A service of CBS MarketWatch

Retirement Weekly

In this issue

Tax break for jobs
Congress this week passed the American Jobs Creation Act of 2004, which President Bush is expected to sign. The measure provides sweeping business-tax breaks. (P. 4)

Going somewhere?
If you're an AARP member, travel planning just got a whole lot easier. The association enlisted Travelocity to offer deals to its 35 million members. (P. 5)

And the award goes to...
The nation's top 401(k) lobbying group this week singled out several companies and their retirement plans for a job well done. (P. 6)

The Income Investor
Fall harvest season is a good time to tend your investment portfolio. (P. 8)

Contact us
Please send your comments, criticism and compliments to Robert Powell at rpowell@marketwatch.com.

October 15, 2004 Vol. 2, No. 42

Trusts as beneficiaries

Americans typically name their spouse or their children as the beneficiary of their retirement plans, a 401(k) or IRA. After all, the spouse or beneficiary can use the life expectancy of the beneficiary for the payout method, in effect stretching out the tax deferral advantages of the retirement account.

On occasion, however, Americans figure that leaving a big six- or seven-figure nest egg to a child, especially a minor, or to a spouse isn't such a good idea. What if the child decides to withdraw all the money and buy a motorcycle? What if the spouse decides to cash out and buy a minor league baseball team?

And so, fearing the worst, they name a trust or their estate as the beneficiary of their IRA or 401(k). Americans who do this, however, should take heed: Their heirs may inherit headaches along with the money.

"Some IRA owners name their estate not realizing the negative impact on their beneficiaries," writes Ed Slott in the current issue of IRA Advisor. "Other IRA owners may not intentionally name their estate as their beneficiary, but the estate becomes the beneficiary anyway. This happens when you name a trust as your IRA beneficiary and the trust

(Continued on page 2)

Join in...the retirement plan is fine

More U.S. workers participated in employee-based retirement plans in 2003, says a study released this week by the Employee Benefit Research Institute (EBRI). After a two-year decline, the percentage of all workers participating in such plans rose to 42 percent, up from 41.8 percent the year before, based on Census data.

The number of participating employees rose to 63.5 million, still below the previous peak of 67.1 million recorded in 2000. Employees working for the largest firms or in the public sector showed the largest participation gains in 2003, while the percentage of full-time, full year-employees participating in plans rose to 57.1, compared with 56.7 in 2002.

"These numbers show the economy drives participation in a retirement plan," EBRI Chairman Dallas Salisbury says . "A tightening labor market may drive participation higher in the years ahead."

Learn more at http://www.ebri.org. **RW**

Retirement plan beneficiaries

(Continued from page 1)

provisions allows estate taxes, debts, and expenses to be paid from the trust."

Slott, a CPA and author of "The Retirement Savings Time Bomb," says the big reason why you don't want to name your estate as your IRA beneficiary is this: An estate is not a person and cannot be a designated beneficiary. And if there is no designated beneficiary, then your IRA cannot be stretched out over the life expectancy of anyone who ends up receiving it through your estate. Rather, the money has to be distributed using the minimum distribution trust rules, which usually results in less money to the beneficiaries.

The good news is that the IRS may be loosening up a bit on its rules. There are now three recent IRS Private Letter Rulings that have allowed the estate to be removed as one of the trust beneficiaries as long as the state taxes, debts, and expenses were removed by September 30 of the year following the year of the IRA owner's death, says Slott.

You should consider leaving retirement benefits outright rather than in a trust, unless there is a compelling reason to do otherwise, says Natalie Choate, author of "Life and Death Planning for Retirement Benefits."

Indeed, there is a time and place to use a trust, say experts. You may have a spouse who is a spendthrift or a minor with special needs. But if you have designs on using this technique you had better do it right or not at all.

Here's how: "Generally, only an individual can use the life expectancy payout method" writes Choate in the current issue of MorningstarAdvisor.com.

"The individual beneficiary's life expectancy becomes the 'applicable distribution period' for the benefits. However, IRS regulations permit a trust to use this method if it meets certain requirements. If the results are complied with, the trust is considered a 'see-through' trust: The IRS 'looks through' the trust and uses the oldest trust beneficiary's life expectancy as the applicable distribution period."

