

EYE ON MONEY

JAN
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2010

Convert to a Roth IRA



or Not?

High-income people can now convert eligible tax-deferred savings to tax-free Roth IRAs—should you do it?

Plus:

Designing Your Charitable Gifts So They Benefit Charities *and* You

Review Your Investment Plan Before Retirement

Submitting the Free Application for Federal Student Aid is the first step in determining whether your college student will qualify for low-interest loans, grants, and work-study programs.



It's time to apply for federal student aid for 2010-2011.

If your son or daughter will be attending college next fall, it is time to apply for financial aid. Will your child qualify for aid? The only way to know for certain is to apply. Keep in mind that 80 percent of all full-time undergraduates qualified for aid in 2007-08 to the tune of \$12,700 on average, according to the National Center for Education Statistics.

The first step in applying for financial aid is to com-

plete the Free Application for Federal Student Aid, commonly referred to as the FAFSA. Do not let the name fool you; the information you provide on this application helps determine more than just federal aid; many schools and states use it as well to determine how their aid dollars will be distributed.

Here are a few pointers about the FAFSA.

- Submit the application as soon after January 1 as pos-

sible. Some schools award aid on a first come, first serve basis so it can pay to submit the application early.

- Have your 2009 income tax returns (both yours and the student's) prepared as early as possible. You will need tax and income information from them to complete the FAFSA. If you estimate the information, you will need to update any discrepancies on the FAFSA after you file your tax return.

- Find out the deadlines that your school and state use for awarding financial aid. Their deadlines may be earlier than the deadline for federal aid, lending some urgency to submitting the FAFSA as early as possible.

- You can complete the FAFSA online at www.fafsa.ed.gov. ■

Your financial advisor can help you determine the best ways to save for college, as well as how to tap your resources to pay for college.

inside

UP FRONT

- 2 It's Time to Apply for Federal Student Aid for 2010-2011**
- 3 10 Ways to Put a Bonus to Work**
- 4 New Tax Refund Option: U.S. Savings Bonds**
- 5 After a One-year Suspension, Required Minimum Distributions (RMDs) Are Back for 2010**

FEATURES

- 6 Should You Convert to a Roth IRA or Not?**
As of 2010, high-income taxpayers are eligible to convert tax-deferred savings to tax-free Roth IRA accounts. Should you do it?
- 10 5 Ways to Give**
Explore ways to make charitable gifts that help meet your financial objectives, as well as your charitable goals.
- 14 Review Your Investment Plan as You Near Retirement**
What to consider about your investment strategy as you transition into retirement.

FYI

- 16 Seville: Poetry and Passion**
- 18 Let the Games Begin**
- 19 Terra Cotta Warriors in Washington, D.C.**
- 19 Quiz: Where in the World Are You?**

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10 Ways to Put a Bonus To Work

Sure, you could shop until you drop or you could...

1 Pay off credit card debt. Carrying a balance on your credit cards? Get rid of it! The high interest rates charged by credit cards can drain your discretionary income, preventing you from saving for your financial goals. Consider paying off the card with the highest rate first.

2 Contribute to an IRA. Stash your bonus in a tax-favored IRA for your retirement, and if you have a non-working spouse stash some cash in a spousal IRA, too. Anyone under age 70½ with taxable compensation can contribute to a Traditional IRA; your income must be under certain limits to contribute to a Roth IRA. You have until April 15, 2010 to make a contribution for 2009. Consider making your 2010 contribution while you are at it.

3 Fund an education savings account. If you have young children or grandchildren, consider allocating part of your bonus to their college funds. Tax-favored education savings accounts that offer tax-free earnings and withdrawals may help your gift stretch further.

4 Save or invest it. Your bonus has the potential to make a lasting impact on your life if you use it to help reach your financial goals.

5 Rebalance your investments. If your balance of stocks, bonds, and cash has strayed from your target allocation, use the bonus to buy investments in the underweighted areas. Sure, you could just sell some of the overweighted asset class, but this way there is no tax cost to you.

6 Boost your insurance. If others depend on you financially, put some of your windfall towards life insurance if you do not already have it. Also consider purchasing disability insurance to help protect you and your family financially if you cannot work due to illness or injury.

7 Give it to a friend. You can give any number of people up to \$13,000 each in 2010 without your gifts being subject to the federal gift tax or reducing the amount that can be exempted from the federal estate tax later on.

8 Give it to charity. A gift to charity can provide a great deal of satisfaction—and a tax deduction if you itemize on your federal tax return.

9 Make energy-saving improvements. Adding energy-efficient windows, heating and cooling systems, and the like to your home can reduce your utility bills. Plus, Uncle Sam is ready and willing to pick up 30 percent of the cost (up to a total of \$1,500 for 2009 and 2010) of certain home improvements, provided they meet specific efficiency standards. The federal tax credit is known as the Credit for Non-business Energy Property.

10 Have fun! Spend some of your bonus on something fun; it's good for the economy and it's good for you! ■

Talk to your financial advisor about how a bonus, tax refund, or other financial windfall can be put to use helping you move towards your goals.

New Tax Refund Option: U.S. Savings Bonds

Your tax refund presents a prime opportunity to save—and the federal government is pulling out all the stops to make it easier for you to do so. For the past few years, you have had the option to directly deposit your federal tax refund in up to three accounts. Beginning in 2010, you have an additional option: you can have all or part of your refund paid to you in the form of U.S. savings bonds.

Here's an example of how this might work. Let's say you are expecting a \$15,000 refund and want to split it equally among savings bonds, your IRA, and your checking account. You let the IRS know how you want your refund divided up on IRS Form 8888. After the IRS processes your tax return, \$5,000 worth of savings bonds will be mailed to you and \$5,000 will be directly deposited into each of the two accounts you designated.

If you use the tax refund method to buy savings bonds, you are limited to buying Series I U.S. Savings Bonds ("I Bonds"), a relatively low-risk, liquid savings vehicle that provides protection from inflation.

