

Prospect

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Winter 2011



A Backup When You Need One

Professional sports teams generally have deep benches. Their managers understand that they need backup players in case injuries or other issues sideline one of their stars. It's a smart strategy, one that's intended to prevent the unexpected from derailing a team's overall performance. And it's a strategy that you can apply to your own finances. You can have a backup who will assume control over your financial affairs if you aren't able to make your own decisions because of a serious illness, accident, or some other unexpected problem.

One important question: Who do you want to serve as your financial backup? You could always give a family member or a close friend the legal authority — a power of attorney — to act for you in certain circumstances. That approach can make sense if the individual you choose has the knowledge, background, and time to handle your financial affairs in

the most effective manner possible. However, in many situations it can make more sense to use a revocable living trust with a professional trustee or co-trustee as backup.

How a Revocable Living Trust Works

With a living trust, you begin by establishing the trust and transferring assets into it. Your trustee or co-trustee will be able to manage the trust assets for you when needed, following the guidelines you have given in the trust agreement. In that agreement, you can also designate the individuals you want to ultimately receive the trust assets.

A Trust Offers Flexibility

Of course, since it is a revocable living trust, you have the flexibility to change it anytime you choose. You can amend the trust's provisions, give the trustee or

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Rebalancing Act

Investment values rise or fall almost every day. Any significant fluctuations that occur can affect the allocation of a portfolio that has been carefully diversified among stocks, bonds, and other asset classes. The result: A portfolio that has a different risk/return profile than you originally planned.

Rebalancing can restore your asset allocation. For example, if the percentage of stocks in your portfolio has increased substantially because of market gains, you can rebalance by selling stocks and investing the proceeds in underrepresented asset classes, such as bonds and money market investments. (This will have tax consequences if done in a taxable account.) Or you can invest more in the underrepresented asset classes until you achieve the desired allocation.

Consider rebalancing your portfolio at least once a year. Remember also that if your risk tolerance or time horizon has changed — you are getting closer to your planned retirement, for instance — then you may want to reallocate your portfolio so that your asset allocation more closely aligns with your current situation.



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Annuities are designed to provide a steady stream of income during retirement

What You Should Know About Annuities

Life expectancies continue to rise. So it's reasonable to assume that many of us may well spend many years in retirement. That raises a question: How to finance retirement?

An annuity may be an option. Annuities are designed to provide a steady stream of income during retirement. Knowing that you will have a reliable source of income to supplement Social Security benefits (and any pension you expect to receive) can give you greater flexibility in managing your other retirement investments. You also might consider an annuity if you want to ensure that a loved one is taken care of financially after you've passed on. Annuities may include a death benefit that will pay your beneficiary a minimum guaranteed amount.

However, not all annuities are equal, and it's important to carefully investigate all the provisions of an annuity contract, including fees and expenses, before you enter into an agreement.

Annuity Basics

You can buy an annuity with a lump-sum payment or a series of payments. A deferred annuity has an accumulation or savings phase before payouts begin. The payments from an immediate annuity, in contrast, begin right away. Annuities may be fixed or variable.

With a deferred fixed annuity, the insurance company guarantees that you will earn a minimum rate of interest while the

account is growing. When the annuity reaches the payout phase, the dollar amount of the payments is guaranteed for the payout period you've selected.

A variable annuity puts you in charge of deciding how your money is invested. The sub-accounts you choose may represent different stock, bond, and cash equivalent mutual funds. The rate of return on the investments in a variable annuity will depend on the performance of the investment options selected.

Different Payment Terms

Annuity payments can be made for a specified number of years. Or payments can be made over your life or over the lives of you and your spouse (or another beneficiary). Some life annuity contracts guarantee a minimum number of years of payments, so payments would continue for the longer of the guaranteed number of years or your lifetime. There are other variations as well.

Annuities can be a useful planning tool, but they are not for everyone. A talk with your financial advisor can help you determine if an annuity might be appropriate for your personal situation.



A letter of instruction also provides contact information for your legal and financial advisors

Help Loved Ones with a Letter of Instruction

Few things can be as stressful as dealing with the serious illness, incapacity, or death of a loved one. It's an emotionally draining time for everyone involved.

The stress can be magnified if family members or loved ones have to scramble to find important documents and other critical personal or legal records.

