

EYE ON MONEY

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Securing a Stream of
Retirement Income for Life
with an Immediate Annuity

Plus:

TIPS for Fighting
Inflation

Five Financial Goals
for 20-Somethings

The homebuyer tax credit is extended and expanded to cover more buyers.



The homebuyer tax credit was revamped in November 2009, opening the door for many more Americans to claim a large tax credit when they purchase a home. Specifically, Congress has extended the deadline for purchasing a home, raised the income limits to include more homebuyers, and added a new credit for long-time homeowners who are buying a new home. Here are some of the details.

■ **The deadline is extended.**

To qualify for the credit, the home must be under binding contract no later than April 30, 2010 and closed on no later than June 30, 2010.

■ **The maximum credit remains at \$8,000 for first-time homebuyers.**

A first-time homebuyer is someone who has not owned a principal residence in the three years leading up to the purchase.

■ **A new \$6,500 credit for other homebuyers is added.**

To qualify for this credit, you must have owned and lived in your principal residence for at least five consecutive years during the eight-year period preceding the purchase of your new home.

■ **Income limits are increased for people who purchase homes after November 6, 2009.**

The credit begins to phase out (it is gradually reduced) for individual taxpayers with modified adjusted gross incomes above \$125,000 (\$225,000 if married filing jointly). The credit cannot be claimed by taxpayers whose incomes exceed \$145,000 (\$245,000 if married filing jointly).

GENERAL INFORMATION: The credit can only be claimed for the purchase of a principal residence (not a second home) with a purchase price of \$800,000 or less. The amount of the credit is the lesser of \$6,500 (\$8,000 if you are a first-time homebuyer) or 10 percent of the purchase price. You must repay the credit if you stop using the home as your principal residence within 36 months of the purchase.

Questions? Please consult your tax advisor.

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5 Reasons to Contribute to an IRA

1 Because you will retire someday.

With the shift away from traditional company pensions, you are fully in charge of saving enough to be able to afford to retire someday. Investing in a 401(k) plan or other retirement plan at work is a good start, but the annual limits on contributions may hold you back from reaching your retirement savings goal. Consider investing additional amounts in an individual retirement account (IRA) to help supplement your other sources of retirement income.

2 You may be able to reduce your current taxes with a Traditional IRA.

There are two types of IRAs: Traditional and Roth. Money you contribute to a Traditional IRA may be deductible on your federal tax return. Your contributions are deductible if you (and your spouse, if you are married) are not covered by a retirement plan at work. Even if you (or your spouse) are covered by a retirement plan at work, your contributions may still be tax deductible if your income is under certain limits. (Income tax will be due on your deductible contributions and investment earnings when you make withdrawals.)

3 Tax-deferred earnings help your savings grow faster.

Investment earnings in an IRA are not subject to tax each year as they would be in a taxable investment account. This leaves all of your IRA earnings available to generate more potential earnings—and helps your savings grow faster than in a taxable account.

4 Withdrawals are tax-free in retirement with a Roth IRA.

While you can't snag a tax deduction for money you contribute to a Roth IRA, you can generally withdraw your savings tax-free once you reach age 59½ and the account has been open for at least five years. (You can withdraw your contributions tax-free at any time.) Your income must be under certain limits to contribute to a Roth IRA.

5 Increase your investment choices beyond your 401(k) choices.

Although retirement plans, such as 401(k) plans, can be great places to invest for retirement, they generally limit your investment choices to twenty or so mutual funds. With an IRA, your choices include a much wider array of mutual funds, ETFs, stocks, bonds, and other types of investments. ■

There's still time to contribute for 2009!

You have until the due date of your tax return, **April 15, 2010**, to make an IRA contribution for 2009. You can make your contribution for 2010 at the same time if you'd like.

2009 and 2010 ANNUAL CONTRIBUTION LIMITS

| | |
|-----------------|---------|
| Under age 50 | \$5,000 |
| Age 50 or older | \$6,000 |

8 Insurance Mistakes



Long-Term Care Insurance

1 Thinking you won't ever need long-term care. While we hope you will never need long-term care, there is a real possibility that at some point in your life you will. The U.S. Department of Health and Human Services estimates that about 2 in 5 people over age 65 will need care in a nursing home—and that estimate does not include the people who will receive long-term care in their own homes. What exactly is long-term care? Long-term care is the type of assistance you may need with dressing, bathing, and eating if you have a lengthy illness, a disability, or a cognitive impairment, such as Alzheimer's disease. This type of care is generally expensive and, as a result, has the potential to quickly deplete many people's savings.

2 Counting on Medicare to cover long-term care costs. Contrary to what many people believe, regular health insurance and Medicare generally do not cover long-term custodial care. Although Medicare may cover a stay in a skilled nursing facility or in your own home, this type of care is covered only for a short time and in limited circumstances. Medicaid does cover long-term care, but Medicaid is not an option for most people. Your income must be very low and your resources must be very limited to be eligible for Medicaid. For most people, the only options are to pay for long-term care from their personal savings or to purchase long-term care insurance.

