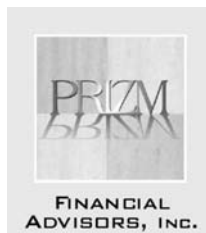


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PRIZM PERSPECTIVE

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Securing Your Financial Life

In a recent survey, 74.5% of individuals with at least \$1 million in net worth felt that the world is a dangerous place (Source: *Financial Planning*, June 2007). While there

might not be much we can do on an individual level to reduce crime, war, or even stock market corrections, there may be appropriate steps to mitigate the risks under our control.

If you're looking for ways to increase your financial security, you may want to consider the following tips:

- **Get your estate in order.** While dealing with your own mortality is often difficult, it is one of the most important things you can do to ensure your family can survive financially in the event of your death. Make sure your will reflects your current desires for the disposition of your assets and names a guardian for your minor children. You should also consider a durable power of attorney, which designates someone to control your financial affairs if you become incapacitated, and a health care proxy, which delegates health care decisions when you are unable to make those decisions.
- **Review your portfolio.** Recent stock market fluctuations may have made you a little nervous about holding stocks. But if you're saving for goals that are decades away, stocks probably should continue to hold a major position in your portfolio. The lesson we should learn from recent stock market fluctuations is that our portfolios should be diversified. A properly diversified portfolio may help protect its value during market declines

Spousal IRAs

Perhaps you are a stay-at-home parent, or your spouse is a professor on an unpaid sabbatical. Even though you are not working, you still need to consider retirement plans. A spousal individual retirement account (IRA) allows a nonworking spouse to contribute to an IRA, even though the spouse has little or no earned income. Here are the basics:

- To be eligible to contribute, the couple must be legally married at tax year-end and file taxes jointly. The couple's combined earned income must equal or exceed the combined IRA contribution.
- Contributions can be made to traditional IRAs as long as the owner is under age 70 1/2, while there is no age limit for Roth IRAs.
- In 2008, the maximum contribution to an IRA is \$5,000 with an additional \$1,000 catch-up contribution for individuals age 50 and over.
- For traditional IRAs, if the working spouse is covered by a qualified retirement plan but the nonworking spouse is not, the contribution for the nonworking spouse is phased out once adjusted gross income (AGI) is between \$159,000 and \$169,000 in 2008 and totally phased out once income exceeds \$169,000. If you both have earned income equal to at least the maximum IRA contribution amount and are both covered by a qualified retirement plan, your contribution is phased out at joint AGI between \$85,000 and \$105,000 in 2008. If neither of you is covered by a qualified plan, both of you can make a deductible contribution regardless of your AGI.
- For Roth IRAs, eligibility is phased out for AGI levels between \$159,000 and \$169,000 in 2008. It doesn't matter whether your spouse is covered by a qualified retirement plan at work.

Contributing to a spouse's IRA may be as beneficial to the working spouse as to the nonworking spouse, since the assets are likely to be shared during retirement. Please call if you'd like to review whether you or your spouse are eligible to contribute to a spousal IRA. ○○○

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Financial Life

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while generally offering higher return potential.

- **Take another look at your life insurance.** You may need to purchase insurance to protect your family in the event of your death. The amount needed will depend on your current net worth, the lifestyle you want to provide for your family, and your personal circumstances and desires. Since your insurance needs will change over time, assess your insurance coverage periodically, especially after major events in your life.
- **Obtain sufficient disability income insurance.** You may want to consider disability income insurance if your current assets won't support you until age 65. Many companies provide short-term disability insurance that covers 100% of your salary for three to six months. Long-term disability insurance is typically less common and less generous. Thus, even if you have long-term disability insurance at work, you may want to obtain additional coverage. Your available resources and disability benefits should equal at least 60% of your pretax salary.
- **Make sure you have an emergency cash reserve.** Consider setting aside at least three to six months of living expenses, although the exact amount will depend on your age, health, job outlook, and borrowing capacity. This can help tide you over in case of a job layoff, short-term disability, or large, unexpected expenditure.
- **Consider long-term-care insurance.** This coverage may be especially important for women, who tend to outlive their husbands. You should probably purchase the insurance while you are in your 50s or 60s. After that, the premiums get much more expensive. Also, if you develop a serious

