



Financial Freedom Associates

a fee only financial planning firm

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The Inside Story



Second Quarter Meeting

The Second Quarter of 2006 meeting will include a thorough review of all of the insurances you carry and possibly suggestions for some you don't. Please bring the most recent statements from all policies including home owners, vehicle, health, disability, long term care and any others. We will also review and discuss the need for Long Term Care Insurance, concerns about deductible amounts and using insurance for catastrophic benefits. Please bring your 2005 tax return.

Also, we will be collecting info for updating your retirement plan, which we will cover in our 3rd quarter meeting.



Travel

Any travel this quarter will be planned after we have a wedding date. See Sylvia's message on the back.

Retirement Planning

Planning in advance and acting on that plan are keys to being ready for retirement. Retirement might not mean stopping work. You may simply cut back, switch jobs, or take a break from work. We define retirement age as the age you *can* stop working and maintain a lifestyle you want.

Finding your retirement age is usually a matter of tradeoffs. If you can spend less in retirement you can retire earlier.

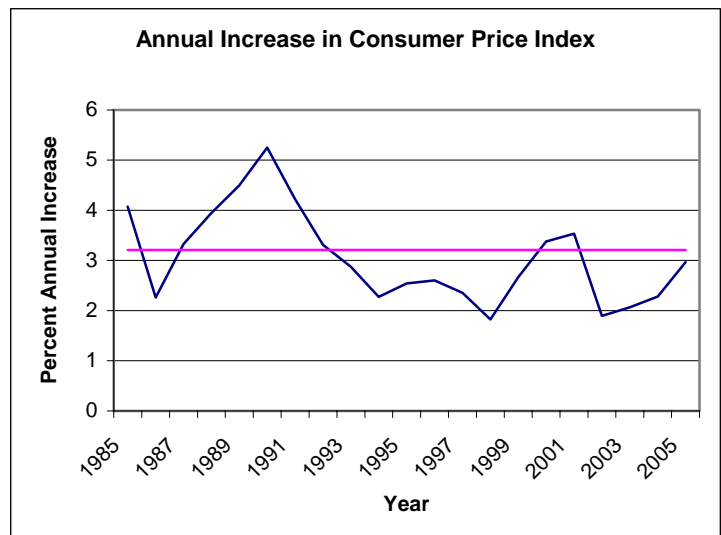
The first thing you have to do is establish your expenses. It helps to know what your current expenses are and make adjustments. Keeping track of your spending for just a few months can be revealing. The more accurate this prediction the more accurate your retirement plan will be.

There will be changes in your expenses in retirement. Some expenses might decrease, such as: work related costs (commuting, lunch, dues, business clothes, and parking), income taxes, and possibly some home maintenance costs (that you can do yourself). At some point mortgage and car payments might stop. At some age you probably won't be driving and costs associated with driving will be eliminated. Costs associated with children could be reduced or

increased, depending on your situation.

Some expenses will likely increase, such as: social and recreational activities, travel, and health care. You can plan for assisted living. Typically, the money made on selling a home can cover several years of assisted living. You may also consider if you want to leave money behind for family or charities.

One rule of thumb is that after age 70 your expenses reduce by 5% every 5 years. This accounts for decreased activity as you get older. You have a great deal of control over your expenses. Another important piece is to estimate how long you need your money to last – what is your life expectancy? We generally want to overestimate this number. It can be approximated by looking at the ages family members died and considering your health situation. If you have a family member who has



RETIREMENT PLANNING (CONT.)

lived to 90, we would want to consider your life expectancy to be at least 100.

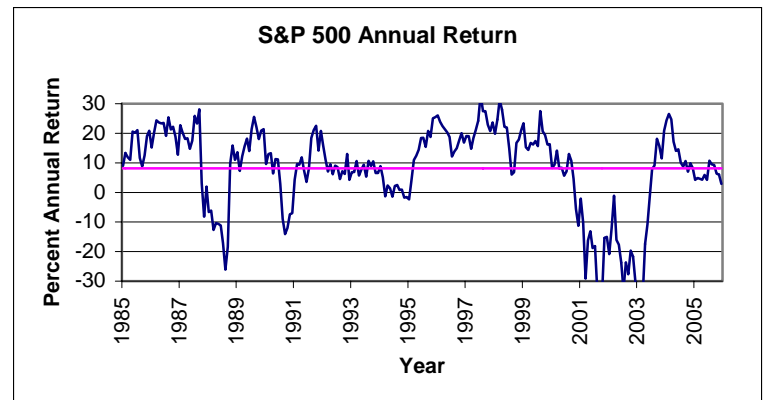
The graph on the first page shows the increase in the Consumer Price Index (CPI) per year for the past 20 years. The CPI is a measure of the average change over time in the prices paid for a market basket of consumer goods and services. The average increase is just over 3% each year, although it should be noted that past performance in no way guarantees future results. Hence, to maintain the same lifestyle, you will have to spend about 3% more each year.

The next step is to calculate your income, including: Social Security, pension, investments, inheritance, and annuities. It is important to consider tax consequences. Money coming from 401k plans, IRA's, annuities, and pension plans are mostly taxed as income. Some of this must start coming out at a specific rate, usually at age 70½. Money from Social Security may be taxed as well and presently the maximum amount that is taxed is 85%. Money from taxable

accounts and Roth IRAs are not taxed when taken, although there may be a capital gains tax on selling investments. Check with your accountant or financial planner on your specific situation.

One assumption that needs to be made when calculating your income is the rate of return that you will get from your investments. This will depend on how much of your investments are in taxable accounts and how much are in tax deferred or tax exempt accounts. It will also depend on how much is in fixed investments and how much is in stocks and stock mutual funds, real estate and other investments. This figure will need to be updated regularly.

The graph above shows the annual percent change in the S&P 500 for the past 20 years. The S&P 500 is an index of 500 widely held common stocks that measures the general performance of the market. The average annual change is



approximately an 8% increase over 20 years. Note the volatility; this is why the stock market is best for long term investing.

If we assume the fixed investments are getting a 4% annual return and equity accounts are getting 8%, a non-taxable account that has 50% fixed investments and 50% invested in stocks and stock mutual funds would yield a return of 6%. The final step is to compare the expenses with the income. You can make adjustments in your retirement age and many other factors to determine your cash flow in retirement. This can help determine how much should be saved to achieve your retirement goals or if you would need to cut back to retire at a specific age.

This last quarter we have had the opportunity to stretch and see if we can keep in the state of peace and joy among unplanned events.

As you may remember from our 1st Quarter Newsletter, Bill and Lupita were to be married on March 31st. Well, that didn't happen due to the fact that they needed to get a Fiancé Visa that generally takes 3-6 months. Then after they receive that they have 90 days in which to get married. So we are waiting!

Also in January, Bill was offered the opportunity to be the Project Manager for Ban Comun, that is a micro-credit organization that is on the Mexican border. This is his true calling and so he is serving there and working part-time with FFA.

And my Mother, who was living with family in Paradise Valley, AZ, was experiencing more dementia as well as some physical challenges, so we have placed her in an adult care facility in Tucson. Her adjustment has been terrific so we are pleased. She will be 97 on April 15th.

So all is well and most of the time we are continuing to experience peace and joy!

Happy Spring, Sylvia