3 Waiting too long to purchase long-term care insurance. There are a couple of reasons why you should consider purchasing long-term care insurance well before you may need it. First, if you do not buy long-term care insurance while you are still healthy, you may not qualify for it. Second, your monthly premiums will generally be lower the younger you are when you purchase a long-term care policy. For example, the premiums for someone in their 50s may be hundreds of dollars less per month than for someone in their 70s. Sure, you may not need long-term care services for a while (hopefully never!), but at least you will be covered in case you do.

to Avoid

Life Insurance

4 Not reviewing your policy regularly. Many people take a buy-it-and-forget-about-it approach to life insurance. Unfortunately, failing to regularly review an insurance policy can lead to unintended consequences. For example, an ex-spouse may receive the insurance payout if the beneficiary designation on the policy is not updated after a divorce. Or, the amount of the death benefit may no longer be enough to meet a family's changing financial needs. To help ensure that your family's financial future remains protected, review your life insurance coverage regularly. Also, a major change in your life—a marriage, a birth, a divorce, a promotion, or a new mortgage—may signal the need for changes to your policy.

5 Not insuring the stay-at-home spouse. Although stay-at-home spouses do not bring in a paycheck, the services they provide to their families—cooking, cleaning, childcare, to name just a few—can be vital to the welfare of their families and expensive to replace. For this reason, it is important to consider insuring the life of the stay-at-home spouse, as well as the wage earner, when purchasing life insurance.

6 Owning a policy on your own life if you are wealthy. The proceeds from a life insurance policy that you own on your own life will be added to your estate for tax purposes. This is generally not a problem if your estate is small enough—and most estates are—to escape estate taxes. But if your estate will be subject to estate taxes, the proceeds from your life insurance policy can drive up those taxes. To avoid this, consider setting up an irrevocable life insurance trust to own your life insurance. If the trust owns the policy, the proceeds will generally not be added to your estate, thus avoiding estate taxes. You can either have the trust purchase a new life insurance policy or transfer an existing policy to the trust. If you transfer an existing policy, be aware that you must survive the transfer by at least three years for the proceeds to escape estate taxes.

Long-Term Disability Insurance

7 Thinking that you will always be healthy enough to work. “The reality is that nearly one out of every three workers will suffer a disability that keeps them out of work for 90 days or longer at some point in their career”, according to Marvin Feldman, president and CEO of the Life and Health Foundation for Education. He continued, “And yet 70 percent of working Americans do not have long-term disability coverage.” Without an income, people who become ill may end up depleting their savings and going into debt in order to pay for their basic living expenses. Long-term disability insurance can help you avoid harming your financial future by replacing a portion of your wages for a period of time if you become too ill or are too injured to work.

8 Assuming your disability insurance from work is sufficient. Disability insurance policies can vary dramatically, so it is a good idea to evaluate the coverage you receive from your employer. Find out how much of your income will be replaced, how long you must be disabled before benefit payments begin, and when benefits will cease. Also, take a look at the conditions for receiving benefits. Some policies will pay benefits if you are unable to work in your current job, while other policies will only pay benefits if you are unable to work in *any* job. If your current coverage is not adequate or if you do not have coverage through your employer, consider purchasing long-term disability insurance from an insurer. ■

Please talk to your financial advisor about your insurance needs. Your advisor can help ensure that you have the coverage necessary to help protect your financial future and the futures of those people you love.



Securing a Stream of Retirement Income for Life

IMMEDIATE ANNUITIES

After years of building wealth, retirement should be a time for enjoying yourself, not worrying about whether that wealth may run dry prematurely. Yet, with Americans living longer and fewer employers offering traditional pensions, running out of money is a real risk for many retirees. One way you can lessen that risk is with an immediate annuity that **pays you a guaranteed¹ stream of income for life**. Think of it as your personal pension plan.

An immediate annuity is actually a contract between you and an insurance company that guarantees¹ you an income for the rest of your life or a specified number of years.

With an immediate annuity, you pay a premium in one lump sum and the insurance company begins income payments to you immediately or, if you

prefer, at a later date during the first year of the annuity contract. You can choose to have the income payments cover just your lifetime or the lifetimes of you and another person. Immediate annuities are generally purchased at or after retirement, often using part of the savings from an IRA or 401(k) account. →

¹ Guarantees are subject to the claims-paying ability of the issuing insurance company.



An immediate annuity offers retirees:

Protection from outliving their retirement savings

Reliable income payments for life

The potential for long-term growth (with a variable annuity)

Types of Immediate Annuities

There are two main types of immediate annuities: the fixed annuity and the variable annuity. They differ in how their income payments are determined. A fixed annuity pays a fixed amount each period; a variable annuity offers the potential for an increasing payment.

Fixed annuity. With a fixed annuity, you are guaranteed¹ a stable, predictable stream of income for life, regardless of how long you live or how the markets perform. You will know right from the start how much income to expect each period.

The fixed nature of the income payments, though, leaves them vulnerable to inflation. Over time, the purchasing power of your income payments will decrease as the prices of goods and services rise.

To help the income payments keep pace with inflation, some fixed annuities offer an option that increases the payments by a specified percentage each year. If you choose this option, your income payments will start out lower than if you had chosen to receive level payments, but the payments will increase over time, helping to maintain your purchasing power. Assets you invest outside of a fixed annuity can also help protect against inflation—as can the next type of immediate annuity.

Variable annuity. A variable annuity offers you the potential for higher long-term returns than a fixed annuity in exchange for you assuming a degree of market risk.