The earnings rate of an I Bond is a combination of a fixed rate that remains the same for the bond's 30-year life and an inflation rate that is adjusted every six months.

The fixed rate, which is determined each May 1 and November 1, is currently 0.30%. So if you purchase I Bonds before May 1, 2010, the fixed rate on your bonds for the next 30 years will be 0.30%—a far cry from the 3.40% fixed rate offered when I Bonds were first introduced in 1998.

Due to the inflation rate component, the earnings rate on your I Bonds will usually change every six months. During deflationary periods, the earnings rate may drop as low as 0.00% (as it did for part of 2009), but not below 0.00%.

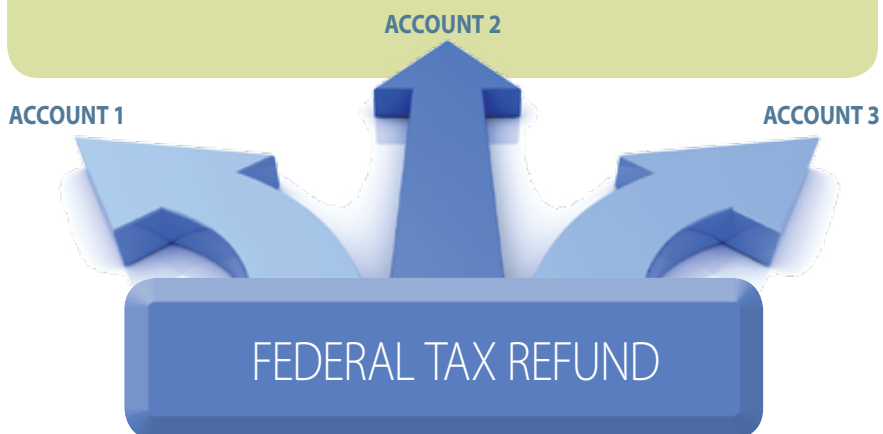
Direct Deposit for Tax Refunds

You can have your federal tax refund directly deposited in up to three accounts, including:

- Regular savings accounts
- Checking accounts
- Investment accounts
- IRAs
- Coverdell education savings accounts
- 529 college savings accounts
- Health savings accounts (HSAs)
- Archer MSAs

Direct deposit provides faster access to your refund than a paper check. The IRS estimates that it shaves a week or so off the time it takes to receive your refund. Plus, direct deposit is convenient. But perhaps most importantly, direct deposit keeps your refund out of temptation's way if your goal is to save it.

If you want your refund directly deposited, please verify that your financial institutions accept direct deposits. Then let your tax advisor know the account and routing numbers of the accounts and how much of your refund should be deposited in each account.



Here is what you should know about Series I U.S. Savings Bonds and the tax refund program:

- **You buy I Bonds at face value**, meaning that you pay \$50 for a \$50 bond.

- **The bonds will be issued in denominations of \$50, \$100, \$200, \$500, and \$1,000.** If you buy \$250 or less, five \$50 bonds will be issued. If you buy more than \$250, five \$50 bonds will be issued along with the fewest possible additional

bonds to bring the total up to the amount you ordered.

- **The interest is added to the bond monthly** and accrues until the bond is redeemed or until it reaches maturity in 30 years.
- **I Bonds are not traded on a secondary securities market.** Instead, they can be redeemed after twelve months at most financial institutions.
- **You must own I Bonds for one year before you can redeem them.** An exception may be made if you live in a disaster area.
- **There is an early redemption penalty** for redeeming I Bonds within five years of their purchase. You must forfeit the three most recent months' interest.
- **The interest is exempt from state and local income taxes,** but not federal income tax. The federal tax can be deferred until redemption or final maturity, whichever occurs first. If the bonds are redeemed to pay qualified higher education expenses, the interest may be exempt from federal income tax if your income is below certain limits.
- **You can buy up to \$5,000 in any year.**
- **This year, I Bonds purchased with a tax refund can only be issued in your name** or in both your name and your spouse's name if you file a joint return. Beginning in 2011, you may be able to list a co-owner, such as a child or grandchild, on the bond.

Before you have your tax refund sent to you in I Bonds, please make certain that they are the right savings tool for you. Your financial advisor can help you determine the best way to save and invest your tax refund. ■



After a one year suspension, RMDs are back for 2010.

If you normally must take required minimum distributions (RMDs) from an IRA or other retirement plan, you will need to resume them for 2010. After a one-year suspension in 2009 to allow hard-hit savings a breather to recover, RMDs are back.

RMDs are minimum amounts that owners of certain retirement accounts must withdraw each year generally beginning at age 70½. Some people who inherit retirement accounts must also take RMDs. If you have taken RMDs before, you know the drill: you must take your distribution for 2010 before December 31, 2010. But if you have never taken an RMD before, you may have some questions. Here are the rules for retirees:

- If you turned age 70½ in 2009, you can skip your RMD for 2009, but must take your distribution for 2010 before December 31, 2010.
- If you turn age 70½ in 2010, you have until April 1, 2011 to take your distribution for 2010. After your first RMD, your distributions will be due by December 31st each year. This means that your 2011 RMD (your second distribution) will be due by December 31, 2011.

Of course, all this assumes that you are required to take RMDs. Generally, RMDs are required for all types of IRAs except Roth IRAs. (If you inherited a Roth IRA from someone other than your spouse, RMDs are required.) RMDs are also required by employer-sponsored defined contribution plans, such as 401(k), 403(b), and 457 plans, although some of these plans will allow you to delay RMDs past age 70½ if you are still working.

There is a 50-percent penalty for not taking your full RMD by the deadline each year, so if you have any questions about RMDs, be sure to ask your tax advisor. ■

Should You Convert to a Roth IRA

or Not?



Finally! High-income individuals can convert their tax-deferred savings to tax-free Roth IRAs.

