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RETIREMENT INSIGHTS

WINTER 2011

Retirement in the New Economy

“Almost half (46%) of those currently working plan to delay retirement. However, most retirees (64%) retired ahead of schedule, with only 3% retiring later than they had originally planned.”

Source:
MetLife, 2010

IT APPEARS IN news headlines and in speeches, in policy discussions and in water-cooler talk. It's the "new economy." The fact is that the recent recession has changed the way that we think about our money today and into the future. It has changed the way we work, and it has changed the way we think about not working.

We all well know that this has been a very difficult few years. It's been a time of struggle and a time of worry. It's been a time of increasing unemployment and a time of decreasing home values. It's been a time of great reflection as we pause to assess the recession's damage and how to move forward.

During this economic reckoning, financial uncertainty has impacted every generation. Young and old, we find ourselves asking, "What does this 'new economy' mean for my retirement?"

A study conducted last year by AgeWave and Harris Interactive titled, "Retirement at the Tipping Point: The Year That Changed Everything," looked into how the recession is impacting Americans' "retirement fears, hopes, attitudes, advice, and plans." They interviewed thousands of Americans across four generations to gather their data.

The results were somewhat predictable in that they unveiled overall trepidation and shifting plans, with a new outlook on the role of retirees in America. The results predict a new era of cautiousness after many saw their retirements, as they had planned them, change dramatically — or evaporate — when the Dow plunged 54% from its high in October 2007 to its low in March 2009 (though it has, of course, recovered substantially). Yet amidst all of that fear-based caution, there is also an underlying sense of hope.

Looking into the survey data further, we find: **RETIREMENT IN THE NEW ECONOMY MAY MEAN WORKING LONGER.** Nearly 60% of Americans have lost money in mutual funds, 401(k) plans, or the stock market. For many, recouping those losses means pushing back retirement and working longer.

Respondents of the AgeWave/Harris Interactive survey believe it will take an average of seven years for their investments to recover. The report cites that "today's preretirees say they will need to postpone their retirement 4.2 years on average, which would be the first time in history that retirement age significantly increased in America."

RETIREMENT IN THE NEW ECONOMY MEANS WORRYING ABOUT THE COST OF HEALTH CARE. The biggest financial concern among respondents age 55 or older is being able to afford medical expenses during retirement. For them, it is the biggest unknown. Medicare coverage, though helpful, is limited.

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Can You Count on Social Security?

TO DATE, SOCIAL Security's revenues exceed its expenditures. According to the SSA, your benefits will be there for you when you retire. However, they also acknowledge that changes to the present system may be required to make that happen.

When Social Security was created in 1935, the average life span was less than 65 years (Source:

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Can You Count on Social Security?

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Social Security Administration, 2010). Today, we're living longer, healthier lives — the average life span now is 78 years (Source: Census Bureau, 2010). While the full retirement age for Social Security purposes has risen too, from 65 to 67, most Americans still spend far more years in retirement — drawing Social Security benefits — than they did 75 years ago.

On top of longer retirements, we're also approaching a huge boom in the number of retirees. Over the next decade, 76 million baby boomers will start retiring; and in about 30 years, there will be nearly twice as many older Americans as there are today. Yet we won't see a corresponding boom in the number of workers. That's a problem, because Social Security is a pay-as-you-go system — today's workers fund today's retirees; so when there are far more retirees than workers, severe imbalances may arise.

Both factors make the Congressional Budget Office (CBO) — responsible for the information and estimates required for the Congressional budget process — concerned. They have reported that “as the [Baby Boom generation] continues to age, growth in the number of Social Security beneficiaries will pick up, and outlays will increase much faster than revenues. We project that Social Security trust funds will be exhausted in 2043.”

That doesn't mean that Social Security outlays will cease in 2043 — workers will still be contributing to the system — but the SSA will only be able to afford a portion of the benefits it originally promised. While Congress has failed time and again to agree on a plan to reform Social Security, nearly everyone agrees that Social Security, as it currently stands, is not sustainable. The SSA will have to increase workers' contribution percentages, decrease retirees' benefits, increase retirement age, or utilizing some combination of all three alternatives.

So, What to Do?

You can get a sense of what your Social Security benefit might be by reviewing your annual Social Security statement. Use that statement to project what percentage of your total retirement income Social Security will represent, and then create an action plan to reduce that percentage.

There's no magic number here, but as a general rule, reducing your reliance on Social Security as far as you can is a positive move. Worst case then, Social Security will be more robust than you had planned, and you will have more retirement income than you had projected.