When you purchase a variable annuity, you choose how your premium is invested. Generally, you will choose among different investment portfolios, comprised of stocks, bonds, and cash. Your income payments will fluctuate based on how your investments perform, giving your payments the potential to outpace inflation. Your income will be up in some periods, down in others. But over time, your overall returns may exceed those of a fixed annuity due to the presence of potentially higher-return assets, such as stocks, in your portfolio.

Before purchasing a variable annuity, please obtain a prospectus from your financial advisor and read it carefully. The prospectus contains important information about the annuity and its investment portfolios, including investment objectives, risks, charges, and expenses. Also, please keep in mind that variable annuities are long-term investments and are subject to market risk, including the possible loss of principal.

A Wide Array of Income Options

Immediate annuities offer a range of income options, each designed to meet a specific financial need. For example, let's say you have someone, a spouse perhaps, who will need an income. A joint annuity that pays an income for both of your lifetimes may meet your needs. Or, say, you are concerned about the possibility of not getting your money's worth from an annuity if you die early on in the income period. An annuity with a guarantee period or a refund option can help address your concern.

Although insurance companies may call the income options by different names, the following options are the basic choices.

Income for life. This option pays you an income for as long as you live with the income payments stopping at your death. Because only one life is covered, this life income option generally pays the highest income per period.

Income for two lives. This is an annuity for two people, typically a husband and wife. After the death of the first annuitant, full or partial income payments will continue to the survivor until the end of his or her life.

Income for life with a guarantee period. This option also pays you an income for life, but if you should die within a specified period—say, ten or twenty years—the income payments will continue to a beneficiary you name until the end of the period. In the case of an income for two lives with a guarantee period, income payments are



made to your beneficiary if both you and the other person covered by the annuity die within the guarantee period.

Income for a guarantee period. With this option, you receive income payments for a specified number of years—say, twenty years—rather than your lifetime. If you die within the guarantee period, the remaining income payments will be made to your beneficiary.

In addition to these basic choices, some annuities offer additional features. For example, some annuities will refund your remaining premium—either in a lump sum or installments—to your beneficiaries if you die before receiving income payments equal to the premium you originally paid for the annuity.

The income options you choose will impact the amount of income you receive each period so it is important to make your choices carefully. Your financial advisor can help you assess your income needs and

settle on an option suited to your unique situation and financial goals.

Is an Annuity Right for You?

An immediate annuity promises an income for life, a promise that is hard to come by these days with fewer employers offering traditional pensions. But as with all financial products, immediate annuities are not appropriate for everyone. Here are a few considerations.

An immediate annuity can be a good choice if you are retired or about to retire and want to protect yourself from running out of money if you live longer than you planned. Conversely, an annuity may not be a good choice for someone in poor health.

An immediate annuity can be a good choice if you have sufficient resources outside of the annuity to handle large, unexpected expenses, such as medical bills

and home repairs. When you purchase an annuity, you generally lose access to the premium you paid. Some annuities may permit you to withdraw part of the principal, but it will cost you. First, withdrawals may reduce the amount of your future income payments. Second, withdrawals in the early years of an annuity contract may be subject to surrender charges. For these reasons, it is generally a smart idea to keep a portion of your retirement savings in a savings or investment account that can be easily and relatively inexpensively accessed when you need a large sum of cash.

Consult Your Financial Advisor

If you are concerned about running out of your retirement savings prematurely, talk to your financial advisor. Your advisor can help you devise a retirement income plan and determine whether an immediate annuity should be part of that plan. ■



Five Financial Goals for

20 s o m e t h i n g s

THERE CAN BE a lot on your plate when you are in your twenties. Finishing school, starting a career, outfitting an apartment... The furthest thing from your mind may be planning your financial future. Yet your twenties are an ideal time to begin laying the groundwork for your financial success. Here are five goals to get you started.

1 Map out a financial plan. Whenever you start out on a journey, it is helpful to know where you are and where you want to go so that you can map out the route to your destination. The same holds true with your financial life. It is important to know where you stand now financially and where you want to end up so that you can figure out the steps to get there. In other words, you need a financial roadmap.

To determine where you stand financially now, take a look at your income and expenses. You must spend less than you earn to be able to move toward your financial goals. If you are spending more than you earn, figure out ways to cut back on your spending so that you can afford to save and invest.

Identify your short-term and long-term financial goals and assign a time frame and dollar figure to each. Ask yourself, for example, where do you want to be in five years? Out of debt, buying your first home, and starting a business are a few short-term goals that come to mind. How

much will it take to reach those goals? To determine this, for example, estimate how much you might need for a down payment on a home.

With tangible goals in mind and a grasp on your current financial situation, you are ready to create a financial plan for reaching your goals. Estimate how much you may need to save each month to reach your goals in the time frame you allotted. Can you afford to sock away that amount each month? If not, you may need to cut your spending even further or push out your time frame.

For advice on creating your financial roadmap, talk to a financial advisor. An advisor can help you evaluate your situation, prioritize your goals, and develop a personal financial plan designed to help you meet today's financial needs and move toward tomorrow's financial goals.

2 Tackle debt. Most college graduates today leave school not only with a diploma, but with a mountain of debt. Sixty seven percent of students graduating from four-year colleges and universities in 2008 had student loan debt. The average debt? \$23,200, according to an analysis done by The Project on Student Debt. The average credit card debt was \$4,100 for graduating seniors, according to a study by student loan provider, Sallie Mae. Those are significant debts for 20-somethings whose starting salary may not be much greater than their overall debt.

