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PUBLISHER**

Income in Retirement

A MONTHLY RESOURCE FOR PROTECTING YOUR INCOME

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TIPS to Fight Inflation During Retirement

Perhaps no word is scarier to a fixed income investor than inflation – especially for those who depend on the yields from bond investments for their retirement income needs. For example, inflation can reduce the payout rate of bonds over the long-term, as the higher costs of living can often weaken the purchasing power of bond's return over time.

However, retirement investors can factor in the effects of inflation in their investment portfolios. You can also help protect your portfolio and your cash flow from inflation by adding Treasury inflation-protected securities (or TIPS) to the bond portion of a diversified investment portfolio.

TIPS were introduced a few years ago by the U.S. Treasury to offer investors a means to protect assets from inflation. TIPS help to protect against inflation by adjusting the principal amount by a rate equal to the Consumer Price Index (CPI) – the primary barometer of inflation on the consumer level. When the bond reaches maturity, the TIPS investor receives either the principal value of the bond adjusted for the CPI rate over the term of the bond or the bond's original par value, whichever is greater upon maturity. The TIPS investor also receives the interest amount on the bond. Because the principal amount of the TIPS bond rises over time, this helps to protect the purchasing power of the bond.

TIPS can also be a suitable choice for a diversified portfolio, because they have a low correlation with stocks and other bond securities. That means they often react differently than stocks and other bonds to market and interest rate risks and can potentially reduce the volatility of your overall portfolio.

However, TIPS are not a risk-proof investment. To receive the full inflation-protection potential of a TIPS holding, it must be held for the term of the bond. Also, TIPS may under perform regular Treasury bonds, should inflation remain low. In a deflationary environment, TIPS could also lose value, although investors would be guaranteed to receive at least the par value of the security upon maturity.

TIPS may also provide you with some tax benefits. Like other Treasury notes and bonds, TIPS are exempt from state and local income taxes but interest payments are subject to federal income tax. However, gains from inflation adjustments to the value of the TIPS' principal are taxable in the year they occur, even though you won't get the cash until maturity.

A complete evaluation of your current investment portfolio and income needs can help you determine whether TIPS would be appropriate for you. Call my office to schedule an appointment to learn more, or simply complete the enclosed reply coupon to have information on TIPS mailed to you.

Old Opportunity Revamped for Modern Times

The word “annuity” brings to mind different meanings for many investors. That’s because there are different types of annuities designed for different purposes. One of these is the immediate fixed annuity, which can provide an immediate stream of cash payments over a lifetime or a defined period of time.

If the investor has chosen a lifetime payout option, he or she typically pays a single premium to an annuity company. In return, the company agrees to pay the investor regular and ongoing cash payments for life, or for a lesser amount to continue over the life of both spouses. Although many investors choose to receive monthly payments, it is also possible to receive quarterly, semi-annual, or annual payments as well.

Assuming the payments are structured over a lifetime, the investor is provided with a lifetime income he or she cannot outlive. Such an investment is useful for investors requiring additional retirement income, for support of a community spouse in the event the other spouse is in need of nursing-home care and is seeking to qualify for Medicaid (immediate annuities can be treated as exempt asset in some states), for making lifetime payments to cover long term care needs, or for paying long term care insurance premiums. A portion of each payment is considered a return of premium and therefore not taxable to the investor. The remainder is considered interest and will be subject to federal and state income taxes.

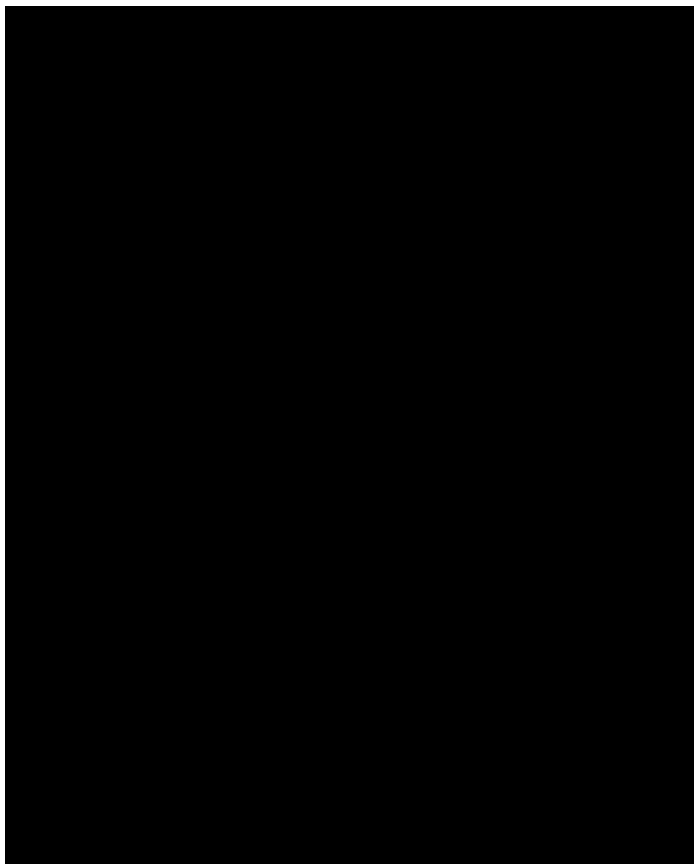
One drawback to these products is an early death. In such a case, the annuity company keeps the funds and the income ends. This early-death financial risk is sometimes perceived as a negative feature among some investors. However, there is a possible solution to this concern as some annuity companies will guarantee a return of the investment to heirs in the case of an early death. The feature is referred to as a “refund” provision. Other companies offer “commutation” which

allows the investor to change his mind and recover his initial investment (usually with a surrender charge).

Please note, that annuities are long-term investments that are designed for retirement purposes. Annuities are also subject to administrative fees, mortality charges, and surrender charges that can apply to early withdrawals, and these fees tend to vary from company to company. Annuity premium payments and any other guarantees are subject to the claims-paying ability of the issuing company. For this reason, it is very important to consider the financial standing of the issuing company before you purchase an annuity.

We currently have investors using immediate annuities for the purposes mentioned above. If you are seeking an additional stream of cash for your retirement, check off on the enclosed coupon for the brochure on immediate annuities that offer the above features. ♦

As federal and state tax rules are subject to frequent changes, you should consult with a qualified tax advisor prior to making any investment purchase decisions.



Get this Valuable Free Information

Mail back to:
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Please send me information on these items mentioned in your newsletter:

- I would like to learn more about protecting my nest-egg from rapidly rising prices.
- Please send me information about income I can never outlive.

I would like to have a copy of these booklets (enclose \$1 for each)

- Avoid Mistakes in Buying Long-Term Care Insurance
- Annuity Owner Opportunities (a must read if you own an annuity)
- Mistakes in Selecting Mutual Funds
- Six Ways Retirees Can Cut Taxes
- IRA Distribution Mistakes
- CD Shoppers' Guide

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