Before 2010, your annual household income had to be \$100,000 or less to be eligible for a Roth IRA conversion or rollover. But now the income restriction has been eliminated, and account owners—regardless of income—can convert the savings in their tax-deferred IRAs to tax-free Roth IRAs. They can also roll over tax-deferred savings from other employer-sponsored retirement plans to Roth IRAs when they leave a job or retire. Should you convert your savings? The answer will depend on your financial situation, but it is certainly worth considering. Here is some food for thought; your tax and financial advisors can tell you more.

Whether you leave your savings in a tax-deferred account or move them to a Roth IRA, the tax man is going to get paid. It is just a matter of when and how much.

Normally, the longer you can put off paying tax on your income, the better off you are. In this case, that means leaving your savings in a tax-deferred account where they will not be nicked by taxes each year. Eventually, you will need to pay income tax on your money as it is withdrawn from the account—but that time may be decades from now!

If you do a Roth conversion, you will owe tax on the taxable portion of the converted assets nearly immediately; no more postponing taxes until retirement. So why convert and pay taxes now? For the chance to potentially pay less tax now than you might pay later. And after the conversion, if you follow the rules, you will not owe another cent in income tax on those savings or their earnings for the rest of your life. Nor will your heirs if you leave them your Roth IRA.

Please note, rollovers to Roth IRAs follow the same rules as conversions, so for

the sake of brevity, we'll just refer to both methods as “conversion” in this article.

The Benefits of Converting

Tax-free growth and withdrawals. A

Roth conversion is one of only a few ways that high-income individuals can achieve tax-free growth and withdrawals. Income restrictions remain on direct contributions to a Roth IRA, preventing single taxpayers from contributing directly if their modified adjusted gross income (AGI) is greater than \$120,000 (\$176,000 if married filing jointly). (2009 limits.)

The freedom to leave your assets in your Roth IRA indefinitely. Unlike a tax-deferred account, a Roth IRA does not require

account owners to withdraw money—ever! You can leave the assets in a Roth IRA—compounding tax-free—for as long as you wish. A tax-deferred account, on the other hand, will require minimum distributions each year generally beginning at age 70½.

The ability to leave your heirs an income-tax-free account. Whoever inherits your

Eligible accounts for a...

Conversion to a Roth IRA:

- Traditional IRA
- SEP IRA
- SIMPLE IRA

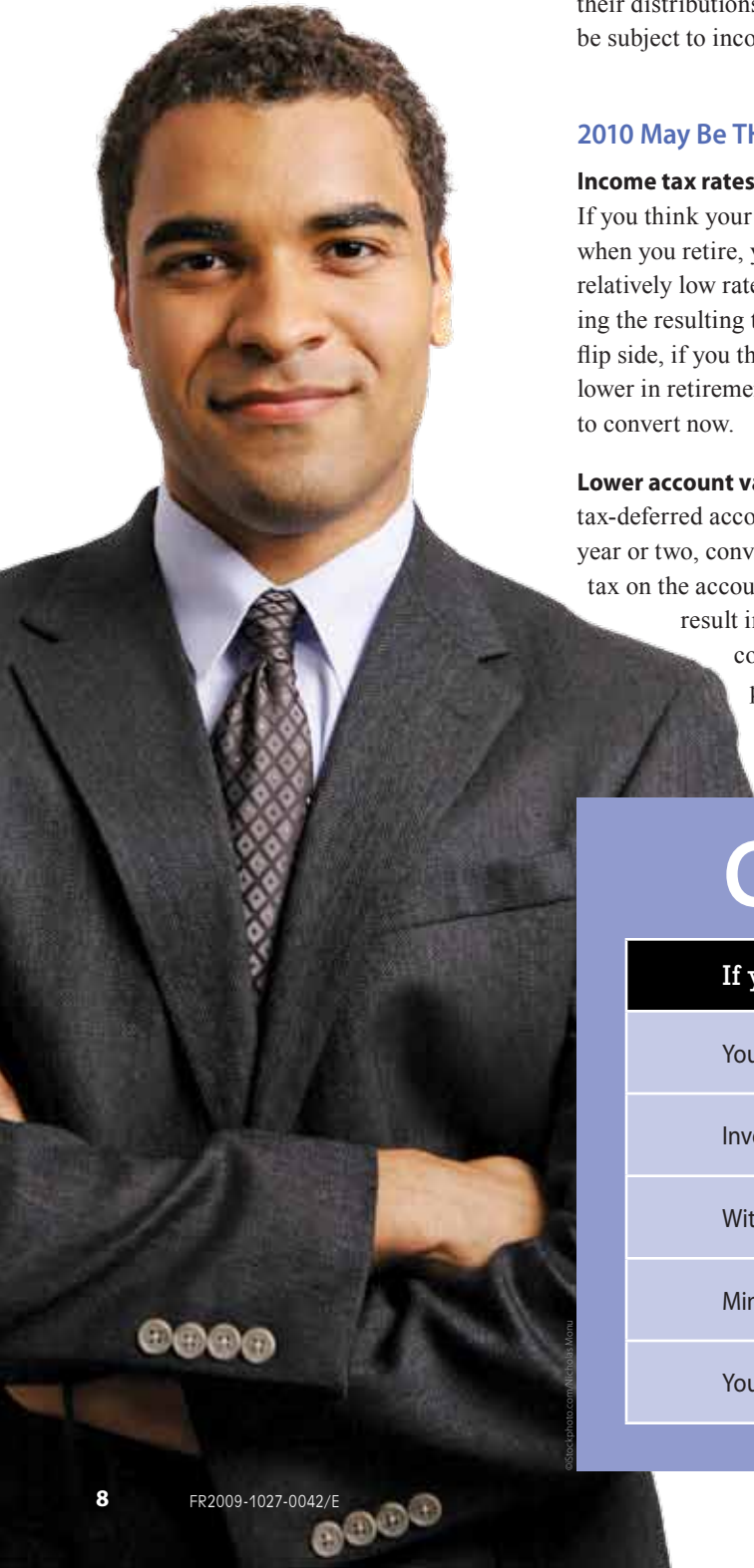
Rollover to a Roth IRA:

An eligible rollover distribution from a:

- 401(k) plan or other employer-sponsored qualified plan
- 403(b) plan
- 457 plan
- Annuity plan

You are not eligible if...