If you are in debt, get organized. Make a list of all of your creditors and key information about each of your debts, including the interest rates. One strategy for paying off debt is to pay off the debt with the highest interest rate first while making minimum payments on your other debts. After you pay off one debt, increase the amount you are paying for the debt with the next

highest interest rate, and so on until your debts are paid off.

Typically, credit cards are the most expensive form of credit so it usually makes sense to pay them off first. By eliminating the debt with the highest finance charge first, you will pay less interest overall while you work on paying off your debts.

The interest rates on federal student loans are generally much lower than the interest rates on credit cards, but student loan interest can still add up to significant amounts over time. Carefully consider the student loan repayment plan you choose. In general, the lower your monthly payment, the longer the repayment period and the more interest you will pay over the life of the loan. It may be worth maintaining your impoverished-student lifestyle for the first few years out of college so that you can increase the monthly amount you put toward paying down student loan debt.

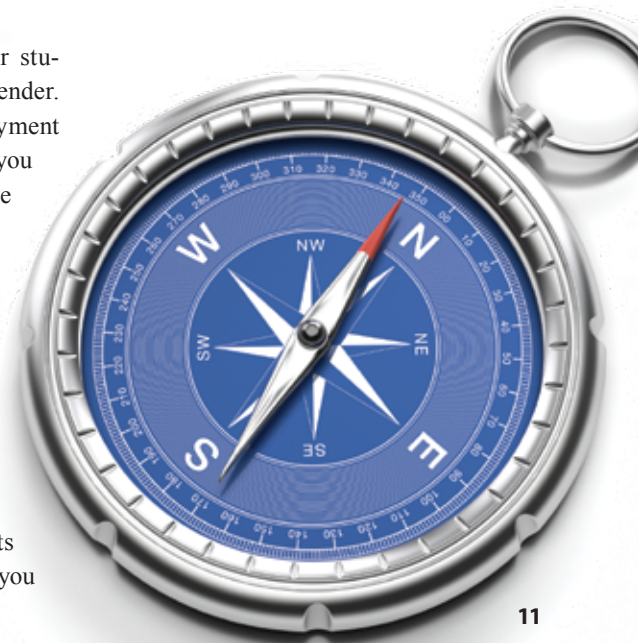
Don't forget to deduct the student loan interest you pay (up to \$2,500 per year) on your federal tax return if your income is within the limits. You may even be able to deduct interest you paid on a credit card if the card was used solely to pay qualified education expenses.

If you cannot afford to make your student loan payments, contact your lender. You may be able to switch to a repayment plan with lower monthly payments. If you have a federal loan, you may be able to switch to a recently added (2009) income-based repayment plan that adjusts your loan payments each year based on your income and family size. If you cannot afford to make payments at all, such as if you are unemployed, you can request a deferment or a forbearance to temporarily stop your loan payments. You will need to continue payments until your lender notifies you that you

have been granted a deferment or a forbearance, or else your loan may be considered in default.

The worst thing you can do is just stop making payments without contacting your lender. Missing loan payments will negatively affect your credit rating for years to come. You may not care much about that right now, but you will when you want to buy a home or a car and you are charged a higher rate of interest or denied credit altogether.

So, get organized, pay off your high-interest debt first, and do not get discouraged. While the amount of your college-related debt may be daunting, it represents an investment in your future. The U.S. Census Bureau estimates that individuals with bachelor degrees will earn nearly \$1 million more in their lifetime than individuals with only a high school diploma and individuals with professional degrees will earn more than \$2 million more in their lifetimes than someone with a bachelor's degree. That's a great return on your investment!





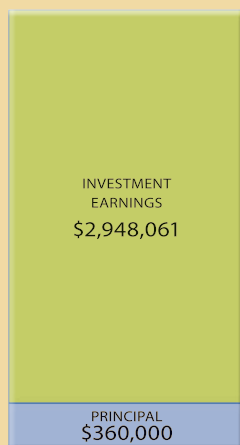
©iStockphoto.com/Above: Dmitry Shironosov, Right: Edward Beck

Starting to save earlier can make a big difference!

The earlier you begin to save, the more money you are likely to have in the long run, thanks to the power of compounding. Take a look at what could happen by retirement if two people contribute the same amount to their savings, but one person starts to save ten years earlier than the other person.

STARTING AT AGE 25

If Steve socks away \$1,000 per month from age 25 to 55 (a total of 30 years), his savings may grow to about \$3.3 million by age 65.



STARTING AT AGE 35

If Jessica socks away the same amount (\$1,000 per month for 30 years), but does not begin saving until age 35, her savings will only have time to grow to about \$1.5 million by age 65. That's less than half of the amount Steve was able to save, thanks to his ten-year head start.



This hypothetical example assumes an 8-percent rate of return, compounded monthly, on an investment held in a tax-deferred account. It does not reflect investment fees or expenses. The amounts shown are before taxes, which will be due when the money is withdrawn. This hypothetical example is for illustrative purposes only and does not represent the performance of any specific investment.

3 Stash cash for an emergency.

Life happens: People get laid off or laid up, cars wear out, furnaces fail... You get the picture. One minute your financial life is under control and the next minute—bam!—your income disappears or you are faced with a large, unexpected expense. You can help minimize the long-term impact of life's little surprises by creating an emergency fund.

