Quarterly Retirement Review

Published quarterly for SLR retirement plan participants and individual investors.

S.L. Reed & Company
Member: FINRA - SIPC

SEPTEMBER 2012 ISSUE

IN THIS ISSUE

CONSIDERATIONS FOR A LONG RETIREMENT

When workers realize that they will be living longer and exposed to higher prices they should realize that they need to be thinking about measures designed to offset the danger of outliving their savings and retirement nest egg.

The primary goal of a retirement investment and income strategy is to try to ensure that your savings will last throughout retirement. Achieving that all-important objective includes addressing two critical risks: longevity and inflation. American life expectancy is longer than ever and is likely to continue rising. Living longer not only requires you to continue spending over a greater number of years, but also further exposes you to increases in prices for goods and services. For a retirement that may last well into your 90s, inflation may ultimately become more of a concern than market volatility. Many advisors now believe that workers will now have to prepare for a post-work life that could last three decades or more.

LONGEVITY RISKS

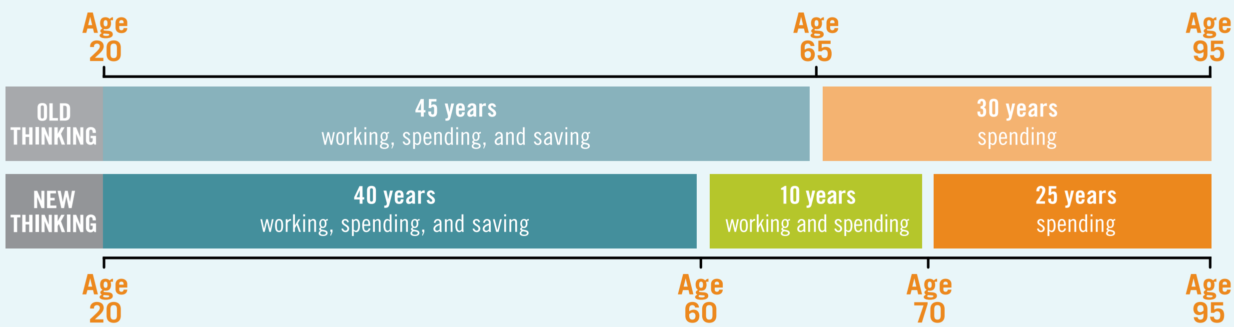
According the Society of Actuaries, there is a 50% chance that one partner in a couple will live to age 92, and a 20% chance that one will live to age 98. Those chances are likely to improve if current aging trends hold. Here are a few suggestions that may increase the probability that you will not outlive your retirement funds:

1. Keep working but start playing sooner.
The traditional view of retirement divides your life into two clearly defined stages: working followed by playing. Retirement, however, has evolved and along with it the expectation that you must receive your gold watch before you are "allowed" to start playing.

2. Spend from your wages, not your savings.
You are likely to have more to spend by remaining at your job than you would by retiring and relying on your savings to pay for the activities you want to enjoy. The longer you remain employed, the more time your current investments and savings will have to potentially grow and the fewer years you may need to support yourself from your investments in retirement. (*See chart below.*)

Practice Retirement®: Balancing Work and Play in Your 60s

A gradual transition away from your career will help you test the retirement lifestyle you see for yourself, while continuing to earn a salary and benefits.



3. Receive employee benefits longer.
Capitalize on the benefits your employer may offer, such as health insurance. Remember that Medicare does not begin until you reach age 65. Retiring earlier may mean you have to pay significant health insurance premiums each year until you reach that age when you will be at least partially covered by Medicare.

4. Delay taking RMDs
Taking required minimum distributions (RMDs) from the retirement account you have with your current employer can be delayed if you are still employed there at age 70 ½(certain restrictions apply). The IRS rule states that you must begin taking RMDs by the later of either April 1 of the year after you reach age 70 ½ or April 1 of the year after the year you retire from the company.