You can take steps, however, to ensure that your loved one will be able to easily locate key information related to your health care, finances, and business interests. It can be helpful to prepare a *letter of instruction* that includes a list of your important documents and where they can be found.

A letter of instruction also provides contact information for your legal and financial advisors and gives instructions for carrying out your wishes.

Your letter of instruction should include the following:

- The location of important legal documents, such as your will (and any trust documents), health care proxy, durable power of attorney, birth certificate, business agreements, property deeds, vehicle titles, income- and gift-tax returns, and military records
- A list of investments, bank and retirement plan accounts, annuities, and insurance policies
- The location of your safe deposit box, the key, and a list of contents
- Funeral arrangements and burial instructions, including whether you have prepaid any expenses
- Contact information for your attorney, trustee, and other advisors who should be notified

It is important to review your letter periodically and update it when necessary. And make sure you tell your loved ones of its existence and its location.

SHORT LINES



■ **American Work Days.** The average employed American worked an average of 7.5 hours on the days they worked, according to data from the U.S. Bureau of Labor Statistics. On the days they worked, 24% of employed persons did some or all of their work at home.

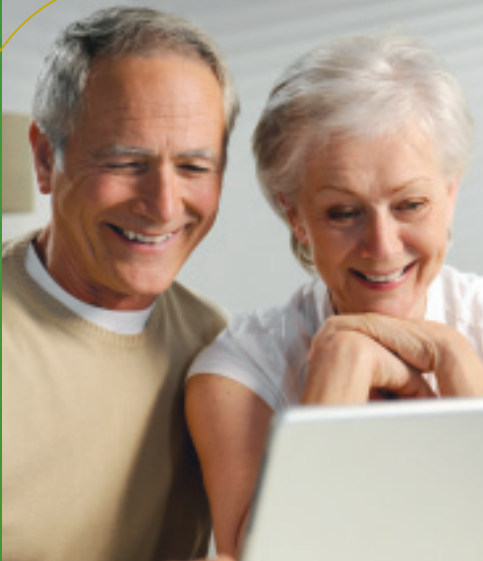
■ **401(k) and IRA Limits for 2011.** The IRS announced that the elective

salary deferral limit for 401(k) plans remains unchanged at \$16,500. The limit on catch-up contributions for 2011 is \$5,500. The maximum contribution that can be made to a traditional or Roth IRA is the smaller of \$5,000 or taxable compensation for 2011. (The maximum Roth IRA contribution may be reduced depending on your income.) For IRA owners age 50 or older before

the end of 2011, the maximum contribution that can be made to a traditional or Roth IRA is \$6,000.

■ **The 2011 Gift-tax Annual Exclusion.** The gift-tax annual exclusion, the amount that can be given to any individual each year without it being considered a taxable gift, remains unchanged for 2011 at \$13,000.

An annuity may impose charges, including but not limited to surrender charges, mortality and expense risk charges, administrative fees, underlying fund expenses, and feature charges that can reduce the value of your account and the return on your investment. You will have to pay federal income tax on any earnings you withdraw from the annuity during retirement or before. Withdrawals before age 59½ may be subject to the 10% early withdrawal penalty. Payments and guarantees are subject to the claims-paying ability of the issuing insurance company, and the underlying investment options are subject to market risk and may lose value.



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As always, a revocable living trust puts you in control

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co-trustee more or less responsibility, name new beneficiaries, or even terminate the trust. You always stay in control of the trust and of your assets.

By naming a co-trustee or successor trustee, you may continue to manage your finances, as in the past. It's only when the circumstances you've identified in your trust agreement occur — an accident, illness, or incapacity — that your trustee steps in and assumes responsibility. Your trustee will manage your finances for as long as the trust document indicates.

... And Continuity of Management

Your living trust can keep your assets under the care of a professional investment manager after your disability or

death. That uninterrupted, professional care protects your assets. This can be especially important if your beneficiaries are financially inexperienced. Ultimately, your beneficiaries will receive the trust's assets at a time and in a manner you've specified in the trust agreement. As always, a revocable living trust puts you in control.

Work with an Experienced Trustee

Choosing us as trustee of your revocable living trust will give you the peace of mind that comes from knowing that your assets will be carefully protected and that your financial needs and those of your loved ones will be well looked after. Please call us if you want to learn more about setting up a revocable living trust.

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