Even in your twenties with all of the demands on your income, it is important to save enough money to cover three to six months of living expenses. If your income dries up or something expensive goes kaput, your emergency fund can help you cover your expenses. Without it, you may need to resort to credit cards, which can be costly.

It may take some months to fund an emergency fund. Thinking of it as a bill that needs to be paid may help you find the discipline to direct a portion of each paycheck to your fund until it has reached your desired level.

Stash your emergency fund in an account that is low-risk, liquid, and interest-paying. A bank money market account is one option. Money market accounts are FDIC-insured (up to \$250,000 currently), offer easy access to your savings, and generally pay a higher rate of return on your money than a regular savings account.

4 Start saving for the big stuff.

It's never too soon to start saving for the things you want in life... a house, a new car, retirement—yes, even retirement should be on your list of things to begin saving for in your twenties. Although retirement may seem light years away, starting to save for it at age 25 rather than age 35 has the potential to result in hundreds of thousands of dollars more in savings by the time you retire.

Take a look at the hypothetical example about two friends shown on this page. Steve and Jessica both socked away \$1,000 a month for 30 years, but Steve came out

\$1.8 million ahead at age 65 because he began saving at age 25 rather than age 35. What's up with that? Compounding. Steve's savings had an extra ten years to compound, or in other words, the interest on his savings had an extra ten years to generate more interest. The lesson here is that it can pay to start saving early. Even small amounts that you save or invest now have the potential to grow exponentially over time, thanks to the power of compounding.

In general, a good place to start saving for retirement is in your retirement plan at work. Retirement plans, such as 401(k) plans, offer you tax breaks for saving for retirement. Plus, your employer may match a portion of the money you contribute, which can help your savings grow all that much faster. Saving for retirement in your plan at work is easy because your contributions to your retirement account are automatically deducted from your paycheck.

If you do not have a retirement plan at work or if you are already contributing the maximum amount to it, consider setting up an individual retirement account (IRA) with a financial institution. Like employer-sponsored retirement plans, IRAs offer tax breaks for saving for retirement, which can help your savings grow faster.

For your non-retirement financial goals, consider setting up a savings account and an investment account. Leaving your savings in your checking account typically will not provide much in the way of interest and makes it all too easy for you to dip into your savings to purchase something on a whim. A separate account with the potential for higher returns is generally a better place for your savings.

When deciding how to save or invest your money, consider your time horizon—that is the length of time until you will need your money. Investing in securities (stocks, bonds, mutual funds, etc.) is usu-

ally a good choice for long-term goals, such as retirement, because securities have the potential for higher average returns over time than a savings account. Please take note of the words “over time”. In the short run, investing in securities (particularly stocks and stock mutual funds) can be a bumpy ride, with their prices up in some years and down in others. If you invest for short-term goals, you may get stuck selling your securities when prices are down. Consider more stable havens, such as a money market account, certificates of deposit, or money market securities, when saving for your short-term goals.

A few notes about investing: Before investing in a mutual fund, carefully read the fund's prospectus, which you can get from your financial advisor. The prospectus contains important information about the fund, including its objectives, risks, charges, and expenses. Also, please keep in mind that all investments involve risk, including the possible loss of principal. Bonds are subject to interest rate risk: when interest rates rise, bond prices fall.

Before you embark on a savings program, it is generally a good idea to first pay off any high-interest debt, such as credit card debt. Otherwise your debt will be multiplying like crazy while you are saving for, say, retirement.

5 Learn the basics of investing.

At some point in your career, you may be handed a packet of information about your employer's retirement plan, followed up by two very important questions. How much of your pay do you want to contribute to your retirement savings? And, how do you want your contributions invested? Do not bother looking behind you; the questions are directed at you. In most workplace retirement plans, the employee makes all of the decisions regarding how much to set aside for retirement and how to invest those savings. Are you ready to answer the questions?

Take the time in your twenties to learn the basics of investing. Focus first on the different types of investments and the potential rewards and risks that each type offers. Move on to asset allocation and diversification, strategies that can help you manage risk. (Asset allocation and diversification do not ensure a profit or protect against loss in declining markets.) Learn why it is important to occasionally rebalance your portfolio. These basic principles may be easier than you think, and mastering them will serve you well throughout your lifetime. ■



Where do you start? Which debts do you pay off first? How much should you save each month? How should your savings be invested? It is easy to become overwhelmed by questions like these and put off making decisions. Ask for advice instead.

Your financial advisor can help you assess your financial situation and create a financial plan designed to help you reach your financial goals. With a plan in place, dedication on your part, and time on your side, you are in a great position to reach your goals!



TIPS for Fighting Inflation

AN INTRODUCTION TO
TREASURY INFLATION-PROTECTED SECURITIES

Inflation is a bond's enemy, eating away over time at the purchasing power of its fixed-interest payments and principal as the cost of goods and services rise. There is a type of bond, however, designed to protect your investment returns from the eroding effects of inflation—Treasury Inflation-Protected Securities, commonly known as TIPS.

TIPS are marketable securities offered by the U.S. Treasury and backed by the full faith and credit of the U.S. government. Due to this backing, TIPS and other marketable U.S. Treasury securities are widely considered to be the safest investments available. (The government backing pertains to the timely payment of interest and principal and does not eliminate market risk.)

