

EYE ON MONEY

JUL
AUG
2010

Financial Tips for 50-some things

Plus:
Health Insurance
Reform Timeline





It Pays to Go Green in 2010

Tax credits reduce your taxes dollar-for-dollar.

The two credits described here are non-refundable, meaning that they cannot reduce your federal taxes below zero.

Federal tax credits are still available for energy-saving home improvements.

If you are planning any home improvements in 2010, save your receipts! You may be able to claim a federal tax credit for 30% of the cost of energy-saving improvements you make to your home. The equipment must meet specific energy standards to qualify for the credits. Please see your tax advisor for the details.

30% tax credit for ENERGY-SAVING HOME IMPROVEMENTS

This tax credit can be claimed for certain energy-saving improvements you make in 2010 to your main home in the United States. The credit is limited to a total of \$1,500 for 2009 and 2010.

The credit can be claimed for qualified:

- Advanced main air circulating fans
- Asphalt roofs with cooling granules
- Biomass fuel stoves
- Central air conditioners
- Electric heat pumps
- Electric heat pump hot water heaters
- Exterior windows, skylights, and doors
- Insulation materials or systems
- Metal roofs with pigmented coatings designed to reduce heat gain
- Natural gas, propane, or oil furnaces, hot water boilers, and hot water heaters

30% tax credit for ALTERNATIVE ENERGY EQUIPMENT

This tax credit can be claimed for qualified alternative energy equipment that you add to a home you own in the United States. With the exception of fuel cell property, the home does not need to be your main home.

The credit can be claimed for qualified:

- Geothermal heat pumps
- Fuel cell property
- Solar electric systems
- Solar hot water heaters
- Wind turbines

NOTE: The credit for fuel cell property is limited to \$500 for each 0.5 kilowatt of capacity. ■

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5 Uses for Life Insurance

Life insurance can help you meet many personal and business financial objectives. Five of them are listed here.

Talk to your financial advisor about whether life insurance should be part of your wealth management strategy. If so, your advisor can help you pinpoint the type and amount of life insurance appropriate for your financial objectives.

1 Help your loved ones maintain their standard of living. Would your family and loved ones struggle financially without your income? The proceeds from a life insurance policy can help replace your income so that your family can afford to meet their day-to-day financial needs and maintain their current standard of living.

2 Pay off debts. Many people carry a large amount of debt. Life insurance can help pay off mortgages, as well as other personal and business debts, so that your family will not have to resort to selling the family home and other assets to pay the debts.

3 Pay tuition. The proceeds from a life insurance policy can help ensure that your young children can afford to attend college. If you simply need life insurance until the kids finish college or the mortgage is paid off, consider insuring your life for just that period of time. You can do this with a term life insurance policy of 10, 20, or 30 years that only pays death benefits if you die within the term of the policy. Because term life insurance does not cover your whole life, it is generally the most affordable type of life insurance.

4 Replace wealth donated to charity. The proceeds from a life insurance policy can help replace for your heirs the value of assets you donate to charity. For example, a popular strategy for someone who donates assets to charity in order to increase the income they receive from those assets is to pair a charitable remainder trust with a life insurance trust. The charitable remainder trust provides the donor with a stream of income and tax benefits and the charity with the assets remaining in the trust after the donor dies. The life insurance held in the life insurance trust helps replace the value of the donated assets for the heirs.

5 Pay estate taxes. If your estate will be subject to estate taxes (most will not be), the proceeds from a life insurance policy can help pay those taxes so that family businesses, farms, and other assets do not have to be sold simply to cover the estate tax bill. The key to this strategy is to have an irrevocable trust own the policy on your life so that the proceeds are not considered part of your estate and, therefore, escape estate taxes. Please seek financial and legal advice before pursuing this strategy. ■

Lending a hand



Tax Breaks for Volunteers

Do you volunteer for a charitable organization? You may be able to write off your related expenses, provided you itemize deductions on your federal tax return. Although you cannot deduct the value of your time and services, you can generally deduct your unreimbursed out-of-pocket:

Car expenses. You can either deduct the cost of the gas and oil used to get you to your volunteer location or a flat rate of \$0.14 per mile (2010 rate).

Travel expenses. If you travel away from home to provide volunteer services, you can deduct the cost of travel, lodging, and meals as long as the trip does not include a significant element of vacation or pleasure.

Uniform expenses. You can deduct the cost and upkeep of uniforms if they are required for your volunteer work and are not suitable for everyday use.

Other expenses. You may be able to deduct certain out-of-pocket expenses you incur that are directly related to giving services to qualified organizations. For example, if you buy a ticket to an athletic event for an underprivileged youth who was selected by a qualified charity devoted to reducing juvenile delinquency, you can deduct the cost of his ticket, but not your own. ■

Your tax advisor can help you determine if your expenses are tax deductible.

Volunteer Opportunities

Looking for
volunteer
activities in
your area?

VolunteerMatch.org matches people by geography and skills to volunteer opportunities, including manning crisis hotlines, stocking food pantries, administering the web sites of local charities, delivering meals to shut-ins, and teaching kids to dance.

Volunteer.gov identifies volunteer opportunities that benefit our Nation's resources. Examples include working as a guide at the Statue of Liberty and maintaining trails in the Valley Forge National Historical Park.



Baby Boomers and Volunteering

One-third of baby boomers volunteer. 33% of baby boomers—people born between 1946 and 1964—volunteer, according to an analysis of 2002–2005 data collected by the Bureau of Labor Statistics. That is the highest volunteer rate of any age group and 4% above the national average of 29%.

