- Individually controlled heating and air conditioning
- Personal emergency response system
- Periodic housekeeping and linen service
- Attractive community areas, including :
    1. Dining room
    2. Library & activity rooms
    3. Main living room for socializing

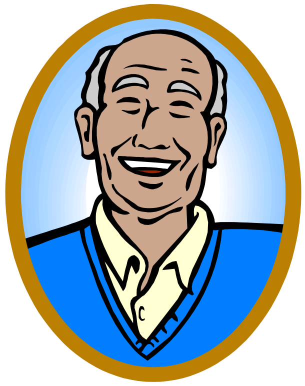
* Beautifully landscaped courtyard and walking paths
* Fire alarms and sprinkler systems
* Washers & dryers available for personal use
* Full- service beauty/barber shop (usually for an additional fee)

Standard services for residents include:

- Three meals daily
- Between-meal snacks
- Access to trained staff 24 hours a day
- Licensed nurses
- Daily physical fitness, creative, social, learning, and spiritual activities and programs
- Resident-sponsored clubs for a variety of interested persons
- Scheduled group trips
- Scheduled transportation for errands and medical appointments
- Social and educational programs for families

Custodial and medical services

- Personal hygiene
- Bathing and showering
- Dressing and undressing
- Nighttime care
- Mobility and transferring
- Continence
- Orientation (i.e. ability to recognize people, places, things)
- Communication
- Socialization and activities
- Monitoring of safety
- Eating
- Medications
- Treatments, monitoring and responding to health needs
- Alzheimer’s Care



Cost of Long Term Care

The national average cost of a semi-private room in a nursing home is $ 52,000 annually. This depends upon where a person lives and the type of facility that the person prefers, costs can be considerably higher.

Medicaid

Medicaid is a jointly-funded, Federal-State health program for certain low-income and needy people. It covers approximately 36 million individuals including children, the aged, blind, and / or disabled, and people who are eligible to receive federally assisted income maintenance payments.

Medicaid is designed to protect those with minimal assets or disabled. To qualify, many people have to spend down nearly all of their assets. Because spouses have a legal responsibility
to support each other, both must spend down their assets before an ill spouse may qualify for medicaid benefits.

<u>Medicaid eligibility</u>

States have some discretion in determining which groups their Medicaid programs will cover and the financial criteria for Medicaid eligibility. To be eligible for federal funds, States are required to provide Medicaid coverage for most individuals who receive federally assisted income maintenance payments, as will as for related groups not receiving cash payments. Some examples of the mandatory Medicaid eligibility groups are:

- Low income families with children;
- Supplemental Security income (SSI) recipients;
- infants born to Medicaid-eligible pregnant women;
- children under age 6 and pregnant women whose family income is at or below 133 percent of the Federal poverty level;
- recipients of adoption assistance and foster care under the Social Security Act;
- certain Medicare beneficiaries

Medically Needy Eligibility

The option to have a " medically needy" program allows States to extend Medicaid eligibility to additional qualified persons who may have too much income to qualify under the mandatory provisions. **This option allows them to "spend down" to Medicaid eligibility by incurring medical and / or remedial care expenses to offset their excess income, thereby reducing it to a level below the maximum allowed by that State's Medicaid plan.** States may also allow families to establish eligibility as medically needy by paying monthly premiums to the State in an amount equal to the difference between family income (reduced by unpaid expenses, if any, incurred for medical care in previous months) and the income eligibility standard.

Amplification on Medicaid eligibility

Coverage may start retroactive to any or all of the 3 months prior to application, if the individual would have been eligible during the retroactive period. Coverage generally stops at the end of the month in which a person's circumstances change.
Most States have additional "State-only" programs to provide medical assistance for specified poor persons who do not

qualify for the Medicaid program. No Federal funds are provided for those programs.

Medicaid-Medicare Relationship

Medicare beneficiaries who have low income and limited resources may receive help paying for their out-of –pocket medical from their State Medicaid program. There are various benefits available to "dual eligibles" that are entitled to Medicare and are eligible for some type of Medicaid benefit.

According to the Centers for Medicare and Medicaid Services(CMS) Office of the Actuary, national spending on health care has risen to more than $ 1 trillion each year, and is expected to double to more than $ 2.2 trillion by 2008. spending in the Medicaid program has risen from

$ 3.9 billion in 1968 to more than $ 178 billion in 1998.

The State of Maryland Medicaid Program

The State of Maryland has over 580,000 uninsured residents. Usually the State's Medicaid Program places a limit on the number of hospital days it will pay for a Medicaid patient. Once that limit has been reached, hospitals are then forced to give more uncompensated care, which eventually leads to higher hospital rates to insured patients. This will eventually cause health insureds to pay higher insurance premiums. The Maryland Health Services Cost Review Commission sets hospital rates. When hospitals are forced by the State to provide more uncompensated health care services to uninsured patients, the hospitals will usually request for a rate increase. This will basically cause those insured patients who are hospitalized to pay for the uninsured and for shortfalls in the Medicaid Reimbursement Program.
Each State has its own method of passing on these costs to its residents.

All State Medicaid Programs depend heavily on Federal assistance in areas such as prescriptions and hospital cost.

Producers who sell Long Term Care Policies should become very familiar with the State Medicaid Program in his area of business.

The Medicare Program

Medicare is a health insurance program for:

- people age 65 or older.
- Some people under age 65 with disabilities
- People with End-Stage Renal Disease (permanent kidney failure requiring dialysis or a kidney transplant)

Medicare has two parts

Part A	Hospital Insurance, Most people do not have to pay for Part A
Part B	Medical insurance Most people pay monthly for Part B

Medicare Part A

Medicare Part A (hospital insurance) helps cover inpatient care in the hospitals, critical access hospitals, and skilled nursing facilities. It also covers hospice care and some home health care- certain conditions must be met.

Cost: Most people do not have to pay a monthly payment, (called a premium) for Part A. This is because they or their spouse paid Medicare taxes while they were working.

If a person did not pay Medicare taxes while they were working and they are age 65 older, they still may be able to buy Part A.

What does Medicare Part A covers?

Hospital Stays: Semiprivate room, meals, general nursing, and other hospital services and supplies. This includes inpatient care received in critical access hospitals and mental health care. This does not include private duty nursing or a television or telephone in room. It also does not include a private room, unless medically necessary. Inpatient mental health care in a psychiatric facility is limited to 190 days in a lifetime.

Skilled Nursing Facility Care: Semiprivate room, meals, skilled nursing and rehabilitative services, and other services and supplies. Person must have had a related 3-day inpatient hospital stay prior to entering a skilled nursing facility.

Home Health Care: Part-time skilled nursing care, physical therapy, occupational therapy, speech-language, home health aide services medical social services, durable medical equipment (such as wheelchairs, hospital beds, oxygen, and walkers), medical supplies, and other services.

Hospice Care: For people with a terminal illness, includes drugs for symptom control and pain relief, medical and support services from a Medicare-approved hospice, and other services not otherwise covered by Medicare. Hospice care is usually given in the patient's home. However, short-term hospital and inpatient respite care (care given to a hospice patient so that the usual caregiver can rest) are covered when needed.

Blood: Pints of blood you get at a hospital or skilled nursing facility during a covered stay. Patient must pays for the first three pints of blood.

Medicare Part B

Medicare Part B (Medical Insurance) helps cover the patient's doctor's services, and outpatient hospital care. It also covers some other medical services that Part A does not cover, such as some of the services of physical and occupational therapists, and some home health care. Part B helps pay for these covered services and supplies when they are medically necessary.

Cost: Person has to pay the Medicare Part B premium of **$ 58.70** per month in 2003. This amount may change

January 1, 2004. In some cases, this amount may be higher for those who did not sign up for Part B when they first became eligible. The cost of Part B may go up 10% for each 12-month period that the person could have had Part B but did not sign up for it. The person will have to pay this extra amount as long as he or she has Part B, except in special cases.

Enrollment in Part B

Enrolling in Part B is optional. If a person is already getting Social Security or Railroad Retirement benefits, he or she are automatically enrolled in Part B starting the first day of the month they turn age 65.
If they are under age 65 and disabled, they are automatically enrolled in Part B after they get Social Security or Railroad Retirement benefits for 24 months.

Premiums for Medicare Part B are taken out of the person's monthly Social Security, Railroad Retirement, or Civil Service Retirement check. If a person does not get any of these payments, Medicare will send a bill for Part B premium every three months.

Important Telephone numbers:

* Social Security Administration 1-800-772-1213
* Railroad Retirement Board 1-800-808-0772

What Medicare Part B Covers:

Medical and other Services: Doctors' services(not routine physical examinations), outpatient medical and surgical services and supplies, diagnostic tests, ambulatory surgery center facility fees for approved procedures, and durable medical equipment (such as wheelchairs, hospital beds, oxygen, and walkers. Also covers second surgical opinions, out patient mental health care, and outpatient physical and occupational therapy, including speech-language therapy.

Clinical Laboratory Services: Blood tests, urinalysis, and more.

Home Health Care: Part-time skilled nursing care, physical therapy, occupational therapy, speech-language, home health aide services, medical social services, durable medical equipment (such as wheelchairs, hospital beds, oxygen, and walkers), medical supplies, and others services.

Outpatient Hospital Services: Hospital services and supplies received as an outpatient, as part of a doctor's care.

Blood: Pints of blood received as an outpatient or as part of a Part B covered service.

Preventive Services:

Medicare Part B Covered Preventive Services

Bone Mass Measurements: Once every 24 months for qualified individuals and more frequently if medically necessary.

Colorectal Cancer Screening: Fecal Occult Blood Test – Once every 12 months.