Here's how TIPS work. Like conventional Treasury notes and bonds, TIPS pay you a fixed rate of interest every six months and return the principal to you when your securities mature. But unlike conventional notes and bonds whose principal remains constant, TIPS principal is adjusted for inflation using the Consumer Price Index (CPI), a common measure of inflation. When inflation occurs, TIPS principal increases at the same rate as the CPI; when deflation occurs, the principal decreases at the same rate as the CPI. Because the interest payments are calculated based on the inflation-adjusted principal, the interest payments you receive from your TIPS will increase in periods of inflation and decrease in periods of deflation. In other words, your interest payments will keep pace with inflation.

In addition to protecting your interest payments from the effects of inflation, TIPS also protect the sum you are paid when your TIPS mature. Unlike most conventional bonds that pay the bond's face value at maturity, TIPS pay you the adjusted principal if it is greater than the face value. Let's say you have a TIPS maturing with an original principal of \$100 and that, due to inflation,

now has an adjusted principal of \$130. You receive the \$130. What happens if deflation occurs and the adjusted principal is less than the original principal? No worries; the original principal is returned to you. Let's say the \$100 TIPS matured with an adjusted principal of \$96—you get \$100.

Because conventional Treasury notes and bonds do not have an automatic mechanism that protects their returns from inflation, they typically must offer higher interest rates than TIPS in order to attract inves-

tors. So how do you gauge which may be the better deal—conventional Treasuries or TIPS? You compare the difference in their yields with the actual inflation rate. Let's say you are deciding between a 10-year Treasury bond with a nominal yield of 3.5% and a 10-year TIPS with a real yield of 1.5%. The difference between the two yields—2% in this hypothetical example—is known as the breakeven inflation rate. In this example, if inflation averages more than 2% over the life of the securities, TIPS

will provide higher real returns. If inflation averages less than 2%, conventional bonds will provide higher real returns.

In addition to inflation protection, TIPS offer investors diversification. The returns from TIPS are not strongly correlated with the returns of other asset classes, so the addition of TIPS to a portfolio may help cushion the effects of market downturns on the portfolio. (Diversification does not ensure a profit or protect against loss in declining markets.)

Like other U.S. Treasury securities, the interest payments made by TIPS are exempt from state and local income taxes, but not from federal income taxes. TIPS, however, are taxed not only on their interest payments, but also on any increases in principal in the years they occur. As a result, it may be a good idea to hold TIPS in a tax-deferred account or, better yet, a tax-free account, such as a Roth IRA or a Roth 401(k).

TIPS are currently issued with terms of 5 years, 10 years, and 30 years. You can hold TIPS until they mature, or you can sell them in the secondary market before they mature. If you sell TIPS (or any bonds, for that matter) before they mature, the price you receive may be greater or less than the original price you paid depending on market conditions. Remember, all bonds, including TIPS, are subject to interest rate risk: when interest rates rise, bond prices fall.

If you prefer not to invest in individual TIPS, you can invest in mutual funds and exchange-traded funds (ETFs) that focus on TIPS. Before investing in a fund, consider its investment objectives, risks, charges, and expenses. This information is contained in a prospectus, which your financial advisor can provide. Please read it carefully before investing. ■

Your financial advisor can help you determine whether TIPS may be a good choice for you.

How TIPS Keep Pace with Inflation

TIPS principal rises and falls with changes in the inflation rate (CPI).

Interest is paid every six months. Although the interest rate is fixed, the interest payments will vary because they are calculated on the inflation-adjusted principal. With inflation, the interest payments increase. With deflation, the interest payments decrease.

When the TIPS mature, the investor will receive the adjusted principal or the original principal, whichever is greater.

HYPOTHETICAL EXAMPLE: Here's what may happen to TIPS with an original principal of \$1,000 and an annual interest rate (coupon rate) of 2%.

| Six-month Period | Inflation Rate (CPI) | Adjusted Principal | Interest Payment |
|------------------|----------------------|--------------------|------------------|
| 1 | 1.8% | \$1,018.00 | \$10.18 |
| 2 | 2.1% | \$1,039.38 | \$10.39 |
| 3 | 1.7% | \$1,057.05 | \$10.57 |
| 4 | 2.0% | \$1,078.19 | \$10.78 |
| 5 | -1.0% | \$1,067.41 | \$10.67 |

- The investor receives \$10.18 in interest for the first six-month period, due to an increase in inflation of 1.8%. ($\$1,000 \times 1.018 \times (0.02/2) = \10.18). The annual interest rate (2%) is divided in half because the interest payment is for six months.
- Inflation increases once again in the second six-month period; this time by 2.1%, resulting in an increased interest payment of \$10.39. ($\$1,018 \times 1.021 \times (0.02/2) = \10.39) As you can see, in periods one through four, the interest payments increase as the principal is adjusted upward by the inflation rate.
- Looking ahead to the fifth period, you can see that deflation has occurred, bringing down the value of the adjusted principal and the interest payment.
- This hypothetical example is for illustrative purposes only and does not represent the performance of any specific investment. Your results will vary.



Croatia: Coasting Through Time

BY BRIAN JOHNSTON

For two thousand years, the rich and famous have come to the Croatian coast. A Roman emperor was so taken with the region's beauty that he opted to retire here. Hapsburg aristocrats took the train from Austria, lured by villas nestled in pine trees and commanding views of island-studded bays.

Today, a more egalitarian crowd flocks to Croatia, and it's easy to see why. Crumbling castles stand on lavender-scented hillsides, endless coves and beaches are scalloped out of the coastline, and Renaissance harbor towns flaunt glorious architecture, outdoor cafés, and splendid views of pine-covered hillsides.

