REINVENTING Retirement

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YOUR RETIREMENT PLANNING NEWSLETTER

Extreme Makeover

Household Budget Edition

Imagine waking up one day and hearing a commotion outside. You look out the window to see your neighbors gathered on the street, together with the cast of ABC's hit show Extreme Makeover—Home Edition. Ty Pennington, the show's star, is blaring "Good morning!" into a loudspeaker. You immediately get excited—the crew is there to build that dream home that you've always wanted!

But alas, Ty tells you they are not here to build a dream house. He tells you that it's Spring—time for some Spring cleaning. He tells you they are here for another kind of extreme makeover: your budget.

Well, the wind may have gone out of your sail for the moment. But upon recovering, you do realize that money—or lack thereof—seems to be getting in the way of everything, particularly your participation in your employer-sponsored retirement plan. You may have been holding off on participating—or even increasing your contribution—because you feel that you simply don't have enough dollars to spare. After all—there are all those bills, meals out, birthday gifts, vacations, clothes, and other assorted expenses necessary that keep you in the lifestyle that you've grown accustomed to.

It's time for some long-overdue Spring cleaning. Welcome to Extreme Makeover: Household Budget Edition.

Lay the Foundation

Setting up a budget will require some work, but the benefits more than offset the time invested. How you create your budget is up to you, and you may choose from a host of financial planning software available at stores such as Office Depot. Microsoft™ Money or Quicken are popular products, along with old-fashioned pencil and paper.

The first part of any budget is your income, or how much money you receive each month. Using the budget worksheet that follows as an example, you should include any paychecks, legal settlements, alimony, royalties, fees, and dividends from investments that you do not reinvest. Once you know what your monthly income is, you can use a budget to make sure you don't spend more than you take in. This will help reduce debt and free up cash for your retirement plan.

Next, you need to know how you spend your money. Start by tracking your spending for a month. You may even want to record daily expenses in a little notebook that you carry with you faithfully throughout the day. Gather bills and receipts, and don't forget to include sundry items from the corner store and trips to Starbucks and the soda machine. The golden rule is that no expense is too small to be recorded!

Write down your expenses and break them up into categories. Referring to the budget worksheet included in this newsletter, you'll find the category "Fixed Committed Expenses"—which is for mortgage, rent, loans, insurance payments that stay the same month to month; "Other Committed Expenses"—things you can't live without, such as food, utilities, and clothing; and "Discretionary Expenses"—things that you like but don't necessarily need.

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Brick by Brick

Once you know where the money goes, it's time to analyze your expenses. There probably isn't much you can do about Fixed Committed Expenses without moving or getting rid of your car. But if these expenses are greater than your monthly income, you've got problems. It's likely you're way over your head in debt and it is making it impossible to save.

You may find some room to economize in Other Committed Expenses, but look at Discretionary Expenses first. This is typically the easiest place to reduce spending. Begin by canceling magazine subscriptions that you don't read. Eat fewer meals out, or choose less expensive restaurants. In many parts of the country, you can rent two DVDs for the price of a single adult ticket to a movie, and throw in some microwave popcorn for only a dollar more. If you are a film fanatic, consider joining a subscription service such as Netflix (www.netflix.com) which is a great deal if you rent more than 5 or 6 movies a month.

Watch Cost Overruns

Once you've reduced discretionary spending, look at those Other Committed Expenses. Can you lower the grocery bill with coupons or more economical meals? How about taking public transportation instead of cabs?

One area to closely examine is debt. If a high balance is keeping you from saving, you need to find ways to trim those monthly payments. Call your credit card company and ask them for an interest-rate reduction, or shop around for a card with a lower rate. You can find a list of options through CardWeb (1-301-631-9100) or online at www.cardweb.com. Beware of low introductory "teaser" rates that increase to much higher rates after six months or so. You can also find help with debt through the nonprofit National Federation for Credit Counseling (1-800-388-2227, or visit www.nfcc.org). They can help you set up a budget and negotiate payment schedules with lenders for a modest fee. Once you pay off your credit cards, use the extra money to help fund your retirement savings!

Blueprint for a Successful Budget

- Use computer software such as Microsoft™ Money or Quicken, or the old-fashioned method of pencil and paper to create a budget.
- Analyze your spending for a month to see where your income goes (use a spending journal). If your living expenses are greater than your income, find ways to economize.
- Your spending can be broken down into 3 categories: Fixed Committed Expenses, Other Committed Expenses, and Discretionary Expenses.
- To free up cash for savings, begin by reducing Discretionary Expenses, then look at Other Committed Expenses.

