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CAPITAL FINANCIAL GROUP, INC.

231 Springside Drive
Suite 155
Akron, OH 44333
330.668.6991
800.630.6991
330.670.6461 Fax

RICHARD D. PETERSON
CERTIFIED SENIOR ADVISOR

Financial Briefs

MAY/JUNE 2007

Moving Gently into Retirement

For most of your working life, you've looked forward to the day when you can quit your job and start enjoying retirement. But in the face of longer life expectancies, uncertain Social Security benefits, declining pension benefits, unknown inflation rates, volatile markets, and low retirement savings, can you really afford to retire at a relatively young age and spend decades supporting yourself without a job?

The average life expectancy of a 65-year-old man is 81 and of a 65-year-old woman is 84. A 65-year-old couple has a 25% chance that one of them will live to 95. That's a long time to support yourself. More and more people are coming to the conclusion that either retiring later or continuing to work during retirement is necessary to ensure that they remain financially comfortable for the rest of their lives.

There are also some nonfinancial benefits for continuing to work:

- **Work keeps you healthier and mentally sharp.** Of those who had completely retired, 11% experienced a decline in mental health, 8% had an increase in illness, and 23% had increased difficulty in performing daily activities over a six-year period (Source: National Bureau of Economic Research, 2006).
- **Work enables you to maintain social contact with people outside your immediate family.** When individuals who had been retired for a year or two were asked what the hardest thing to deal with in retirement was, the number two answer, just behind loss of income, was loss of social connections at work (Source: *The New Retirement Mindscape*, 2006).

Working doesn't necessarily mean that you have to stay with your current employer. Rather, many individuals are taking on totally different jobs, which can allow them to try something completely different, provide more free time by working fewer hours, or ensure less stress.

Besides the nonfinancial reasons for working, there are several financial reasons that make this an important retirement strategy:

- **You have more time to save.** Each additional year you work is an additional year you can

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Make Conservative Assumptions

How can you ensure you'll have sufficient funds to last your entire retirement? So many of the variables used to calculate this amount seem uncertain. What is a reasonable rate of return for your investments over the long term? How long will you live, knowing life expectancies are increasing? How much can you count on from Social Security and pension plans? If you're concerned about running out of money during retirement, you need to be very conservative with your assumptions. Some tips to consider include:

- **Assume your retirement income will be at least 100% of your current income.** Most rules of thumb indicate you'll need between 70% and 100%, but figure on at least 100% to be safe. Nowadays, retirees want to travel, pursue hobbies, and live an active lifestyle, which generally means you'll need the higher end of these estimates.
- **Add a few years to your life expectancy.** You should probably plan on living until at least age 85 or 90. If your family has a history of longevity, add a few more years to these figures. While you may find it hard to believe you'll live this long, you don't want to reach age 75 or 80 and find out you've run out of money. At that point, you might not have the option to return to work.
- **Reduce your estimates of Social Security benefits.** The Social Security Administration sends benefit statements every year around your birthday, telling you how much to expect in benefits.

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Moving Gently

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continue to save for retirement. Those age 50 and over have additional means for saving, with annual catch-up contributions of $1,000 for individual retirement accounts (IRAs) and $5,000 for 401(k) plans in 2007.

- **You shorten your retirement.** The longer you work, the less time you will spend in retirement, which means you need less money to fund that retirement.
- **You can delay Social Security benefits.** Every additional year you wait to take Social Security benefits before the age of 70 will increase your monthly benefit.
- **You keep health insurance benefits.** One of the most significant costs in retirement is health care, and you can delay the cost by working at a job that provides this benefit.

Some companies are helping employees with retirement issues by allowing phased retirement, where hours are gradually reduced until full retirement. One possible advantage of staying with your current employer is that the pay may be better than if you started over in another profession. If your employer offers a phased retirement program, find out these details:

- **How will phased retirement affect your pension?** Many pension benefits are calculated based on your earnings in the last few years of your working career. If you don't want to take pension benefits yet, make sure your pension will be calculated using earnings while you worked full-time. You may also be able to draw a pension and work part-time. The Pension Protection Act of 2006 allows workers age 62 and older to draw a pension and work part-time.
- **What will happen to your salary with reduced hours?** Will you receive a pro-rata share of your pay or will a different pay scale be used? Will you be entitled to salary increases in the future? Make sure you agree on how you will be paid before going to part-time status.
- **Will you be eligible for health insurance benefits?** Find out the company's policy about health insurance benefits for part-time employees. This will be especially important if you go to part-time status before age 65, since you won't be eligible for Medicare.
- **What other details should you know about?** Make sure there is a mutual understanding about hours. Can you take time off for travel? Is this a permanent or short-term arrangement? If you don't like part-time work, can you go back to your full-time job?

