



## HIGHLIGHTS

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## Debunking Myths about Your Social Security Benefits

As people move closer to retirement, they start to pay more attention to information about Social Security benefits. This article summarizes key points about Social Security, while also correcting common misconceptions.

**Myth #1 – It's usually a good idea to start benefits at age 62, as soon as you become eligible.** Some media sources say that you should take the money as soon as possible and invest it. You then may have more money available at your average life expectancy than if you waited until full retirement age to start benefits.

**Reality:** When to start Social Security is a complex analysis that should be personalized for each individual. It can involve many factors, ranging from your prospects for continued work to your attitudes about longevity and inflation. Clearly, individuals have different levels of confidence in their ability to “invest the difference” successfully.

**Myth #2 – If you don't start benefits early, you must wait X years to “break even.”** You may hear some media pundits say: “Your break-even age for starting Social Security benefits is at age 77.” This means: If you were to start benefits at age 62 instead of waiting until full retirement age (age 66 for most people nearing retirement), you would have more money in hand until the break-even age.

**Reality:** There is no universal “break-even” age, because variables in the calculation can change. They include: 1) current interest rates (i.e., the “time value of money”); 2) the inflation rate; 3) tax impact; and 4) whether the recipient is a worker or non-working spouse.

The permanent benefit reduction for “starting early” is greater for non-working spouses than for workers. (Note: Women are more likely to receive non-working spouse benefits than men due to interruptions in their careers to raise children.)

**Myth #3 – If you keep working after you start benefits early, you could permanently lose part or even all of them.** Social Security currently reduces benefits by one dollar for

every \$2 of earned income above \$13,560 (for 2008) through the start of the year in which you reach full retirement age.

**Reality:** Some commentators say that it is wasteful to start benefits early and then continue working. However, any benefits that you give up are only deferred, and Social Security credits them back to your permanent benefits record when you reach full retirement age.

**Myth #4 – If you keep working after full retirement age, you will keep paying FICA into the system but you don't earn additional credits.** Most workers and their employers are subject to FICA withholding on earned income, regardless of the worker's age.

**Reality:** Every dollar of earned income, up to any age, can result in increases in Social Security benefits. Social Security will automatically recalculate your benefits for each year in which you work. If one of your 35 highest indexed earnings years is attained after you start benefits, you will be credited with a higher benefit.

**Myth #5 – Social Security benefits don't really help seniors offset inflation.** This myth arises from a lack of understanding about how Social Security's annual Cost of Living Adjustment (COLA) works.

**Reality:** The COLA is perhaps Social Security's most powerful long-term planning benefit. Each year, all Social Security retirement benefits are adjusted dollar-for-dollar for Consumer Price Index inflation. For many retired people, the COLA provides the only source of inflation-adjusted retirement income. Also, any decisions to start benefits early, at permanently reduced levels, will reduce the longevity protection of lifetime benefits and the inflation protection of the COLA.

Note: For 2009, Social Security has announced that the COLA will increase all retirement benefits by 5.9%.

In summary, knowing realities about your Social Security benefits can be valuable in making sound choices. ♦

**Does It Pay to Borrow from Your 401(k)?**

*The best time to take a plan loan is when you need cash for a specific important need over a short period of time.*

The vast majority of 401(k)s in the U.S. allow participants to take loans and perhaps you have wondered whether a plan loan is a smart choice. For example, suppose you need to borrow \$10,000 for a short time to expand your business or pay a college tuition bill? Would it be better to borrow this money from your own retirement plan or a bank? This article offers guidelines to help you decide.

Let's begin with a quick review of 401(k) loan rules. In most plans, you can take one loan at a time up to the lesser of \$50,000 or 50% of your vested plan balance. Most loans are repaid through payroll deduction (using after-tax dollars) on an amortizing basis over up to five years. Because your own money is liquidated from the plan to make the loan, there is no third-party lender and no credit checks or reporting. Interest is charged on the outstanding loan balance, but all interest payments go back into your account. There are no income tax consequences if the loan is repaid on schedule.

Next, let's identify four areas to consider in deciding whether a 401(k) plan loan is preferable to other sources of money.

**1. Reason for borrowing and length of the loan** – Plan loans should be used for serious financial needs, not discretionary spending, and they make sense when you plan to repay the money in about a year or less. They can be attractive choices if you: 1) are using the money to pay down high-cost debts; or 2) would otherwise have to take a loan at a high interest rate. The interest that you pay on 401(k) loans really is a

transfer of money from one of your pockets to another, so these loans generally have a lower borrowing cost than alternative sources of financing.