Flexible Sigmoidoscopy- Once every 48 months

Colonoscopy – Once every 24 months if person is at high risk for colon cancer.

Barium Enema: Doctor can use this instead of a flexible sigmoidoscopy.

Diabetes Services and Supplies:
Coverage for glucose monitors, test strips, and lancets.

Glaucoma Screening: Once every 12 months. Must be done or supervised by an eye doctor who is legally allowed to do this service in the patient's state.

Mammogram Screening: Once every 12 months.

Medicare also covers new digital technologies for mammogram screening.

Pap Test and Pelvic Examination
(includes a clinical breast exam): Once every 24 months. Once every 12 months if the person is at high risk for cervical or vaginal cancer, or if the person is of childbearing age and has had an abnormal Pap test in the past 36 months.

Prostate Cancer Screening: Digital Rectal Examination- Once every 12 months.

Shots (vaccinations):

Flu Shots – Once a year in the fall or winter.
Pneumococcal pneumonia Shot – One shot may be all a person may ever need.

Hepatitis B Shot

The Flu is a serious illness that can lead to pneumonia. It can be dangerous for people age 50 and older. People need a Flu shot each year because flu viruses are always changing. The shot is updated each year for the most current flu viruses. Also, the flu shot only provides protection from the flu for about one year.

Insurer's Financial Health

Purchasing long term care insurance may be unwise if the decision is solely base on price. When buying a long term care policy, life insurance, annuity or other products where benefits might not be paid out for a long time, it's important to make sure the insurer is financially sound. You want to be sure the insurer will be around when you file a claim. Experts believe the important factor in selecting an insurer is the financial strength of the company.

For consumers, the best way to check on an insurer's health is to look at its credit rating, an opinion by a rating agency on the insurer's financial strength and ability to pay claims.

There has been renewed interest in credit rating by insurance agents and consumers because of the weak economy, large insurers filing for chapter 11 and a mass of downgrades by rating firms.

In 2002, for example, more insurers' rating was downgraded than upgraded by rating agency A.M. Best. Fitch Ratings downgraded 35 life insurers in North America, or 42 percent of those it rates. Standard & Poor's downgraded 24 U.S. life insurers, its highest in a decade, compared with eight in 2001.

Insurers have been hurt by investments in the stock market, and in the bonds of some high-profile failures, such as WorldCom Inc. and Enron Corp.

Insurers selling variable annuities got burned by guarantees made in the late 1990s to provide minimum death benefits no matter what happened to investments in the stock market. Those guarantees came
back to haunt insurers when the market tanked. The collapse of the stock market forced them to set aside more money in reserve.

Both insurance agents and consumers should check an insurer's rating with at least three agencies to make sure that one isn't giving a company a good rating while others are raising warning flags.

The five major rating agencies are A.M. Best, Fitch Ratings, Moody's Investors Service, Standard & Poor's and Weiss Ratings Inc. The first four are paid by insurers to conduct a rating, and the agencies' ratings are available free online.

Weiss makes money instead by selling its ratings to consumers and others. Weiss offers its ratings, for a nominal fee, at www.weissratings.com. Beth's newsletters also publish an annual ratings issue for a fee a www.insuranceforum.com.

Once a policy is purchased the consumer should review the insurer's rating annually. If the rating is lowered, it doesn't necessarily mean the policyholders should dump the company. The reason for the downgrade should pay some part in whether to keep or discard the policy. For example, an insurer that's downgraded for massive claims and is unable to add to its reserves may be a reason to switch insurers. Before switching insurers, one must weigh the cost and consequences. Dumping a long term care policy and other insurances may be costly. Consumers might find it hard to replace a canceled policy.

Qualified Long-Term Care Insurance Contract

A contract issued after 1996 is a qualified long term care insurance contract if it meets the requirements of section 7702B, including the requirement that the insured must be a chronically ill individual. A contract issued before 1997 generally is treated as a qualified long-term care insurance contract if it met state law requirements for long-term care insurance contracts and it has not been materially changed.

Chronically ill individual

A chronically ill individual is someone who has been certified (at least annually) by a licensed health care practitioner as:

1. Being unable to perform, without substantial assistance from another individual, at least two daily living activities (eating, toileting, transferring, bathing, dressing, and continence) for at least 90 days due to a loss of functional capacity; or
2. Having a level of disability similar to the level of disability in **1** above (as prescribed by regulations); or
3. Requiring a substantial supervision to protect the individual form threats to health and safety due to severe cognitive impairment.

Terminally ill individual

A terminally ill individual is someone who has been certified by a physician as having an illness or physical condition that can reasonably be expected to result in death in 24 months or less.

Long Term Care Insurance

People who choose long term care insurance to cover any future needs often do so for some of the following reasons:

1. They want to preserve their assets for spouses and heirs.
2. They want to avoid being dependent on medicaid or their family or friends.
3. They desire to be cared for at home as long as possible.
4. They want to be assured of getting into a desirable nursing home of their choice.
5. They want to have a peace of mind.

6. They want to prevent the care giver (loved ones) from impoverishing them while being cared for.

Long Term Care Premiums

Premiums for long term care insurance vary greatly among insurers. Premiums are based on age at time of application, prior and current health conditions, the benefits selected, the number of years the insurer has to pay-out benefits.

People who purchase long-term care insurance should plan on paying premiums for the rest of their lives or until they need to use the benefits. Premiums may also increase in the future.

Types of services covered

Most long-term care policies offer coverage for a full range of care services. They include the following:

1. Home care
2. Care provided at adult day care center.
3. Care provided at assisted living center.
4. Skilled nursing.
5. Hospice facilities

Assisted living facilities have become increasingly popular since they provide help with ADL's (activities of daily living, such as bathing, eating, dressing etc.) or supervision for the cognitively impaired. Which include diseases such as Alzheimer's, while encouraging independence and privacy in a home like environment.

Eligibility for Benefits

Typically benefits are payable to the insured when he or she is unable to perform a certain number of the ADL's such as two out of five or two out of six.

The insured is eligible for benefits if:

1. A licensed health care practitioner has certified within the last 12 months that the insured is unable to perform, without substantial assistance from another person, at least two activities of daily living for an expected period of at least 90 days due to a loss of functional capacity. Or the insured requires substantial supervision due to severe cognitive impairment.

The insurance company must agree with certification and approve a Written Plan of Care established by a licensed Health Care Practitioner or their own care coordinator.

Often the insurance company has the right to reassess whether the insured is still eligible for benefits. They usually review the insured's condition every 12 months.

Notice of Benefit Eligibility Decision

The insurance company will send a written notice of their decision on whether the insured is eligible for benefits after receiving all the information from the insured.

If the insurer determines that the insured is eligible for benefits, the notice will state the date as of which the insured is eligible for benefits and will include claim forms.

If the insurer determines that the insured is not eligible for benefits, the notice will provide the reason(s) for the denial. The insured may appeal the insurer's decision to an appeals committee independent third party, or seek judicial review from the courts.

Waiting Period

The waiting period is the number of days during which the insured must be eligible for benefits and receiving covered services before the insurer will start paying benefits. The waiting period options offered to consumers varies considerably. The typical waiting period options might be 20 or 90 days.

Usually the insured has to satisfy the waiting period once in his or her lifetime.

The waiting period usually does not apply to Hospice Care, Respite Services and Caregiver Training.

Hospice care

When the insured is in a Hospice facility, the insurer will pay for:

1. Room and board
2. Hospice care
3. Drugs, incontinence supplies, dietary supplements, personal medical equipment and laundry services.

Typically, the insurer will pay benefits for hospice care on monthly bases. Usually the total amount insurers will pay for all expenses which are incurred during a calendar month will not exceed 31 times the Daily Payment Maximum.

What is Hospice Care?

Hospice is a unique philosophy of health care for patients experiencing a life-limiting illness. The focus of hospice care is on enhancing the quality of a patient's life while assisting the needs of their care giving family. This is accomplished by providing physical, emotional and spiritual care with a holistic approach toward achieving comfort throughout the progression of the illness. Hospice neither hastens death, nor prolongs life, but allows it to take its natural course. Hospice allows a patient to maintain a sense of dignity, living life to the fullest, free from pain, and peacefully in a loving environment.

Services Provided by a Formal Caregiver At Home

The insurer will pay for the following services provided to the insured by a formal Caregiver at home:

1. Nursing Care
2. Maintenance or Personal Care
3. Therapy Services

Hospice Care at Home

Most insurer will pay for Hospice Care provided to the insured at home.

Bed Reservations

More and more insurers are paying for actual charges incurred for Bed Reservations. Sometimes the insurer has to stay in the hospital for a period of time, leaving the bed at the nursing home vacant. With this benefit, the insured will be assured of having a bed when he or she returns. Benefits for Bed Reservations are usually limited to 30 days per calendar year.

Caregiver Training

The insurer usually will pay for Caregiver Training. Benefits for Caregiver training are usually limited to an amount equal to seven to ten times the insured's Daily Benefit Amount.

According to the HHS National Long-Term Care Survey that was conducted in 1999, if the work of caregivers had to be replaced by paid home care staff, the cost to our nation would be $ 45 to $ 75 billion per year. The survey indicated the following;

* Caregivers dedicate an average 20 hours per week providing care and even more time if an older person has multiple disabilities;

* Caregiving is physically demanding and physically strains care-givers, many of whom are older themselves:

* Caregiving responsibilities place a heavy emotional strains on
the caregiver and often this results in depression; and

* Two-thirds of working caregivers report that there are work conflicts resulting in unpaid leaves of absence or rearranged
work schedules.