Many assets, including individual retirement accounts (IRAs), 401(k) plans, life insurance policies, and annuities, have beneficiary designations that dictate who receives the asset after your death. These selections should be made carefully, since they typically override any provisions in your will or other estate planning documents. Consider the following points:

- **Select the most appropriate person as beneficiary for each asset.** First, list all your assets with beneficiaries, noting the owner, primary beneficiary, and contingent beneficiary. Then determine whether you have selected the appropriate person as beneficiary for each asset. In some cases, tax and estate planning considerations may help dictate whom to select. For instance, spouses typically have more options when inheriting an IRA, so that may be the better choice for your IRA.
- **Name contingent beneficiaries.** Without a named contingent beneficiary, the asset will be included in your probate estate if your primary beneficiary dies before you. The asset may then have to go through the probate process and may be distributed to someone you had not intended to receive the asset.
- **Indicate what percentage of the asset each beneficiary should receive.** Also, in the event a beneficiary dies before you, decide whether each beneficiary's share should be distributed to that person's heirs or divided among the remaining beneficiaries.
- **Assess whether beneficiaries are capable of managing the asset.** If not, you may want to set up a trust to control the asset's distribution.
- **Periodically review your beneficiaries to see whether changes are warranted.** A divorce, remarriage, spouse's death, or child's birth are all events that may require changes to your beneficiaries. You should also review your beneficiary choice if you make changes to your will. ○○○

health condition, you may not be able to purchase the insurance.

- **Keep your homeowners insurance up to date.** Review your homeowners policy carefully so you understand what would happen if your home was totally destroyed. It is your responsibility to make sure you have adequate policy limits, so inform your insurance company when you make major improvements, get an inflation rider for your policy, and make sure your policy covers the total cost of rebuilding your home.
- **Protect your home.** You may

want to obtain a good security system for your home. Make sure all doors are metal or solid wood with deadbolt locks, use bars or locks to secure sliding glass doors, and keep all entrances well lit.

- **Properly store important documents.** Documents that you might need when the bank is closed, such as passports, birth certificates, wills, or insurance policies, can be kept in a fireproof home safe. Other documents, such as deeds, stock certificates, and titles, should be kept in a safe deposit box in a bank. ○○○

Stretching Your IRA

Individual retirement accounts (IRAs) are usually viewed as retirement planning vehicles. But with increased contribution amounts and the ability to roll over 401(k) balances to an IRA, many IRA owners are finding they won't use the entire IRA balance for retirement. Thus, IRAs are increasingly becoming major estate planning tools. When used for estate planning, the goal is to extend the IRA's life as long as possible so that beneficiaries can benefit from the tax-deferred (for traditional IRAs) or tax-free (for Roth IRAs) growth. How can you accomplish that?

Assume you have a large traditional IRA balance, which includes a rollover from your 401(k) plan. You don't have to start taking distributions until age 70 1/2. Then, you only take required minimum distributions calculated based on your life expectancy. When you die, you leave the IRA to your spouse, who rolls the balance over to his/her own IRA and names his/her own beneficiaries, perhaps your children or grandchildren. Your spouse delays distributions until age 70 1/2 and then only takes required distributions. When your spouse dies, your children inherit the IRA, which can be divided into separate IRAs for each child. Each child can then take distributions based on each of their life expectancies and can name their own beneficiaries. When your children die, their beneficiaries cannot reset the distributions based on their life expectancy, but the beneficiaries can continue to take distributions based on the previous owner's schedule until the IRA is depleted. By using this strategy and only taking minimum distributions when required, the balance can continue to grow on a tax-deferred basis for years or even decades.

The concept can be expanded further by converting a traditional IRA to a Roth IRA. Although income taxes will have to be paid on any amounts that would have been taxable when

withdrawn (contributions and earnings in a deductible IRA and earnings in a nondeductible IRA), the income taxes can be paid with funds outside the IRA, leaving the IRA balance intact. While your adjusted gross income must be less than \$100,000 (not counting the rollover) to convert, this requirement will be eliminated in 2010, allowing all taxpayers to convert from a traditional to a Roth IRA. Once the funds are in the Roth IRA, you do not have to take any withdrawals during your life. Since your spouse can roll the balance over to his/her own IRA,

he/she would also not have to take withdrawals during his/her lifetime. When your spouse dies, his/her beneficiaries would then have to take distributions over their life expectancies, but qualified distributions could be taken free of federal income taxes.

