

Investor Insights & Outlook

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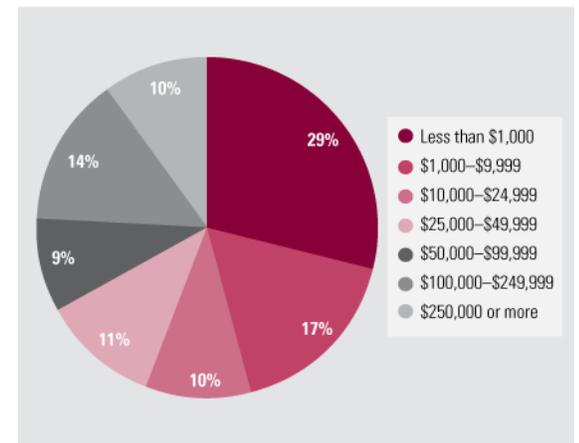
Investment Updates

Bleak Picture

The Employee Benefit Research Institute (EBRI) is an organization founded in 1978 with the mission of encouraging and contributing to the development of sound employee-benefit programs. Every year, the EBRI publishes a retirement confidence survey. The 2011 survey interviewed 1,004 workers and 254 retirees in order to find out their confidence in being able to meet retirement financial goals.

Unfortunately, the survey results look pretty bleak this year. For example, as the image illustrates, 29% of workers report having saved less than \$1,000, and 17% report retirement savings in the \$1,000–\$9,999 range. Overall, more than half of workers have less than \$25,000 saved, at a time when people start questioning if \$1 million will be sufficient for a safe retirement. Take a minute and see if you recognize yourself in this picture.

Total Savings and Investments Reported by Workers



Source: EBRI 2011 Retirement Confidence Survey, No. 355, March 2011. Savings reported not including value of primary residence or defined-benefit plans. Percentages may not add up to 100% because of rounding.

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Be a Better International Investor

International funds have received a lot of attention in recent years, and this should come as no surprise. For starters, it has become increasingly common for investors to build multi-fund international portfolios rather than rely on individual foreign offerings for all their overseas exposure. Further, international funds have posted exceptional gains in recent years (except 2008). This may sound good if a significant part of your portfolio is devoted to international funds, but be sure the popularity and performance of overseas offerings hasn't made you complacent.

In fact, it's just as important to periodically reexamine the parts of your portfolio that have done well and reevaluate the portions that have lagged.

If you do take on international funds, remember to keep both your near-term expectations and your overseas exposure in check. You can also consider conservative foreign funds.

The first step is to set reasonable expectations for the short- to mid-term prospects of international funds. The superior relative gains posted by various types of overseas offerings in recent years, with the exception of 2008, may not be sustainable in the long run.

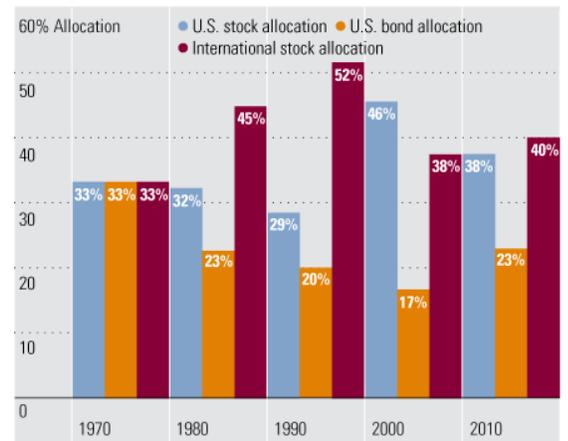
Given the superior performance of overseas offerings, check to see whether their overall foreign exposure exceeds the upper end of their international allocation range. A great portfolio performer can take on a larger percentage than you intended. Keeping an eye on your international allocation can help lower the overall risk of a portfolio.

The illustration paints a rather clear picture of this. In 1970 this portfolio began with an equal allocation to international stocks, U.S. stocks, and U.S. bonds. However, due to the strong performance of international stocks during the 1980s and 1990s, allocation to this asset class jumped to 52%. While many might overlook this shift in international exposure, keep in mind that international stocks have historically been riskier

than their U.S. counterparts. As a result, the portfolio may take on an additional level of risk.

If you need to rebalance your overseas portfolio to reduce overall risk, or seek more foreign exposure, consider conservative foreign investment vehicles. Aggressive international investments have a higher probability of incurring damage during a prolonged downturn. Investing in conservative foreign funds can help balance this risk.

Importance of Rebalancing



Weights may not add up to 100% due to rounding.

Diversification does not eliminate the risk of experiencing investment losses. This is for illustrative purposes and not indicative of any investment. An investment cannot be made directly in an index. Past performance is no guarantee of future results. Government bonds are guaranteed by the full faith and credit of the U.S. government as to the timely payment of principal and interest, while returns and principal invested in stocks are not guaranteed. International investments involve special risks like fluctuations in currency, foreign taxation, economic/political risks, and differences in accounting and financial standards.