Respite Services

Insurance companies will pay for Respite Services:

1. Provided in a Nursing Home, assisted living facility or hospice
facility.
2. Provided by a formal caregiver at home
3. Provided at an Adult Day Care Center.

Adult Day Care Center

Benefits will cover services provided to the insured at an adult day care center.

Adult Day Care Centers offer a variety of custodial and medical services for seniors. These services are provided during the day and evenings. A typical center will offer the following services:

- Comprehensive, professional medical care
- Safe and dependable door-to-door transportation

- Special programs for seniors with Alzheimer’s disease
- Comfortable and secure places to spend the day
- Nutritious meals
- Trained professional staff
- Extended and flexible hours
- Caregiver assistance
- Full schedule of interesting activities for the seniors

Adult day care centers will cost much less than home care or a nursing home. A typical daily fee at an adult daycare center is between $ 70.00 $ 75.00. Transportation cost is extra, and it can range between $ 15.00 to $ 17.00 per day.

International Benefits

Insurers will pay benefits for covered services received outside the United States. When the insured receives such services, the insurance company will pay benefits up to 80% of the insured’s daily benefit amounts.

Maximum Benefit

Consumers are usually offered a wide choice of maximum daily benefit amount for covered home health care and nursing home stay.

A typical LTC (Long Term Care) policy might offer the consumer a daily benefit of $100/day, $150/day, $250/day etc.

Length of Benefit Period

The consumer usually can decide the length of time the daily benefits will be paid to the insured. The typical periods are two, three, five, ten years or a lifetime.

Grace Period

There is a 30-day grace period for payment of premiums. This means that the insurer must receive the premium by the 30th day after the date it is due. Otherwise the insurer will issue the insured a written notice of termination of coverage. Then the insured will usually have 30 to 40 days from the date of termination letter to pay the premium, or the coverage will end.

It is advisable for the insured to designate a person to whom the insurer will also send any notice of termination that is sent to the insured. The designated person will not be responsible for premium payments.

Waiver of Premium

After a confinement of 60, 90 or 180 days, the insurer usually waives all premiums until the insured has recovered from his or her disability

Premium Discounts

Some insurers will give clients a 10% discount on their premiums if they are in good health when they apply for coverage. If both the husband and wife are eligible and they apply for individual coverage, some insurers will give them as much as 25% discount on their premiums.

Exclusions

The common exclusion in LTC policies:

1. War and acts of war
2. Care or treatment for alcoholism or drug addiction
3. Illness, treatment or medical condition arising from:
    a. Participating in a felony
    b. Riot or insurrection
    c. Attempted suicide

Inflation Protection

Purchasing Inflation Protection before age 75 is essential when a person buys long-term care insurance. It ensures that the insured has adequate coverage in the future. This protection is intended to keep pace with the cost of inflation. This protection increases the cost of the policy, but gives the insured coverage that will mean something when he or she needs it.

Bed Reservation Benefit

Sometimes the insured Person has to temporarily leave the Long Term Care facility to go to the hospital, clinic, etc. If the long term care policy has a Bed Reservation Benefit, the insurer will continue to pay the same benefits to the insured that he would have received if he had stayed in the long term care facility. The insurer will typically do this for a period of 30 to 50 days per calendar year.

Tax treatment

Policies issued after January 1, 1997, which provide tax incentives, are classified as "Tax-Qualified Policies (TQ), and those without any tax incentives are classified as "Non-Qualified Policies" (NTQ).

Premiums for TQ policies may be included as a medical expense if the person itemizes his or her deductions and if medical expenses exceed 7.5% of adjusted gross income, the excess is deductible on the federal income tax return. The amount depends on the person age, as shown below.

Age	maximum that can be claim
Age 40 or older	$ 210
Older than 40 but more than 50	$ 400
Older than 50 but not more than 60	$ 800
Older than 60 but not more than 70	$ 2120
Older than 70	$ 2660

Long Term Care policy benefit payments, when received are free from federal income tax. Premiums from NTQ cannot be deducted as a medical expense, and it is unclear if benefits received will or will not be taxable. Most policies issued before 1997 are considered "Tax Qualified Policies."

The state of Maryland gives consumers who purchase Qualified long-term care policies after July 1, 2000 tax credit against state income taxes. Credit capped at $500. A person can claim 100% of premium for self, spouse, parents or children up to $500 cap. State will monitor legislation to see how many people claim credit and evaluate the impact if any on medicaid program.

MARKETING LONG TERM CARE INSURANCE

The number of Americans who purchased long-term care insurance increased more than tenfold in the last 15 years, according to a survey from the Health Insurance Association of America.

The total number of long term care policies sold has grown from 815,000 in 1987 to nearly 8.3 million in 2001.

Although premiums varied widely based primarily on benefit design and entry age, the HIAA found the average premium paid in 2001 remained nearly constant when compared with the average premium paid two years ago.

HIAA estimates that roughly 70% of all individual long term care policies sold remain in effect today.

Power of Attorney and a Living Will

After helping the client to determine which long term care policy is right for him, the insurance agent should make it clear to the client the necessity of obtaining documents that will instruct his loved ones and doctors what life-prolonging measures he wants. This may help to avoid problems in the event that he (client) can't speak for himself.

Basically, there are two documents that will be needed: a **health care power of attorney** and a **living will**. These two documents often can be combined into one document. In some states, this document is called an advanced directive.

Since state law governs matters of this nature, the document often has different names and rules.

The living will allows the client to make his wishes known about what medical treatments he wants, or does not want, and in matters, such as being in a vegetative state or terminally ill with no chance of recovery.

By addressing these matters in advance, the client may be able to make it clear what he wants and who he wants to make those important decisions. By doing so, he can save his family a great deal of difficult decision-making, stress, and self-doubt.

In Maryland, the signing of an advance directive must be witnessed by **two independent individuals.** This means that they can not be the client's doctor or an heir.

The client doesn't need a lawyer to draw up these documents. He can buy software with the documents, and some states put their forms on-line. Hospitals and nursing homes generally offer the documents during admissions. The documents can also be found on Kaplan's group website: www.partnershipforcaring.org.

It might be worth it to the client to have a lawyer draw up the documents because the fee for this service is usually nominal, and the client can be assured the documents comply with state law.

The client should give copies of the documents to those who will need them. Lawyers often make several original copies, keeping one for themselves, one for the client's doctor and one for the health care agent, or caregiver.

The client should keep the documents in a safe deposit box that both he and the caregiver has access. It is very important for the client to choose someone who will be mentally and emotionally able to comply with his wishes. Experts suggest that an alternate health care agent or caregiver be named, in case the first choice can't make the decisions.

SECTION XIV REVERSE MORTGAGES

What is a Reverse Mortgage? A Reverse Mortgage is a special type of home loan that lets a homeowner convert the equity in his or her home into cash. The equity built up over years of home mortgage payments can be paid to the homeowner: in a lump sum, in a stream of payments, or as a supplement to Social Security or other retirement funds. But unlike a traditional home equity loan or second mortgage, no repayment is required until the borrowers no longer use the home as their principal residence. HUD's Reverse Mortgage provides these benefits, and it is federally-insured as well.

Eligibility

To be eligible for a HUD Reverse Mortgage, HUD's Federal Housing Administration requires that you are a homeowner 62 years of age or older; have a very low outstanding mortgage balance or own your home free and clear; and that you meet with a HUD-approved counseling agency -- to make sure you understand what a HUD Reverse Mortgage will mean for you.

While your property must meet FHA minimum standards, it doesn't matter if you didn't buy it with an FHA-insured mortgage. Your new HUD Reverse Mortgage will be a new FHA-insured mortgage loan.

You can still qualify for HUD's Reverse Mortgage program. An eligible property must be your principal residence, but can be a single-family residence; a one- to four-unit dwelling with one unit occupied by the borrower; a manufactured home (mobile home); a unit in FHA-approved condominiums; and Planned Unit Developments. Your property must meet FHA minimum property standards, but you can fund repairs from your Reverse Mortgage.

With a traditional second mortgage, or a home equity line of credit, you must have sufficient income to qualify for the loan, and you are required to make monthly mortgage payments. A Reverse Mortgage works very differently. The Reverse Mortgage pays you, and it is available regardless of your current income. You don't make payments, because the loan is not due as long as the house is your principal residence. Like all homeowners, you still are required to pay your real estate taxes and other conventional payments like utilities, but with an FHA-insured HUD Reverse Mortgage, you cannot be foreclosed or forced to vacate your house because you "missed your mortgage payment."

The loan does not become due until your home is sold, is no longer your primary residence or until you die. You cannot be forced to sell your home to pay off the mortgage loan even if the loan balance grows to exceed the value of the property And, HUD's Federal Housing Administration guarantees that you'll receive all the payments that are owed to you.

When you sell your home or no longer use it for your primary residence, you or your estate will repay the cash you received from the Reverse Mortgage, plus interest and other finance charges, to the lender. All proceeds beyond what you owe belong to you or your estate. This means the remaining equity in your home can be passed on to your heirs. None of your other assets will be affected by HUD's Reverse Mortgage loan. No debt will ever be passed along to the estate or heirs. You retain ownership of your home, and may sell or move at any time.

HOW REVERSE MORTGAGES WORK

Homeowners 62 and older who have paid off their mortgages or have only small mortgage balances remaining are eligible to participate in HUD's reverse mortgage program. The program allows homeowners to borrow against the equity in their homes.

Homeowners can receive payments in a lump sum, on a monthly basis (for a fixed term or for as long as they live in the home), or on an occasional basis as a line of credit. Homeowners whose circumstances change can restructure their payment options.