Boomers volunteer on average 51 hours per year. That is more than every other age group with the exception of people over age 65.

Boomers engage in diverse volunteer activities. Their favorite service activities include collecting and preparing food, tutoring, fundraising, professional and management services, and general labor.

Boomer women volunteer at a greater rate than boomer men. Nearly 37% of boomer women volunteer, compared to just over 29% of boomer men. ■

SOURCE: Corporation for National and Community Service



©iStockphoto.com/Far left: Simon Oxley, Left: digitalskillet, Above: Alex Potemkin

Think twice before rolling company stock into an IRA.

Do you own company stock in an old 401(k) or similar retirement account that you are planning to roll over to an IRA? Think twice before you include company stock in the rollover. If the value of the stock has appreciated considerably, you may be able to save a bundle in taxes by moving it to a regular investment account so that the appreciation is taxed as a long-term capital gain rather than ordinary income.

TAX INCREASE ALERT

If you have savings parked in a 401(k) or similar retirement account with a former employer, 2010 is an ideal time to explore your options regarding those savings. With federal tax hikes proposed for 2011 for taxpayers with incomes over \$200,000 (\$250,000 if married filing jointly), **using the NUA strategy (described here) or rolling over savings to a Roth IRA may cost you less in taxes in 2010 than applying these strategies in later years.**

Say you have \$100,000 in your employer's company stock sitting in your 401(k) account, which originally cost \$20,000, but which has appreciated \$80,000 over the years. That \$80,000 is known as net unrealized appreciation, or NUA.

If you leave the stock where it is or roll it over to a Traditional IRA, the entire value of the stock will eventually be taxed as ordinary income. Remember, every tax-deferred dollar withdrawn from a 401(k) plan or a Traditional IRA is taxed as ordinary income. For example, if you are in the 35% federal income tax bracket when you withdraw your savings, you will end up paying \$35,000 in federal taxes on the stock (35% of \$100,000), netting you \$65,000 after taxes.

If you roll \$100,000 of company stock over to a Roth IRA, every dollar of its value will generally be subject to ordinary income tax when you roll it over. Continuing with the same example, you'd owe \$35,000 in federal income taxes on the company stock, netting you again just \$65,000 after taxes.

But if you take a lump-sum distribution of the company stock and move it to a regular investment account, only the stock's cost basis is taxed as income; the NUA is taxed as a long-term capital gain generally when the stock is sold. (You can elect to pay tax on the NUA in the year of the distribution.) Continuing with the example,

the federal income tax on the cost basis would be \$7,000 (35% of \$20,000), which would be due immediately. When the stock is sold, the NUA is taxed as a long-term capital gain. Currently, the top long-term capital gains tax rate is 15%. So if you sell the stock while the rate is 15%, you'd owe \$12,000 on the NUA (15% of \$80,000). This strategy would net you \$81,000 after taxes—\$16,000 more than the other three options. (You will also owe tax on any gains that accumulate while the stock is in the investment account.)

Three things generally must happen for you to use the NUA strategy. First, you must be eligible to take a distribution from your retirement plan. This generally means that you have either left your job or reached age 59½. Second, the retirement plan must allow the distribution of actual shares of stock; not all plans do. Third, your entire retirement account must be distributed within a single tax year. You can roll over your other assets to an IRA, if you choose.

The NUA strategy can only be used on shares of company stock that are moved directly from the employer's retirement plan to a regular taxable investment account. Move them to an IRA first and all bets are off; you cannot use the NUA strategy once the stock has entered an IRA.

The rules regarding retirement plan distributions and NUA are complex; please consult your financial advisor before making a move. ■

Financial Tips for



50-somethings

Your fifties are critical years for building wealth. Your income may be peaking, and your large expenses, such as mortgages and tuition, may be decreasing or disappearing. While you may have more money now to devote to building wealth, you have less time to recover from financial missteps. It is essential to make the right financial moves now to help ensure your future financial security.

Here are seven financial tips for 50-somethings. Of course, everyone's circumstances are different so these tips may not be appropriate for you. Your best move is to seek personalized advice from your financial advisor about how to manage your wealth at this time in your life.

I Get real about retirement.

Retirement may have seemed like a distant dream when you first began to save for it. But by the time you are in your fifties, retirement will be here before you know it. It's time to pull out all the stops to make your retirement dream a reality.

Start with a reality check. How much money will you need in savings before you can afford to retire? Are you on track to reaching that amount in the time remaining? It is important to determine the answers to these questions now so that you have time to make course corrections if necessary.

If you haven't estimated how much you may need in savings to live comfortably in retirement, you have plenty of company. Less than half of American workers (46%)

have estimated how much they may need to save for retirement, according to EBRI's 2010 Retirement Confidence Survey.

One rule of thumb is that retirees may need to replace between 70% and 90% of their pre-retirement gross income each year to maintain their current standard of living. These percentages assume that expenses will decline at retirement because, in part, retirees will no longer be paying Social Security taxes, shelling out bucks for commuting, or saving for retirement—expenses that may currently eat up sizable chunks of their income. Of course, as with all rules of thumb, the percentages are not appropriate for everyone. And with retirement just a few years away, you may now have a much clearer idea of how you'd like to spend your



Catch up with IRAs and employer-sponsored retirement plans.

The following retirement plans generally allow people age 50 or older to contribute extra amounts to their retirement plan each year. These extra amounts are known as catch-up contributions.