The big requirement, says Choate, is that all trust beneficiaries must be individuals. The trust must also be valid under state law, irrevocable at the IRA owner's death, and a copy of the trust must be given to the IRA's plan administrator by October 31 of the year after the IRA owner's death. **RW**

Resources

- ***IRS*** (Key word search on IRS Private Letter Rulings 2004-32027, 2004-32028, 2004-32029, 2004-33019, 2003-17041, and 2003-17044) http://www.irs.gov
- ***IRS' "minimum distribution trust rules" see Treas. Reg 1.401(a)(9)-4, A-5*** http://www.irs.gov and http://www.treasury.gov
- ***"Life and Death Planning for Retirement Benefits"*** by Natalie Choate
- ***"The Retirement Savings Time Bomb"*** by Ed Slott, CPA
- ***"The AARP Crash Course in Estate Planning" (available January, 2005)*** by Michael Palermo

Retirement Living

"Retirement Zone" ahead

Retirement is not just about saving money, despite the drumbeat Americans constantly hear in that regard. Rather, it's about being healthy, participating in meaningful activities and having enjoyable relationships, says Ellen Freudenheim, author of "Looking Forward: An Optimist's Guide to Retirement," due out in December. "Retirement has been overly monetized," she says. "It's been reduced to a ledger mentality."

Indeed, people tend to be focused on their net worth, when instead she says they should focus on the "tripod upon which they can build their happiness" in retirement.

For starters, that means maintaining an optimistic point of view. It also means investing in their social as well as their financial future. Would-be retirees and retirees need to ask themselves whether they have in place the kinds of relationships with family and friends they want. If not, they need to forge or repair those relationships. Indeed, retirement is an ideal time to make amends with a sibling or parent. Oftentimes, she says people who mostly have "work friends" are lost when they retire. Connecting with grandchildren is another important element of investing your social future, she says. "Retirees plan activities and leave little time to spend with their grandchildren and then they don't have a relationship with their grandchildren. They need to spend time with them."

Retirement is a good time to make new friends, including online. "Change is not the prerogative of the young," she says. "Older people do and can make new relationships."

Creating a social life around relationships and meaningful activities will, however, require an investment of time. And to do it right, she says, retirees and pre-retirees should create a "social portfolio" that outlines what they want to do and with whom. The portfolio includes activities they can do with others or alone when they are in good health, and activities they can do alone and with others when they be less mobile or less energetic.

First in an occasional series with "Looking Forward" author Ellen Freudenheim. **RW**

Your "Social Portfolio"

Lots of energy/ability to drive, walk move around		**Not much energy or mobility**	
Social Activities	*People I can do this with*	*Social Activities*	*People I can do this with*
Skiing	Sara, David	Chess	Richard, David
Hiking	Joanne	Movies	Joanne
Traveling	Bill, Gabe	Investing	Gabe, John
Solo Activities		*Solo Activities*	
Exercising		Reading	

Source: Adapted from "Looking Forward, based on "The Creative Age: Awakening Human Potential in the Second Half of Life" by Gene Cohen

Resources

- ***"Difficult Conversations: How to Discuss What Matters Most"*** by Douglas Stone
- ***"Rebuilding: When Your Relationship Ends"*** by Bruce Fisher and Robert Alberti

News in Brief

At a glance: The Jobs Creation Act of 2004

Congress passed on Oct. 11, 2004, the American Jobs Creation Act of 2004 (H.R. 4520), which President Bush is expected to sign. The act includes sweeping business-tax breaks, as well as specific tax benefits for individuals. To remain revenue neutral, the act also includes several new revenue-raising provisions. Major items addressed by the act, according to Forefield, a Worcester, Mass.-based financial education firm, include:

Tax relief for individuals

- Allows taxpayers the option of deducting state and local sales tax instead of state and local income tax for 2004 and 2005;
- Creates an above-the-line deduction for attorneys' fees and costs incurred in connection with a judgment or settlement for a claim of unlawful discrimination.

Repeal of export subsidy and establishment of "manufacturing" tax breaks

- Repeals the exclusion for extraterritorial income, which the World Trade Organization ruled illegal (prompting retaliatory tariffs) — the repeal is phased in over three years;
- Creates a new deduction (equivalent to a 3 percent rate cut), phased in over several years, on any domestic business that qualifies as a broadly defined "manufacturer."

Tax incentives and relief for businesses

- Extends the current $100,000 Section 179 expense limit (indexed for inflation) through 2007;
- Reduces the depreciation period for certain restaurant and qualified leasehold improvement property;
- Makes significant changes to S corporation tax treatment and qualification rules;
- Includes specific tax breaks and incentives for farmers;
- Modifies foreign tax credit rules and extends the carry-forward period;
- Creates temporary tax incentives to encourage companies to reinvest foreign earnings in U.S.