Unlike ordinary home equity loans, a HUD reverse mortgage does not require repayment as long as the borrower lives in the home. Lenders recover their principal, plus interest, when the home is sold or refinanced by the heirs. The remaining value of the home goes to the homeowner or to his or her survivors. If the sales proceeds are insufficient to pay the amount owed, HUD will pay the lender the amount of the shortfall. The Federal Housing Administration, which is part of HUD, collects an insurance premium from all borrowers to provide this coverage.

The size of reverse mortgage loans is determined by the borrower's age, the interest rate, and the home's value. The older a borrower, the larger the percentage of the home's value that can be borrowed.

For example, based on a loan at today's low interest rates, a 65-year-old could borrow up to 60 percent of the home's value, a 75-year-old could borrow up to 70 percent of the home's value, and an 85-year-old could borrow almost to 80 percent of the home's appraised value --- up to the FHA loan limit for each city and county."

There are no asset or income limitations on borrowers receiving HUD's reverse mortgages.

There are also no limits on the value of homes qualifying for a HUD reverse mortgage. However, the amount that may be borrowed is capped by the maximum FHA loan limit for each city and county varies from $154,896 in rural areas to $280,749 in many major metropolitan areas (and even higher in Alaska, Hawaii & the U.S. Virgin Islands) depending on local housing costs."

HUD's reverse mortgage program collects funds from insurance premiums charged to borrowers. Senior citizens are charged 2 percent of the home's value as an up-front payment plus one-half percent on the loan balance each year. These amounts are usually paid by the lender and charged to the borrower's principal balance.

FHA's mortgage insurance guarantees to the borrowers that they will continue to receive their loan proceeds even if the Lender goes bankrupt. The FHA insurance also guarantees Lenders that they will get their money back with interest and fees even if the homeowners outlive the longevity tables or the property values decrease. Thus while the FHA mortgage insurance increases the initial cost of getting a HECM reverse mortgage, it also allows the Lenders to sell HECM reverse mortgages at interest rates well below those of Fannie Mae and private lenders."

How Much Can be Borrowed

A borrower who uses an FHA-insured Home Equity Conversion Mortgages (HECM) will receive a reverse mortgage amount based on a formula which includes a Maximum Claim Amount. In general, this means the maximum amount you can receive will be determined by factors including the age of the borrower(s), and the appraised value of the property (or the maximum FHA mortgage amount for your area, if lower). You should discuss the formula with your lender and your FHA-approved housing counselor. The maximum amount that you can receive depends on your age, the interest rate at the time you close, and the appraised value of your home. For example, based on a loan at recent interest rates, a 65-year-old could borrow up to 60 percent of the home's value, a 75-year-old could borrow up to 70 percent of the home's value, and an 85-year-old could borrow almost to 80 percent of the home's appraised value --- up to the FHA loan limit for each city and county

The maximum loan amount depends on your age, the interest rate at the time you close and the equity in your home.

Line of Credit: You make withdrawals whenever you choose, in whatever amount you've chosen, up to your maximum principal limit.

Lump Sum: Take all or any part of the loan at the time you close.

Tenure Plan: You receive fixed monthly payments as long as you own and occupy the home as your principal residence.

Combination: Within certain limits, you may combine the lump sum or tenure options with the line of credit.

Reversed mortgages funds can be used to pay medical bills or property taxes, repair homes or improve ones quality of life.

Paying back the loan

Reverse mortgages are designed to eliminate the burden of making monthly mortgage payments. The loan will not be due until you no longer own and occupy your home as your principal residence. At that time, the money you have borrowed plus the interest and fees will be due and payable. Generally, borrowers or their estate repay the loan by selling the home. If the home is sold, you or your estate may keep the proceeds in excess of the amount due the lender.

WHAT CAN DONE WITH THE MONEY?

The proceeds from a reverse mortgage can be used for anything: daily living expenses; home repairs and home improvements; medical bills and prescription drugs; pay-off of existing debts; education; travel; long-term health care; retirement and estate tax planning; and other needs you may have.

The proceeds from a reverse mortgage are available as a lump sum, fixed monthly payments for as long as you live in the property, a line of credit; or a combination of these options.

The amount of benefit that you will qualify for, will depend on your age at the time you apply for the loan, the type of reverse mortgage you choose, the value of your home, current interest rates, and for some products, where you live. As a general rule, the older you are and the greater your equity, the larger the reverse mortgage benefit will be.

The costs associated with getting a reverse mortgage are similar to those with a conventional mortgage, such as the origination fee, appraisal and inspection fees, title policy, mortgage insurance and other normal closing costs. With a reverse mortgage, all of these costs can be financed as part of the mortgage.

Applicants must first meet with an independent reverse mortgage counselor before applying for a reverse mortgage. The counselor's job is to educate you about reverse mortgages, to inform you about other alternative options available to you given your situation, and to assist you in determining which particular reverse mortgage product would best fit your needs if you elect to get a reverse mortgage. This counseling session is at no cost to the borrower and can be done in person or over the telephone.

College Savings (529) Plans

Investing for college is one of the most frequently accessed information by Teenvestors and parents on this website. Your parents may already be aware of some of the options available to them when it comes to planning for your college expenditures. This section can help Teenvestors who plan to go to college and their parents begin investing in College Savings Plans or 529 Plans as they are commonly known.

Since you can't invest on your own anyway without a custodial account and college savings can have an impact on financial aid, your parents have to be more involved in your college investments than with other investments discussed in this website. In addition, the tax benefits associated with this type of investment is something that would be of great interest to your parents.

Pre-paid Plans

With Prepaid College Plans you are required to make deposits into a state-sponsored account for a number of years to cover anticipated college costs at a public higher-education institution. As a Teenvestor, you probably will not be able to make the required payments to Prepaid College Plans. Your parents, however, may find the information about these types of plans valuable if they hope to pre-pay your college tuition at a state school.The following are features of pre-paid plans:

Guaranteed Funds. The money you deposit in these plans guarantees (or nearly guarantees) that the beneficiary can attend any public college in your state without requiring additional payments by you even if tuition increases. In many of these Prepaid College Plans, you have no choice in terms of how your money will be invested by the state.

Shortfalls Made Up. In some of these Prepaid College Plans, the state makes up any shortfall in the amount of money you will have to pay in a state college if college costs have gone up more than anticipated by the time your are ready for college.

Payments Based On Tuition Projections. In the Prepaid College Plans, the payments are based on the state's projection of future increases in tuition costs. When the beneficiary is ready for college, he can attend any public college in the state. An example is Alabama's Prepaid College Plan, called the Prepaid Affordable College Tuition Program or PACT. PACT covers the cost of four years of undergraduate college education for any public college or university in Alabama. If the beneficiary of the PACT account goes to an institution outside of Alabama, the state pays the average tuition and mandatory fees at the public four-year colleges in Alabama to the institution.

Role of States

State governments run College Savings Plans but the investments are managed by private organizations. For example, the investments in New York's College Savings Plan are managed by TIAA, a part of TIAA-CREF, a leading financial services organization. Organizations such as Vanguard Group, the big mutual fund company, and others manage College Savings Plans on behalf of state government. The table below gives a list of the College Savings Plans offered by each state.

Each state has a different name for its College Savings Plan. Kentucky's College Savings Plan is called the Kentucky Education Savings Plan Trust, while Hawaii's is called TuitionEdge. Sometimes a state may have one name for its Prepaid College Plan and another for its College Investment

Plan. Maryland calls its Prepaid College Plan the Maryland Prepaid College Trust and its College Investment Plan, the Maryland College Investment Plan. As long as the plan comes under the IRS' 529 Plan designation, however, you are looking at College Savings Plan no matter what the state calls it. The table below gives a list of the College Savings Plans for each state.

A state can have several College Savings Plans with various levels of attractiveness. Arizona, for example, has three types of College Savings Plans that can be bought from different companies. The most basic College Savings Plan Arizona has is the College Sure CD's offered by the College Savings Bank. These CDs guarantee a minimum return and charges no load or expenses. The other College Savings Plan choices in Arizona are mutual funds with relatively expensive sales loads and expense ratios. This Arizona plan is a good illustration as to how a state can have several plans, some of which are better than others.

When you start researching College Savings Plans, you will quickly notice that the section of the state government that overseas such plans is the state Treasurer's office.You should go to the website of your state Treasurer to get the most up-to-date information about the kind of plans they are now offering. The National Association of State Treasurer's website, www.nast.net, will guide you to your State Treasurer's site.

You should also be aware that even if you do not live in a particular state, you can still invest in that states College Savings Plans, although you may not be able to take full advantage of the tax benefits offered by that state.

