

Ten tips... Getting your asset-building strategy back on track

"I lost more than \$400,000 in the last 18 months, and don't tell me it's only on paper."

"I was going to retire in two years. Now, who knows? All bets are off."

"I watched one stock go from \$42 a share to \$5 a share. And I had 900 shares. You do the math."

If comments like this sound familiar, you're not alone.

It wasn't all that long ago that men and women in their early 40s talked about retiring before age 50. No more. Today, almost 4.3 million people age 65 or older are still working. That's an increase of 48% from 1985. More telling, almost 20% of people surveyed in a Gallup poll said they planned to postpone their retirement by an average of 4.5 years...and that was prior to the great stock market slide that began nearly three years ago.²

One problem: The good times were in fact great! For almost 18 years – from August 1982 to March 2000 – the Standard & Poor's 500 Index returned an astounding 19.8% a year. That's more than double the average annual return of 8.8% from 1926 through mid-1982.³ In short, the economy for the last two decades was hot, perhaps unrealistically so.

Still, little comfort for those of us who watched with delight as our assets went up...and are now staring in shell-shocked concern as they slide back to earth, suffering sustained losses.

What can you do? Here are some ideas that may help mend the cracks in your retirement nest egg:

1. Don't panic. Stresses Allan Sloan of *Newsweek*, "Don't let irrational depression replace irrational exuberance."³ Instead, take the time to think through the options available to you.

2. Remember that the economy is fundamentally sound, even though the days of double-digit returns may not return for a long time, if ever. We're in a recession, not a free-fall depression.

3. Adjust your expectations. The days of easy money are gone, at least for now. "If you adopt more realistic expectations," writes Sloan, "you can still save, work hard and retire before you die in harness. It's just not going to be as easy as it was in the '80s and '90s." So, don't waste your time or your money looking to continue earning double-digit returns.

4. Adjust your spending habits. Many of us have become accustomed to having it all – earning big, spending big, living well, buying that new car AND taking two vacations a year. Perhaps it's time to cut back and become a bit more conservative.

5. Adjust your saving habits. Nobody likes the feeling that they are pouring their money into a bottomless pit. So, you need to rethink where your money goes. But most of all, you need to continue saving to make up for any current losses. This is not the time to give up, but to accelerate your accumulation efforts. Allocate a percentage of your income to savings. The minimum should be five percent. If you are nearing retirement, you may want to set aside as much as 20 percent.

6. Review your retirement objectives and time lines. It's very easy to feel somehow cheated as assets have shrunk in recent years. As a result, many people "are facing the possibility of

having to completely alter their retirement plans," explains Karen Hube with MSN Money.⁴ Perhaps you were hoping to retire at age 60. Today, however, perhaps age 65 makes more sense. Another option is semi-retirement, which takes a lot of financial pressure off your retirement savings.

7. Don't put all your eggs in one basket. Learn from the Enron debacle, whereby some people's net worths declined from more than \$1 million to about \$50,000 almost overnight when the company failed. Instead, diversify for safety. Always a good idea, diversification is crucial today.

8. Review and revamp your current asset mix. As almost any advisor will tell you, the game has changed. Many people are adjusting their asset placement – whether going to new funds or moving more into fixed-return assets, such as fixed annuities or fixed accounts in variable annuities. Also, don't turn up your nose at U.S. Savings Bonds or Treasury Notes. They're not exciting, but they are safe. Perhaps your asset mix is fine. Still, make sure it reflects today's new realities.

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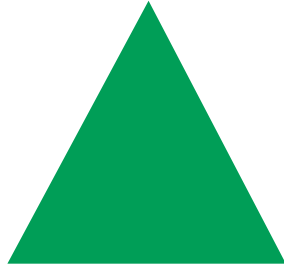


Ten-Year Level Term: a balance of price and protection

PRICE

Protection

T E N Y E A R S



It's easy to feel like Goldilocks when looking for the right life insurance. Many permanent, cash value policies offer long-term protection and a level premium...but oh, that premium can feel like too much. Then there are term policies, such as one-year term. You can get a ton of coverage for a great initial rate...but your coverage expires every year, leaving your family at great potential risk of having too little coverage.