Don't lose sight of the fact that your IRA's main purpose is to fund your retirement. It should only be used for estate planning purposes if you don't need the funds for retirement. Please call if you'd like to discuss this concept in more detail. ○○○

How Can Retirees Protect Their Nest Eggs?

While stock market fluctuations are painful for all investors, they are even more so for those nearing or in retirement. Investors who won't be retiring for many years have plenty of time for their investments to grow. Current and prospective retirees, however, may be concerned about how market fluctuations will affect their retirement plans. If you're looking for ways to help protect your retirement nest egg, consider the following:

- Try to withdraw as little as possible from your investments. If your investments have declined in value, reevaluate your current withdrawal amounts. Withdrawing the same amount from a substantially smaller portfolio means that you will deplete the balance much sooner. If you must make the same withdrawals, at least calculate what impact that will have on your current portfolio.
- Build up a reserve of investments not tied to the stock market, totaling three or four years of retirement expenses. With this reserve, you won't have to sell your stock investments during market declines.
- Withdraw funds in a tax-efficient manner, so they last longer. In general, you should withdraw taxable investments first, so that your tax-deferred investments can continue their tax-deferred growth. In most cases, however, you will need to start taking minimum required distributions from your tax-deferred investments by age 70 1/2.
- Reassess your asset allocation. The recent stock market fluctuations may have made you realize that your portfolio contains too much risk. While you may not want to make major asset allocation changes immediately, you can take steps to gradually add diversification to your portfolio.
- Decide whether you want a professional to manage your investments. In volatile markets, you may feel more comfortable allowing an investment professional to make investment decisions for you. ○○○

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Do You Really Need 70%?

A general retirement planning rule of thumb indicates that you'll need 70% to 80% of your preretirement income. Many estimates now indicate that may be too little for those who want to live an active retirement lifestyle. But when you realize how much you need to save to ensure your retirement income lasts for what could be decades, it's tempting to question whether you really need even 70% of your preretirement income.

First, you should prepare a detailed analysis of your expected expenses after retirement. Sure, some expenses will decrease, typically commuting, work-related expenses, savings amounts, and possibly taxes. But other expenses are likely to go up, including travel, entertainment, and health care. How much you will need depends in large part on how you plan to spend your retirement years. Thus, it's important to really take a hard look at how you plan to spend your retirement



years, so you can make reasonable estimates of how much it will cost.

Keep in mind, however, that things seldom go as planned. A recent survey of retirees found that 18% expected their retirement expenses to be higher than their preretirement expenses, but 39% actually had higher expenses (Source: *The Wall Street Journal*, May 12, 2007).

How can you help ensure that your expenses will be lower? Consider these tips:

- **Pay off your mortgage.** Mortgage payments often consume 30% or more of an individual's gross income. Eliminating this expense can drastically reduce income needed for retirement. If you can't pay off your mortgage, consider selling your home and purchasing a smaller one for cash. Not only will you eliminate the mortgage payment, but a smaller home often results in lower ongoing expenses, including lower utility bills, property taxes, and maintenance costs.
- **Get rid of other debts.** It's not unusual for consumer debt payments to equal 10% to 20% of an individual's after-tax take home pay. Try to enter retirement debt free.
- **Keep your automobile.** Instead of purchasing a new car every

couple of years, keep your current car for as long as it's in good working order. That will eliminate car payments from your retirement budget.

- **Look for ways to reduce travel and leisure expenses.** Look for and use senior discounts. Plan activities for nonpeak times, when rates may be lower.
- **Consider relocating.** The cost of living varies significantly from city to city and state to state. You may be able to reduce your living expenses substantially by moving to another locale. However, this is more than a financial decision. You also need to decide whether you want to move away from family, friends, and familiar surroundings.
- **Work at least part-time.** If you still don't have sufficient funds to support yourself during retirement, consider working at least part-time. Even a small amount of annual earnings can help significantly in funding your retirement.

Please call if you'd like help estimating your retirement expenses or looking for ways to reduce those expenses. ○○○

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