STATE
COLLEGE SAVINGS PLAN
PHONE NUMBER
WEBSITE1

Alabama
Prepaid Affordable College Tuition Program (PACT)

Alabama Higher Education 529 Fund
800-252-7228

866-529-2228

www.treasury.state.al.us

www.vankampen.com/products/529

Alaska
Advanced College Tuition Program (ACT)
866-277-1005
www.uacollegesavings.com

Arizona2
Arizona Family College Savings Program
602- 258-2435

888-667-3239

800-888-2723

888-923-3355
www.acpe.asu.edu

www.smrinvest.com

www.waddell.com

arizona.collegesavings.com

Arkansas
Gift College Investing Plan
877-442-6553

www.thegiftplan.com

California
Golden State ScholarShare
877-728-4338

www.scholarshare.com

Colorado
CollegeInvest Prepaid Tuition Plan

Scholars Choice
800-478-5651

888-572-4652

www.collegeinvest.org

www.scholars-choice.com

Connecticut
Connecticut Higher Education Trust (CHET)

888-799-2438

www.state.ct.us/ott

www.aboutchet.com

Delaware
Delaware College Investment Plan

Unique College Investment Plan

U.Fund College Investment Plan
800-544-1655

800-544-1722

800-544-2776
www.state.de.us/treasure/college.html

Florida
Florida Prepaid College Program
800-552-4723

www.fsba.state.fl.us/prepaid

Georgia
The Georgia Higher Education Savings Plan
877-424-4377
www.gacollegesavings.com

Hawaii
TuitionEDGE
866-529-3343

www.tuitionedge.com

Idaho
Idaho College Savings Program
866-433-2533
www.idsaves.org

Illinois
College Illinois

Bright Start
877-877-3724

877-432-7444
www.collegeillinois.com

www.brightstartsavings.com

Indiana
The College Choice 529 Investment Plan
866-400-7526

www.collegechoiceplan.com

Iowa
College Savings Iowa
888-672-9116

www.collegesavingsiowa.com

Kansas
Learning Quest Education Savings Program.
800-579-2203

www.learningquestsavings.com

Kentucky
Kentucky Education Savings Plan Trust
877-598-7878
www.kentuckytrust.org

Louisiana
Louisiana Student Tuition Assistance and Revenue Trust (START)
800-259-5626, extension 1012
www.treasury.state.la.us

Massachusetts
Massachusetts U. Plan

Massachusetts U. Fund
800-449-6332

www.mefa.org

Maryland
Maryland Prepaid College Trust

Maryland College Investment Plan
888-463-4723

www.collegesavingsmd.org

Maine
NextGen College Investing Plan
877-463-9843

www.nextgenplan.com

Michigan
Michigan Education Savings Program

Michigan Education Trust (MET)
877-861-6377

800-MET-4-KID

www.misaves.com

www.michigan.gov/treasury

(look under Education)

Minnesota

Minnesota College Savings Plan
877 338-4646
www.mnsaves.org

Mississippi
The Mississippi Prepaid Affordable College Tuition Program (MPACT)

Mississippi Affordable College Savings Program (MACS)
800-987-4450

(601) 359-5255
www.treasury.state.ms.us/mpact.htm

www.collegesavingsms.com

Missouri
Missouri Saving For Tuition Program (MOST)
888-414 - 6678
www.missourimost.org

Montana
Montana Family Education Savings Program
800-888-2723

montana.collegesavings.com

Nebraska
College Savings Plan of Nebraska
888-993-3746

www.planforcollegenow.com

North Carolina
National College Savings Program
866-866-2362
www.treasurer.state.nc.us

www.cfnc.org

North Dakota
College Save

866-728-3529
www.collegesave4u.com

Nevada
America's College Savings Plan
877-529-5295
www.nevadatreasurer.com

New Hampshire
The UNIQUE College Investing Plan
800-544-1722
www.state.nh.us/treasury

New Jersey
New Jersey Better Education Savings Trust (NJBEST)
877-465-2378

www.hesaa.org/students/njbest

New Mexico
The Education Plan of New Mexico
800-499-7581
www.tepnm.com

New York
New York's College Savings Program
877-697-2837
www.nysaves.org

Ohio
CollegeAdvantage
800-233-6734
www.collegeadvantage.com

Oklahoma
Oklahoma College Savings Plan
877-654-7284
www.ok4saving.org

Oregon
Oregon College Savings Plan
866-772-8464
www.oregoncollegesavings.com

Pennsylvania
Pennsylvania Tuition Account Program
800-440-4000
www.patap.org

Rhode Island
CollegeBoundfund

888-324-5057
www.collegeboundfund.com

South Carolina
South Carolina Tuition Prepayment Program (SCTPP)
888-772-4723
www.scgrad.org

South Dakota
South Dakota's College Access 529 Plan
866-529-7462
www.collegeaccess529.com

Tennessee
Tennessee's Baccalaureate Education System Trust (BEST) Prepaid Tuition Plan

Baccalaureate Education System Trust (BEST) Savings Plan

888-486-2378
www.tnbest.org

Texas
Texas Tomorrow Fund
800-445-4723
www.texastomorrowfund.org

Utah
Utah Educational Savings Plan Trust (UESP)
800-418-2551
www.uesp.org

Vermont
The Vermont Higher Education Investment Plan (VHEIP)
800-637-5860
www.vsac.org

Virginia
Virginia Education Savings Trust (VEST)

Virginia Prepaid Education Program (VPEP)

CollegeAmerica
888-567-0540

www.virginia529.com

Washington
Guaranteed Education Tuition (GET)
877-438-8848

www.get.wa.gov

West Virginia
Smart529, The College Savings Solution
866-574-3542
www.smart529.com

Wisconsin
EdVest
888-338-3789
www.edvest.com

Wyoming
College Achievement Plan
877-529-2655
www.collegeachievementplan.com

Advantages

College Savings Plans have several advantages you should be awar of as outlined below.

No Federal Taxes. After a new law called the Tax Relief Act of 2001 was enacted, you no longer have to pay federal taxes on the earnings on a College Savings Plan as long as you use it for qualified higher education expenses. This tax exemption wil be in place from 2002 to 2010 when Congress will decided whether to extend the provision. In addition, in many states, you won't have to pay state taxes if the withdrawals are for qualified expenses. This may not mean that much to you but we are sure your parents will appreciate its significance.

Guarantees. In some cases, coverage of your college costs are guaranteed. This is the case with prepaid plans which we discussed in another section.

No Income Limitations. Individuals at any income level can contribute to the plan. This means that if your parents make a lot of money, they can still open a College Savings Plan account for you.

Professional Money Management. You have professional money managers such as TIAA-CREF, Fidelity and others investing your money for you.

Low Minimum Investments. The minimum investment requirements are low—as low as $5 and you (or your parents) can invest as much as a few hundred thousand dollars in total.

Disadvantages

Since January 1, 2002 College Savings Plans have become more attractive to adults who want to save for their children's (or relatives') education. As we mentioned earlier, the biggest change in these plans is that there are no Federal taxes due on the gains earned in them as long as the money is used for certain educational expenses. But there are a few catches to these plans that investors should be aware of:

States Run Their Own Plans. Because the states run their own plans, they can set their own rules about the withdrawal of the money, they can change where they invest your money, they can change the fees they charge associated with participation in the plan, they can determine whether contributions to the plan are deductible from state taxes, or any other conditions that they wish to impose on the accounts. Each plan has its own participation terms and these terms can vary considerably from state to state.

Fees. Some plans are expensive because they charge you a sales fee, a yearly maintenance fee and a fee that goes to the investment managers (such as TIAA-CREF). For this reason, we strongly recommend that before selecting a particular plan, you make sure you know the fees that are associated with the plan. Watch out for sales load and annual expense ratios.

Investment Choices are Limited. In the plans with guaranteed returns, you can't decide exactly how your money will be invested. In the age-based plans, you have slightly more flexibility in investment choices but you are still bound by pre-established investment guidelines.

Some Plans Have Terrible Track Records. Unfortunately, the track record of some College Savings Plans is terrible. True,

many of these plans have been around for only four or five years so they haven't had a chance to recover from market downturns that caused the S&P 500 Index to yield returns of -23.4% in 2002 and -13.0% in 2001. The overall market downturns, however, don't make the poor returns easy to swallow.

You Can't Move Your Money Around As Often As You Might Like. You can only move your money to a different plan once a year. So if you happen to invest in a dog of a plan, you are stuck for a whole year even while the value of your college savings are going down.

State Tax Exemption Not Assured. If you are investing in an out-of-state plan, you may not be exempt from state taxes (which some states offer on the earnings of the plan). Get all the facts before you invest in another state's College Savings Plan. Find out what disadvantage you may have as an out-of-state investor.

Possible Expiration Of Tax Benefits. The current Federal tax benefits associated with College Savings Plans – especially the benefit that cancelled Federal taxes on earnings on these plans – will expire unless reaffirmed by Congress in 2010. In other words, if the tax benefits are not reaffirmed, taxes will be due on the earnings when money is pulled out of the account to meet educational expenses.

Opening Accounts

Anyone can open an account – Teenvestors, parents, grandparents, uncles, aunts, and friends. Theoretically, a total stranger can open an account for you. When an account is opened, the person who opens it, otherwise know as the account owner, has to designate who should benefit from the

account. A Teenvestor can designate herself as the person who will benefit from the account.

The person for whom the account is opened is called the beneficiary. Anyone with a social security number can be a beneficiary but each account may have only one designated beneficiary. There are no restrictions based on age, relationship to the account owner, or in some cases, state residency of the account owner or the beneficiary. As long as a Teenvestor has a social security number, she can designate herself as the beneficiary.

Multiple accounts can be set up for the same beneficiary as long as the plan's maximum limit is not exceeded. For example, at the time of this writing, the Arkansas Gift College Investment Plan had an aggregate contribution limit of $245,000 for any one individual. In Pennsylvania's plan, called the Tuition Account Program (TAP), the aggregate maximum contribution currently allowed is $260,000. These maximum amount will probably never be reached by a Teenvestor, but if your parents are the ones who have set up the account, they should know about these limits.

Choosing A Plan

The decision whether to invest in a College Savings Plan probably depends on your prospects for getting financial aid when you are ready to go to college. For this reason, your parents have to be fully involved in any college savings plan considerations. In the "Parents-Grandparents" of this website, we explain to your parents what to consider when choosing College Savings Plans. The table below shows you websites where you can get all the information you'll need about College Savings Plans.

WEBSITES FOR COLLEGE SAVINGS PLANS
College Savings www.collegesavings.org
SavingsforCollege.com www.savingforcollege.com

Instead of boring you with details your parents will have to deal with anyway, let's just say that our basic guidelines for investing in College Savings Plans is to start with your state plans. Beyond that, the best advise we can give you is to consider some of the low-cost College Investment Plans shown on the table below.