The best way to see the scenery is by yacht, with Croatia offering some of the best yachting in the Mediterranean. There are an endless number of secluded

coves, abundant anchorage, and excellent marinas, with innumerable companies offering bareboat and skippered charters. But it's almost as easy to get in a rental car and island hop using the network of ferries that meander their way from one island to another. Starting at the city of Rijeka in the north, you can wander as far south as Dubrovnik and barely need to set foot on the mainland.

Start off in the northwest corner of Croatia and you'll find a peninsula of green fields and red earth known as Istria, where the coastal towns have been fought over by Mediterranean powers for centuries. The Venetians put their mark on Rovinj, a photogenic old town perched in a tangle of baroque alleys above a harbor of colorful fishing boats. The promenade is just the place to relax with a drink and watch

the sunset—or the passing skimpily-clad Italians. The less hedonistic can take in the wonderful Roman ruins at Pula, which include a superb first-century amphitheatre.

Further south, the coast of the Kvarner Gulf is well developed: Rijeka is an industrial city and the country's biggest port, while adjacent Opatija has been a vacation resort since the Austro-Hungarian Empire. It's the islands of the gulf that really entice. Vacationers relax under umbrellas at the pebble beaches of Lošinj, where yellow and peach houses nestle on beautiful pine-covered hillsides. Adjacent Cres is sixty kilometers long and features dramatic cliffs and rocky uplands that are home to endangered griffon vultures. Meandering stone walls fence in sheep, while a farming community lives in isolated villages. This is a great island for camping, and well-

suiting adventurous mountain bikers and hikers. For the rest, the main road along the island's spine offers stunning scenery.

Approach Rab Island from the mainland and it looks like the far side of the moon: desolate and rocky. The southwest part of the island, in contrast, is a green and pleasant land that ends in the sandy beaches and shallow blue waters of the Lopar Peninsula. Here, Rab Town is neat, tidy, and tranquil. Its old streets are overlooked by Venetian campaniles and enclosed in fortifications, parts of which date from the fourth century. There are churches everywhere; peer through the iron grilles into the dim interiors and you'll be rewarded with gilt statues and melancholy frescoes.

From here, the Dalmatian coast unfolds in a series of dazzling historical treasures and undulating landscapes, scattered with fruit orchards and indented with bays. The offshore islands have diverse and quirky characters. Pag is a curious mix of tradition and development. Lamb, salt, and intricate lace from this island are all famous throughout Croatia; the elderly ladies in black who sell the lace in the town square look as if they might have stepped off the Ark. Somewhat underrated, Pag is a great island to get away from it all.

Further south, Korčula Island is within striking distance of Split and Dubrovnik, which means it can be overrun with day-trippers during the summer months. Still, its walled old town is quite lovely and chock full of cafés and ice-cream parlors. Restaurants dish up octopus salad and the island's pungent white wine. The hilly, medieval streets are punctuated with defensive towers and cluttered with saints' statues. The little town also has some impressive surprises, such as the Abbey Treasury, which is full of Titians and Tintoretts.

It's Hvar Island, however, that's arguably the most scenic Croatian island. Everyone is here for the same reason: more hours of

sunshine than anywhere else in Croatia, a mountainous island draped in vineyards and lavender fields, and outstanding swimming and sailing. As for Hvar Town, it's a Renaissance gem with a stunning piazza, streets flag-stoned in marble, and the odd monastery or two. The views from the fortress atop the town are well worth the hike, though few visitors seem to bother. This is the St. Tropez of Croatia, after all: a place to get out your designer duds and sashay along the promenade to admire the luxury yachts and tans of the well-heeled vacationers.

The islands are certainly magnificent, but some of the mainland towns are worth a visit too. Trogir's entire medieval old town has been listed as a World Heritage site, and Split, one of Croatia's busiest ports, is worth a day or two. The city is famous for its Roman palace, to which the Emperor Diocletian retired in 305 AD. Study the architectural jumble and treasures, but leave time to enjoy the lively modern incarnation of the town, before joining locals for an evening perambulation along the wonderfully modern waterfront, slurping ice cream as you go.

Dubrovnik is about as far south as you can go and still be in Croatia. Its Renaissance grandeur dates from its heyday as a trading city and sea power, and when an earthquake flattened it in 1667, rich merchants and aristocrats built stunning palaces and churches that show a remarkable architectural uniformity. You could spend hours, if not days, exploring the pedestrian-only old town, which is crammed with centuries-old statuary, hidden monastery courtyards, and fine public buildings, onto which have been sensitively grafted shops and restaurants galore. If you can, walk the ramparts just before sunset, when the pale yellow walls of historic Dubrovnik shimmer, rooftop tiles turn to molten red, and the sea is rippled in pink and purple: the end of another glorious day on the Croatian coast. ■



Churches and Venetian campaniles dot the town on Croatia's Rab Island, left. Inside the ancient Roman arena at Pula, top. The Renaissance city of Dubrovnik juts into the Adriatic Sea, above.

Food & Wine Festivals



EACH YEAR, FAMISHED FOODIES flock to festivals to sample delectable food and wine, meet renowned chefs and winemakers, and discover the latest trends in the culinary and wine worlds. Here's a taste of what awaits you at this year's food and wine festivals.