5. Delay Social Security benefits.
You are eligible to begin receiving Social Security benefits once you reach age 62. However, your starting benefits will increase approximately 7% to 8% every year you delay taking them from age 62 up to age 70, plus adjustments for inflation. By waiting until age 70, your benefit payment would have almost twice the purchasing power of what you would have received if you had started them at age 62. *(See chart on the next page.)*

Practice Retirement®: A Look at the Numbers

RETIREMENT AGE	CUMULATIVE INCOME FROM AGES 60 THROUGH 69	ANNUAL RETIREMENT INCOME AT AGE 70	RETIREMENT ACCOUNT BALANCE AT AGE 70
62	$123,336 $94,000 $82,680 TOTAL: $300,016	$25,752	$257,160
66	$81,926 $56,600 $282,000 TOTAL: $420,526	$34,632	$326,282
70	$470,000 TOTAL: $470,000	$46,445	$421,760

Cumulative Social Security | Cumulative Withdrawals from Portfolio | Cumulative Salary (Net Employee Contributions)

Source: T. Rowe Price and www.ssa.gov.

Example is for illustrative purposes only and does not represent the performance of any particular investment. All figures shown pretax in today's dollars, discounted to age 60 at 3% annually. Preretirees are assumed to be age 60 with an annual salary of $50,000 and 5 times salary saved ($250,000) in their tax-deferred retirement accounts. All continue contributions from age 60 until the stated retirement ages, at which time they initiate Social Security and savings withdrawals. Employee contributions are 6% of gross pretax salary, plus 3% matching employer contributions, for a total of 9% contributed annually. Retirement asset growth assumed to be 7% annually, preretirement. Inflation assumed at 3% annually, applying to salary until retirement, as well as savings withdrawals and Social Security benefits beginning after the initial year of retirement. Assumed first-year savings withdrawals rates based on age retiring: 3.7% at age 62 through 4.5% at age 70, each year of delay adding 0.1% to the withdrawal amount; initial amounts increased 3% each year thereafter for inflation. Social Security benefits estimated in "inflated (future) dollars" on Social Security Administration's website, www.ssa.gov (using the Quick Calculator, assuming a 0% Relative Growth Factor), then discounted 3% annually to age 60.

CONVENTIONAL ADVICE:

In the past, when life expectancy was much lower than it is today, the conventional advice was to move more investments into fixed income. This advice was born during a time when life expectancy was much lower and is now, in our opinion, simply no longer valid. We believe that people are going to have to find a new way of investing to make their savings last longer after retirement. That task will be very difficult to accomplish given that high-quality bonds are yielding almost nothing in today's market.

We would also add that high-quality bonds appear to be expensively valued in the current atmosphere of risk aversion. The outcome of the paradigm that has unfolded is that people who were about to retire or were already retired have seen the yields on the fixed income investments that are available to them have fallen dramatically at a time when they're living longer.

THE LIFE EXPECTANCY NUMBERS:

The percentage of people older than 65 in Europe will rise to 19 percent in 2020; up from 16.6 percent, this year, according to projections from the U.S. Census Bureau. Only Japan's ratio is higher, at 23.9 percent for 2012. Life expectancy increased from a global average of 48 years in 1950 to almost 70 years in 2010, according to the International Monetary Fund.

Our work is suggesting that the threat of inflation amid continued accommodative monetary policy further boosts the case for retiring investors to increase weightings in high-dividend equities to make their savings last longer. With that said, it is probably important for investors to look to a longer time frame and try to shrug off worries about short-term stock moves.

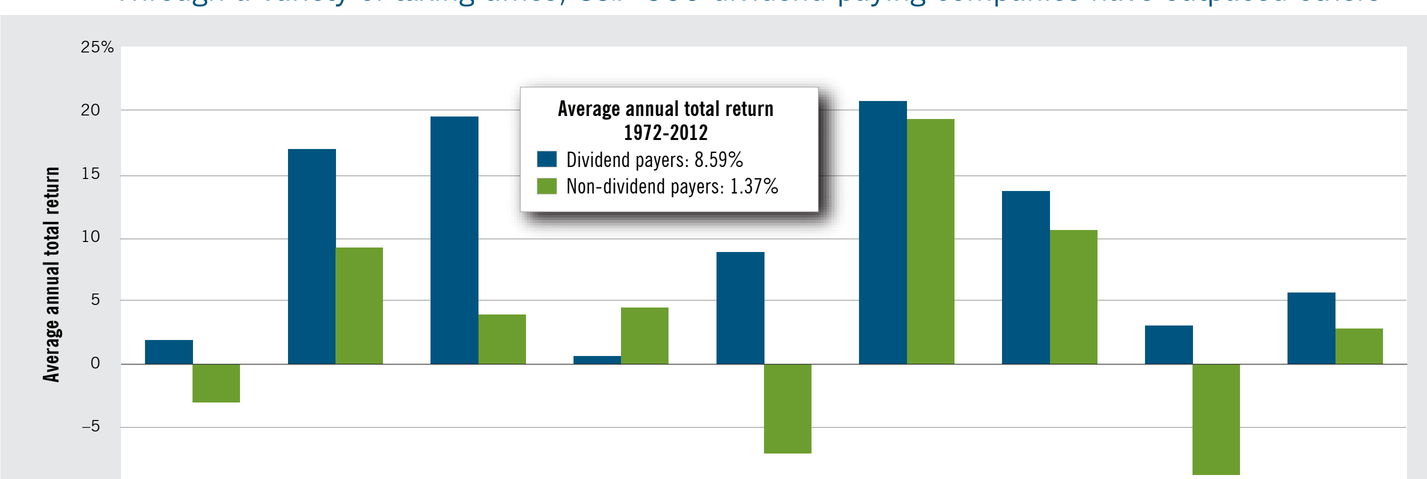
HOW HEALTHY ARE DIVIDEND PAYING COMPANIES?