2010 Annual Contribution Limits

	REGULAR	CATCH-UP
401(k) Plans	\$16,500	\$5,500
403(b) Plans	\$16,500	\$5,500
457 Plans	\$16,500	\$5,500
SIMPLE Plans	\$11,500	\$2,500
Traditional IRA	\$5,000	\$1,000
Roth IRA	\$5,000	\$1,000

retirement and the costs involved. Rather than relying solely on a rule-of-thumb percentage, consider tracking your current expenses for a month to determine how much you are actually spending now and using that number as the basis to project how much you might spend on a monthly basis in retirement. You may end up with a more realistic sense of your retirement income needs.

In addition to being able to project your retirement expenses more realistically at this point in your life, you may also have a better handle on your sources of retirement income, such as pensions, savings, and Social Security. Are these sources up to the task of meeting your retirement income needs? Your answer will depend in part on your age when you retire. If you retire in your fifties, you may need to fund forty years of retirement. Hold off retiring another ten years, and you may be looking at funding thirty years of retirement. That is a significant difference.

Your financial advisor can help you estimate your retirement income needs and determine whether your sources of retirement income are likely to meet those needs. If it looks like your savings are not where they may need to be, there is still time to improve the financial outlook for your retirement. Heck, if you are in your early fifties, you may still have one-third of your career ahead of you. Plus, you may have more income now to devote to retirement savings if your mortgage is paid off and the kids have flown the nest.

To encourage 50- and 60-somethings to increase the amount they save annually for retirement, the federal government allows workers age 50 and above to contribute

additional amounts, known as catch-up contributions, to their IRAs and employer-sponsored retirement plan accounts. For example, a 50-year-old worker can contribute an extra \$1,000 to their IRA and \$5,500 to their 401(k) account in 2010. If you are not on track to reach your savings goal, consider increasing the amount you contribute to your retirement accounts.

Increased contributions to tax-deferred accounts may not do the trick by themselves. These types of accounts have annual contribution limits, which may prevent you from socking away the full amount that you may need. To reach your retirement goal, you may also need savings that you have accumulated in regular savings and investment accounts.

Please do a retirement reality check in your fifties so that you have a good idea of what it may take to retire comfortably and whether you are on track to reaching that goal. And then check your progress every year or so. Your financial advisor can help you determine an appropriate retirement savings goal, as well as develop strategies to help you reach it.

2 Reevaluate your investment mix.

While you are checking on your progress to your retirement goal, take a look at your investment mix—it has a lot to do with the level of risk in your portfolio. Is the mix still appropriate for you?

In general, it is a good idea to reduce risk in your portfolio as you draw closer to the time when you'll need your money. Why? There is less time left for your investments to potentially recover from market downturns. With retirement so close, you may want to take steps now to help protect what you have saved so far.

Managing risk in your portfolio generally comes down to two strategies: asset allocation and diversification. Asset al-

location refers to how your investments are divided among the different asset classes, such as stocks, bonds, and cash. Generally, as people approach retirement (or any savings goal), they shift some of their savings from more volatile types of investments, such as stocks and stock funds, to less volatile types of investments, such as bonds and cash. This shift helps to reduce the overall risk in their portfolios. Asset allocation, however, does not ensure a profit or protect against loss in declining markets.

Before adjusting your asset allocation, remember that risk and return go hand in hand. By dialing back your exposure to higher risk investments, such as stocks and stock funds, you are also dialing back your potential for higher returns. If you are not on track to reach your savings goal in the time left, shifting away from investments that offer potentially higher returns may result in your savings falling short of your goal. Your financial advisor can help you assess your time horizon, your need for growth, and your tolerance for risk to arrive at an asset allocation that is right for you at this stage in your life.

Also, keep in mind that although the first years of your retirement may be just five or ten years away, your retirement may stretch for thirty years or more. You may need the growth potential offered by higher risk investments, such as stocks, to help your savings outpace inflation and last throughout retirement.

Diversification, the second strategy you can employ to help manage risk, involves spreading around your investments within the various asset classes. An easy way to understand the benefit of diversification is to remember the old adage not to put all of your eggs in one basket. For example, if you invest in just one hot stock, you run the risk of losing everything if the value of that stock tumbles. If you instead spread your invest-

ments among several stocks whose returns don't typically rise and fall at the same time, you can minimize the risk to your portfolio. Diversification does not ensure a profit or protect against loss in declining markets.

Although the concept behind diversification is easy to grasp, actually diversifying your portfolio can be more challenging. Your financial advisor can help you determine how to go about it.

When reevaluating your investment mix, take a close look at the amount of company stock in your portfolio. It is easy to load up on company stock over the years. If it represents too large of a percentage of your overall savings, it may put your savings at risk. Ask your financial advisor about how to diversify a concentration of company stock.

If adjustments are needed to your investment mix, strive to make them with the least tax impact. Remember, although you can trade to your heart's content in your tax-deferred retirement accounts without affecting your taxes, trades in a regular investment account will affect your taxes: gains you realize will be taxable and losses you realize can be used to offset gains. But, of course, adjusting your investment mix does not necessarily mean trading; it may also be achieved by directing new money into underweighted asset classes or a more diverse range of securities. Whatever changes you make, keep an eye on the tax impact.

3 Work toward retiring your debt before you retire.

With retirement just a few years away, you may soon be living life on a fixed income. You may find it easier to afford the retirement lifestyle you want if you do not have to budget part of your income for mortgage payments or payments on consumer debt, such as credit cards and car loans. Talk to your financial advisor about how to tackle debt while saving for retirement.

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How long will your savings need to last?