**2. Convenience, speed and privacy** – Requesting a plan loan is quick and easy, and it does not require a credit application or create an inquiry to credit ratings agencies. So, it has no impact on your credit. Many 401(k)s allow loan requests to be made with a few paperless clicks on a Website, and you can have a check in your hand in a few days with total privacy. You can repay the loan as quickly as you want, without a prepayment penalty. Otherwise, repayments usually are made periodically through payroll deduction (using after-tax money).

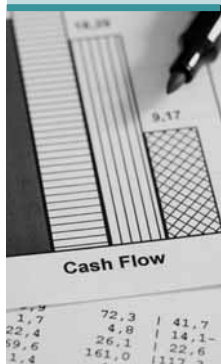


**3. The investment environment** – Your own plan investments are liquidated to make the loan. So, the amount of impact plan loans will have on your retirement savings progress depends on the market environment. If the rate of interest you are paying (to yourself) on the loan is about the same as any investment gains that you are sacrificing while the loan is outstanding, then the impact over a year or less should be relatively minor. Your retirement could suffer, however, if you take longer to repay the loan, because markets tend to rise over time. Also, the interest payments (made with

after-tax dollars) will be subject to tax again when plan money is withdrawn. This “double-tax impact” also tends to grow larger over longer loan repayment periods.

**4. Penalties and restrictions** – Before taking a plan loan, you must be fairly certain that you can pay it back (with interest) on time. Otherwise, your loan can be considered a permanent hardship withdrawal from your retirement account. Such withdrawals are subject to current income tax and perhaps a 10% federal premature withdrawal penalty if taken before age 59½. Also, they can restrict your ability to continue putting money in the plan and receiving employer matching contributions. A minority of 401(k)s restrict new “elective deferrals” while loans are outstanding. Prior to taking any loan, ask your company's Human Resources Department if any such restriction applies.

Putting these four points together, you should see that the best time to take a loan is when you need access to cash for a specific, important need over a relatively short period of time, when you might otherwise have to borrow from another source, when you know the loan can be repaid, and when your ability to participate in the plan won't be restricted. You also may want to consult a professional tax advisor before requesting a loan, and you should always have a clear plan in mind for repaying these amounts on schedule. ♦



*A Personal Cash Management System can be of great value in gaining control of personal finances.*

**E**very successful business relies on a financial system to carefully control income and expenses. A business must have a system to know its present financial status, and more important, to plan for its future financial moves.

Your personal financial situation is comparable to that of a business. Both have concerns for profit, income and expenses, and spending decisions affected by anticipated circumstances. Consequently, personal cash flow management is designed to handle your financial situation like a business.

**A system, not a budget**

Cash Flow Management is a system, not a budget. It will allow you to see your financial situation from a long-term, systematic viewpoint. You will see how one move, such as a periodic tax payment, can affect your disbursements for several months prior to, and following, the actual payment.

Most people have not saved as much as they would have wished. The reason is not that they did not intend to save, but they did not have a system. Lacking a system makes it very easy to be distracted by the many opportunities to spend earnings.

Your financial needs and desires present unique situations, and your system must be flexible enough to accommodate whatever you require. A Personal Cash Flow Management System, if used consistently, can be of great value in helping to gain control of your personal financial situation. It will ensure that there is always cash available to pay bills as they come

due. It will also help you save more money in a systematic way.

**The importance of goals**

A cash flow plan will function best if it reflects your goals, whether long-term or short-term.

The goals that you have already set will help you shape your personal version of this system. Refer to them often.

As you achieve some short-term goals, or begin to see significant progress towards long-term goals, your enthusiasm for this process will increase – and that will make the system more effective for you.

**Establishing your system**

What should your system contain? Four factors will help you establish control over money:

◆ **Income/Expense**

Identify and isolate income and disbursements (referred to as expense).

◆ **Category**

Define the kinds of income you receive and the kinds of expense you incur. Categorize them according to the fixed or flexible nature of the item.

◆ **Time**

Your system should be based on a monthly structure. You should quantify your income and expense within a 12-month format.

◆ **Amount**

Income and expenses are expressed in dollars.

Once you have qualified all financial transactions, you will be well on the way to controlling your cash flow, rather than letting it control you.

**Periodic fixed expenses**

Many people have lost control over cash flow because they have

no system to handle periodic known expenses of a substantial nature. Good examples of this type of expense might be a large real estate tax bill of \$1,500 due every March, a life insurance premium of \$840 due in November, or an IRA deposit of \$2,000 which must be made by April 15th.