Other provisions

- Closes the "loophole" allowing the cost of large SUVs to be fully expensed in the first year placed in service;
- Imposes new limits on charitable deductions allowed for donations of vehicles and intellectual property;
- Toughens rules regarding corporate inversions and individual expatriation;
- Tightens the rules governing nonqualified deferred compensation plans ;

For a full explanation of all provisions, see the complete 618-page Statement of the Conference Managers at http://waysandmeans.house.gov/Links.asp?section=1559. **RW**

Now hear this

Half of the nearly 76 million Baby Boomers in the U.S. are experiencing some degree of hearing loss, says a EAR Foundation and Clarity study. Hearing loss potentially affects 38 million people between the ages of 40 - 59. If you're worried about being one of those 38 million people visit http://www.earfoundation.org. **RW**

Tips of the Week

Going somewhere?

If you are a member of the AARP, travel planning just got easier. The group for the 50-plus crowd named Sabre Holding's Travelocity the supplier of choice for flights, hotels, car rentals, cruises, last-minute getaways and packages for its 35 million members.

Currently, AARP members deal directly with multiple travel suppliers to claim membership discounts. The new arrangement gives members access to "one-stop shopping" for discounted travel, AARP said.

Members should expect better discounts and lower prices. AARP's membership base alone booked over $1 billion in travel in 2003.

The new service, "AARP Passport Powered by Travelocity," features comprehensive online and phone travel-purchasing options and will launch in the spring.

NYLIM offers new service

NYLIM Retirement Plan Services this week launched a new managed account 401(k) plan that offers advice through Morningstar Associates. Employees will receive an analysis showing the gap between what their current retirement decisions would likely provide vs. what the goal should be to retire comfortably. Morningstar Associates will customize portfolios for participants and guidelines so that investment strategies stay on track. Learn more at http://www.nylim.com. **RW**

Web site of the week

A nice home in a gated golf community can be hard to find, says a recent survey by PrivateCommunities.com. Indeed, 79 percent of homes in upscale golf course communities are sold without realty agents or realtors' Multiple Listing Service (MLS) systems. Instead, properties are sold by the developers' small in-house sales staff.

"Golf-course homes for sale behind the gates are largely invisible to the general public," says Elisabeth Miller-Fox, president of PrivateCommunities.com, an online property-listing service that recently introduced golf-property listings at its site.

The survey showed that most people staffing a typical golf-community sales department are not members of the National Association of Realtors (NAR). And of those that are, a third listed all new and resale property in the community on the Multiple Listing Service (MLS) and 45 percent listed only resale property on MLS.

Miller-Fox says golf-community developers invest millions in infrastructure, staffing and marketing and it's understandable that they want to maximize profits by handling sales through their in-house departments. She says typical buyers of golf-course homes spend most of their time selecting the right community before choosing a house in the development.

Learn more about PrivateCommunities at http://www.privatecommunities.com. The company says it does not receive commissions or take part in sales transactions. **RW**

Tips of the Week

And the awards goes to...

The nation's top 401(k) lobby group this week singled out Trinity Health along with several other companies and their retirement plans for a job well done.

The Profit Sharing/401(k) Council of America's 2004 Signature Awards says the winning campaigns in 16 categories were chosen for their approaches and mix of communication tactics including print, online, video, workshops, group meetings and benefit fairs.

The top award, which went to Trinity Health, is sponsored by Diversified Investment Advisors. The campaign, which led to a 9 percent increase in employee participation, featured print, web, video, giveaways and personal meetings and outreach efforts to its 45,600 employees across 23 locations.