Is there a just-right policy? No one policy is ideal for everybody. However, for many people, a 10-year level term policy offers an ideal compromise for men and women who want high dollar amounts of coverage for specified periods of time, with premium and death benefit guarantees.

Ten-year level term insurance has a number of attractive advantages, including:

- Premium guarantees, featuring a fixed, level premium for the full 10-year period.
- Competitive rates. Especially when compared to most cash value policies, the cost per thousand of coverage is significantly lower.
- Efficient, "pure" life insurance protection. There is no cash value accumulation. This means your premium goes to protection. It also means you can cancel your policy at any time without the risk of loss.
- Renewability. With many policies, coverage can be renewed, if desired, at the end of the term for a higher rate based on your attained age and health.

- Death benefit guarantees. Coverage remains level and cannot be canceled for the initial term of the policy.

Be sure you know what will happen at the end of the term. Not all policies are alike. Some are not guaranteed renewable (denying you continued coverage if your health deteriorates); others allow coverage to continue but reduce the death benefit. Look for a policy that allows re-entry with the same benefit amount and another 10-year premium guarantee reflective of your attained age and health.

If you are concerned that a 10-year guarantee may not be enough, consider buying multiple 10-year level term insurance policies. *Laddering* allows you

to add coverage as needs grow. Then, let coverage expire in staggered succession as your responsibilities decline.

Is 10-Year Level Term right for you?

If you want a competitive premium and need high dollar amounts of coverage for a fixed period of time (such as while your children are at home and dependent on you financially or while you are building your retirement nest egg), you should find out more about 10-year level term coverage.

To learn about your Academy's new 10-Year Level Term Life Insurance Plan featuring attractive rates underwritten by New York Life Insurance Co., NY, NY 10010 on Policy Form GMR, contact **AAFP Insurance Services at (800) 325-8166, website: www.aafpins.com**. We'll mail you information about the policy's features, costs, eligibility, renewability, limitations and exclusions. That way, you can make your own informed decision in the privacy of your home or office. There is no obligation. No salesperson will contact you.

Continued from front cover

9. Apply the "sleep test" to money decisions. No one has a crystal ball. When it comes to where you put your money, make sure you are comfortable with the decision. If you're happier putting the remains of your retirement money into fixed accounts for now, go ahead. If you believe the market has just about bottomed out and is ready to head north again, stick it out. Do the research and then do what seems right to you.

10. Do your homework. If there is one thing we've learned in the last few years, it is that no one, including the experts, can predict the future. Just as important, don't forget that no one will look after your money with as much care and concern as

you will. So, become as knowledgeable as possible, even if it means devoting just 30 minutes a day to perusing [The Wall Street Journal](#), [Investors Business Daily](#) or other publications.

The bottom line: What worked well in the last two decades may not be the order of the day for the future. Take the time to adjust, research and prepare to capitalize on the realities as they exist today.

¹ Author interviews, 2002

² "Working Past 65," Consumer Reports, August 2002, p. 56

³ "The New Rules of Retirement," by Allan Sloan,

Newsweek, April 1, 2002

(www.msnbc.com/news/728121.asp)

⁴ "4 Steps to Salvage Your Retirement," by Karen Hube, moneycentral.msn.com/articles/retire/basics/7894



Holiday home safety quiz



The holidays are more than a time of spiritual celebration, family gatherings and personal reflections. Though we don't mean to sound like the Grinch, the holidays are also the worst time of the year for house fires, accidents, burglaries and other mishaps. For example, according to the National Fire Protection Association, 4 out of 7 home fires occur in the 3 months beginning in December.

Fortunately, there is much you can do to protect your home and your family this holiday season. Take the following safety quiz, checking the boxes that apply to you and your family.