Visitors to the Charleston Wine+Food Festival can indulge in the unique flavors of the Lowcountry, while meeting and learning from some of the country's best chefs, authors, and wine professionals.

At Seattle's Taste Washington this March, more than 200 wineries and 60 Seattle restaurants will be on hand, pouring their wines and preparing their favorite bites for festival guests.

New Orleans, a year-round culinary destination, pulls out all the stops at its Wine & Food Experience each May. Seminars showcase acclaimed local chefs, while approximately thirty chefs create five-course dinners, paired with some of the world's best wines, at various locations in New Orleans.

The Food Network sponsors the South Beach Wine & Food Festival each February, making it a good place to catch up with Food Network stars, such as Rachel Ray, Paula Deen, and Guy Fieri, to drop just a few names of the culinary celebrities expected at the 2010 event.

In Sugar Land, Texas (near Houston), more than 100 wineries and chefs will showcase their talents this April at the Grand Wine & Food Affair.

Vegas Uncork'd, presented by *Bon Appétit* magazine, typically features Grand Tasting with 75 celebrated chefs and vintners, dinners hosted by pre-eminent chefs, and after-hours blackjack—after all it's Vegas, baby.

These are just a few of the festivals celebrating food and wine this year—there are many more just waiting to entertain, educate, and inspire you! ■

Aspen, CO

Food & Wine Classic in Aspen • June 18–20, 2010

Charleston, SC

Charleston Wine+Food Festival • March 4–7, 2010

Las Vegas, NV

Vegas Uncork'd • May 6–9, 2010

New Orleans, LA

New Orleans Wine & Food Experience • May 25–29, 2010

Seattle, WA

Taste Washington • March 27–28, 2010

South Beach, FL

South Beach Wine & Food Festival • February 25–28, 2010

Sugar Land (Houston), TX

The Grand Wine & Food Affair • April 21–25, 2010

The Boston Flower Show Is Back!

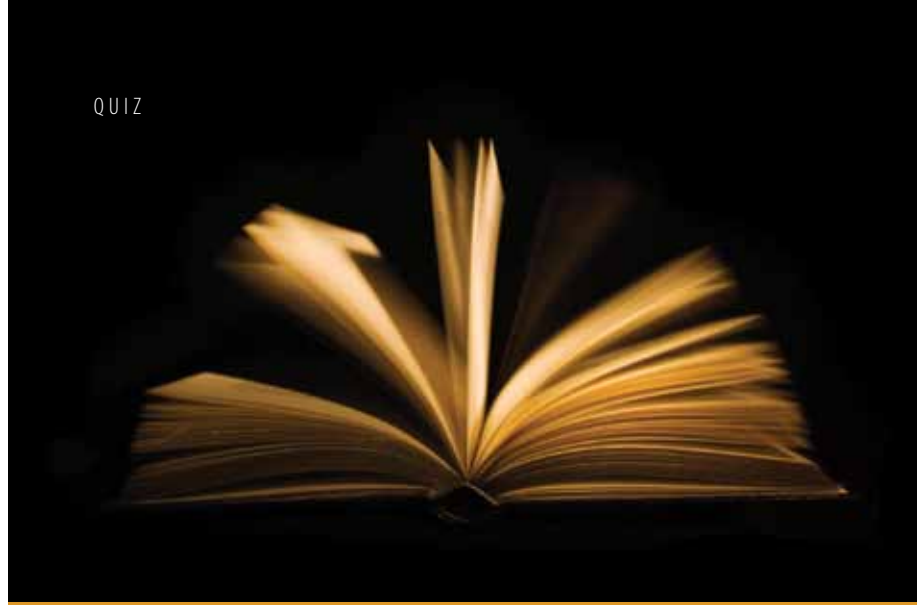
March 24-28, 2010

Two years after the demise of the New England Spring Flower Show, the city of Boston will once again host a major flower show: The Boston Flower & Garden Show. The event will be produced by the Paragon Group (an event marketer) under the direction of the Massachusetts Horticultural Society's former flower show director, Carolyn Weston.

The show, to be held in the Seaport World Trade Center, will feature major exhibits, a garden marketplace, daily gardening demonstrations, judged competitions, and more. For more information, visit www.TheBostonFlowerShow.com. ■

Philadelphia, PA

The Philadelphia International Flower Show will be held February 28–March 7, 2010 at the Pennsylvania Convention Center. www.TheFlowerShow.com



THE CLASSICS

- Robinson Crusoe*, the tale of a castaway on a remote island, was written by:
 - Daniel Defoe
 - Rudyard Kipling
- The eldest of three literary sisters, this author wrote the English classic *Jane Eyre*:
 - Emily Bronte
 - Charlotte Bronte
- This author created the memorable characters Oliver Twist, Ebenezer Scrooge, and David Copperfield :
 - Rudyard Kipling
 - Charles Dickens
- This American author won the Pulitzer Prize in 1940 for *The Grapes of Wrath*:
 - John Steinbeck
 - Ernest Hemingway
- This author wrote a series of fantasy novels set in Middle-earth and populated with men, elves, and hobbits:
 - J.R.R. Tolkien
 - George Orwell
- This British novelist is best known for *Frankenstein*:
 - Mary Shelley
 - Jonathon Swift
- This author's novels, such as *Brideshead Revisited*, frequently depict life in the British aristocracy:
 - E.M. Forster
 - Evelyn Waugh