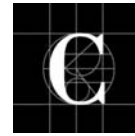


# Focusing Your Future



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Spring 2008

## On the Rise

Does it seem like many of the things you buy every day are getting more expensive? They are. Inflation slowly pushes up the prices of consumer goods and services. Over time, those steady increases can make a big difference in your budget. And, as prices go up, the purchasing power of the money you're saving for retirement goes down.

### Year after Year

Over the past 20 years, annual inflation has averaged just over 3%. But 2007's inflation rate of 4.1% was the highest since 1990, and consumers are feeling the pinch. By the time you're ready to retire, even small price increases could add up. For example, a car that costs \$25,000 today could cost \$81,085 in 30 years if the average annual rate of inflation is 4%.

### The Inflation Factor

Since inflation will increase the amount of money you'll need to maintain your standard of living, you should take it into account when you're figuring out your retirement income needs.

Here's an example. Let's say you have 30 years to go before retirement. Let's also assume that you'll get cost-of-living raises each year. If your current salary is \$50,000 and inflation is 4% a year, your salary will be \$162,170 in 30 years. If you anticipate needing 80% of your preretirement income to live on when you're retired, you would need nearly



\$130,000 in just the first year alone. While you're retired, inflation could continue to increase the amount of income you need each year.

### Staying Ahead of Inflation

One way to help your retirement savings stay ahead of inflation is to invest a significant portion of your money in assets that have the potential to earn inflation-beating returns. Of the three major asset classes — stocks, bonds, and cash equivalent investments — stocks\* have the greatest potential based on historical performance to grow significantly faster than the inflation rate.

If your retirement investments stay well ahead of inflation, you'll be better prepared for meeting your retirement income needs and handling future increases in the cost of living. Even after you retire, you should consider keeping a portion of your investments in stocks.

*\* Stock investing involves a high degree of risk. Stock prices fluctuate and investors may lose money.*



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## To Your Health

As you know, inflation pushes up the prices of consumer goods and services. But did you know that some expenses tend to increase *faster* than the rate of inflation? Health care is one of them. That's why it's important to take health-care expenses into account as you plan for retirement.

### Why Worry?

If you're worried about being able to afford adequate health care during retirement, you're not alone. According to a recent survey,\* concern about the cost of health care is near the top of the list for many retirees. Other top concerns include the effect of inflation on their savings and not being able to maintain a reasonable standard of living.

It's a common assumption that your living expenses will be lower once you stop working. And many of your expenses are likely to decrease. But sharp increases in health-care costs *could* actually make your overall living expenses higher during retirement.

Not all employers provide their retirees with a subsidy for health insurance coverage. And, even if you or your spouse will have coverage through your employer, you will probably be responsible for premiums, deductibles, and copayments amounting to substantial out-of-pocket expenditures.

### What About Medicare?

Medicare provides coverage starting at age 65. So, if you plan to retire early, keep in mind that you won't be eligible right away. Once Medicare does kick in, it won't take care of all of your health-care needs. You'll probably need supplemental insurance to help cover your costs.

### Getting in Good Financial Shape

The bottom line is that you're probably going to need a lot of money to pay health-care expenses during your retirement. How can you prepare? Participating in your employer's retirement savings plan is a healthy start. Increasing the amount you're contributing to your plan by even a small

amount on a regular basis can make a big difference in your savings by the time you retire. For example, if you increase the amount you're saving for retirement by \$200 a month, in 25 years you could accumulate an extra \$190,205 (assuming an 8% average annual return, compounded monthly).\*\*

Your best prescription for a comfortable retirement is to save as much as possible while you're working. Whenever possible, increase the amount you contribute to your employer's retirement plan. And choose a mix of investments that has the greatest potential to stay ahead of inflation while being within your risk tolerance.