You inherited an IRA from someone other than your spouse.



Roth IRA, inherits the related tax benefits: tax-free compounding and withdrawals. Your heirs can stretch these benefits over their lifetimes by choosing to take annual distributions based on their life expectancies. While beneficiaries of tax-deferred IRAs also have the option to stretch out their distributions, their distributions will be subject to income tax.

2010 May Be THE Year to Convert

Income tax rates are near historic lows.

If you think your tax rate will be higher when you retire, you can “lock in” today’s relatively low rate by converting and paying the resulting tax liability now. On the flip side, if you think your tax rate will be lower in retirement, it may not make sense to convert now.

Lower account values. If the value of your tax-deferred account declined in the past year or two, converting now and paying the tax on the account’s reduced value may result in a lower tax bill than converting after the account potentially rebounds.

The tax liability can be spread over two years. Normally, the tax on an IRA conversion must be paid with the tax return for the year of the conversion. Not so in 2010! You can pay the tax for a 2010 conversion in equal installments with your 2011 and 2012 tax returns. This ability to spread the tax payments between two years may help you pay less in taxes if it prevents you from bumping up into a higher tax bracket. Keep in mind, though, that the current low income tax rates are scheduled to sunset after 2010. You can opt to pay all of the tax with your 2010 tax return if you wish.

Other Considerations

Pay the tax from other savings. In order to maximize the tax-free-growth potential of a Roth IRA, it is usually a smart move to pay the tax on the converted amounts from funds outside of the IRA so that you do not shortchange the amount that goes into the Roth IRA. If you do decide to withdraw money from a tax-deferred account to pay the taxes, you will owe tax on the withdrawal—and if you are under age 59½, you will generally owe a 10-percent penalty as well for an early withdrawal.

Convert...

If you convert to a tax-free Roth IRA...

You pay income tax now on the taxable portion of the conversion.

Investment earnings grow tax-free.

Withdrawals are tax-free, if you follow the rules for Roth IRAs.

Minimum distribution rules do not apply until the account owner dies.

Your heirs can make income-tax-free withdrawals.

How much will taxes run you? Not surprisingly, the tax cost to convert to a Roth IRA will depend on your income tax bracket. It will also depend on how much of your conversion is taxable. Only those parts of your savings that you have never paid tax on before (your deductible and pretax contributions, investment earnings, and employer contributions) are taxable. Your nondeductible contributions (money you contributed after it was taxed and for which you did not receive a tax deduction) are not taxable.

Can you convert just your nondeductible contributions and avoid being taxed? No such luck. Your conversion will be taxed based on the percentage of your savings that is taxable. If you are rolling over an old 401(k), 403(b), or 457 retirement account, you only need to consider the percentage of taxable savings in the single account. If you are converting an IRA (Traditional, SEP, or SIMPLE), you need to treat all of your IRAs as one account to determine the percentage of your conversion that is taxable. Let's say you have \$1 million in savings spread over three IRA accounts—a Traditional IRA, a SEP-IRA, and a SIMPLE IRA—and 60 percent of those savings is

considered taxable. If you convert, say, \$100,000 of your IRA savings, 60 percent of it (\$60,000, in this example) will be subject to income tax even if all of the money you convert is from a nondeductible IRA.

Your tax advisor can help you estimate the tax cost to convert to a Roth IRA.

You can convert all or part of the account.

If you convert just part of your tax-deferred savings to a Roth IRA, the remainder can retain its tax-deferred status.

Eligibility for 401(k), 403(b) and 457

plans. Keep in mind that 401(k), 403(b), and 457 retirement plans generally will not permit active employees to move their savings out of the plan. You will generally need to have retired or left your job before you can roll over a 401(k), 403(b) or 457 account to an IRA.

Eligibility for SIMPLE IRAs. A SIMPLE IRA must be active for at least two years before you can convert it to a Roth IRA.

Will you need the money within five years? If you withdraw the converted assets from a Roth IRA before five years, you will generally have to pay a 10-percent penalty on the withdrawal unless you

are over age 59½ or meet one of the other exceptions.

You can undo the conversion. You have until the due date of your federal tax return, including extensions, to change your mind and switch back to a tax-deferred account. This option, known as recharacterization, can save you a bundle in taxes in some circumstances. Say, you convert \$100,000 to a Roth IRA, all of it taxable, and its value drops to \$75,000 before the due date of your tax return. Rather than paying the tax on \$100,000, you can have the assets in your Roth IRA transferred to a tax-deferred IRA. Then at a later date, you can reconvert to a Roth IRA. Your tax advisor can provide more details. ■

If you have a tax-deferred IRA or a retirement account with a former employer, please talk to your tax and financial advisors. They can help you assess whether converting those savings to a Roth IRA makes sense in your situation.

Or not?

If you stick with a tax-deferred IRA...

You postpone paying tax on your savings. Only your withdrawals are taxable.

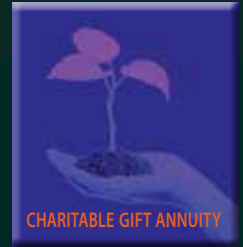
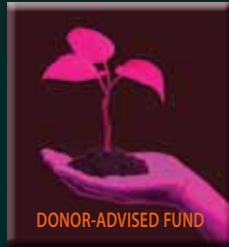
Investment earnings grow tax-deferred.

The taxable portions of your withdrawals are subject to income tax. Withdrawals made before age 59½ are also generally subject to a 10-percent penalty.

Minimum distributions are required each year beginning at age 70½.

Withdrawals by heirs will be subject to income tax.

5 WAYS TO



Give

Which way is right for you?

