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YOUR FINANCIAL FUTURE

Your Guide to Life Planning

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In This Issue

FAQs for Near-Retirees

The following frequently asked questions about retirement income should help those nearing retirement know if they are on track to meet their income needs.

Simple Steps to Help Reduce Credit Card Debt

If you are contributing to the staggering sum of outstanding credit card debt in America, you need to start digging your way out, and the sooner the better. Here are some simple steps to help you start paying down those charges.

FAQs for Near-Retirees

While studies indicate that many people are likely to need between 60% and 80% of their final working year's income to maintain their lifestyle after retiring, low-income and wealthy retirees may need closer to 90%.

After years of saving and investing, you can finally see your retirement on the horizon. But before kicking back, you still have some important planning to do. The following frequently asked questions about retirement income should help you begin the final stages of retirement planning on the right foot.

1. When should I begin thinking about tapping my retirement assets and how should I go about doing so?

The answer to this question depends on when you expect to retire. Assuming you expect to retire between the ages of 62 and 67, you may want to begin the planning process in your mid to late 50s. A series of meetings with a financial consultant may help you make important decisions such as how your portfolio should be invested, when you can afford to retire, and how much you will be able to withdraw annually for living expenses. If you anticipate retiring earlier, or enjoying a longer working life, you may need to alter your planning threshold accordingly.

2. How much annual income am I likely to need?

While studies indicate that many people are likely to need between 60% and 80% of their final working year's income to maintain their lifestyle after retiring, low-income and wealthy retirees may need closer to 90%. Because of the declining availability of traditional pensions and increasing financial stresses on Social Security, future retirees may have to rely more on income generated by personal investments than today's retirees.

3. How much can I afford to withdraw from my assets for annual living expenses?

As you age, your financial affairs won't remain static: Changes in inflation, investment returns, your desired lifestyle, and your life expectancy are important contributing factors. You may want to err on the side of caution and choose an annual withdrawal rate somewhat below 5%; of course, this depends on how much you have in your overall portfolio and how much you will need on a regular basis. The best way to target a withdrawal rate is to meet one-on-one with a qualified financial consultant and review your personal situation.

4. When planning portfolio withdrawals, is there a preferred strategy for which accounts are tapped first?

You may want to consider tapping taxable accounts first to maintain the tax benefits of your tax-deferred retirement accounts. If your expected dividends and interest payments from taxable accounts are not enough to meet your cash flow needs, you may want to consider liquidating certain assets. Selling losing positions in taxable accounts may allow you to offset current or future gains for tax purposes. Also, to maintain your target asset allocation, consider whether you should liquidate overweighted asset classes. Another potential strategy may be to consider withdrawing assets from tax-deferred accounts to which nondeductible contributions have been made, such as after-tax contributions to a 401(k) plan.

If you maintain a traditional IRA or a 401(k), 403(b), or 457 plan, in most cases, you must begin required minimum distributions (RMDs) after age 70 1/2. The amount of the annual distribution is determined by your life expectancy and, potentially, the life expectancy of a beneficiary. RMDs don't apply to Roth IRAs.

5. Are there other ways of getting income from investments besides liquidating assets?

One such strategy that uses fixed-income investments is bond laddering. A bond ladder is a portfolio of bonds with maturity dates that are evenly staggered so that a constant proportion of the bonds can potentially be redeemed at par value each year. As a portfolio management strategy, bond laddering may help you maintain a relatively consistent stream of income while limiting your exposure to risk.[1]

When crafting a retirement portfolio, you need to make sure it generates enough growth to prevent running out of money during your later years. You may want to maintain an investment mix with the goal of earning returns that exceed the rate of inflation.

[1]Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and changes in price.

Simple Steps to Help Reduce Credit Card Debt

According to a survey conducted by the U.S. Public Interest Research Group, more than half (57%) of those who called and requested a lower interest rate were successful.

The United States has a cumulative revolving debt of more than $850 billion, according to the Federal Reserve. A whopping 98% of that figure is composed of credit card debt -- with 54 million households in arrears for an average balance of $15,788.[1]

If you are contributing to the staggering sum of outstanding credit card debt in America, you need to start digging your way out, and the sooner the better. Debt can stand between you and your financial goals, such as buying a home and being able to fund your retirement. Here are some simple steps to help you start paying down those charges.

Step 1: Consolidate and pay aggressively. The best approach to paying off debt is to become systematic and aggressive. If possible, try to consolidate your balances into one card with the lowest interest rate. Then cut out some of your indulgences -- lay off the morning coffee fix and brown bag your lunch. The $50-$200 a month you can save by making a few small sacrifices should go right into your credit card payment. If you can't consolidate your debt, start with the card with the highest interest rate, and double or triple your monthly payments until you eliminate your balance. Then do the same thing with the next highest interest rate card, and so forth.

Step 2: Pay debt first, invest later. Conventional wisdom states that if you can earn a higher after-tax return on your investments than the interest rate you are paying on your debt, you should invest. Otherwise you should pay off your debt.

As an example, say you have a credit card balance of $8,000 with a 14% interest rate. Given current market performance, paying off the card before investing is a no-brainer. But even if the stock market was experiencing an annual gain between 8% and 9%, paying off debt would still be your better bet.

Step 3: Ask for a lower rate. You can accelerate the pay-down process by calling your card issuer and asking for a reduced interest rate. According to a survey conducted by the U.S. Public Interest Research Group, more than half (57%) of those who called and requested a lower interest rate were successful. On average, the rate was lowered between seven and 10 percentage points.

It may take months or even years, but becoming debt free is your first step to true financial freedom. It is also a prudent move for individuals who are nearing retirement.

For More Information

These Web sites offer information on competitive rates and more. Be sure to shop around for the best rates.

- http://www.creditcards.com
- http://www.lowcards.com/CreditCardIndex.aspx
- http://www.bankrate.com/brm/rate/brm_ccsearch.as

[1]*Source: Federal Reserve, G-9 Report on Consumer Credit, March 2010.*