\* The Society of Actuaries' 2007 Risks and Process of Retirement Survey

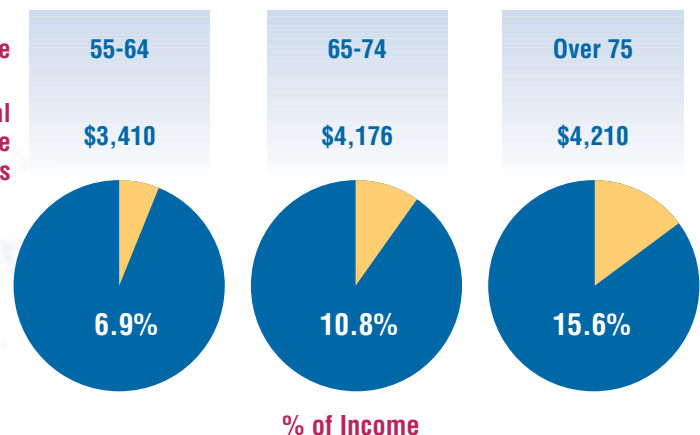
\*\* The rate of return used is hypothetical, for illustrative purposes only, and does not represent the rate of return for any particular investment. Actual rates of return will vary over time, particularly for long-term investments.



## Health Expenses Increase with Age

The amount retirees spend on health care generally increases with age.

Retiree's Age  
Average Annual Health-care Expenses



## ANY QUESTIONS?

**Q.** *I read somewhere that dollar-cost averaging can be a smart investment strategy. What is it and how does it work?*

**A.** Dollar-cost averaging involves investing a set amount of money in the same fund (or portfolio) on a regular basis. It's a built-in feature of your employer's retirement savings plan. Once you started investing in the plan, you started using dollar-cost averaging.

### How It Works

With dollar-cost averaging, you invest a consistent amount regularly — regardless of market conditions or prices. The number of shares you are able to buy with the money you are investing will vary based on the fund's share

price. When the price is high, you purchase fewer shares. When the price is low, you purchase more.

The advantage is that, in a fluctuating market, your average *cost* per share over a specific period of time will typically be lower than the fund's average share price for the same period.

### How It Works in Your Plan

Your retirement plan gives you the opportunity to use dollar-cost averaging. The money you contribute to the plan each pay period is used to buy shares of the funds (or portfolios) you've selected. Instead of trying to figure out the "best" time to invest, you simply invest the same amount each pay period, regardless of price.

### How It Can Help in a Declining Market

Dollar-cost averaging doesn't protect you from a loss when a fund's share price is declining, but it may help reduce the loss. Compare what happens to two investors during a six-month market decline. Nancy invests \$1,800 in a fund right before its price drops from \$30 to \$15. Otto, however, invests \$300 a month through his retirement plan in the same fund. At the end of six months, the value of Nancy's shares is only \$900. But Otto has purchased more shares so he's in better shape — the value of his shares is \$1,273.50. And, with more shares, Otto is in a better position to recover his losses if the share price rises. Unless Nancy and Otto sell their fund investments, their losses are only on paper.

### The Dollar-cost Averaging Advantage

	Price per Share	Nancy		Otto	
		Amount Invested	Shares Purchased	Amount Invested	Shares Purchased
Month 1	\$30	\$1,800	60	\$300	10.0
Month 2	\$28	\$0	0	\$300	10.7
Month 3	\$24	\$0	0	\$300	12.5
Month 4	\$20	\$0	0	\$300	15.0
Month 5	\$18	\$0	0	\$300	16.7
Month 6	\$15	\$0	0	\$300	20.0
<b>Total amount invested:</b>		<b>\$1,800</b>		<b>\$1,800</b>	
<b>Total shares purchased:</b>		<b>60</b>		<b>84.9</b>	
<b>Investment value after 6 months:</b>		<b>\$900</b>		<b>\$1,273.50</b>	
<b>Fund's average share price:</b>		<b>\$22.50</b>		<b>\$22.50</b>	
<b>Investor's average cost per share:</b>		<b>\$30</b>		<b>\$21.20</b>	



This is a hypothetical example used for illustrative purposes only. It is not representative of any investment vehicle. Your investment results will be different. Source: NPI  
*Dollar-cost averaging will not guarantee a profit or protect you from loss in declining markets. For this investment method to be effective, an investor has to continue buying, regardless of fluctuating prices. You should consider your ability to continue buying through periods of low prices.*