MAKING A GIFT TO CHARITY can be as simple as writing a check. But before you pick up that pen, consider that there may be better ways to give—ways that can help you meet your financial objectives as well as your charitable goals. For example, by adjusting the way your gift is made or the assets you donate, you may be able to increase your tax advantages, create a lasting legacy, or even boost your income from the donated assets before they pass to charity.

This article touches on five ways to give; there are several other ways worth exploring. Your financial advisor can help you choose the way that fits your charitable goals and financial objectives.

Direct Gift

You write a check to your church or synagogue, transfer ownership of stock to your alma mater, or donate old clothes to a local mission—whichever way you go about it, making a direct gift to a qualified charity can be the simplest and most immediate way to give. Your donation can be in your chosen charity's hands quickly—and you can deduct the value of your donation on this year's tax return if you itemize deductions.

You may be able to increase your tax

benefits by donating long-term appreciated property rather than cash. If you donate certain types of property—for example, stocks, bonds, and mutual fund shares—that you have owned for longer than one year, you can deduct the fair market value of the property. And you do not have to pay capital gains tax on the increased value of the donated property as you normally would if you were to sell the property before donating the proceeds.

You must keep track of your charitable gifts to claim a tax deduction. In general, you should hang on to your cancelled checks and credit card statements, get a written acknowledgement from the charity for any contribution of \$250 or more, and have property appraised if you are deducting more than \$5,000 for it. If the recordkeeping is a hassle for you, consider making your gifts through a donor-advised fund, which will handle the recordkeeping and distribute your gifts for you for a fee.

Donor-Advised Fund

Whether you have \$5,000 or \$5 million to donate, a donor-advised fund may be the ticket if you want an immediate tax deduction for your donation and the flexibility to time your gifts without the hassle or expense of running your own foundation.

Let's say the end of the year is fast approaching. You want to make a charitable gift and claim the charitable deduction for this year, but you have not decided on the charities. With a donor-advised fund, you can make the donation now, deduct your gift on this year's tax return, and then take your time choosing the charities to which you want to make grants. In the meantime, your donation is invested and any earnings accumulate tax-free, potentially increasing the amount you can grant to qualified charities.

Donor-advised funds are also a way to create a lasting legacy. By leaving your contributions invested and making grants from the investment earnings each year, you may be able to make grants to your favorite charities for years to come.

How is it that you can snag a charitable deduction before any grants are made? The organizations that sponsor donor-advised funds are themselves charities. Your donation counts as an irrevocable gift to a qualified charity and can therefore be deducted even though that gift will later be directed to other charities.

Once in the fund, you no longer own the donated assets, but you can recommend how the assets are to be invested and to

which charities grants are to be made. The charitable organization that sponsors the donor-advised fund has the final say, but it generally will follow your recommendations as long as the grant recipients are IRS-qualified charities and fall within the policies of the specific fund.

Charities that sponsor donor-advised funds include community foundations and charities established by financial service companies. Community foundations typically restrict grants to charities in the local community, while financial service companies generally allow grants to be made to any U.S. public charity.

It is relatively easy to set up and use a donor-advised fund. Generally, you fill out an application and transfer assets to your account. The ongoing administration is handled by the donor-advised fund, leaving you and any other people you include free to focus on recommending grants.

While donor-advised funds set a minimum on the amount that you can contribute, the initial contribution is in many cases relatively low—say, \$5,000—making donor-advised funds a viable choice for many charitably-minded people.

Private Foundation

If you prefer maximum control over investment and grant decisions, a private foundation may be a better choice for you than a donor-advised fund.

A private foundation is a charitable trust or non-profit corporation established by you or your family to carry out your charitable vision. After the foundation's legal structure is established, you and other members of your family can contribute cash, securities, and other assets to the foundation and receive an immediate tax deduction for your contributions. The investment income from the contributions is then used to make grants to charities.

In addition to benefiting grant recipients and your tax situation, a private foundation is beneficial in instilling a tradition of giving in your family that can last for generations. Family members can be named to the foundation's board of directors and participate in making grants and overseeing the foundation. They can also run the day-to-day operations of the foundation.

As you might suspect, a foundation is a more complex, time-consuming, and costly way to give than other forms of charitable

giving. IRS rules for foundations must be followed to the letter. For example, a foundation must pay out at least 5 percent of its assets each year. It must file an annual tax return. And it must pay excise tax (generally 2 percent) on its net investment income. While some foundations are capably run by family members, many foundations hire staff or contract with firms that specialize in managing foundations to handle day-to-day operations.

Due to the costs associated with creating and operating a foundation, this form of charitable giving may not make sense unless you have, say, \$1 million or more to contribute. But if you have the means, a private foundation can help you achieve your charitable goals for generations to come.

Charitable Remainder Trust

Making a gift to charity can offer you more than a tax deduction—in some cases, such as with a charitable remainder trust, it can offer you an income for life. Here's how this works. You create a charitable remainder trust and irrevocably transfer assets—cash, securities, or other appreciated property—to the trust. The trust then pays you or other beneficiaries you name a

Side-by-side comparisons

	Donor-Advised Fund	Private Foundation
GRANT-MAKING ARRANGEMENTS	You can <i>recommend</i> grants and investment allocations; the sponsoring organization has the final say, but will usually follow your recommendations.	A private foundation offers you maximum control over grant and investment decisions.
	An immediate tax deduction for your contribution of up to 50% of your AGI for cash and 30% for long-term appreciated securities.*	An immediate tax deduction for your contribution of up to 30% of your AGI for cash and 20% for long-term appreciated securities.*
	The administrative duties are handled by the sponsoring organization.	The administrative duties are handled by you or someone you hire to run the foundation.
	No requirement to make grants each year.	Must pay out at least 5% of net assets each year.
	Relatively easy and inexpensive to set up.	Relatively expensive to set up and administer.
	No tax on investment income.	Net investment income is subject to excise tax.

stream of income for life or the term of the trust. When the last beneficiary dies or the trust ends, the assets remaining in the trust go to the charities named in the trust.