The solution is to schedule these larger payments and start saving for them on a monthly basis. For example an automatic bank deduction can be made regularly to cover the \$840 life insurance premium.

The \$1,500 tax bill is due again in 10 months. Why not set \$150 aside into a special savings account? Then when it comes due, you will have the money. Afterwards, you can reduce the monthly savings amount to \$125 since you will have 12 months to accumulate the next payment.

If the IRA \$2,000 deposit is due again in eight months, put aside \$250 each month until then. Furthermore, you will be earning interest on these escrow funds, rather than paying interest as a result of poor money management.

**Save systematically**

It is important to assign a portion of each paycheck for your savings and investment program. Consider it an obligation just as important as any other.

In addition to saving a portion of monthly income, we strongly urge that any money saved by tax planning each year be invested the following year. This will give you an additional source of investment funds as well as a way to reduce income tax liability on a regularly. ◆

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*You may live longer than you think, so make sure you are protected for a lifetime.*

If you want to fill an immediate need for life insurance protection, consider this: While there's always a chance of dying too soon, statistics show it's more likely that you could live a very long time. The average woman born in the U.S. now can expect to live to age 80 (about five years longer than the average man), according to the Social Security Administration.

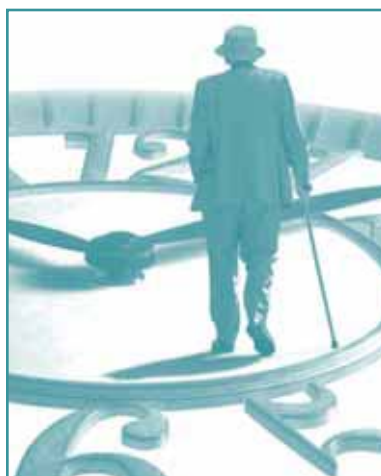
An economical choice for immediate and affordable coverage is to purchase Level Term life insurance. And it works perfectly...if you die before the term expires. But based on industry studies involving actual experience of thousands of people, you may live well beyond the end of the term period. For example, if you purchased a 20-year Level Term policy at age 45, your coverage would continue only to age 65.

For those who may die within this 20-year period, the Term coverage would have been a wise choice. But according to industry statistics, about 90% of healthy non-smokers who qualify for insurance at age 45 will live beyond age 69. And half of that group will live beyond age 85.

We're seeing it everywhere – 60 is the new middle age. Some of today's top fashion models are in their 40s and 50s, and many women are changing careers and “starting over” later in life. The advances in health care during our lifetime have been phenomenal, and the news is good – people are living significantly longer than just 20 years ago. Along with this good news comes an extended horizon for personal long-term planning.

**Anticipating the Problem**

There is a new twist to term life insurance today that anticipates the reality of longer life expectancies, along with the fact that some individuals are seeking financial peace of mind on a limited budget. Guardian offers quality Level Term life insurance that lasts over periods of 10, 15, 20 and even 30 years, providing you and your family with immediate life insurance protection at predictable, level, and affordable premiums.



Guardian's Term plans integrate with solutions for long-term financial planning to provide coverage beyond the ordinary. For example, as your income increases, you may want to consider increasing your insurance coverage. With Guardian's optional Whole Life Purchase Option you can guarantee the opportunity to update your protection to three Whole Life insurance policies, each with face amounts of up to \$350,000, purchased at future dates. That way, if you become unable (or less able) to qualify in the future because of a change in health, you can keep your coverage in place and make it permanent.

**Self-Completing If You Become Disabled**

Because we are living longer in general, many people will experience chronic or terminal illnesses for protracted periods of time. Guardian has also anticipated this reality. Our Level Term Gold plans offer an optional Waiver of Premium Rider (at additional cost) that pays the entire term insurance premium if the insured person becomes totally disabled for six months or longer. If a disabling accident or disease disrupts your family finances, the life insurance protection will remain in force as long as the disability continues, for the duration of the level term period.

**Life Insurance Protection Against Untimely Death**

Having life insurance in place – either Term or Permanent – can help you meet your life goals while also providing versatility, growth, protection and peace-of-mind. It also can help ensure that your beneficiaries will have continued income if you are no longer there – to pay for education, a mortgage, or estate and inheritance taxes. Whatever life insurance program you feel best suits your needs, just remember that you may live longer than you think, so be sure you're prepared for a lifetime. Be sure to ask your Guardian Financial Representative for help in evaluating the many attractive options that are now available. ♦

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