Other winners include:

- 401K Day: Phillips-Van Heusen Corporations, sponsored by Strong Retirement Plan Services;
- Asset Allocation: Industrial Scientific Corporation, sponsored by PNC Advisors
- Complete Campaign/under 5,000 employees: Children's Hospital of Pittsburgh – sponsored by Financial Finesse;
- Complete Campaign/More than 5000 Employees: Trinity Health, sponsored by Diversified Investment Advisors;
- Financial Planning – Subaru of Indiana, sponsored by Morgan Stanley;
- Increasing Deferrals – Dean Foods, sponsored by MFS Retirement Services;
- Increasing Participation – Tie – Dean Foods, sponsored by MFS Retirement Services and PPD Corporation, sponsored by MFS Retirement Services;
- Increasing Participation under 2500 – Stowe-Pharr Mills, sponsored by Wachovia Retirement Services;
- Intro to Plan Design More than 5000 – Brookshire Grocery, sponsored by MFS Retirement Services;
- Intro to Plan Design Under 5000 – St. Jude Medical, sponsored by JP Morgan Retirement Plan Services;
- Language Diversity – PPD, sponsored by MFS Retirement Services;
- Off the Shelf – AMVESCAP Retirement;
- Plan Sponsor – State of North Carolina, Office of the State Treasurer, sponsored by Prudential Retirement;
- Targeted Communication /Interactive – Avaya, sponsored by The Hay Group; and
- Targeted Communication/Print – Starbucks, sponsored by PartnerComm, Inc. **RW**

And the survey says...

They love their grandchildren, but affluent 70-year-olds say their greatest source of satisfaction is "being independent," says the Lincoln Long Life Survey. In fact, 94 percent of seniors say independence is a major source of satisfaction in their lives, followed by housing, health, financial situation, and time spent with children and grandchildren. **RW**

HealthWatch

Seniors at high risk of osteoporosis

By 2020, one in two Americans over age 50 will be at risk of fractures from osteoporosis and low bone mass if no immediate action is taken by individuals at risk, doctors, health systems and policy makers, according to a report issued by U.S. Surgeon General Dr. Richard Carmona.

An estimated 10 million Americans over the age of 50 have osteoporosis, the most common bone disease, while another 34 million are at risk of developing it. Each year, roughly 1.5 million people suffer an osteoporosis-related bone fracture.

"Osteoporosis isn't just your grandmother's disease. We all need to take care of our bones," Carmona says.

Many Americans are unaware that their bone health is in jeopardy. One dangerous myth is that only women need to worry about osteoporosis. While bone health manifests in older Americans, osteoporosis is a disease that affects both men and women of all races.

Osteoporosis and other bone diseases, such as Paget's disease and osteogenesis imperfecta, can lead to a decline in physical health and quality of life, including losing the ability to walk, stand up or dress. It can even lead to premature death.

Other findings in the report include:

- 20 percent of seniors who suffer a hip fracture die within a year of the fracture
- 20 percent of individuals with a hip fracture end up in a nursing home within a year
- Hip fractures account for 300,000 hospitalizations each year
- Direct costs for osteoporotic fractures alone are $18 billion each year. That number is expected to increase if action to prevent osteoporosis is not taken now.

The Surgeon General's report encourages Americans to improve and maintain healthy bones. Some recommendations mentioned in the report are:

- Getting the recommended amounts of calcium and vitamin D. Sources of calcium include milk, leafy greens and vegetables, soybeans, yogurt and cheese. Vitamin D is produced in the skin by exposure to the sun and is found in fortified milk and other foods. Taking supplements may also be helpful.
- Maintaining a healthy weight and being physically active at least 30 minutes a day for adults and 60 minutes a day for children, including weight-bearing activities to improve strength and balance.
- Taking steps to minimize the risk of falls by removing items that might cause tripping, improving lighting, and encouraging regular exercise and vision tests to improve balance and coordination.

The Surgeon General's Report on Bone Health and Osteoporosis can be found at http://www.surgeongeneral.gov. **RW**

Tax breaks for clean cars

Tree huggers rejoice. The IRS has certified theToyota Prius for model year 2005 as being eligible for the clean-burning fuel deduction. The certification means taxpayers who purchase this vehicle new may claim a tax deduction of $2,000 on Form 1040. **RW**

The Income Investor

Four smart ways to cultivate investments

The fall harvest season is a good time also to tend your investment portfolio, says Bryan Olson, vice president of Schwab Center for Investment Research. “Don't wait until year-end to do year-end positioning; there are many areas where it is important to reap the harvest before the snow starts to fall,” he says. Here are his four suggestions:

- ***Bumper crop may shift from season to season***

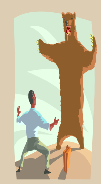
Although stocks are generally the bumper crop of a portfolio, bonds have outperformed stocks over the 3-, 5-, and 7-year periods ended September 30 and are outperforming this year as well. While it is rare that bonds would outperform stocks over longer time periods like these, bonds do play an important role in supporting a portfolio in lean equity years. This is why it's important to keep a diverse set of asset classes, so when some are not producing others may be thriving.