Account Withdrawals

You can only take money out of a College Savings Plan account without a penalty if the money is to be used to pay for what's called qualified withdrawals. Qualified withdrawals are withdrawals that are to be used to pay for: tuition, fees, textbooks, supplies, equipment and other expenses in an eligible educational institution.

Eligible educational institutions are as follows: colleges, universities, vocational schools, or postsecondary educational institutions that can participate in a student aid program administered by the U.S. Department of Education. When in doubt as to whether a school is considered an Eligible Educational Institution, just ask the educational institution if it qualifies as one.

Unqualified withdrawals occurs when the account owner takes money out of the account for purposes other than higher education. If the account owner makes an unqualified withdrawal, he will have to pay a 10% penalty on the earnings in the account as well as federal and (probably) state income tax.

SECTION XVII

THE PENSION BENEFIT GUARANTY CORPORATION

In 1974, Congress created the PBGC to guarantee payment of defined benefit pensions. The government-run program insures the benefits of about 44 million people in 31,000 private pensions plans much in the same way the Federal Deposit Insurance Corp. insures the accounts of depositors in banks and savings and loan institutions.

Under PBGC's single-employer program, PBGC takes responsibility for paying benefits to current and future retirees when a pension plan runs out of money, when a company liquidates and has an underfunded plan, when PBGC must end a plan to protect participants and the insurance fund, or when a sponsoring company demonstrates it cannot continue funding a pension plan and stay in business. When a pension plan terminates, all additional benefit accruals, vesting, and other regular plan obligations cease. Under the separate multiemployer program, if a PBGC-insured multiemployer plan is unable to pay guaranteed benefits when due, PBGC will provide the plan with financial assistance, in the form of a loan, so the plan can continue to pay participants their guaranteed benefits.

PBGC pays benefits according to the provisions of each individual pension plan up to the limits set by law. Most participants of plans taken over by PBGC receive the full benefit they would have received under the plan. But, some have found their benefits exceed PBGC's limits and they do not receive all of their benefits. For example, those who retire early with supplements to their benefits and highly compensated

individuals may find that some of their pension amount exceeds PBGC's guarantee. Participants who retire before their plan terminates generally will continue to receive the same form of benefit they had chosen. Those not yet retired will receive a single-life annuity or a joint-and-survivor annuity, depending on marital status at time of retirement if their payments started before May, 2002. Retirees whose payments start in May 2002 or later, will be able to choose from a variety of annuity benefit forms.

To assure that there is no interruption in retiree benefit payments after PBGC takes responsibility for a plan, participants receive estimated benefit payments while their plan is examined, a detailed process that takes time. Payments of estimated benefits may result in some overpayments or underpayments. PBGC reimburses participants for any underpayment plus interest. Participants must reimburse PBGC for any overpayments, without interest, usually through a reduction of not more than 10 percent of each future monthly benefit payment. If both overpayments and underpayments have been made, special rules apply.

Normally, benefits are paid in the form of an annuity on a monthly basis. However, if the monthly benefit is $50 or less, payments generally will be made on a yearly basis. If the full value of the benefit is $5,000 or less, participants will receive a lump-sum distribution. If, in this case the benefit is at least $25 a month, the participant may elect to receive it as an annuity.

PBGC paid nearly $2.5 billion in benefits to retirees of terminated pension plans in fiscal 2003.

COVERAGE: PBGC guarantees basic benefits including normal and certain early retirement, disability, and survivor benefits. Generally, for participants who are not retired at plan termination, normal and early retirement benefits are

guaranteed if all the conditions of the plan for receipt of those benefits are met as of the date the plan terminated. PBGC will begin payments when the participant becomes eligible to receive the benefits. For plans terminated on or after August 23, 1984, PBGC also provides pre-retirement survivor coverage, which pays a benefit to the surviving spouse of a participant who dies before retirement. PBGC provides this coverage free of charge after plan termination.

Some types of benefits are not guaranteed. These include health and welfare benefits, severance benefits, lump-sum death benefits and disability benefits when death or disability occurs after plan termination.

Benefits Paid: PBGC pays benefits according to the provisions of each individual pension plan up to the limits of PBGC's maximum guarantee. Most participants of plans taken over by PBGC receive the full benefit they would have received under the plan. But, some have found their benefit exceeds PBGC's limits and they do not receive all of their benefit. For example, those who retire early with supplements to their benefits and highly compensated individuals may find that some of their pension amount exceeds PBGC's guarantee. Participants who retire before their plan terminates generally will continue to receive the same form of benefit they had chosen. Those not yet retired will receive a single-life annuity or a joint-and-survivor annuity, depending on marital status at time of retirement, if their payments started before May 2002. Retirees whose payments start in May 2002 or later will be able to choose from a variety of annuity benefit forms.

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PBGC paid nearly $2.5 billion in benefits to retirees of terminated pension plans in fiscal 2003.

Coverage: PBGC guarantees basic benefits including certain early retirement, disability, and survivor benefits. Generally, for participants who are not retired at plan termination, normal and early retirement benefits are guaranteed if all the conditions of the plan for receipt of those benefits are met, even if the participants are not yet old enough to receive the benefit. PBGC will begin payments when the participant becomes eligible to receive the benefits. PBGC also provides pre-retirement survivor coverage, which pays a benefit to the survivor of a participant who dies before retirement.

Some types of benefits are not guaranteed. These include health and welfare benefits, severance benefits, lump-sum death benefits and disability benefits when death or disability occurs after plan termination.

Guarantee Limits: There is a statutory limit on the amount that PBGC can guarantee. Under the single-employer program, the limit is adjusted annually based on changes in the Social Security contribution and benefit base and is permanently established for each pension plan based on the date the plan terminates. For plans with a 2004 termination date, the maximum guarantee is $44,386.32 yearly ($3,698.86 monthly) for a single life annuity beginning at age 65. The maximum is adjusted downward for retirees younger than age 65. For example, the maximum guarantee for a participant who retires at age 62 is $35,065.20 yearly ($2,922.10 monthly) for a single-life annuity. At age 55, the maximum guarantee is $19,973.88 yearly ($1,664.49 monthly).

For those already retired, the age used to determine the maximum guarantee is the participant's age as of the date of plan termination. For those not yet retired, the maximum

guarantee is based on their age when they do retire. There is also an adjustment to reflect a form of payment other than a single-life annuity.

In the case of a joint-and-50%-survivor annuity, for example, the adjustment reflects both the cost of the additional survivor benefit and the difference in ages of the retiree and the spouse. To illustrate, a 65-year-old retiree with a 60-year-old spouse, who as a single annuitant would have received the maximum $3,698.86 monthly, would instead receive about $3,162.53 monthly. Upon the retiree's death, PBGC would pay the survivor a monthly amount equal to 50 percent of the retiree's benefit for the remainder of the survivor's life.

PBGC does not guarantee benefit payments that exceed the amount of a participant's accrued plan benefit payable at normal retirement age.

Benefit increases and new benefits are only partially covered by PBGC's guarantee if they have been in the plan less than five years on the date of plan termination. PBGC guarantees the larger of 20 percent or $20 per month of the increase for each whole year since the benefit increase. Participants may receive the full benefit increase if the increase has been in the plan more than five years. Generally, benefit increases occurring within one year of plan termination are not guaranteed.

Under the multiemployer program, PBGC guarantees a portion of the pension earned up to $35.75 per month times the years of credited service.

Additional Benefits: Under the single-employer program, there are circumstances where retirees can receive more than the maximum guaranteed benefits, such as when a plan has sufficient assets to pay nonguaranteed benefits or when funds

are recovered from companies on behalf of trusteed plans in excess of those needed to pay guaranteed benefits.

The PBGC is currently not funded by the federal government, it gets it funding from assessments paid by private pensions.

Maximum Monthly Guarantee

Year Plan Terminated	Monthly Guarantee Limit At Age 65	Monthly Guarantee Limit At Age 62	Monthly Guarantee Limit At Age 60	Monthly Guarantee Limit At Age 55
2004	$3,698.86	$2,922.10	$2,404.26	$1,664.49
2003	$3,664.77	$2,895.17	$2,382.10	$1,649.15
2002	$3,579.55	$2,827.84	$2,326.71	$1,610.80
2001	$3,392.05	$2,679.72	$2,204.83	$1,526.42
2000	$3,221.59	$2,545.06	$2,094.03	$1,449.72
1999	$3,051.14	$2,410.40	$1,983.24	$1,373.01
1998	$2,880.68	$2,275.74	$1,872.44	$1,296.31
1997	$2,761.36	$2,181.47	$1,794.88	$1,242.61
1996	$2,642.05	$2,087.22	$1,717.33	$1,188.92
1995	$2,573.86	$2,033.35	$1,673.01	$1,158.24
1994	$2,556.82	$2,019.89	$1,661.93	$1,150.57
1993	$2,437.50	$1,925.63	$1,584.38	$1,096.88
1992	$2,352.27	$1,858.29	$1,528.98	$1,058.52
1991	$2,250.00	$1,777.50	$1,462.50	$1,012.50
1990	$2,164.77	$1,710.17	$1,407.10	$974.15
1989	$2,028.41	$1,602.44	$1,318.47	$912.78

1988	$1,909.09	$1,508.18	$1,240.91	$859.09
1987	$1,857.95	$1,467.78	$1,207.67	$836.08
1986	$1,789.77	$1,413.92	$1,163.35	$805.40
1985	$1,687.50	$1,333.13	$1,096.88	$759.38
1984	$1,602.27	$1,265.79	$1,041.48	$721.02
1983	$1,517.05	$1,198.47	$986.08	$682.67
1982	$1,380.68	$1,090.74	$897.44	$621.31
1981	$1,261.36	$996.47	$819.88	$567.61
1980	$1,159.09	$915.68	$753.41	$521.59
1979	$1,073.86	$848.35	$698.01	$483.24
1978	$1,005.68	$794.49	$653.69	$452.56
1977	$937.50	$740.63	$609.38	$421.88
1976	$869.32	$686.76	$565.06	$391.19
1975	$801.14	$632.90	$520.74	$360.51
1974	$750.00	$592.50	$487.50	$337.50

Will

Review Your Will Regularly

It is essential to regularly review your will with your spouse, and attorney to make that it reflects your current wishes.