As you estimate the savings you may need to be able to afford to retire, it is important to consider how long your retirement assets may need to last. Today, a 65-year-old man and woman are expected to live to 82 or 85 years of age respectively, according to the life expectancy tables from the Centers for Disease Control and Prevention. Keep in mind that these ages are simply averages. You may live considerably longer. Unless you have a medical reason to think otherwise, **you should plan for your retirement to last into your nineties.**

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.



The cost of care

Long-term care is expensive. **One year of care in a nursing home (private room) ran about \$80,000 last year.** That's an average cost; the actual cost in your area may be significantly higher or lower. Here are some other average costs for long-term care in 2009:

- **\$198/day** for a semi-private room in a nursing home
- **\$219/day** for a private room in a nursing home
- **\$3,131/month** for care in an assisted living facility (for a one-bedroom unit)
- **\$21/hour** for a home health aide
- **\$19/hour** for homemaker services
- **\$67/day** for care in an adult day health care center

Source: U.S. Department of Health and Human Services

4 Avoid penalties on withdrawals from your retirement accounts.

If you plan to retire in your fifties, take care when tapping your retirement accounts, such as IRAs and 401(k) accounts. The IRS typically imposes a 10% early distribution tax penalty on withdrawals before age 59½ from IRAs and qualified retirement plans. Think of it as Uncle Sam's way of reminding you that the money in these accounts is intended for retirement.

There are several ways to avoid the 10% penalty if you retire before age 59½.

- You can fund the first few years of your retirement from your regular savings and investment accounts—there are no penalties for withdrawals from these types of accounts!
- You can generally withdraw the money that you contributed to a Roth IRA at any time, without incurring a penalty or taxes. (Of course, you may want to leave your Roth IRA untapped for as long as possible to help maximize its tax-free growth.)
- You may be able to withdraw money without penalty from a retirement plan (other than an IRA) if you retire or leave your job in or after the year you reach age 55 (age 50 if you are qualified public safety employee).
- And you may qualify for an exception to the 10% early distribution penalty. One exception enables you to avoid the penalty if the distributions from your IRA or 401(k) are made as part of a series of substantially equal periodic payments.

The tax rules regarding distributions from tax-deferred accounts are complex. If you will be retiring before age 59½, make certain that you understand the tax impact of tapping your retirement accounts. Your financial advisor can help you develop a tax-efficient retirement income plan.

5 Consider purchasing long-term care insurance.

While you may have decades to go before you need long-term care, if ever, purchasing long-term care insurance now may make financial sense. The reasons are simple:

- **Premiums are generally less expensive the earlier you start.** The annual premium for someone who purchases long-term care insurance in their fifties can be significantly less than the annual premium for someone who waits until age 70 to purchase insurance.
- **If you wait until you are sick or disabled, you may not be eligible to purchase long-term care insurance.** For example, if you wait until you have a diagnosis of Alzheimer's disease, insurance companies may not be willing to cover you at any price.
- **Hey, you never know when you might need it.** Although the odds of needing long-term care increase as you age, many of us know someone who needed long-term care far earlier than he or she ever expected due to a serious accident or illness

Long-term care insurance is designed to help pay for custodial care—a type of care not typically covered by Medicare or regular health insurance. Custodial care provides help with the basic activities of daily living, such as dressing, washing, eating, and toileting.

Both married and single 50-somethings should consider purchasing long-term care insurance. For single individuals who do not have the safety net of a spouse to provide care, the choice is rather clear cut. However, married couples also need long-term care insurance. Without it, the high cost of long-term care has the potential to impoverish the patient's spouse. It is

possible to run through decades of savings in a relatively short time due to high long-term care costs, leaving the patient's spouse unable to support himself or herself.

Of course, long-term care insurance is not for everyone. Before you purchase it, make certain that you will be able to continue to pay the premiums, even during retirement. If you stop paying the premiums, your policy can be cancelled.

Talk to your financial advisor about long-term care insurance. Your advisor can help you, first, determine whether this type of insurance is right for you, and if it is, choose a policy with features designed to meet your financial situation and objectives.

6 Review your other insurance.

As things change in your life, so do your insurance needs. Review your coverage every year or two with your financial advisor to make certain that you and your loved ones are still sufficiently protected.

Take a look at your life insurance coverage. If your house is paid off, your children through college, and your spouse able to support himself or herself without your income, you may not need life insurance at this time in your life. Then again, you may need life insurance now more than ever. Life insurance is frequently used to help provide the liquidity needed to pay estate taxes or to replace for heirs the value of gifts donated to charity.

Your income may be among your most valuable assets—an asset well worth protecting if you haven't saved enough yet to support yourself for the rest of your life. Long-term disability insurance is designed to replace a portion of your wages for a period of time if you become unable to work due to illness or injury—and as you age the chance of a serious, debilitating illness increases. Ask your financial advisor about the best way to protect your income.



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As your wealth grows, so does the need to protect it from lawsuits. Check the liability coverage on your homeowners, auto, and boat insurance policies to determine whether your assets are adequately protected. The maximum liability coverage on these types of policies may be \$500,000. If you are sued and the judgment exceeds the liability coverage on your insurance policy, your assets may be at risk. You can increase your liability coverage in amounts ranging from \$1 million to \$10 million with an umbrella insurance policy.

If you are considering retiring while in your fifties, be sure to consider your health insurance needs. Remember, Medicare typically doesn't kick in until age 65. If your employer does not offer retirement health benefits, you may need to bridge the gap before age 65 with a health insurance policy that you purchase on your own.

7 Revisit your estate plan.

By the time you are in your fifties, you may have additional people in your life that you wish to protect financially and you may have additional assets that you wish to shelter from estate taxes. While a will, a health care proxy, and a durable power of attorney may have been sufficient in earlier

years, it may be time for more sophisticated estate planning strategies.

