

Rethinking Your Retirement Game Plan

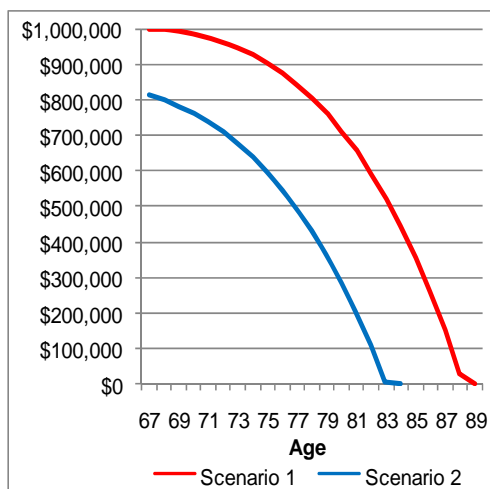
Periodic market downturns may result in significant investment losses, particularly within retirement accounts. If you are faced with this situation, you may have to reconsider when, or even if, you can retire.

The effects of a decline

Historically, the stock market has had its ups and downs. How any substantial market change impacts your retirement outlook may depend on how close you are to retirement. If you plan on working and contributing to your retirement savings for many more years, you may have time to recoup losses to your accounts due to poor investment performance. But if you're closing in on retirement or you're already there, a dip in your savings may affect how much you can safely withdraw and how long your savings can last.

To demonstrate, assume you and your spouse have \$1 million in retirement savings, expect an annual average rate of return of 7%, and estimate that you presently need \$100,000 annual retirement income for both of you to live comfortably, of which \$30,000 will come from Social Security. Presuming withdrawals increase by 3% each year to offset the effects of inflation, your savings will last about 22 years, as shown in the chart below (scenario 1).

However, a decrease of 14% in the value of your savings in one year shortens the duration of your savings by over 4 years (scenario 2). (This example is hypothetical and does not reflect a specific investment or strategy.)



What are your options?

If you're fortunate, even a significant decrease in savings may not impact your retirement income dramatically. You may have other sources of fixed income such as company-sponsored pensions, so you won't need to rely on your savings to provide much of your income. Or you may be able to offset the effect of diminished savings by spending less -- forgoing that planned cruise, putting off buying that new car, or making smaller gifts to children and grandchildren, for example. But if you rely on your savings for most of your retirement income, considerable investment losses of the magnitude recently experienced can require major lifestyle changes. Here are a few ideas to help you cope with the erosion of your retirement savings.

Continue working

You may have to delay the retirement party a little longer. Postponing retirement lets you continue to add to your retirement savings, which can offset losses caused by poor investment performance. Also, working allows you to delay withdrawing from your savings. That could allow more time for your retirement accounts to recover from investment-related losses.

Delay taking Social Security

Social Security may be the only source of fixed income you'll have in retirement. If you delay applying for benefits until your full retirement age, you can get as much as 30% more in monthly payments compared to taking benefits early. And, for each year you defer benefits past your full retirement age (between 65 and 67, depending on when you were born) to age 70, your benefit is increased by 8%. That could mean an additional \$500 or more in your benefit check each month--and that doesn't include annual cost of living increases.

Consider fixed income investments

Investments such as single premium immediate annuities (SPIAs) provide an income for the rest of your life, or for the combined lives of you and your spouse. However, while the income is dependable (subject to the claims-paying ability of the annuity issuer), you generally don't have access to the money you paid for the SPIA and you may not be able to change the amount of income payments or their duration once you've started.

Ask the Experts



What are the pros and cons of online banking?

Online banking: faster, better, and cheaper? As with anything, there are pros and cons; here are some to think about.

Pros

Convenience: Online banking sites are open 24/7. You can check your accounts and pay your bills in the middle of the night or on the weekend, all while sitting comfy in your jammies and bunny slippers.

Organization: All your account information is displayed in an organized fashion. You won't need to keep a shoebox full of old monthly statements, canceled checks, and ATM slips--you can go paperless.

Automation: You can schedule bill payments to occur automatically, and once you've entered pertinent information, you won't have to keep doing so for subsequent transactions.

Bells and whistles: Many online banking sites offer account aggregation (managing several accounts from one site) and compatibility with money-management programs. Some also offer stock quotes, portfolio management programs,

and e-mail alerts of various types.

Cons

Fear of cyberspace: Not everyone is computer literate. Setting up online banking accounts can take time, and using them requires a bit of savvy.

You still have to go to the bank: To make deposits (other than direct deposits), you generally have to mail in a check, or go to a brick-and-mortar office or an ATM. (These last two options get a little tricky if the bank is an online-only bank.)

Where's the beef?: Because online (especially online-only) banking services may not keep "real" records of transactions (and may keep online records only for a certain period), you may want to "call for backup" by printing out copies of your online statements and images of your canceled checks, particularly important ones, such as those that show tax payments. While this somewhat defeats the idea of going paperless, you may be able to get by with fewer shoeboxes.

