

Some Concluding Thoughts

Mutual Fund and Annuity Summary
Annuitization Mechanics
Some Questions from Colleagues
Review of the Laddering Distribution Strategy
Financial Advisor

Asset Accumulation

- Note that risk in the equity markets is significantly reduced as investment horizons get longer.
- Thus, during the accumulation period, equity investments will generally accumulate to higher balances.
- In fact, some equity investments seem to actually lower risk and raise return as compared to 100% fixed income portfolios.

Summary of Mutual Fund Basics

- Expenses of Mutual Funds Vary Greatly
- Sales Charges are only part of the story
- Let's take a "Low Cost" Fund Example
 - TIAA-CREF Growth Equity Fund
 - No Front or Back Loads
 - No 12b-1 Fee
 - Annual Expense Ratio .45%
 - Turnover = 78%
 - Annual fund expense including Trading Costs = 1.42%
- Average Mutual Fund Expense for the Industry is 1.84%
- Vanguard leads the way in low-cost mutual fund offerings
- Mutual Funds are generally more expensive to hold than many investors realize.

Summary of Fixed and Variable Annuities

- Fixed Annuities invest in Fixed Income assets
- Variable annuities generally invest in Equity assets
- Investments referred to as Subaccounts
- Issued by Insurance Companies
- Embedded Death Benefit Options
- Provides for Annuitization – but not required
- Maintains complete investment flexibility
- Riders provide for management of market and longevity risk.
 - Income Guarantees
 - Withdrawal Guarantees

General Conclusions Regarding Fixed Annuity Annuitization (TIAA)

- Annuity Income is a function of age, spouse age, annuitization option, size of corpus, and expected interest rate environment.
- Joint Life Annuitization will obviously reduce the monthly amount received.
- Graded Interest, or Interest Only elections will occasion variable amounts received based on the volatility in the interest rate markets.
- Pro's and Con's?

Variable Annuity (CREF) Annuitization Mechanics

- Annuity Units you own will be determined at the time you elect annuitization of your CREF account.
- You will receive as income the market value of a given number of annuity units for each period determined on a given determination date.
- Annually – determined May 1st.
- Monthly – determined each 1st of each month.
- Actual income received will be a function of market performance during the previous period.
- Pro's and Con's?

Some Questions from Colleagues

- How do inheritance laws affect investment decisions of Senior?
 - Current Status of the Federal Estate Tax
- What are the needs and uses of a Will?
- When are Trusts Useful?
- What is a Charitable Remainder Trust?

The Need for a Current Will

- Three Primary Important Considerations
- Guardianship of Minor or Special Needs Children
- Naming of an Executor
- Disposition of Assets in ways you desire
- The Advantage of Assets with Named Beneficiaries
- The Probate Process
 - Estate becomes public information

The Value of a Credit-Shelter Trust

- A trust is a specific, separate taxable entity
- As such, it qualifies for the “Unified Tax Credit” when it comes to Estate Planning
- Simple Mechanics of a “Credit Shelter Trust”
 - Useful for Couples when their combined assets exceed the federal estate tax exemption amount
- At the death of the first spouse, assets are split between surviving spouse and the trust
- Surviving spouse becomes the Trustee
- At second death, the assets of the deceased and the trust pass on to the beneficiaries.

Suppose a Couple with \$4m Estate

- First: No Credit Shelter Trust in Place:
- At death of the first spouse:
 - All assets transfer to survivor tax free
 - Suppose survivor lives off the income only
- At 2nd Death – Total Estate is still \$4m
- During 2008 there is a \$2m exemption from estate taxes, thus a \$2m taxable amount
- Total Taxes due according to 2007 schedule
 - \$555,800!

Now Suppose they Had a Credit Shelter Trust in Place:

- At first death, \$2m goes to survivor
- Also \$2m goes to the Credit Shelter Trust
- Surviving spouse becomes the Trustee
- Continues to live off the income from both accounts totaling \$4m.
- At 2nd death both the deceased estate and trust estate receive the \$2m exemption.
- Total Tax owed \$0.00!
- Tax Savings to Beneficiaries = \$555,800.

What about a Charitable Remainder Trust?

- An irrevocable gift is made to a named charity to be received on the second death.
- Charities can be changed, split, or even not yet named at the establishment of the trust.
- Earnings from the Trust investments are disbursed in ways specified by the Trustee and provisions of the Trust.
- At the 2nd Death the corpus of the gift goes to the designated charity tax free.

What to Look for in a Financial Advisor

- Are they appropriately and sufficiently licensed?
- How is he/she compensated for services?
- Are they knowledgeable about investment products, markets, and strategies?
- Do they understand your particular circumstances, goals, resources, and desires? Will they listen?
- Will they service your account regularly?
- Do they provide timely information when requested?
- Will they work with a team – attorneys, accountants, executors, etc.
- Are they impeccably honest – do you Trust them?

The “Laddering” Strategy for Retirement Income Distribution

- Short Run: Stability and Predictability Desired
- Thus, Fixed-Income or Fixed Annuity Products required for this stability.
- Long-Run: To keep up with Inflation and possibly realize a raise, we need the higher returns that generally accrue to the Equity Markets.
- Thus, optimized and rebalanced Equity Investments or Variable Annuities are required for this needed long-term growth.
- Dilemma:
 - Fixed Investments Yield Low Returns
 - Equity Investments have High short-term volatility
- **Conclusion, different investments needed for different “time buckets” during our retirement lives.**