# Solving the Planning Puzzle

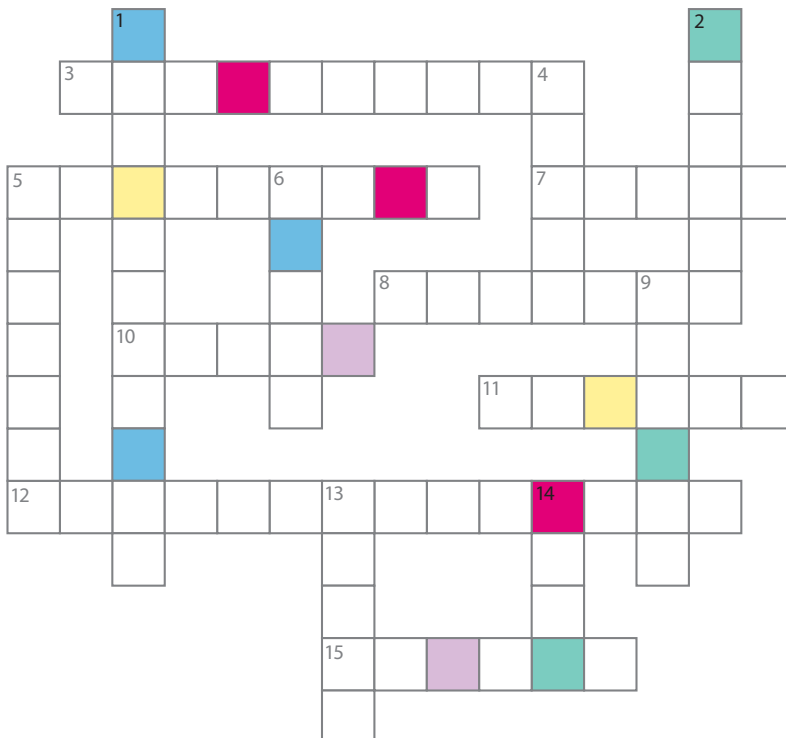
So, how much do you know about investing for retirement? To find out, complete this crossword puzzle. Then use the letters in the highlighted squares to solve the mystery phrase underneath the puzzle — it's a statement about your retirement plan. Good luck!

## Across

3. Another word for assets such as stocks and bonds.
5. You may want to choose investments that will help your portfolio stay ahead of this.
7. When you sell an investment at a higher price than you paid for it, you have \_\_\_\_\_.
8. Your retirement plan account is your \_\_\_\_\_ for the future.
10. The longer you invest, the more time your \_\_\_\_\_ has to grow.
11. Your plan lets you \_\_\_\_\_ from a variety of investments.
12. When you retire, your savings will provide income to supplement this benefit.
15. A type of investment.

## Down

1. When you receive your plan statements, you can check the \_\_\_\_\_ of your investments.
2. Over time, inflation is likely to result in \_\_\_\_\_ prices.
4. If you aren't reviewing your investments regularly, it's time to do this.
5. Your plan does this with your account assets.
6. You may defer paying these on your plan contributions and earnings.
9. As a long-term investor, you may want to consider investments with the potential for this.
13. It makes good financial \_\_\_\_\_ to participate in your plan.
14. Not participating in your employer's plan may put you at \_\_\_\_\_ for not having enough income during retirement.



## Mystery Phrase:

Y \_ \_ \_ \_ L \_ \_  
 \_ O \_ \_ S \_ \_ R \_ \_ U!

ANSWERS:  
 Across: 1. Performance 2. Rising 4. Start 5. Invests 6. Taxes  
 11. Choose 12. Social Security 15. Stocks  
 Down: 1. Performance 2. Rising 4. Start 5. Invests 6. Taxes  
 9. Growth 13. Sense 14. Risk  
 Mystery Phrase: YOUR PLAN WORKS FOR YOU!