Bus Driver: Move That Bus!

Use this worksheet to perform your budget makeover. Ty Pennington and the gang won't be there to hug you in the end, but it will definitely feel good! Fill this out for one month to start and plan to review it at least quarterly.

Monthly Income	**Expected**	**Actual**	**Difference**
Take home pay (you and spouse)	$________	$________	$________
Dividends, interest, etc.	$________	$________	$________
Other	$________	$________	$________
Total Income (A)	$________	$________	$________
Fixed Committed Expenses			
Other Savings	$________	$________	$________
Children's Education	$________	$________	$________
Mortgage/rent	$________	$________	$________
Property taxes	$________	$________	$________
Insurance	$________	$________	$________
Auto loan/lease	$________	$________	$________
Other	$________	$________	$________
Monthly Other Committed Expenses			
Groceries	$________	$________	$________
Utilities	$________	$________	$________
Repairs/maintenance	$________	$________	$________
Telephone/cell phone	$________	$________	$________
Credit card/loan payments	$________	$________	$________
Doctor/dentist	$________	$________	$________
Transportation	$________	$________	$________
Clothes	$________	$________	$________
Other	$________	$________	$________
Monthly Discretionary Expenses			
Entertainment	$________	$________	$________
Sports/hobbies	$________	$________	$________
Books/magazines	$________	$________	$________
Charitable contributions	$________	$________	$________
Birthday/holiday gifts	$________	$________	$________
Vacation	$________	$________	$________
Furniture	$________	$________	$________
Pocket money	$________	$________	$________
Miscellaneous	$________	$________	$________
Total Monthly Expenses (B)	$________	$________	$________
Total extra cash that you can add to your retirement savings plan (Subtract B from A)	$________	$________	$________

- Pay down credit card debt aggressively. Once the debt is paid off, direct the extra money to savings.
- Pay yourself first by setting aside some of each paycheck for savings goals, with retirement being the #1 priority. Ask your bank or credit union about automatic savings plans that automatically direct money from your checking account to savings accounts.
- Review your budget periodically to make sure it is still in line with your needs and goals.

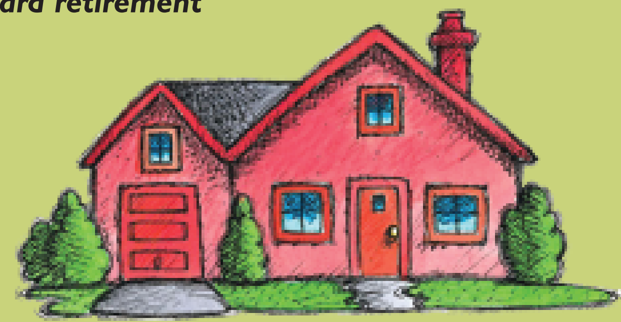
Hiring a Contractor

Looking for someone to help you with such daily tasks as bill payments, checkbook balancing and recordkeeping? A daily money manager (DMM) may be able to help you. A growing number of busy working people are looking to daily money managers to help them manage income and expenses, keep paper and electronic records, file medical and insurance claims, and organize documents for tax preparations. DMMs are not to be confused with financial planners, and they do not advise on tax, investment, or legal matters (unless they're licensed to do so). But they do work closely with professionals in those areas.

You should know that DMMs are not regulated, so ask for referrals from a trusted lawyer, CPA or financial planner. The American Association of Daily Money Managers Web site is at www.aadmmm.com, and it lists over 400 members, who typically charge $40-$50 per hour. Many have backgrounds in banking, finance, law, insurance and accounting. Ask for references and check the reputation of the DMM. Anytime you give someone access to your pocketbook, you want to make sure they know the difference between your money and their money!

There's No Place Like Home

Taming your taxes through home ownership can help you find more money to save toward retirement



No one would ever describe the U.S. tax code as simple. Despite its complexity, homeowners can find significant tax benefits—well worth the trouble of reading instructions, keeping accurate records, and filing multiple forms.

If you own a home, you'll want to take advantage of all the tax breaks available. For example, refinancing or opening up a home equity line of credit can allow you to pay off higher-rate debt, such as credit cards or auto loans. And the interest on an equity line is tax deductible. The interest on your car loan or credit card balance is not. If you don't own a home yet, you may want to consider whether buying one could help you keep more of your income by keeping taxes to a minimum.

The bottom line is this: all of these things could lead to extra "found" money to use for things like retirement savings and other important financial goals!