The best way to approach this action plan to reduce your dependence on Social Security is to diversify your retirement income portfolio with various retirement vehicles. Some popular options to consider include 401(k) plans, IRAs (both traditional and Roth), work-sponsored pension plans, and fixed-income investments. ✓✓✓

Don't Forget to Organize Your Estate

DON'T THINK YOU'RE finished with the estate-planning process once a will, trusts, and other estate-planning documents are in place. From your heirs' point of view, it's just as important for you to organize paperwork and inform them of basic decisions. One way to approach this task in a systematic manner is to prepare a notebook including the following items:

- ✓ **NET WORTH STATEMENT.** An up-to-date net worth statement is a good way to ensure heirs are aware of every asset and liability. Make sure to list all pertinent information for each item on the statement, including account numbers, contact names, and phone numbers. Identify where important documents are kept, including deeds, loan agreements, insurance policies, etc. You may also want to explain your rationale for your estate's distribution.
- ✓ **INDIVIDUALS TO CONTACT.** List names, addresses, and telephone numbers of individuals your heirs may need to contact, including employers, attorneys, accountants, insurance agents, investment managers, and financial planners.
- ✓ **PERSONAL PAPERS.** Indicate where personal records are kept, including your birth certificate, marriage certificate, divorce or separation agreements, diplomas, military records, and naturalization records.
- ✓ **SAFE DEPOSIT BOX.** Indicate where the safe deposit box is located and what is contained in the box. Note where the key is kept and who has access to the box.
- ✓ **DISPOSITION OF PERSONAL ITEMS.** Detail how you would like personal items distributed, including jewelry, photographs, personal collections, and furniture. Often, disputes over personal possessions are more apt to cause conflict among heirs than disputes over money, so explain your rationale for the distribution of personal items. After you have decided how to distribute your most valued possessions, come up with a method for heirs to distribute the remainder.
- ✓ **LAST WISHES.** Indicate your preferences for funeral arrangements, including whether you want a religious or secular service, whether you want flowers or donations to a charity, whether you want to donate your organs or body to medical institutions, and where you would like to be buried. These are details your heirs may feel uncomfortable asking about, but will be grateful your wishes are known so they can be carried out. Also, list any friends or family you would like contacted after your death. ✓✓✓

Evaluating P/E Ratios

PRICE/EARNINGS (P/E) RATIOS are a common measure of stock value, both for individual stocks and the overall market. Calculating a P/E ratio is straightforward — it is simply the price of a single share of stock divided by the company's per-share earnings. However, P/E ratios can be calculated using different earnings numbers. Trailing P/E ratios, which are typically reported in newspapers, use earnings per share for the most recent four quarters, while forward P/E ratios use forecasts of future earnings per share.

The difficulty is deciding what a reasonable P/E ratio is for a particular company or for the overall stock market. For individual companies, investors' expectations about future earnings affect the P/E ratio. Confidence that a company will improve its profitability or remain profitable generally results in a higher P/E ratio. If profits are threatened or weak, the P/E ratio is likely to drop. P/E ratios for the overall market change based on broad market conditions and investors' views about how desirable stocks are compared to other investments.

There is no absolute measure of what P/E ratio should be paid for a given company with a given growth rate. P/E ratios

can fluctuate significantly over time and among companies and industries. It generally helps to follow the P/E ratios of stocks that interest you, along with companies in similar industries, to develop a feel for how the P/E ratios fluctuate. Reviewing a company's P/E ratio for prior years can also be helpful.

One way to evaluate P/E ratios is to consider a company's current P/E ratio divided by its historical P/E ratio. If it is much lower than 1, you might want to investigate why. If the value is much higher than 1, carefully assess whether you want to invest at this time. You may want to wait until the P/E ratio returns to a more historical level.

You can also divide a company's current P/E ratio by the market's overall P/E ratio. If that figure is much higher than 1 (and thus higher than the overall market), you should evaluate whether the company's prospects justify that valuation.

If you'd like help using P/E ratios to make investment decisions, please call. ✓✓✓

Retirement in the New Economy

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Retirees are considering supplemental insurance, known as "medigap," as the financial burden of health care can quickly deplete a person's retirement fund.

Nearly 70% of Americans over the age of 65 will need some long-term care, such as home care, assisted living, or nursing home care. In 2008, the average annual cost for a room in a private nursing home was \$76,460 a year (Source: Genworth Financial, 2009).

RETIREMENT IN THE NEW ECONOMY MEANS BEING MORE FINANCIALLY RESPONSIBLE. Only 4% of respondents strongly agreed that Americans behave in a financially responsible manner. An astounding 81% said that to "live within your means" was the most important financial advice parents could pass on to their children.

RETIREMENT IN THE NEW ECONOMY MEANS STABILIZING YOUR FUNDS. Generally, you should have a larger share of your investments in equities the further you are from retirement; as you approach retirement, you should gradually decrease your

equity investments and increase your bond and fixed-income assets — shifting from growth toward income generation. In other words, dialing down the risk in your portfolio as you approach retirement is important (though many investors will need both income **and** growth investments, even during retirement, to live comfortably).

RETIREMENT IN THE NEW ECONOMY MEANS FINDING A NEW PURPOSE. The majority of Americans — 60% — now say they view retirement to be "a new, exciting chapter in life" and 70% **want** to work in retirement as a way to contribute to their community and remain stimulated. It seems that a longer life span now means a longer work span...out of choice as well as necessity.

What's more, we want retirees to work. Nearly 75% of all survey respondents think our country would benefit if retirees were more involved in contributing their skills and experience to community and civic life.