How can I protect my online finances?

Whether banking, managing a portfolio, or shopping, taking care of business on the Internet can be convenient, but it can also be fraught with danger if you aren't careful. Here are some tips to help you keep your finances safe in cyberspace.

Protect yourself first: Install a firewall on your computer. Also install anti-virus and anti-spyware software, and keep them up to date. Create strong passwords (long combinations of letters, numbers, and symbols) and personal identification numbers (PINs) that are hard to guess. Change passwords and PINs on a regular basis, and don't leave a list of them out in plain view in your home or office.

Know where you're going: To make sure you're getting to where you want to be, navigate to websites by typing the URL in your browser's address bar or using bookmarks you have set up. Don't navigate to websites by clicking on links embedded in e-mails; being the victim of a phisher or pharmer isn't fun, and can cost you a fortune.

Security check: Make sure you're doing business on portions of websites that are secure. If they are, the URL begins with "https," not "http," and/or a small lock icon appears in a corner of the site. In addition, read the privacy policy on the website to see if your data is encrypted (protecting it from theft by either hackers or unscrupulous employees).

Back up your data: No matter how secure your computer or the sites you visit, your computer may crash or you may be "hacked." For that reason alone, it's a good idea to back up any important information you have on your computer to a removable disk or external hard drive that can be stored in a safe place.



Tax-Friendly States for Retirees

If you're retired, or about to retire, you may be thinking about relocating to a state that has low tax rates, or that provides special tax benefits to retirees. Here's a survey that may jump-start your search for a tax-friendly state in which to spend your golden years.

Income taxes generally

State income taxes typically account for a large percentage of the total taxes you pay. So, you may consider yourself lucky if you live in one of the seven no-income-tax states--Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming (New Hampshire and Tennessee impose income tax only on interest and dividends). If you're considering a state that does impose an income tax, you'll want to know how it treats Social Security and pensions in particular.



State income tax and Social Security

Social Security income is completely exempt from tax in 27 of the states with an income tax (as well as the District of Columbia): Alabama, Arizona, Arkansas, California, Delaware, Georgia, Hawaii, Idaho, Illinois, Indiana, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Mississippi, New Jersey, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Virginia, and Wisconsin. Missouri and Iowa partially tax benefits, but will fully exempt benefits beginning in 2012 and 2014, respectively.

Two states (Connecticut and Kansas) don't tax Social Security benefits if your other income is less than a specified dollar amount (\$50,000 or \$60,000 in CT, \$50,000 in KS). Three states (Colorado, Utah, and West Virginia) provide a general retirement income exclusion that takes Social Security benefits into account. Most of the remaining states tax Social Security benefits to the same extent they're taxed for federal income tax purposes.

State income tax and pensions

Of the states with an income tax, 36 fully or partially exempt pension income--only California, Indiana, Nebraska, Rhode Island, and Vermont do not. But the exemptions vary considerably by state. Some states exempt public pensions from taxation but tax private pensions, or exempt public pensions earned in that state, but not public pensions earned in another state.

Some states exempt employer retirement benefits, but not IRA income. Some states exempt a specific dollar amount of retirement income, but only if you've reached a certain age or have income within certain limits. In some states, military pensions are partially or fully exempt, while in others they're fully taxable. Some states exempt defined benefit pension payments, but tax 401(k) benefits. Make sure you understand how your particular type of retirement income is treated.

Keep in mind that federal law prohibits states from taxing certain retirement income (chiefly pension income) unless you're a resident of, or domiciled in, that state. For example, if you receive a pension from your former California employer, but you now reside in Florida, California can't tax your retirement income.

Other considerations

Remember that states impose many other kinds of taxes (for example, sales, real estate, and gift and estate taxes). Some states offer tax breaks to seniors, like property tax reductions, or additional exemptions, standard deductions, or credits based on age.

For an accurate comparison among the states, you'll need to consider your total tax burden. A number of web sites dedicated to providing information to retirees can help you in this daunting task.

- Tax-Friendly Sate for Retirees

- Ask the Experts

- Rethinking Your Retirement Game Plan

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Dave Williams is originally from Philadelphia, PA. He has been a "transplanted" Hoosier for the past 30 years. Dave strives to educate his clients on how to invest profitably and avoid loss by providing conservative options. He is dedicated to properly helping his clients reap the rewards of a well planned retirement. In addition, Dave is a well established speaker in Indiana and is committed to educating the community with his workshops on topics relating to conservative alternatives. Dave is a graduate of Indiana University with a BS in Finance. He is also a member of the National Ethics Bureau. He resides in Indianapolis with his wife of 27 years, 3 mini-Daschunds, and is enjoying his new granddaughter, Elly.



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