When decorating the house:

- If we burn candles, we keep them away from children, anchor them securely in non-combustible holders, keep the wicks trimmed to 1/4 inch, and never leave them unattended or use them as tree decorations.
- We use only laboratory-tested lights when trimming the holiday tree. (Very often, low-budget imports do not meet quality safety standards.)
- When decorating outside, we only use lights labeled for outdoor use.
- We secure outdoor lights using insulated staples or plastic holders (not nails or tacks) and make sure lights are held firmly in place and will not swing in the wind.

- Outdoor lights and decorations are plugged only into circuits protected by ground fault circuit interrupters (GFCIs). (Portable GFCIs are available at most hardware stores.)
- We check all existing light strings for cracks, broken bulbs and exposed wires.
- We use no more than three standard-length sets of lights per extension cord.
- We do not overload electrical outlets or leave outdoor or indoor lights burning when we go to bed or leave home.
- If we use a live tree, we make sure it is fresh, continually watered and away from the fireplace and candles.
- If we use an artificial tree, it bears a "Fire Resistant" label. (Never use electrical lights on a metallic tree.)
- If we hang stockings over the fireplace, we make sure the fireplace remains unlit.
- We have our fire place inspected annually. Regardless of the type of fuel burned, buildup from creosote, carbon or animal nests can impair performance and cause a chimney fire.
- If we use fire salts in our fireplace to create colored flames, we handle them with care and keep them away from children. (The chemicals in these salts can cause severe intestinal irritation if consumed.)
- We never burn wrapping papers or pine boughs in the fireplace. (These can cause flash fires.)
- We have smoke and carbon dioxide detectors. To make sure they work properly, we replace their batteries annually on a specific date.

- We keep a multipurpose fire extinguisher on hand because it is the only type recommended for fighting wood, cloth, paper, oil, grease and electrical fires.
- Our home address is clearly visible from the street so that, if there is an emergency, responders can find the house easily. (However, it is best to not have your name on the mailbox.)

When visiting friends:

- If we do holiday celebrating, we always have a designated driver.
- We discourage intruders by using dead bolt locks, burglar alarms and conventional lighting inside and out.

When shopping:

- We do not leave valuables in the car, or at least in plain sight. (Many homeowner policies cover items stolen from your car or from an offsite storage unit.)
- We park the car in a well-lit, well-traveled place.
- We keep track of our cash and double check that credit cards are returned to us after a purchase. (Some credit cards provide theft insurance on newly-purchased products, as long as you have your receipt.)

How did you do? If you could answer "yes" to most of the statements, then you and your family have reduced the risk of loss this holiday season. If you came up with too many "no" responses, take the necessary steps to tighten your home's security and increase the odds of enjoying a worry-free holiday.

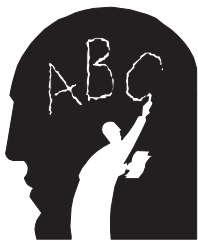
Compiled from sources that include the U.S. Consumer Product Safety commission, "News from CPSC," press release, December 5, 2000 (www.cpsc.gov/cpscpub/prerel/prhtml01/01046.html) and the American Red Cross, "American Red Cross Issues Holiday Safety Tips," reprinted Summer 2002 (www.redcrossdelmarva.org/november_30_2001.html)

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Thank you from all of us at AAFP Insurance Services

There's no better time than now, as we approach year end, to say thank you. One of my responsibilities is to help create and make available quality insurance products for members and their spouses. I've been with AAFP Insurance Services since 1971 and have had the opportunity to meet many of you personally. Casual conversations with members have often been of great value in helping us develop new products and services to better meet your needs.

Thank you for your input, your ideas, and your business.

J. Thomas Koch, President

May you all enjoy a safe and happy holiday season and a prosperous year in 2003.

Your FINANCIAL HEALTH

Your Financial Health is sent to Academy members courtesy of AAFP Insurance Services, Inc. Material for this publication is written by John R. Ingrisano—author, educator and journalist on money management and financial matters. Mr. Ingrisano has served as an advisor to AAFP Insurance Services since 1985.
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