There is no doubt that the recession created anxiety across the nation. As we all take a deep breath and assess our retirement funds, we assess with a new outlook. We have learned a lot. We have learned that working longer can create a new purpose. We have learned that our health is something we need to plan for as much as — if not more — than our retirement. We have learned that being fiscally responsible cannot be overemphasized. We have learned — again — that Americans are resilient and adaptable. We will get through this economic downturn...and be all the wiser.

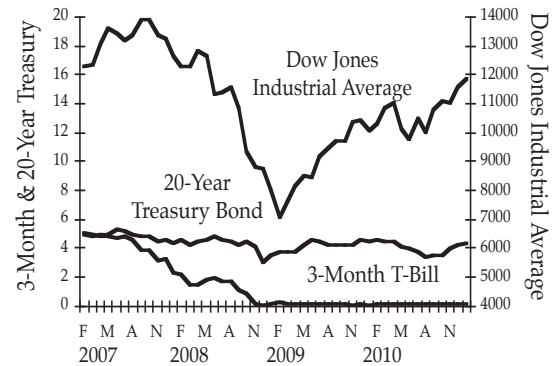
If you'd like some help assessing your retirement plans, please call. ✓✓✓



Market Data	Month End			% Change	
	Jan 11	Dec 10	Nov 10	YTD	12 Mon
Dow Jones Ind.	11891.93	11577.51	11006.02	2.7%	18.1%
S&P 500	1286.12	1257.64	1180.55	2.3	19.8
Nasdaq Comp.	2700.08	2652.87	2498.23	1.8	25.7
Wilshire 5000	13551.67	13290.03	12464.34	2.0	22.1
Gold	1327.00	1405.50	1383.50	-5.6	23.0
Silver	28.17	30.40	28.19	-7.3	74.8
				Dec 09	Jan 10
Prime rate	3.25	3.25	3.25	3.25	3.25
Money market rate	0.00	0.00	0.02	0.05	0.00
3-month T-bill rate	0.16	0.18	0.18	0.11	0.06
20-yr. T-bond rate	4.32	4.23	3.94	4.53	4.42
Dow Jones Corp.	3.83	3.89	3.69	4.43	4.24
Bond Buyer Muni	5.78	5.51	5.26	5.40	5.39

Sources: *Barron's*, *Wall Street Journal* Past performance is not a guarantee of future results.

4-Year Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield February 2007 to January 2011



Sources: *Barron's*, *Wall Street Journal*

Five Common 401(k) Plan Mistakes

“ Estimates indicate that U.S. workers need to accumulate more than 15 times their final pay to maintain their pre-retirement standard of living after retirement. Social Security is expected to provide 4.7 times final pay. ”

Source: Hewitt Associates, 2010

WHILE IT'S TRUE that participation is the first step, simply putting money into a 401(k) plan won't guarantee a comfortable retirement. Consider these five common 401(k) mistakes and how you can avoid them:

1. BELIEVING THAT SIMPLY CONTRIBUTING TO YOUR 401(K) PLAN IS SUFFICIENT. Your goal should be to contribute the maximum annual limit — \$16,500 for people under 50 years of age and \$22,000 for investors 50 years of age or older. Contributing at that level clearly isn't realistic for everyone, and certainly some level of contribution is better than nothing. But living well within your means today can mean a more comfortable retirement tomorrow.

2. USING YOUR 401(K) PLAN AS A SAVINGS ACCOUNT. When you go through a major life event, it can be tempting to cash out your 401(k) plan to get you through that “rough patch.” Withdrawing from your 401(k) plan today not only puts a dent in the balance that will compound over time, but if you're not yet at retirement age, the Internal Revenue Service may send you a hefty tax bill for withdrawing that retirement money early. To the extent that you can, leave your 401(k) alone to grow in peace until your retirement. Use other cash assets for those inevitable rainy days.

3. FEARING DIVERSIFICATION. Diversification is a risk management technique that mixes a wide variety of investments within a portfolio. It's based on the idea that a mix of different investments may yield higher returns with lower risk than any individual investment.

A good rule of thumb is to invest more in equities the further you are from retirement, and then gradually

increase your bond allocation over time to help make that shift from a growth orientation toward an income orientation. The point is this: a blend of investments is important and requires adjustments along the way.

4. NOT PARTICIPATING IN THE COMPANY MATCH PROGRAM. If your bank gave you \$10 every time you deposited \$10, would you accept that? That's what many companies offer through their 401(k) matching programs. Figure out how to budget your monthly take-home pay accordingly so that you can contribute at least as much as your employer will match (most match 50 cents or \$1 for every \$1 contribution, up to a certain percentage of pay).

5. SUFFERING ANALYSIS PARALYSIS. Whatever your situation, it is better to be prepared for retirement than not. The mistake here is either failing to tap the benefits a 401(k) plan offers (like company matching) or setting up contributions and then failing to pay attention to how they are allocated so you can make necessary adjustments.

If you feel like you may be making some of these mistakes, please call. *vvv*

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