Revisit your estate plan with your financial and legal advisors. Your advisors can review your objectives for your estate and suggest ways to help meet them. For example, you may have remarried and wish to ensure that your estate benefits both your new spouse and the children from your first marriage. You may have a special needs child whose inheritance needs to be structured in such a way that it does not disqualify him or her for governmental assistance. You may have concerns about an heir's ability to manage an inheritance on his or her own. Or your estate may have grown so much in value that it will eventually be subject to estate taxes. Whatever your financial objectives may be, talk to your financial and legal advisors about them. Your advisors can recommend strategies to help ensure that your wishes are carried out, your loved ones are financially protected, and the taxes on your estate are minimized. ■

Make the most of your fifties! Talk to your advisor about what you can do right now to improve your financial security and the financial security of the people you love.



Indexes

What's an index?

Hardly a newscast goes by without reporting on how the Dow Jones Industrial Average or the S&P 500 Index—two widely followed indexes—fared that day. What the heck are these things?

An index measures the performance of a group of securities. Thousands of indexes are calculated daily, covering all types of investments, including stocks, bonds, and real estate. Some indexes represent an entire market—such as the stock market—while other indexes slice and dice markets by size, region, country, or sector.

Investors use indexes to track current and historical market performance. Without indexes, we'd have no way of knowing whether the markets are gaining ground, losing ground, or treading water. Investors also use indexes as benchmarks to evaluate the performance of individual securities and actively managed funds. Handy tools, these indexes! ■

What's in the Dow?

The Dow Jones Industrial Average is one of the best-known stock market indicators in the world. Created by Charles Dow in 1896 as a 12-stock index, the Dow today includes the stocks of 30 blue-chip U.S. companies. Although the Dow represents a relatively low number of companies, the companies are industry leaders and their stocks are widely held.

Added in 1907, General Electric is the longest-standing component of the Dow. The Dow components change occasionally, as overseen by the Wall Street Journal's managing editor. In June 2009, for example, GM's 83-year run as a Dow component ended after it declared bankruptcy. Cisco Systems, Inc., the computer networking giant, replaced GM in the Dow.

The 30 blue-chip components of the Dow are:

3M Co.	E.I. DuPont de Nemours & Co.	McDonald's Corp.
Alcoa Inc.	Exxon Mobil Corp.	Merck & Co. Inc.
American Express Co.	General Electric Co.	Microsoft Corp.
AT&T Inc.	Hewlett-Packard Co.	Pfizer Inc.
Bank of America Corp.	Home Depot Inc.	Procter & Gamble Co.
Boeing Co.	Intel Corp.	Travelers Cos. Inc.
Caterpillar Inc.	International Business Machines Corp.	United Technologies Corp.
Chevron Corp.	Johnson & Johnson	Verizon Communications Inc.
Cisco Systems Inc.	JPMorgan Chase & Co.	Wal-Mart Stores Inc.
Coca-Cola Co.	Kraft Foods Inc.	Walt Disney Co.

—As of April 2010

Quiz

Match the index to the country whose markets the index measures. (Answers on the next page.)

CAC 40	United States
DAX	France
FTSE 100	Japan
Nikkei Average	Germany
S&P 500	United Kingdom



Major indexes	Used to gauge the performance of...	Components of the index
Dow Jones Industrial Average	The overall U.S. stock market	30 blue-chip U.S. stocks
S&P 500	The overall U.S. stock market	500 leading large-cap U.S. stocks
Nasdaq-100	Large-cap growth stocks (Primarily technology, health care, consumer goods and services industries)	100 of the largest domestic and international non-financial securities listed on the Nasdaq Stock Market
NYSE Composite Index®	The overall stock market	All common stocks (both domestic and international) listed on the New York Stock Exchange
Russell 2000®	Small-cap U.S. stocks	About 2,000 small-cap U.S. stocks
Wilshire 5000	The overall U.S. stock market	About 5,000 U.S. equities



Investing in funds that track indexes

As if serving as benchmarks were not enough, indexes also form the basis of many investments, known as index mutual funds and index exchange-traded funds (ETFs).

These index-based funds aim to track the investment returns of a specified index by holding the same securities or a representative sample. For example, an index mutual fund based on the S&P 500 index might invest in all of the component securities of that index in order to achieve the same return, less expenses. (FYI: Investors cannot invest directly in an index.)


Investors choose index-based funds for many reasons, including cost-efficiency and tax-efficiency. Because index-based funds are designed to simply track indexes, they generally have lower expenses than actively managed funds that strive to outperform indexes. And because index-based funds tend to trade their underlying securities less than actively managed funds, they generally have lower taxable distributions.

The main differences between index-based mutual funds and ETFs are how they are priced, bought, and sold. Mutual fund investors can place orders to buy and sell shares throughout the day, but the orders are not processed until after the close of the trading day when the fund's net asset value per share (NAV) is generally calculated. Shares are bought and sold at NAV. (Sales or redemption fees may apply.)

ETF investors can buy and sell shares at any time during the trading day at market prices that fluctuate throughout the day and which may differ from the NAV. Like stocks, ETFs trade on exchanges and commissions apply each time you buy or sell ETF shares. (FYI: Although most ETFs are based on indexes, some actively managed ETFs have recently entered the market.) ■

Your financial advisor can help you determine if index-based funds are right for you.

Note: Investors should consider the fund's investment objectives, risks, charges, and expenses before investing. Contact your financial advisor for a prospectus containing this information. Please read it carefully before investing.