Standard & Poor's Corp., has reported that dividend payments by companies in the Standard & Poor's 500 Composite Index, a broad measure of the U.S. stock market, are expected to increase 15% from last year to $277 billion in 2012. Three-quarters of the S&P 500's dividend-paying companies are making higher payments than they did last year.

The growth in the number of dividend-paying companies and the increasing size of the dividend payments has the potential to be beneficial for plan participants who are using mutual funds that emphasize dividends.

Even though dividends have fallen in and out of fashion, depending on market conditions, dividend income has always been an important part of the stock market's total return. Actually, the income that dividend stocks generate has accounted for more than 40% of the total return of the S&P 500 Index since 1926 on an average annual return basis. *(See chart below.)*

Through a variety of taxing times, S&P 500 dividend-paying companies have outpaced others



	1972–1978	1979–1981	1982–1986	1987	1988–1990	1991–1992	1993–1996	1997–2002	2003–2012
Dividend tax rate	70.0%	69.1%–70.0%	50.0%–69.1%	38.5%–50.0%	28.0%–38.5%	28.0%–31.0%	31.0%–39.6%	38.6%–39.6%	15.0%
Capital gains tax rate	34.3%–39.9%	20.0%–39.9%	20.0%	20.0%–28.0%	28.0%	28.0%–28.9%	28.9%–29.2%	21.2%–29.2%	15.4%–21.2%

Sources: Ned Davis Research, Inc. (NDR) and the Tax Foundation. Date ranges correspond to changes in the dividend tax rate. Data for 2012 are through 5/31/12.

There is a good reason why dividends can be so beneficial to plan participants: Dividends can be reinvested and can be used to buy more shares that have the potential to appreciate and pay dividends themselves.

STABILIZING YOUR RETIREMENT ACCOUNT:

During uncertain times, dividends can help provide stability to your retirement account. When the stock market falls, dividend payments can cushion the blow for dividend investors, reducing the volatility of the portfolio. As long as the underlying company is strong and likely to continue paying dividends, those dividends tend to help to put a floor under the price of its stock, which can help keep it from falling as much as a pure growth stock without a dividend.

Dividends are not based on investor's perceptions but on a company's actual operations and available cash. Stock prices are an indication of how much investors think a company is worth at any given moment, but stock prices can be volatile because investor's views can change quickly and radically. Dividends, on the other hand, are based on a company's free cash flow after its capital spending, debt repayment and general expenses. As a result, dividends tend to change much less quickly and dramatically.

Although dividends are not guaranteed, companies can be reluctant to cut dividends because that is often interpreted by investors as a sign of weakness, and typically damages the stock price. When a company consistently has enough cash left over to pass on to investors in the form of dividends, it is a likely indicator of healthy cash flows and good management.

HAS ANYTHING CHANGED?

S.L. Reed & Company can help:

401(k) Rollover from Previous Employer
Rollover IRA out of a Retirement Plan
Traditional or ROTH IRA
Taxable Accounts
Annuities
Insurance

Additionally, we can work with you on:
Managed Accounts

For Assistance call:
Ken Kilpo (310) 893-3016
Reed Nichols (310) 893-3010

S.L. REED & COMPANY

Robert W. Nichols, CEO

Website
www.slreed.com

Telephone
(866) SLREED1
(310) 893-3030
Facsimile
(310) 893-3031

Mailing Address
11111 Santa Monica Boulevard
Suite 1200
Los Angeles, CA 90025