You'll definitely want to review this with a financial planner or CPA, but here are the major ways to tame your taxes through home ownership. Also included is a list of IRS publications that can help you learn more. Publications are available by visiting www.irs.gov/publications/index.html, or call 1-800-TAX-FORM.

Deductions for payment of loan discount points, mortgage interest and real estate (property) taxes. See Pub. 530, *Tax Information for First Time Homeowners*, which also covers computing the "basis" of your home, recordkeeping and getting tax help. Pub. 936, *Home Mortgage Interest Deduction*, discusses deducting mortgage interest paid to purchase, refinance or tap the equity of a first or second home.

Home sale capital gains exclusion. One of the biggest advantages to taxpayers is that you can keep up to $500,000 in home-sale profits tax-free, as discussed in Pub. 523, *Selling Your Home*. You'll want to also refer to Pub. 551, *Basis of Assets*.

Moving expense deduction. Pub. 521, *Moving Expenses*, details various expenses that can be deducted for a qualified job-related move to a new home.

Deduction for rental property expenses. If you rent out investment property or a vacation home, refer to Pub. 527, *Residential Rental Property*, for rules about taking deductions.

Other useful publications for homeowners. You may also find valuable information in Pub. 552, *Recordkeeping for Individuals*; Pub. 910, *Guide to Free Tax Services*; and Pub. 547, *Casualties, Disasters and Thefts*.

Retirement in Motion

TIPS AND RESOURCES THAT EVERYONE CAN USE

Boomers on the Brink

Issues facing participants approaching retirement

This year, Americans are celebrating the beginning of a huge, ongoing birthday party, as the first members of the Baby Boom generation (born between 1946 and 1964) turn 60. Among those turning 60 are Donald Trump, Sylvester Stallone, Laura Bush, Cher, Bill Clinton and Steven Spielberg. And right behind them are the 4.3 million more Boomers who will celebrate (or deny!) turning 50 this year. Advancement in medicine, as well as a focus on health and fitness, has contributed to the fact that the average Boomer male is now expected to live into his high 70s, and the average female into her 80s.

Author, Gail Sheehy, of *Passages* calls the years between 50 and 75 the "Age of Mastery." In our First Adulthood, she says, we are bound by our roles and responsibilities—such as student, apprentice, earner, spouse, and parent. But after 50, we can finally "be ourselves." Take this time to start really visualizing your retirement—a time of truly personal freedom! Where will you live? What new continents will you explore? Will you work part-time? Will you start a business? These are just a few of the questions to begin contemplating.

Tools & Techniques

Resources and ideas to guide you in your retirement planning efforts

Start contributing to your retirement accounts as early as possible. Even if you can't contribute the maximum, contribute as much as you can, especially up to the point of any employer match. And don't forget the catch-up contributions for people age 50 and older. The limits for employer plans in 2006 are $15,000 for 401(k)s, 403(b)s and 457 plans, plus an additional $5,000 catch-up provision if you're 50 or older.

Q & A

Common questions asked by retirement plan participants

What are hardship withdrawals?
Under certain circumstances, some employers may allow you to permanently withdraw money from your 401(k) or other qualified retirement plan, even without leaving your company. But unless you really, really have to, it's a truly bad idea. That's because you'll generally owe income taxes plus a 10% early withdrawal penalty (if you are under age 59½). A company can determine its own definition of "hardship," but many use what are called the "safe harbor rules" which usually allow withdrawals for the following reasons:

- To pay medical expenses
- To cover the down payment or to avoid eviction or foreclosure on your primary residence
- To pay college tuition
- To cover funeral expenses for a family member
- To cover certain expenses relating to the repair and/or damage to your principal residence resulting from hurricane or flood.

Quarterly Reminders

- Spring is in the air—time for some Spring cleaning. Make sure you complete the monthly budget worksheet included in this newsletter. Take the time to review it on an ongoing basis. Channel your "found money" to your retirement savings plan!
- Have circumstances changed drastically in your life? Make sure to review the beneficiary designation on your retirement plan and make any appropriate changes (example: if you've recently married or divorced, you may want to change your beneficiary designation).

Corner on the Market

Basic financial terms to know

Federal Reserve System
Also known as "The Fed." This is the central bank of the United States, and it was founded by Congress in 1913 to provide the nation with a safer, more flexible and more stable monetary and financial system. The Fed's primary function is to control and regulate the money supply. Alan Greenspan recently retired as Chairman of the Federal Reserve, after 18 years of service. Ben Bernanke was chosen by President Bush to replace him.

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