Answers

- CAC 40:** A benchmark for the French stock market.
- DAX:** Measures the performance of 30 of the largest German companies trading on the Frankfurt Stock Exchange.
- FTSE 100:** Measures the performance of 100 of the largest companies in the United Kingdom listed on the London Stock Exchange.
- Nikkei Average:** The price-weighted average of 225 Japanese stocks listed on the Tokyo Stock Exchange.
- S&P 500:** A benchmark for large-cap U.S. equities.

Health Insurance Reform

T I M E L I N E

In March of 2010, President Obama signed into law two health insurance reform bills designed to make health insurance accessible to more Americans.

While many provisions of the new laws focus on reforming health insurance, others focus on paying for the reform. Revenue raisers affecting individuals include:

- A stiffer penalty (20%, rather than 10%) for using the savings from a health savings account for unqualified expenses.
- A higher income threshold (10%, rather than 7.5%) that must be met before unreimbursed medical expenses can be deducted.
- An additional Medicare tax (0.9%) on the wages of individuals earning more than \$200,000 (\$250,000 if married filing jointly).
- A new 3.8% Medicare tax on the net investment income of individuals earning more than \$200,000 (\$250,000 if married filing jointly).
- A tax penalty for individuals who do not obtain health insurance.

Some provisions in the new laws, such as guaranteed coverage for children with pre-existing conditions, will become effective as early as September 2010. Other provisions will take effect over the next decade.

The timeline on the next page focuses on some of the changes affecting individuals; changes that may affect your personal taxes are preceded by a star. Although the timeline is limited to provisions affecting individuals, the new laws also include many provisions affecting businesses. **Please consult your tax advisor about how you or your business may be affected tax-wise.**

HEALTH INSURANCE REFORM T I M E L I N E

★ indicates a change that may affect your personal taxes.

2010

- **Uninsured individuals with pre-existing conditions** gain access to insurance through a temporary high-risk pool.
- **Children with pre-existing conditions** cannot be denied coverage by health plans.
- **Health plans cannot drop people from coverage** when they get sick.
- **Lifetime limits on benefits are prohibited** and the use of annual limits is restricted.
- **Children up to age 26 can remain on their parent's policy**, if their parents choose.
- **Medicare Part D enrollees who enter the donut hole** (coverage gap) in 2010 will receive a \$250 rebate.
- ★ **\$1,000 increase in the adoption tax credit** and the adoption assistance exclusion for 2010 and 2011. The credit is refundable for 2010 and 2011.
- ★ **Health professionals can exclude from their gross income** amounts they receive under *any* State loan repayment or loan forgiveness program that is intended to increase health care services in underserved areas.
- ★ **10% tax imposed on indoor tanning services** beginning July 1, 2010.

2011

- **Medicare beneficiaries receive a free, annual wellness visit** and personalized prevention plan services.
- **Medicare Part D enrollees receive a 50% discount on all brand-name drugs** while in the donut hole. (The donut hole is scheduled to be completely closed by 2020.)
- ★ **The additional tax on nonqualified withdrawals from a Health Savings Account (HSA) or an Archer Medical Savings Account (MSA) increases to 20%**, from 10% and 15% respectively. (Individuals age 65 or older are not subject to the additional tax on HSA withdrawals.)

2013

- ★ **Contributions to health Flexible Spending Accounts (FSAs) are limited** to \$2,500 per year, indexed for inflation.
- ★ **The income threshold for claiming the itemized deduction for medical expenses increases** from 7.5% to 10%. The threshold for individuals age 65 and older remains at 7.5% through 2016.
- ★ **An additional 0.9% Medicare tax is imposed on the wages** and self-employment income of individuals earning over \$200,000 (\$250,000 if married filing jointly).
- ★ **A new 3.8% Medicare tax is imposed on the net investment income** of individuals earning over \$200,000 (\$250,000 if married filing jointly).

2014

- **Health plans are prohibited from imposing annual limits** on the amount of health benefits an individual may receive.
- **Health Insurance Exchanges open** in each state to individuals and small employers.
- ★ **Premium assistance tax credits are available through the Exchange** for people with incomes above Medicaid eligibility and below 400% of the federal poverty level who are not eligible for or offered other acceptable coverage.
- ★ **Most individuals must obtain acceptable health insurance or pay a penalty** of \$95 for 2014, \$325 for 2015, \$695 for 2016 (or, up to 2.5% of income in 2016), up to a cap of the national average bronze plan premium offered through the Exchange. Families will pay half of the amount for children, up to a cap of \$2,085 per family (in 2016). ■

SOURCES: *Implementation Timeline* by the Committees on Ways and Means, Energy & Commerce, and Education & Labor, March 18, 2010.
Key Provisions that Take Effect Immediately by the Office of Speaker Nancy Pelosi, March 22, 2010.



Cape Town: On the Edge

BY BRIAN JOHNSTON

The last city on the edge of Africa, Cape Town is cut off from the rest of the continent by a great barrier of rugged peaks whose grand cliffs and wreaths of clouds frame the city beneath. Then there's the benign Mediterranean-style climate and its southeasterly wind, known locally as the Cape Doctor since it blows fresh, clean air into town. That's just the natural advantages. Add to that a city that is neither quite African nor European, but a unique blend of cultures and influences—Malay food, Dutch architecture, British parks—and you begin to see why Cape Town is easily one of the world's most beautiful cities.