- ***Rotating the crops***

A successful long-term growth strategy periodically calls for harvesting the fruit and refocusing on less developed or more fertile areas. Examine the balance of stocks, bonds, and cash, and the mix between large-cap, small-cap and international stocks to make sure the mix you have in place reflects your intentions rather than what has evolved from market performance over time.

Many investors have been waiting on the sidelines with oversized cash positions. Whether due to global uncertainties, the election or simply inaction, people are holding on to too much cash. Do not let current emotions or inaction drive decisions that impact your long-term plan. Also, don't fall into the trap of not rebalancing. With regular rebalancing, performed on an annual basis, your portfolio should flourish.

The bottom line:



Don't wait until year-end to do your year-end portfolio positioning. Rotate your asset crops, weed aggressively, and watch your portfolio grow. Financial advice is available in a variety of sizes and shapes to suit every investor. Don't be shy about asking for help. if you need it.

- ***Weeding out the losers***

The fall is a perfect time to look at the quality of your holdings and take advantage of the tax benefits of acting now. Review your mutual funds and stocks to see if there are poor performers you can sell and replace with more productive choices. This is also the time to think about offsetting any gains with losses from poor performers.

However, be tax-smart about selling and buying. It is very important to be aware of upcoming mutual fund distributions, and not buy into a fund that's about to declare a large distribution. You wouldn't want to pay taxes on a distribution if you haven't benefited from the run-up in that fund's net asset value.

- ***Fertilize with good ideas but ignore market noise.***

There’s been lots written about what this election means for the markets and for individual investors, and many are using election uncertainty as a reason not to invest. Make sure you're not over-reacting to market myths or noise and jeopardizing your long-term goals, Olson says. **RW**

Best of CBS MarketWatch

- ***Abandoning landline phone: Not quite there yet***
  http://cbs.marketwatch.com/news/story.asp?guid={EFBF60B9%2D6536%2D4CBB%2DB0AB%2D61F60F5C1D84}
- ***Study: Low-wage workers lack health benefits, sick time***
  http://cbs.marketwatch.com/news/story.asp?guid={75055891%2D3920%2D4DCA%2DB852%2D1E66340BC351}
- ***Take this quiz to analyze your financial fitness***
  http://cbs.marketwatch.com/news/story.asp?guid={ECE137F6%2DB9F8%2D4239%2DB020%2D88410A34D96E}
- ***Checking credit report is high priority***
  http://cbs.marketwatch.com/news/story.asp?guid={E3087311%2D0104%2D4382%2D9DA5%2D4C090AFC3883}
- ***In-store mini-clinics new form of care for basic ills***
  http://cbs.marketwatch.com/news/story.asp?guid={758DAAB8%2D9830%2D4BEE%2D9E3D%2DFA4C72EDAF18}
- ***Note:*** Some *Retirement Weekly* subscribers will need to become CBS MarketWatch members to access the stories above. To sign up for a free membership, go to https://secure.marketwatch.com/login/registration.asp#newMember.

Please join me in welcoming Samantha Soga, newsletters assistant for CBSMarketWatch, to *Retirement Weekly*. She will join me in writing articles for *Retirement Weekly*. Thanks, as always, for spending time with *Retirement Weekly*.

Robert J. Powell III is President of Unison Associates LLC, a Salem, Mass.-based financial education, communication and consulting firm. Powell, who has more than 20 years of experience in the financial services industry, is also co-author of "Decoding Wall Street" and executive producer of PBS' "More Than Money." Previously, Powell served as editor in chief of DALBAR's *Mutual Fund Market News* and columnist for *The Boston Herald*. Powell owns no shares of any investment mentioned in this week's issue. He currently provides consulting services to the Financial Planning Association and Major League Investments, in which he also holds a minority interest.

Retirement Weekly is produced by MarketWatch, Inc., located at 825 Battery St., San Francisco, CA 94111.
Please contact our customer service center if you have any questions regarding your subscription. Please send emails to orders@marketwatch.com, with "Retirement Weekly" in the Subject line.
Intraday data provided by S&P Comstock and subject to S&P terms of use, in addition to the terms and conditions of use noted below.
Historical and current end-of-day data provided by FT Interactive Data.
Intraday data delayed 15 minutes for Nasdaq, and 20 minutes for other exchanges.