This is especially important any time you change financial advisers; buy or sell real property or insurance; retire; or go through any life-changing event such as a divorce, loss of a spouse or a move to another state, especially to or from a community property state.

Everyone needs a will, and tax planning is a must for estates over $1.5 million for 2004 and 2005.

In Connecticut, for example, if your spouse dies without a will, you will receive the first $100,000, plus one-half of the probate estate, with the remainder going to your children. A valid will prevents the state from determining your heirs and how much they receive.

But many people don't realize their wills go only so far in the management of their estates.

Here are some problems financial planners and other professionals see all too frequently, and tip for solving them:

• Many times, people don't know what is in their wills, leaving heirs in the lurch. Spend some time reviewing your will, paragraph by paragraph, with your attorney. The will needs to make sense to you, if it doesn't. you need to revise it.

• A common method of lessening the estate tax burden is an insurance trust, which can yield a substantial sum that is free of estate and income taxes at death. However, insurance trusts must be financed properly and owned correctly to escape inclusion in the estate.

Is the trust paying the premiums? Is the trust the owner of the policy? Read your insurance policies. If you are shown as the owner, the insurance proceeds will be included in your estate, thus defeating any anticipated tax savings.

• If you use beneficiary designations for such tax-deferred assets as 401(k)s and individual retirement accounts, your will does not direct their disposition. Make sure the designations are consistent with your estate plan, especially as those accounts may be some of your largest holdings. Keep your lawyer informed of any changes.

• Beneficiary designations may enable your heirs to take advantage of continued tax deferral instead of having the IRAs distributed at your death, which subjects them to immediate taxation. That could force your heirs to liquidate the accounts to pay for taxes.

• Name a contingent beneficiary. Not having one if a spouse dies first will result in the estate, rather than the children, inheriting an IRA. And the IRA will be deemed distributed and subject to income taxes,

• If you're trying to avoid probate, do it correctly. One way is to set up a revocable living trust. But don't forget to re-title assets into the trust's name, or the planning fails, and the assets wind up in probate despite your best intentions.

• Provide for the disposition of your remains. If a next of kin cannot be found to make a decision, nothing happens until someone, sometimes the funeral home, applies to the probate court to award custody.

Many lawyers point out that gay couples cannot direct the disposition of a partner's remains. Partners have no standing under the law, unless, during their lives, they granted each other that status in accordance with applicable laws. Otherwise, by statute, the next of kin controls custody of remains.

Conclusion

Many people dreamily imagine quiet days on the golf course or long walks on the beach. But as the burden of assuring retirement security is increasingly shifted from employers and the government onto the backs of workers, a far less tranquil picture is emerging. Millions of baby boomers are financially unprepared as they approach traditional retirement age. A staggering half of households headed by 50-to-59-year-olds have $10,000 or less in their 401(k) accounts, for instance, even as public and employer retirement benefits are being trimmed. **To avoid a crisis, government, businesses, and employees must make critical choices in the coming years.**

Washington's role in all this is smaller than many people think. That's because the feds already have approved a host of tax-advantaged retirement savings products, such as individual retirement accounts, 401(k)-type savings plans, and annuities. Across-the-board expansion of such incentives usually results in more-affluent workers shifting existing savings from taxable accounts into new tax-advantaged accounts—**costing the Treasury billions in lost revenues without spurring much new saving.** So federal efforts to boost retirement savings should target poor and working-class households, which have lower savings rates. To do this the Congress would be wise to note the encouraging results of a recent study that found IRA use skyrocketed when the contributions of low- and moderate-income taxpayers were matched at varying percentage levels. When such taxpayers were not offered matching payments, only 3% contributed to an IRA. **When a 50% IRA match was offered, the participation rate jumped more than fivefold, to 17%. The cost to the Treasury would be only about $15 billion—10% of what it currently costs the government to subsidize the retirement savings accounts of mostly middle-and upper-class taxpayers**—yet it could jump-start retirement saving among millions of people who need it most. The Treasury also should consider allowing income tax refunds to be split between two accounts, enabling a taxpayer to deposit a portion into a bank account and the rest directly into an IRA or other retirement savings account—a low-cost fix.

Still, government action is only part of the solution. Companies must expand the use of so-called automatic 401(k) plans, which enroll employees in retirement savings plans unless they opt out. **This approach, used by about a quarter of large companies, including J.C. Penney Corp. and IBM, typically boosts 401(k) participation by new workers more than 50%.** Participation rates and contribution amounts also jump when businesses offer more investment help for often-confused workers. **Next, financial-services companies must do a better job of creating retirement and long-term care products that have cheaper fees and are easier to understand.**

Finally, workers must accept that the era of employer **paternalism** is over—and the demise of nanny government may not be far behind. **So relying solely on Social Security, Medicare, and a company pension for retirement security is risky at best**. The smarter, safer approach is to plan for a future wherein retirees work longer, pay more for medical and long-term care, and receive lower Social Security and pension payments than previous generations did. This tough new retirement reality won't be a stroll down the beach. **But if workers aren't prepared for the worst, their retirement years may turn out to be anything but golden.**

21st Century Retirement Plans

Examination 101
(GIVE ONLY ONE ANSWER)
YOU MUST PASS BY A SCORE OF 70% OR BETTER

YOU CAN ALSO TAKE THE TEST ON-LINE BY CLICKING ON THE FOLLOWING TEST-SITE:

http://www.colemantesting.com/

1. All of the following are flaws in using life insurance to replace traditional IRAs except...

(A) If the policyholder puts in only a few payments, there will not be enough cash in the policy.
(B) Such policies must have time on their side in order to produce a quantity of income or cash.
(C) Life insurance is mainly used as a death benefit
(D) This approach should only be used if the life insurance policies has no further useful purpose.

2. For married couples filing jointly the phase out for Roth IRA's is

(A) $ 150,000 and $ 160,000
(B) $ 200,000 and $ 250,000
(C) $ 300,000 and $ 400,000
(D) $ 450,000 and $ 500,000

3. The U. S. Department of Labor is responsible for seeing that pension Plans are:

(A) Properly operated
(B) Managed in a prudent manner
(C) Adhering to funding requirements
(D) A&B

4. Who established the Pension Benefit Guaranty Corporation (PBGC)?

(A) IRS
(B) Department of Labor
(C) ERISA
(D) The Dept. of Education

5. Defined benefit pension plan may state the promised benefits as an.

(A) Exact dollar amount
(B) Formula based on salary
(C) Formula based on years of service with the company
(D) All of the above

6.The Pension Benefit Guaranty Corporation pays the worker's pension pension up to the guaranteed limits if the employer

(A) Can not afford to pay the benefits
(B) Goes out of business
(C) None of the above
(D) A&B

7. A defined benefit plan must offer to pay an annuity, for the life of a retired worker, no matter how long the worker lives.

(A) False
(B) True
(C) Maybe
(D) The employer determffies the length of time

8. If the value of the benefit is $ or less, the plan may pay the benefits in a single payment.

(A) $100,000
(B) $ 50,000
(C) $ 5,000
(D) $ 10,000

9. Usually allow workers to participate if they are at least:

(A) 21yrs. Old
(B) 25yrs. Old
(C) 28yrs. Old
(D) 40yrs. Old

10. For many pension plans, the normal retirement age is:

(A)70
(B) 59
(C) 65
(D) 62

11. What is QDRO?

(A) Quality, Direct Relation Organization
(B) Qualified Domestic Relations order
(C) Quality Domestic Relation Organization
(D) None of the above

12. The total number of long term care policies sold has grown from 815,000 in 1987 to … in 2001

(A) 3 million
(B) 5 million
(C) 8 million
(D) 10 million

13. Define benefit plans are funded entirely by who?

(A) ERISA
(B) PBGC
(C) DOL
(D) Employers

14. A Survey Report will typically be conducted how often at a nursing home facility?

(A) quarterly
(B) monthly
(C) yearly
(D) on a case-by-case bases

15. Cliff vested workers must be fully vested after how many years?

(A) 10 years
(B) 7 years
(C) 5 years
(D) 3 years

16. In 1958 Congress enacted legislation that provided disability benefits under the Social Security program for individuals disabled after age ...

(A) 40
(B) 50
(C) 60
(D) 65

17. PBGC receives its funds from who?

(A) Federal Government
(B) State & Local government
(C) Covered pension plans, sponsored by the employers
(D) ERISA

18, Many 401 (k) plans provide direct employer contributions in order to :

(A) Create employee participation
(B) To show the employees the value of the plan
(C) A&B
(D) None of the above

19. 401 (k) DISTRIBUTION CANNOT BEGAN PRIOR TO:

(A) 59 1/2
(B) RETIREMENT AGE
(C) DEATH
(D) ALL THE ABOVE

20. There maybe a ……tax penalty for early withdrawals. [

(A) 50%
(B) 10%
(C) 5%
(D) 15 %

21. In Maryland, the signing of an advance directive must be witnessed by how many independent individuals?

(A) one
(B) two
(C three
(D) four

By law, your 401 (K) plan must have a spousal death benefit that you can not wavier unless spouse gives

(A) his or her oral consent
(B) his or her written consent
(C) both A & B
(D) consent is not necessary

23 They typically pay … percent of the basic disability benefit during any period of partial disability and where partial disability is carefully and specifically defined in the contract.