Cape Town is small enough to explore

on foot, and there's nowhere better to start than the Company Gardens in the heart of the historic city center. The Gardens were originally founded to supply fresh fruit and vegetables to passing ships of the Dutch East India Company, who first arrived in 1652. Later settlers moved in, cultivating the surrounding land and establishing a proper town—and eventually a new country. The Gardens are dotted with the statues of notables such as the empire-builder Cecil Rhodes and former South African Prime Minister Jan Smuts. Around the park stand several prominent buildings, including St George's Cathedral (the diocese of Archbishop Desmond Tutu) and the

South African Natural History Museum, which includes fascinating exhibits on the culture of the Bushmen and other southern African tribes. Opposite the Gardens lies the National Museum, formerly a slave quarters and the Supreme Court. It now hosts a collection of Cape furniture, coins, glassware, and the other trappings of early settlement life.

In the center of the city is Greenmarket Square, which comes alive every day (except Sundays) with a bustling flea market. It certainly makes for good browsing. Everything is on sale, from wooden carvings of African animals and fashionable shoes to CDs and jewelry. Nearby Long Street is

lined with souvenir outlets, second-hand bookshops, clothes shops, and a variety of boutiques. If you can tear yourself away from the window displays and look up, you'll also realize the street contains some fine Georgian and Victorian buildings and churches.

The Malay Quarter (also called Bo-Kaap) is a warren of narrow, cobbled streets with cottages dating from the last century, now restored. They have a distinctive architectural style that uses pastel colors and ornamentation such as iron railings, pillars, and columns. Several mosques also add a definite Islamic feel. The Malay Quarter is still inhabited by the descendants of Bata-vian slaves imported from the Dutch territories in Indonesia. The Bo-Kaap Museum is a restored house showing the lifestyle of a Malay family in the nineteenth century. It's one of several historic houses in the city that reconstruct the lives and architecture of various periods in Cape Town's colorful history.

Perhaps the Malays' greatest contribution has been to Cape Town's cuisine which, since Malay slaves were often used as cooks, has a special Asiatic flavor—fruity and spicy without being too hot. Specialties that can be sampled in the Malay Quarter restaurants and elsewhere around town include bobotie (sweet-and-spicy ground meat), sosaties (pork and small onions on skewers), and koeksusters (small deep-fried cakes dipped in syrup).

Cape Town's waterfront has been spruced up over the last decade, and the Victoria & Albert Basin area in particular has been renovated. It's a collection of hotels, restaurants, pubs, museums, and theaters and one of the most vibrant parts of the city, as well as a major tourist draw. Sensibly, however, redevelopment hasn't been taken too far; this is still a living, working harbor. Fresh crayfish, abalone, oysters, prawns, and many other seafoods are unloaded here daily and can be sampled in the restaurants. There's nothing more pleasant than whiling away the time on the waterfront watching the yachts

and the fishing smacks, not to mention the playful seals that frolic around them.

To understand the full attraction of Cape Town life requires leaving the town and getting into the city's natural setting. Cape Town's suburbs straggle onto Cape Peninsula, which provides numerous coastal walks and forest paths. In August and September the area is covered with a riot of spring flowers, including orchids, lilies, and proteas. Chapman's Peak Drive, carved out of solid rock along the coast, is one of the most dramatic roads in all Africa, and a not-to-be-missed drive. There are several reserves on the peninsula, including the Cape of Good Hope Nature Reserve right at its southern end. It boasts well over a hundred bird species and also baboons, eland, mountain zebra, bontebok, and springbok.

As if it weren't enough to have this kind of nature in the back yard, the people of Cape Town can also choose from close to a hundred beaches. Muizenburg, a resort dating from Victorian times, is the most popular, and also a good place for surfing. Clifton and Llandudno are also rated among the top beaches. The ocean waters aren't for the faint of heart, however—they're surprisingly cold. The western side of the peninsula (False Bay waters) is slightly warmer than the eastern side (Atlantic waters). It's also wise to choose your beach depending on the direction of the prevailing winds.

Table Mountain, the massive block of sandstone that rears over Cape Town and can be seen for miles around, is also a natural reserve as well as being a destination few visitors want to miss. From the summit there are expansive vistas over Cape Town, Cape Peninsula, the surrounding mountains and the ocean. The summit is reached by a cable car which makes the journey every fifteen minutes throughout the day, weather permitting. There are also a variety of trails that lead to the top, but the route is strenuous and the weather fickle, so the ascent on foot isn't to be taken lightly. Whatever way you reach the top, the stunning view will leave you breathless. ■

©Stockphoto/Left: Graham Bedingfield, Below: Gustaf Larsson Bjerne, Bottom: Sven Wolferrmann



Preceding page, an aerial view of Cape Town, perched on the coast of South Africa. Above, an African penguin on nearby Boulders Beach and the brightly painted houses of Cape Town's Malay Quarter.



FYI

▼ **STEP INSIDE A 40-FOOT TORNADO** and feel the vapor whirl around you, see a 20-foot bolt of lightning crackle over your head, trigger an avalanche, and unleash a tsunami in the dramatic *Science Storms* exhibit at the **Museum of Science and Industry, Chicago**. This new permanent exhibit explores the science behind tornadoes, lightning, fire, tsunamis, sunlight, avalanches, and atoms in motion.

Image: Museum of Science and Industry, Chicago

SUMMER 2010
New Exhibits and Special Exhibitions
 AT THE SCIENCE MUSEUMS

Boston, MA

Whales | Tohorā • *Museum of Science, Boston*

Explore the fascinating world of whales, through science and storytelling, as this special exhibition visits the Museum of Science, Boston.