Neat, huh? And useful in certain situations, particularly when highly appreciated assets are involved. Let's say you own some highly appreciated stock that is yielding very little income and you want to increase your income. You could sell the stock and reinvest the proceeds in potentially higher yielding securities—but the capital gains tax on the sale will eat into the amount you have left to reinvest. You may be able to generate a larger stream of income by contributing the assets to a charitable remainder trust because the trustee can sell the assets without incurring taxes and reinvest the entire proceeds.

How much income are we talking? When you establish the trust, you choose the rate used to calculate the income payments; most donors choose between 5 and 7 percent. You also choose the type of trust—annuity or unitrust—which determines whether the amount of your income will be fixed or variable. An annuity trust pays you a fixed amount each year based on the trust's initial

value. A unitrust pays a fixed percentage of the trust's assets as they are valued each year. If the unitrust's value increases, your income increases (which helps it keep pace with inflation); if the unitrust's value decreases, your income decreases.

When you contribute to a charitable remainder trust, you get an immediate tax deduction for the part of your contribution that is expected to eventually pass to charity.

Because a charitable remainder trust is custom designed and individually managed, a minimum contribution of \$50,000 to \$100,000 is generally needed to justify the cost of setting it up and running it.

Charitable Gift Annuity

If the idea of making a charitable contribution and then receiving a lifetime stream of income appeals to you, but you do not want to go to the expense of setting up a charitable remainder trust, consider a charitable gift annuity. This type of giving arrangement is available from many religious, educational, and charitable organizations.

A charitable gift annuity is essentially a contract between you and your chosen charity in which the charity promises to pay you,

or up to two people you name, a fixed income for life in return for your gift of cash, securities, or other assets. The promise of lifetime income is backed by the charity's assets.

The size of your income payment will depend on several factors, including your age when the payments begin, whether the payments are for one beneficiary or two, and the investment conditions when you make your contribution. In general, your annual payment will be higher the older you are when you start receiving payments. For example, a payout rate for one beneficiary who enters into a gift annuity at age 65 might be 5.3 percent, while someone at age 80 might receive a 7.1 percent payout rate.

Gift annuities are relatively simple to set up and can generally be established with a contribution of \$5,000 to \$10,000. You should never have to pay a commission or any similar fee to establish a gift annuity. ■

With so many different ways to give, it is important to seek advice before deciding. Your financial advisor can help you choose the way that fits your charitable goals and financial objectives.

Charitable Remainder Trust	Charitable Gift Annuity
Pays a stream of income for life or the term of the trust.	Pays a <i>guaranteed</i> stream of income for life.
The income payments are backed by the assets in the trust.	The income payments are backed by the charity's assets.
You can name any number of beneficiaries to receive the income.	You can name a maximum of two beneficiaries to receive the income.
You can name any number of charities to receive the remaining assets. And you can change charities during the life of the trust.	Only the charity sponsoring the gift annuity will receive the remaining assets. You cannot change charities.
You receive an immediate tax deduction for a portion of your gift.	You receive an immediate tax deduction for a portion of your gift.
Relatively expensive to set up and administer.	Relatively easy and inexpensive to set up.

LIFE-INCOME GIFTS



COUNTDOWN TO RETIREMENT



Review Your Investment Plan As You Near Retirement

As your circumstances change, so should your investment plan.

You may be ready to retire but is your portfolio?

Your portfolio and overall investment strategy may need updating as you transition from saving for retirement to spending your retirement assets. A review of both prior to retirement can help ensure that your investments are deployed appropriately for your changing circumstances.

In general, it is a good idea to move to a more conservative investment mix as you draw closer to the time when you will need your money. If you have been reducing your exposure to riskier assets in the years leading up to retirement, you may be all set for now. If not, you may want to adjust your asset mix.

Your asset allocation—that is your mix of stocks, bonds, and cash—can have a major effect on your portfolio’s long-term performance. Because stocks, bonds, and cash have different risk and return characteristics, changing the percentage of each in your portfolio can greatly impact your portfolio’s overall risk level and potential returns.

Remember, risk and return tend to go hand-in-hand: The

greater the potential return, the greater the risk.

Stocks as a group offer the potential for the greatest returns, but at the greatest risk. Historically, stocks have provided higher average returns than bonds and cash over the long term, with “long” being the key word. Because of their volatility, stocks are generally only appropriate for long-term goals; say, those goals that are five or more years away. If you rely on stocks to meet short-term goals, you may get stuck selling shares when stock prices are down.

Bonds generally have less risk than stocks, but with that decrease in risk comes a decrease in potential returns. Cash is the least risky of the asset classes, but also the class apt to generate the lowest returns over time.

As you enter retirement, it may be tempting to significantly reduce risk by investing only in bonds and cash—and for some retirees that may be appropriate. But while this conservative approach may help decrease your investment losses, it may increase the risk that you will run out of money during retirement. Many retirees will need the long-term



growth potential that stocks offer to help their savings outpace inflation and last their lifetimes.

What is the ideal asset mix for someone about to retire? As you might suspect, there is no one “ideal” mix. Your financial situation, your tolerance for risk, and the length of time until you will need your money will all enter into determining how you should divvy up your portfolio among stocks, bonds, and cash. For example, if you have a traditional pension to cover your living expenses, you may be able to invest more aggressively than someone without a pension.

Talk to your financial advisor about an asset allocation that is appropriate for you as you enter retirement. And then review it every year or so during retirement as your time horizon continues to shorten and your financial situation changes.

In addition to asset allocation, diversification remains important in managing risk. Remember the old adage not to put all of your eggs in one basket? Spreading your investments among different securities, sectors, industries, and countries can help reduce the impact to your overall returns when one security or market segment takes a downturn. The key is to combine investments that may perform differently under different market conditions, such as stocks from companies in separate industries. Although diversification does not ensure a profit or guarantee against loss, it can help cushion market

How long will your savings need to last?