If your employer doesn't offer a phased retirement program or you want to try something new, investigate your options before quitting your job. Consider many factors:

- How are you planning on spending your retirement? If you plan to travel a lot, how will work fit into that schedule? If you plan to split your time between two homes in two locations, how will you be able to work?
- What interests you? Would you be happier pursuing a job that takes advantage of skills from your current job, or would you like to try something totally different? Do you need to obtain additional skills or go back to school?
- Do you want to work in an office, by yourself, or at home?
- Do you want a job with significant responsibility, or are you trying to reduce the stress in your life?
- Are you passionate about an interest or hobby that you may be able to turn into a business? Do you have an interest in starting your own business? If so, do you have the financial resources, without risking funds for your retirement?
- Is there a cause that is important to you? Is it time to move to the nonprofit sector, finding an opportunity that matters to you at a personal level?

The last generation was able to retire to a life of total leisure due to the generosity of company pension benefits and Social Security. But longer life expectancies and less generous benefits mean that it is time to redefine retirement. What many are seeking is not so much total leisure as more leisure or a more meaningful life. Many are finding that those goals can be accomplished while still working, and that those additional working years can provide more financial security. If you'd like to discuss work and its role in your retirement, please call.

A Mortgage and Your Retirement

Will your mortgage be paid off by the time you retire? If not, what impact will that have on your retirement? Approximately 80% of retirees choose to live in their current home after retirement. If living in that home includes making a large mortgage payment, that can significantly affect the income needed for retirement.

According to the U.S. Census Bureau, in 2000, 45% of individuals in their 60s had a mortgage on their home, with 20% also having a second mortgage. But that included individuals at all income levels. Of individuals of all ages with incomes between $61,000 and $121,000, 83% had a first mortgage and 13% had a second mortgage. Of individuals with incomes between $121,000 and $182,000, 82% had a first mortgage and 51% had a second mortgage. Mortgage obligations represented 21% of household income for individuals in their 60s and 24% of income for individuals in their 70s.

If you'd like to discuss what impact a mortgage will have on your retirement income needs, please call.

Conservative

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While Social Security is currently in sound financial condition, that is expected to change after all the baby boomers retire. To be safe, count on benefits that are somewhat less than the Social Security Administration is estimating, and don't plan on adjustments for inflation.

- **Cut back on your living expenses now.** This has a two-fold impact on your retirement. First, it frees up money to set aside for your retirement. Second, you get used to a lower standard of living, which should also reduce your expected lifestyle for retirement.
- **Reach retirement with no debt.** Mortgage and consumer debt payments consume a significant portion of most people's income. Pay off all those debts by retirement and you significantly reduce your cost of living.
- **Forget about early retirement.** Saving enough to last from age 65 to age 85 or 90 is a difficult task. Trying to retire at age 55 or 60 is just not practical for most individuals, unless you're willing to significantly change your lifestyle. Working a few more years can go a long way in helping fund your retirement. Those years are typically your highest earning years, so hopefully you'll save significant sums during that period. Also, every year you work is one year you don't have to support yourself with your retirement savings.
- **Plan on taking conservative withdrawals from your retirement assets.** Don't plan on taking out more than 3% to 4% of your balance annually. Your funds should last for decades with that level of withdrawal.

How Much Can You Withdraw?

In a recent survey, respondents were asked what percentage of their retirement savings could be safely withdrawn every year without running out of money in their lifetime. Approximately 42% of the respondents didn't know, 6% said 25% or more, 6% said 15% to 24%, 17% said 10% to 14%, 19% said 5% to 9%, and 10% said less than 5% (Source: *National Underwriter*, May 8, 2006).

While there is no one correct answer, to ensure funds last for decades, it is usually recommended that no more than 4% of the balance be withdrawn each year, an answer only 10% of the respondents gave. Thus, if you need to generate $50,000 of retirement income after Social Security and other pension benefits, you'll need to save $1,250,000 by retirement age. That is a conservative number meant to ensure you never outlive your retirement funds.

That assurance, however, comes at a very steep price — many people will have difficulty saving 25 times the amount they need to withdraw annually. Thus, it's probably best to go through a detailed analysis of how much you can withdraw. This amount can be calculated based on your life expectancy, expected long-term rate of return, expected inflation rate, and how much principal you want remaining at the end of your life. Guess wrong on any of those variables and you risk depleting your assets too quickly. Yet, your life expectancy, rate of return, and inflation are difficult to predict over such a long time. Keep these points in mind:

- **Your life expectancy** — While it's easy to find out your actuarial life expectancy, life expectancies are only averages. Approximately half of the population will live longer than that. You can gauge your life expectancy by how long close relatives lived and how healthy you are. Just to be safe, you might want to add five or 10 years to that age.
- **Rate of return** — Expected rates of return are often derived from historical rates of return and your current investment allocation. Historical rates of return are averages of returns over a period of time. Actual returns may be better than that in some years and less than that in other years. You might want to be more conservative than that, assuming a rate of return that is lower than long-term averages. Even if you get the average return right, the pattern of those returns can significantly affect your portfolio's balance.
- **Expected inflation** — While inflation has been relatively tame recently, that has not always been the case. Inflation can have a dramatic impact on your purchasing power. For instance, at 2.5% inflation, $1 is worth 78¢ after 10 years, 61¢ after 20 years, and 48¢ after 30 years.