Charlotte, NC

KidScience • Discovery 3D Theatre • *Discovery Place*

Two original exhibits—*KidScience*, an area for young visitors to touch, test, and tinker with math and science, and the museum's new 3D movie theatre—opened in February 2010. With the completion of other renovations in June, Discovery Place offers a full slate of fresh activities.

Fort Wayne, IN

New Views of the Universe • *Science Central*

NASA's traveling exhibition showcasing the deep-space discoveries of the Hubble Space Telescope and introducing its successor, the James Webb Space Telescope, is on exhibit through August 30, 2010.

Fort Worth, TX

Building Brainstorm • *Fort Worth Museum of Science and History*

Kids can explore what it is like to be an architect, designer, or engineer at this exhibition on display through August 2010.

Los Angeles, CA

Ecosystems • *California Science Center*

The California Science Center's new permanent exhibit, opened in

spring 2010, offers visitors the opportunity to explore the varied ecosystems of land and sea.

St. Paul, MN

The Dead Sea Scrolls: Words That Changed the World

Science Museum of Minnesota

After having been hidden in caves along the Dead Sea for almost 2000 years, three sets of five Dead Sea Scrolls are on exhibit at the Science Museum of Minnesota through October 24, 2010. Written on animal skin and papyrus, the scrolls include fragments of some of the earliest known texts of the Bible.

Philadelphia, PA

Cleopatra: The Search for the Last Queen of Egypt

The Franklin Institute

This exhibition of more than 250 artifacts takes visitors inside the present-day search for Cleopatra, which extends from the sands of Egypt to the depths of the Bay of Aboukir near Alexandria. The exhibition is at The Franklin Institute through January 2, 2011.

San Diego, CA

Polar Bear Plunge • *San Diego Zoo*

Visitors to the newly renovated Polar Bear Plunge exhibit can climb into an Arctic research helicopter, crawl into a snow den, pop their heads through a seal's breathing hole in the ice—as well as visit the three polar bears that live at the San Diego Zoo. ■



World Capitals

Match the capital city to its country.

Stockholm

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WHAT'S ON AT THE ART MUSEUMS

Bilbao through September 12, 2010

Robert Rauschenberg: Gluts

Two years after the death of American artist Robert Rauschenberg (2008), the **Guggenheim Museum Bilbao** is presenting a tribute exhibition of nearly sixty of his metal assemblages. Created between 1986 and 1995, these assemblages of found objects are Rauschenberg's final series of sculptures.

London through July 25, 2010

Fra Angelico to Leonardo: Italian Renaissance Drawings

Featuring more than 100 works by Fra Angelico, Jacopo and Gentile Bellini, Botticelli, Carpaccio, Leonardo da Vinci, Filippo Lippi, Michelangelo, Titian, and others, this exhibition at **The British Museum** focuses on the increasing importance of drawing during the period between 1400 and 1510. The exhibition is scheduled to travel to the Uffizi in Florence after it closes in London.

Los Angeles through September 12, 2010

Paris October 19, 2010 through January 23, 2011

The Spectacular Art of Jean-Léon Gérôme

This comprehensive exhibition showcases a wide range of Jean-Léon Gérôme's (French, 1824-1904) paintings, including society portraits, idyllic genre scenes set in classical antiquity, and Asian subjects inspired by his travels. It will be presented first at the **J. Paul Getty Museum** in Los Angeles and later at the **Musée d'Orsay** in Paris.

Madrid through September 19, 2010

Turner and the Masters

This major exhibition at the **Museo del Prado** juxtaposes paintings by JMW Turner (British, 1775-1851) with works by old masters and contemporaries—Rembrandt, Rubens, Claude Lorraine, and others—that influenced his work. The Prado version of this exhibition will feature 80 paintings, several of which were not shown in the earlier London or Paris versions of the exhibition. ■

- | | |
|---------------------|-----------------------|
| Ankara | Austria |
| Bangkok | Norway |
| Bern | South Africa |
| Brazzaville | Chile |
| Damascus | France |
| Dublin | Russia |
| Kingston | Kenya |
| Kuala Lumpur | Czech Republic |
| La Paz | Poland |
| Madrid | South Korea |
| Manila | New Zealand |
| Moscow | Turkey |
| Nairobi | Aruba |
| New Delhi | Republic of the Congo |
| Oranjestad | Libya |
| Oslo | Sweden |
| Ottawa | Syria |
| Paris | Switzerland |
| Prague | Bolivia |
| Pretoria | Philippines |
| Santiago | India |
| Seoul | Thailand |
| Stockholm | Malaysia |
| Tripoli | Canada |
| Vienna | Spain |
| Warsaw | Ireland |
| Wellington | Jamaica |

- ANSWERS:**
- Ankara—Turkey
 - Bangkok—Thailand
 - Bern—Switzerland
 - Brazzaville—Rep. of the Congo
 - Damascus—Syria
 - Dublin—Ireland
 - Kingston—Jamaica
 - Kuala Lumpur—Malaysia
 - La Paz—Bolivia
 - Manila—Philippines
 - Madrid—Spain
 - Moscow—Russia
 - Nairobi—Kenya
 - New Delhi—India
 - Oranjestad—Aruba
 - Ottawa—Canada
 - Oslo—Norway
 - Stockholm—Sweden
 - Tripoli—Libya
 - Vienna—Austria
 - Warsaw—Poland
 - Wellington—New Zealand
 - Pretoria—South Africa
 - Prague—Czech Republic
 - Paris—France
 - Ottawa—Canada
 - Oslo—Norway
 - Stockholm—Sweden
 - Seoul—South Korea
 - Santiago—Chile