Thanks to increasing longevity, many Americans will spend decades enjoying their retirement years. But with that increase in longevity comes the increased risk that retirees may outlive their assets.

As you consider your investment strategy for retirement, it is important to factor in how long you may need your assets to last. Today, a 65-year-old man and woman are expected to live to 82 or 85 years of age respectively, according to life expectancy tables from the Centers for Disease Control and Prevention. But those figures do not tell the whole story. Many retirees will live many years past the life expectancy ages. Unless you have a medical reason to think otherwise, you should plan for your retirement to last 30 to 40 years.

downturns. If you will be retiring with a large concentration of your wealth in one stock or a very limited number of investments, be sure to discuss ways to diversify and manage risk with your financial advisor.

Another factor to consider when reviewing your investment strategy is taxes. Different types of investments and accounts are taxed very differently. And if you are like many retirees, your retirement assets may be in several types of accounts: tax-free, tax-deferred, and taxable. By strategically deploying your assets among your accounts, you may be able to minimize your taxes. This

generally means keeping your most tax-efficient investments (for example, stocks you have owned for longer than one year or that pay qualified dividends) in your taxable accounts and your least tax-efficient investments (for example, taxable bonds and REITs) in your tax-deferred, or better yet, tax-free accounts. ■

Updating or creating an investment plan for retirement can be a challenge. Please seek advice from your financial advisor. Your advisor can review your personal situation and work with you to tailor an investment plan to meet your needs.

ABOUT INVESTING

Past performance is not a guarantee of future results.

All investments are subject to risk. It is possible to lose money investing.

Bonds are subject to interest rate risk. When interest rates rise, bond prices fall.

Investing in micro, small, or mid-sized companies involves risks not associated with investing in more established companies. Since equity securities of small companies may not be traded as often as equity securities of larger, more established companies, it may be difficult or impossible for the fund to sell.

International investing presents certain risks not associated with investing solely in the United States. These include, for instance, risks relating to fluctuations in the value of the US dollar relative to the values of other currencies, custody arrangements made for foreign holdings, political risks, differences in accounting procedures, and the lesser degree of public information required to be provided by non-US companies.

Investing in a single-region or single-sector fund involves greater risk than investing in a more diversified fund.



Seville: Poetry and Passion

BY BRIAN JOHNSTON

Know travel is supposed to be about exploring beyond the stereotypes, but Seville positively courts every stereotype of the Spanish city you could imagine. Flamenco, bullfights, and fiestas never seem to stop. The food is so tempting you're likely to overindulge on the calories: you'd have to be inhuman to refuse the deep-fried squid, sun-dried tomatoes, and luscious pastries. Its hot streets are heavy with the perfume of oranges. Horse-drawn carriages clip-clop along winding back alleys, and tapas bars are convivial until the small hours. This is a city with poetry and passion on every corner, where the castanets click, the architecture oozes baroque curlicues, and history assaults you at every turn.

Seville was first settled by the Romans, but it was the Arabs who put their mark on it after conquering most of southern

Spain in the eighth century and remaining there for some seven hundred years. The remnants of this glorious period in history are still everywhere in the southern province of Andalusia, from the food on the table to the white, thick-walled houses and hilltop towns. The blending of Islamic and subsequent Catholic architecture is quite extraordinary; every palace in the region is a hybrid, and it's almost impossible to find a church that didn't start life as a mosque.

Seville is no exception. Right in the heart of the city, the Alcázar is a palace in a hotchpotch of styles, but its most beautiful section dates from Islamic times, complete with exquisite Moorish arches and patios. The labyrinth of pavilions, patios, and ornamental gardens remains the oldest royal residence still in use in Europe. No wonder thousands come here to gape: this is all the

dreams of *The Arabian Nights* turned into a pop-up book, with poetry scribbled on every wall. Although often crowded with tourists, its courtyard pools still retain an air of tranquility, and you'll be too busy admiring the latticework and sculptured stone to worry about the shuffling herds of visitors. This is probably the greatest triumph of Islamic architecture anywhere, the apparent simplicity of the palace's design disguising the subtle genius of the artistry.

When the great monarchs Ferdinand and Isabella finally chased the Arabs out of Spain they weren't shy about putting their own mark on Seville. A royal stroll across the flagstones from the Alcázar stands the imperious cathedral they commissioned. 'Let us build a cathedral so immense that everyone on beholding it will take us for madmen,' the chaplain reputedly said

Orange trees frame the tower of La Giralda above Seville's monumental cathedral, left. Moorish arches ring a courtyard in the Alcázar Palace, below right.

when work on it began. The result was the world's largest Gothic building. You could hold a soccer match in one corner of the nave, and the organs (there are four of them) are each bigger than a townhouse. Some say Christopher Columbus is buried here, though many dispute the claim; in any case, there's certainly a statue to the great explorer standing off the side of the nave on top of a stone sarcophagus as massive as everything else in the building, as if Columbus came from a race of giants. The cathedral is swollen with art commissioned by loot from the newly discovered Americas: stained glass, silverware, artworks by Goya and Murillo. A stuffed crocodile hanging from the ceiling of a side chapel is another rather curious reminder that it was the Americas that made Seville rich.

The cathedral's massive tower, La Giralda, is actually an Arab leftover. The soaring monument that now symbolizes Seville was once a minaret, from the top of which you get vast city views and intimate squints down onto the cathedral's roofs and buttresses and the orange trees of its grand courtyard. The jumble of whitewashed streets below is punctuated by monuments and grand houses such as the Archbishop's Palace, sitting like an oozing pink wedding cake in the town square. Once the Americas were discovered, Seville went on to become the richest city in Europe. The town's mansions are a mix of the Islamic and baroque styles enjoyed by the aristocracy, such as the elegant Casa de Pilatus with its tiled courtyard and gardens, paneled ceilings, and cool rooms. Outside the cathedral, horse-drawn carriages, their horses decorated with pompoms and ribbons, wait for customers as they did in days gone by, adding another aristocratic flavor to the old city.