(A) 25
(B) 50
(C) 75
(D) 100

24. The worker is always vested in any salary reduction contributed to the 401 **(K) and any 401 (K) plan earnings on** those salary reductions.

(A) 50%
(B) 75%
(C) 100%
(D) 25%

25. A terminally ill individual is someone who has been certified by a physician as having an illness or physical condition that can reasonably be expected to result in death in ________.

(A) 36 months or less
(B) 52 months
(C) 24 months or less
(D) 48 months or less

26. Which disease is the # 1 reason for long-term care claims?

(A) strokes
(B) cancer
(C) Alzheimer's disease
(D) high blood pressure

27. The federal laws prohibit what is called " alienation of benefits." This rule States that creditors can not seize your:

(A) Checking Account
(B) Savings Account
(C) 401 (K) money
(D) Your Car

28, The following persons may be able to get your 401 (K) money, if they take their Claims to the judge:

(A) Your current spouse
(B) Your ex-spouse
(C) dependent children
(D) All of the above

29. Disability insurance is designed to replace … of the insured's loss income.

(A) 25%
(B) 50%
(C) 66 2/3 %
(D) 100%

30. How much of your pre-retirement income will you need during retirement years?

(A) 70-80%
(B) 40-50%
(C) 100%
(D) 25-35%

31. Retirees look for what when they relocate?

(A) High crime rate
(B) Cold climate
(C) Affordable housing
(D) Poor health care

32. Long Term Care insurance is designed to……

(A) provide traditional health insurance for the insured.
(B) help the insured to pay for custodial care in a nursing home.
(C) help the insured to pay for a private room in the hospital.
(D) replace Medicare coverage.

33. Which of the following can a person invest traditional IRA money into?

(A) Works of art
(B) Stamps
(C) Mutual Funds
(D) Historical Objects

34. A person who was born on or before 1937 can receive full social security retirement benefits at what age?

(A) 60
(B) 62
(C) 63
(D) 65

35. A widow or widower can collect their social security monthly income at what age?

(A) 65
(B) 60
(C) 62
(D) 59

36. Once a long-term care policy is purchased the consumer should review the insurer's rating_________.

(A) once a month
(B) every six months
(C) once a year
(D) every two years

37. Annuities are the opposite of ...

(A) car insurance
(B) homeowner's insurance
(C) disability insurance
(D) life insurance

38. Deferred annuities have which of the following?

(A) Accumulation period
(B) Payout period
(C) A &B
(D) None of the above

39. Contract owners may purchase 'insurance protection to cover the annuity account during the accumulation period.

(A) fixed annuity
(B) variable annuity
(C) A is correct
(D) A & B

40. The chief purpose of ERISA was to protect the interest of who?

(A) The employees
(B) Employee's beneficiaries
(C) A
(D) A & B

41.
Contributions to Keogh accounts may be invested in which of the following?

(A) Mutual Funds
(B) Bank Accounts
(C) Life insurance contracts
(D) All of the above

42. Do not plan to retire on social security because it is meant to be

(A) supplement income
(B) no part of your retirement
(C) for the poor
(D) for the rich

43. The Roth IRA is a nondeductible IRA, but the qualified distributions aren't .

(A) Taxed
(B) subjected to penalties
(C) only A is correct
(D) A & B

44. Which former president was diagnosed of having Alzheimer's disease?

a. John Kennedy
b. George Washington
c. Ronald Reagan
d. Franklin Roosevelt

45. For retirees, life insurance costs usually go:

(A) Down
(B) Up
(C) Stays the same
(D) None of the above

46. For retirees, usually you can expect to reduce your clothing expenses

(A) 20-35%
(B) 50%
(C) 75%
(D) None of the above

47. You can receive an estimate of what your social security income will be as often as you like from the ...

(A) IRS
(B) PBGC
(C) DOL
(D) SOCIAL SECURITY ADMINISTRATION

48. There is about………. of workers receiving social security that have to pay taxes on their monthly income benefits.

(A) 10%
(B) 50%
(C) 75%
(D) 20%

49. All workers should check their social security records at least how often?

(A) Every three years
(B) Every year
(C) Every 5 years
(D) Never

50. What is the approximate maximum dollar amount an employee could contribute to his or her 401 (K) account?

(A) NO LIMIT
(B) $ 15,000
(C) $ 30,000
(D) $ 50,000

51. Homeowners must be at least what age to be eligible for a reverse mortgage?

(A) 50
(B) 55
(C) 60
(D) 62

52. Which of the following properties are eligible for the HUD Reverse Mortgage Program?

(A) a principal residence
(B) single-family residence
(c) mobile homes
(D) all the above

53. Senior citizens are charged....of the home's value as an up-front payment plus..... on the loan balance each year.

(A) 2% and 1/2/ %
(B) 2% and 1%
(C) 3% and 1%
(D) 3% and 1 1/2/ %

54. Under the Reverse Mortgage Program, when you sell your home or no longer use it for your primary residence, you or your estate must repay what?

(A) all cash received from the Reverse Mortgage Program
(B) interest due
(C) all finance charges
(D) all of the above

55. Which of the following will determine the amount of the reverse mortgage?

(A) the borrower's age
(B) the interest rate
(C) the value of the home
(D) all of the above

56. When must the loan on a reverse mortgage be repaid?

(A) after the home has been sold
(B) once it is no longer a primary residence
(C) when the homeowner dies
(D) all the above

57. All Qualified LTC policies may be included as a medical expense if the person itemizes his or her deductions and if medical expenses exceed what percentage of adjusted gross income

(A) 5%
(B) 6%
(C) 7 ½ %
(D) 8%

58. The PBGC was created by Congress in what year?

(A) 1960
(B) 1963
(C) 1974
(D) 1980

59. The PBGC is funded by...?

(A) the federal government
(B) the States
(C) private pensions
(D) insurance companies

60. Approximately how many LTC policies were purchased in 1999?

(A) 100,000
(B) 350,000
(C) 500,000
(D) 750,000

61. During the 50's most disability income policies terminated at what age?

(A) 40
(B) 50
(C) 60
(D) 65

62. Since many individuals continued to work after age 65, some insurers began selling disability policies that extended the contract to age ...

(A) 50
(B) 60
(C) 65
(D) 72

63. Which of the following States do not have a sales tax?

(A) Utah
(B) Vermont
(C) West Virginia
(D) Wisconsin

64. Which of the following States tax Social Security benefits?

(A) Missouri
(B) Nebraska
(C) New Mexico
(D) all of the above

65. All of the following Sates have an income tax except...?

(A) Alaska
(B) Kansas
(C) Montana
(D) North Dakota

66. A person can deduct the full IRA if ...

(A) if they do not participate in any company retirement plan
(B) If the person has a non working spouse
(C) If the person is covered only by a defined-contribution plan, they do not participate until money goes into the plan on their behalf, which may not happen in the first year of employment.
(D) all of the above are true

67. How often is a person allowed to change investments in a self-directed IRA account?

(A) once a month
(B) every six months
(C) once a year
(D) as often as one wants.

68. Contract owners may purchase insurance protection to cover the annuity account during the...

(A) accumulation period
(B) annuity period
(C) Pay-in period
(D) both A & C are correct

69. The person who administers the pension plan is known as the...

(A) Record Keeper
(B) Trustee
(C) Administrator
(D) Investment manager

70. What percentage of people with Alzheimer's disease are cared for at home?

(A) 50%
(B) 75%
(C) 80%
(D) 85%

71. Which of the following statement(s) are not true?

(A) When contributing to an IRA, the policyholder is limited to the yearly contribution limits annually.
(B) There are no limits with an annuity investment.
(C) Generally there are no deductions allowed for payments to an annuity investment.
(D) Fixed annuities contracts are mainly for aggressive investors age 65 or older.

72. The first pension plan in the United States was establish in 1875 by:

(A) Baltimore Gas & Electric
(B) AT&T
(C) American Express
(D) B & 0 Railroad

73. Which of the following is/are true

(A) Long-term investors who need not be concerned with monthly or yearly variations in the investment return may find aggressive growth investing rewarding.
(B) Though, short-term investors who are uncomfortable with the extreme volatility of return may find that these funds can be offset by a greater allocation of an investor's total assets to a relatively risk-free investment, such as a money market fund.
(C) During a prolonged market decline, aggressive growth funds can sustain declines in net asset value.
(D) all are true

74. The Roth IRA s phased out for single taxpayers with a MAGI between $_______ and $_________.

(A) $ 95,000 and $ 110,000
(B) $ 150,000 and $ 200,000
(C) $ 250,000 and $ 300,000
(D) $ 350,000 and $ 450,000

75. Purchasing Inflation Protection before age … is essential when a person buys long-term care insurance.

(A) 50
(B) 65
(C) 75
(D) 100

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9.....	29.....	49....	69...
10....	30.....	50....	70...
11....	31.....	51…	71...
12....	32.....	52…	72...
13....	33.....	53…	73...
14....	34.....	54…	74...
15....	35.....	55…	75...
16....	36.....	56…	
17....	37.....	57…	
18....	38.....	58…	
19....	39....	59…	
20....	40....	60…	

THANK YOU!