Source: U.S. stocks are represented by the Standard & Poor's 500®, which is an unmanaged group of securities and considered to be representative of the stock market in general. International stocks are represented by the Morgan Stanley Capital International Europe, Australasia, and Far East (EAFE®) Index. U.S. government bonds are represented by the 20-year U.S. government bond.

How to Handle Beneficiary Designations

Designating beneficiaries for your company retirement plan, life insurance policies, and other assets might seem like a no-brainer. Chances are you would like those near and dear to you to inherit any money you've accumulated during your lifetime, so making sure that happens should be as simple as writing their names on the appropriate forms, right? Well, if only it were that simple. Naming beneficiaries can be more complicated than you might think, and it's a decision that may have significant repercussions for your loved ones.

Know the Basics: You can name almost anyone, or anything, as your beneficiary, including individuals, charities, and trusts. However, it is important to note that children under the age of majority—18 or 21, depending on the state in which you live—cannot be named as beneficiaries of life insurance policies, retirement plans, or annuities. If a beneficiary is not designated, assets will have to go through probate, which can be a lengthy and costly process. Also, be aware that beneficiary designations will override bequests you've made in your will, so please do not rely on your will to sort out these issues. This leads to our second point.

Keep Your Designations up to Date: It would be advisable to review your beneficiary designations on a regular schedule, ideally as part of an annual review of your finances. Major life events, such as a marriage, a divorce, the birth of a child, or the death of a loved one may require that you make changes to your designations. Don't procrastinate on this, as it may end up affecting others' lives. Moreover, you'll also want to review your designations if you or your employer have recently switched retirement-plan or insurance providers. You should not assume that the beneficiaries you specified with your previous provider will automatically carry over to the new one.

Bear in Mind the Tax Consequences: If you decide to designate someone other than your spouse as the beneficiary of your company

retirement-plan assets, he or she may have to take mandatory distributions from that plan and, in turn, pay taxes on the money. Your spouse, on the other hand, will be able to roll over your retirement-plan assets into his or her own individual retirement account (IRA) and won't have to pay taxes until distributions begin. There can also be estate taxes to keep in mind if you name a beneficiary other than your spouse. Needless to say, it would be in your best interest to speak with a tax advisor or someone who specializes in estate planning to go over possible tax ramifications.

Be Specific: It pays to be as specific as possible when designating beneficiaries. Most beneficiary designation forms allow you to name multiple primary and contingent beneficiaries and to specify what percentage of assets you'd like distributed to each upon your death. For example, you can state: "I hereby designate my wife, Jane Smith, as primary beneficiary" or "I hereby designate my two children, John Smith and Allison Smith, as contingent beneficiaries, with the proceeds to be divided equally among them." Of course, it is recommended that you discuss these important matters with your family members beforehand, so that they are prepared and know what to expect.

You Can Use a Legal Trust as a Beneficiary: What if you are in a situation where you can't (or you don't want to) name a person as a beneficiary? You can use what is called a legal trust. A trust means that you don't leave the money directly to the beneficiary, but to an institution (such as a bank) who manages it for the beneficiary. This is especially useful when minor children or disabled relatives are involved. A trust can be revocable (you can change the provisions later), or irrevocable (can't be undone).

Stretching an IRA

Many retirees depend on their individual retirement accounts to fund living expenses during their golden years. However, there are retirees who find themselves in the enviable position of having no need to withdraw from their IRAs. If you are fortunate enough to be in this camp, or if you are fairly confident that you will have plenty of money left in your account when you leave this world (even after taking required distributions), you will want to make sure you preserve as much of your IRA assets as possible for future generations. You can accomplish this by implementing a stretch strategy.

The first step in setting up a stretch IRA strategy is to simply name one or more beneficiaries. If you are married, your spouse can serve as your primary beneficiary while your children or even grandchildren can serve as your secondary beneficiaries. You can also name others as beneficiaries, such as family members or friends. You worked hard to accumulate the funds in your IRA, be sure they are transferred properly.

When you pass on, providing certain conditions are met, each beneficiary who elects to go with a stretch strategy will have a range of options to choose from—depending upon your age at death (and whether or not you have begun to take required minimum distributions from the IRA) and whether a spousal or non-spousal beneficiary is involved. If you happen to be named a beneficiary and choose to implement a stretch strategy, be sure you know what comes next. In some cases you may be able to keep the assets growing on a tax-deferred basis while in other cases distributions will need to be taken soon. Because of the many rules, it is highly advisable that you speak with a financial advisor or tax professional when it comes to stretch strategies.

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