But grand as Seville can be, it's also a surprisingly intimate place. Around the cathedral and palace sprawls a tangle of whitewashed alleyways, garden courtyards, and little squares where old men doze

under the plane trees or black-clad matrons haggle for eggplants and lush tomatoes. Behind shuttered windows you hear the sounds of lunch being prepared, or children doing their homework, or the sharp ting! of a spoon knocking against a glass. You could easily spend an entire afternoon rummaging through tiny stores (traditional painted Spanish fans and glazed ceramics in traditional Arab style make for entrancing souvenirs) or lazing at an outdoor café over some olives and Seville's favorite summer drink, *zumo y tinto*, a very refreshing mixture of red wine, orange juice, and sparkling water, with lots of ice—the perfect antidote to the hot wind of southern Spain.

At night, it's the neighborhood tapas bars that come alive. Tapas are the pre-dinner snacks so beloved of the Spanish, and are bewildering in their variety. In old-fashioned tapas bars, waiters in white loiter behind huge swinging lengths of salami, bottled olives, and great rounds of cheese. Watch what other people order, or take a look at the cold dishes laid out along the bar: little bowls of succulent olives, pungent eggplant slices, marinated anchovies, potato salad. You can also get hot dishes, with deep-fried little fish and squid to die for—just sprinkle them with pepper and lime juice. The more adventurous can try little snails in a spicy sauce or glorious stuffed hot peppers, accompanied by a local Jerez wine or cold Cruzcampo beer.

Stay for the long haul because after midnight, as the stone streets finally give up their heat and the stars come out, you might hear the distinct oddly arrhythmic clapping from customers in dim tapas bars or the gravelly tones of an old man singing of treacherous women and magnificent bullfighters, all overlaid with mumbled conversation and the rattle of dishes and cutlery. You might think these people have been hired as extras from a scene in *Carmen*; and indeed, according to legend, the old colonial tobacco factory on the bank of the Guadalquivir River was where *Car-*

men was said to have worked. The clapping from bars and behind windows—or sometimes the clicking of castanets, and the stomping of admiring feet—usually means a flamenco dancer is performing, passionate as *Carmen* herself. Happily, flamenco in Seville isn't a quaint and dying art: the same trendy youngsters you see shopping in jeans during the day are just as likely to be clapping and dancing at night, silk roses in their hair and knotted shawls around their shoulders.

Watch a well-performed fight or a flamenco dance and it will tear your heart out. Gaze at the baroque magnificence of the cathedral and give a sigh. Wander about in the perfumed gardens of the Alcázar. There is poetry and passion everywhere in Seville, and your spirit will soar. ■





Let the Games Begin! February 12–28, 2010



The eyes of the world will be on Canada this February as athletes from over 80 nations gather for the 2010 Vancouver Winter Olympic Games.

On tap: seven sports (biathlon, bobsled, curling, ice hockey, luge, skating, and skiing) and 86 medal events—sure to keep

TiVo's running nonstop for the seventeen days of the Games.

Wedged between the ocean and the mountains, the city of Vancouver will host curling, ice hockey, and most skating events, as well as the opening and closing ceremonies. Biathlon, bobsled, luge, and most skiing events will be held in Whistler, the world-class ski resort 70 miles outside of

Vancouver. Freestyle skiing and snowboarding events will take place on Cypress Mountain, a short trip from downtown Vancouver.

A new medal event—ski cross—makes its debut in this year's Games. In ski cross, a form of freestyle skiing similar to snow-

board cross, four skiers race simultaneously down a steep and winding course. Each heat lasts about 60 seconds and is designed to test the skiers' skills on a variety of terrains.

Participating in the planning and hosting of the 2010 Games are several groups of indigenous peoples, including the Four Host First Nations—the Lil'wat, Musqueam, Squamish, and Tsleil-Waututh Nations—on whose traditional territorial lands the Games will take place.

The emblem of the 2010 Games is based on the stone markers created by the Inuit people to act as guideposts across the vast northern expanses of Canada. Over time, the markers (one is shown at left) have come to represent hope, friendship, and hospitality.

For information about attending the Games, please visit the Games' official website at www.vancouver2010.com. ■

Terra Cotta Warriors in Washington, DC

Through March 31, 2010



THE NATIONAL GEOGRAPHIC MUSEUM in Washington, DC is the last stop on the two-year U.S. tour of *Terra Cotta Warriors: Guardians of China's First Emperor*. The exhibition features the largest display (more than 100 objects) of terra cotta figures and tomb artifacts ever to travel to the U.S.

For more than 2,000 years, the terra cotta army lay hidden from the world until a farmer unearthed a terra cotta head near Xi'an, China in 1974. So far, archeologists have uncovered more than 1,000 life-sized figures in battle formation, standing watch near the tomb of Emperor Qin Shihuangdi.

Please visit www.nationalgeographic.com/terracottawarriors/ for more information about this exhibition. ■



Where in the world are you?

- If you are gazing out at the twin volcanic cones known as the Pitons (above), you are in:
 - St. Lucia
 - Sicily
- If you are getting wet from the spray from Victoria Falls, you are in:
 - Zimbabwe
 - Israel
- If you are soaring to the top of the Space Needle, you are in:
 - Cape Canaveral, FL
 - Seattle, WA
- If you are climbing the slopes of Mount Snowdon, you are in:
 - Wales
 - Scotland
- If you are teeing off at the home of the Masters Tournament, you are in:
 - Augusta, GA
 - Pebble Beach, CA
- If you are tipping a waiter with rupees, you are in:
 - South Africa
 - India
- If you are traipsing down the Royal Mile to the Palace of Holyroodhouse, you are in:
 - London
 - Edinburgh

ANSWERS: 1-A, 2-A, 3-B, 4-A, 5-A, 6-B, 7-B.