Use conservative estimates when making your withdrawal calculations. That will result in a lower withdrawal amount, but it will also help ensure that your funds don't run out. You should review your calculations every couple of years in retirement, especially during the early years. If you find you're depleting your assets too rapidly, you may be able to go back to work on at least a part-time basis.

Please call if you'd like help deciding how much to withdraw from your retirement assets.

Business Data

	Month-end				
Indicator	**Feb-07**	**Mar-07**	**Apr-07**	**Dec-06**	**Apr-06**
Prime rate	8.25	8.25	8.25	8.25	7.75
3-month T-bill yield	5.04	4.93	4.79	4.88	4.64
10-year T-note yield	4.75	4.58	4.69	4.60	5.02
20-year T-bond yield	4.95	4.82	4.93	4.82	5.26
Dow Jones Corp.	5.67	5.63	5.65	5.71	5.95
GDP (adj. annual rate)#	+2.00	+2.50	+1.30	+2.60	+5.60

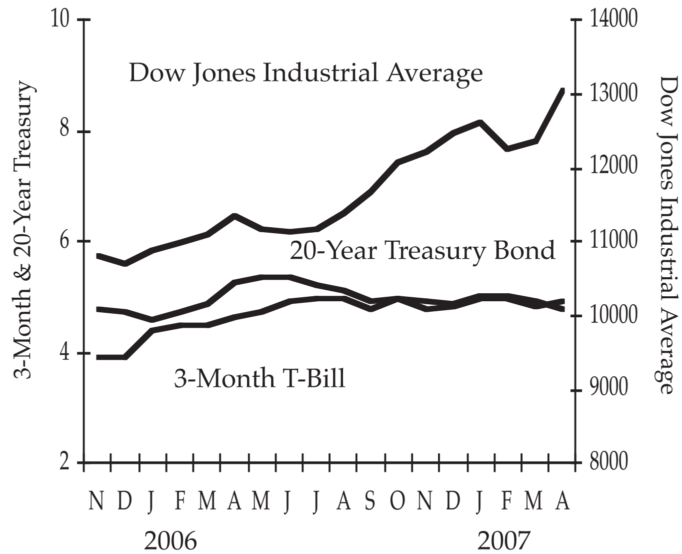
	Month-end			% Change	
Indicator	**Feb-07**	**Mar-07**	**Apr-07**	**YTD**	**12 Mon**
Dow Jones Industrials	12268.63	12354.35	13062.91	4.8%	14.9%
Standard & Poor's 500	1406.82	1420.86	1482.37	4.5%	13.1%
Nasdaq Composite	2416.15	2421.64	2525.09	4.5%	8.7%
Gold	664.20	661.75	677.00	7.1%	5.1%
Unemployment rate@	4.60	4.50	4.40	-2.2%	-6.4%
Consumer price index@	202.40	203.50	205.40	1.9%	1.9%
Index of leading ind.@	138.00	137.20	137.40	-0.1%	-1.1%

— 3rd, 4th, 1st quarter @ — Jan, Feb, Mar

Sources: *Barron's, Wall Street Journal*

18-Month Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield

November 2005 to April 2007



News and Announcements

Finding Money to Save

Everyone knows that they should be saving at least 10% of their gross income for retirement, but that can seem like an impossible goal after paying all your bills. However, don't just assume that you can't come close to saving 10% of your income without looking at the after-tax cost.

For instance, assume you earn $50,000 annually and your employer matches 50 cents for every dollar you contribute to the 401(k) plan, up to 6% of your pay. So, if you put 6% of your pay, or $3,000, in the plan, your employer will match 3%, or $1,500. Your contribution really costs less than 6%, because the money is taken out before income taxes. If you are in the 25% tax bracket, your $3,000 contribution will save $750 in taxes, or 1.5% of your pay. So, between your contributions and your employer's match, you will contribute 9% of your pay toward retirement, but it will only cost you 4.5% of your pay.

What if you don't have a 401(k) plan at work? Take a look at individual retirement accounts (IRAs). While you won't get an employer match, you can contribute to a deductible IRA, if eligible, and contribute pretax dollars, which reduces your contribution's cost by your marginal income tax rate. In 2007, you can contribute a maximum of $4,000 to an IRA, and individuals over age 50 can make an additional $1,000 catch-up contribution. So, if you are in the 25% tax bracket and make a $4,000 contribution, you will save $1,000 in income taxes. Or, you may prefer to contribute to a Roth IRA. While you won't get a current income tax deduction for your contribution, you can make qualified distributions free from federal income taxes.

Don't just assume that you don't have the funds to save for retirement without taking a look at the after-tax cost. Please call if you'd like help with this analysis.

FR2006-1113-0257

Rick