Wi$eUp Teleconference Call
Economic Turbulence and Planning for 2009
November 21, 2008
Questions and Answers

Jane Walstedt: Anyway, Vicky, our operator, are you listening and can you give us
instructions on how to ask a question?

Coordinator: Thank you. We will now begin the question and answer session. If you
would like to ask a question, please press star 1. You will be prompted to
record your name. To withdraw your request, press star 2. Once again, to ask
a question please press star 1. One moment.

Carol Borges, you may ask your question.

Carol Borges: Hi. This is for Jim. He had mentioned, I believe, a Web site, and I didn’t
have a pen at the time. Could you please repeat the tax planning Web site that
you referred to?

James Guarino: Yes, sure, Carol. It’s www.360financialliteracy.org. That’s all one word.

Jane Walstedt: And it’s numbers. 360 is numbers.

James Guarino: Three, six, zero.

Carol Borges: Right.

James Guarino: Correct.

Jane Walstedt: Right.

Carol Borges: And if you wanted to take that a step further and start talking about…my kids
now are in college, and we are almost at the end of our mortgage, which has
always been a very good thing, you know, that the kids are growing up, our expenses are down, we’re pretty debt-free. We’ve been very fortunate in how we’ve planned the last 10 years, and we’ve just seen our 401(k) and our retirement kick the bucket.

So is there an opportunity for any free advice either through this Web site that you’ve given us or another organization that you think that we’d be able to contact for personal one-on-one advice?

James Guarino: Yes, actually there are financial planning references on the Financial Literacy Web site, but also you may want to try the Financial Planning Association Web site. There’s some terrific information there as well. And you may also be able to hook up with some local planners in that area.

But I’m going to guess that you’re probably in my category, I still consider myself fairly young, even though I have some high school children myself, one in particular who’s entering college next year. But I look at it now as really bargain basement shopping; it really is a great time to go out and invest. And I say that if in fact you’re working with somebody who can assist you in that manner, because there’s still some good quality investments to be made, and they’re being sold at incredible discounts right now.

We’ve got plenty of time to go before we’re going to retire. I don’t see myself retiring… I think most of us are going to be, whether we’re forced to or just if it’s something that we want to do on our own, work[ing] well into our 60s. Assuming that you’re in your early to mid 40s...

Carol Borges: Yes.

James Guarino: ...that gives your retirement plan 20 plus years to recover. And if you talk to anybody who’s seen the ups and downs in the market over the last 75 years, I
think the famous saying is “And this too will pass as well.” We’re going to get through this and recover. And 20 years from now we’ll look back and say, “Yeah, we made it. And because we were prudent back then we’re able to retire comfortably today.” So just keep the faith.

Carol Borges: Well that’s exactly where we’re at. You pegged it. We’re in our mid-40s, and, you know, on the one hand we’ve been excited that, you know, we’ve planned well and we’ve done fine and we’ve been very frugal over the last 20 years, had our kids young. But at the same time it’s like well we’re young enough to recover but old enough to realize that what we lost we’ve lost. So it kind of bites. So we’ve been talking about different ideas and so forth.

And if I could ask you one more question: What is your opinion now with the housing market as far as making that a solid investment? I mean, we had been talking probably for the last year about, you know, just buying some properties and, you know, trying to invest in more real estate so that we would have more of a tax break.

But now, yes, you can pick up a house under foreclosure, but the market is not really good. Is that a solid way of trying to recover at this point?

James Guarino: Well it’s an interesting question, and it’s really unique for each individual. I’ve got a client whose retirement plan is real estate. He refuses to invest cash in the stock market. He purchases real estate. He’s a landlord, and essentially that’s his form of retirement for the next 10 or 15 years. So I guess I’d probably have to know a little bit more in terms of what you intended to do with the second home; would it be strictly a vacation home, would it be a property that you would intend to rent out and use it to generate cash?

Again, if in fact you want to talk on the hat of being a landlord, that’s an additional cash flow that you’ll have available to you, and that piece of real
estate will act as an investment for you to generate cash flow in your retirement years. So, yes, it’s a great time to be looking in the market, but you kind of...you more or less have to know what engine are you going to use to generate your retirement income.

Real estate is certainly one type of engine, but it may not be right for everybody.

Jane Walstedt: Carol, I just want to point out that we do send the questions that are asked during the teleconference call - I want to remind people - we send them to our list of Wi$eUp mentors who are listed on our Wi$eUp Web site, so the questions not only go to the speakers, but they’ll go to those mentors, and they include people in all kinds of financial professions, including realtors. So, you know, you’ll get the benefit of hopefully a lot more answers also.

Vicky, do we have another question?

Carol Borges: Thank you.

Coordinator: Yes we do. Michelle Concha, you may ask your question.

Michelle Concha: Yes. Hello. This is a question for the third speaker. My husband works for the government. He’s ready to retire in five to seven years. Where should we have our money?

Dallas Salisbury: That is totally dependent on what your personal circumstances are, how much you have already saved, how much you’ve accumulated, where that sits relative to how much you need to have accumulated. And in that total accumulation plus the federal pension and everything, are you on track to have 200% of what you need in order to meet what you want as a lifetime budget or you are substantially short of that.
And if you’re substantially short given your timeframe, then you probably want a relatively conservative investment approach to make sure you don’t lose money. If you are way ahead on your saving, then you could take a portion and take higher risk with it because you could afford to lose it. So it really is individualized.

And I stress that more than what has been stressed by others on this call who are describing this as bargain opportunities. This market could readily go down 4000 or 5000 points if the recession is as long--up to five years--and as deep as many people are now thinking it may be. And one has to basically plan for the worst case as readily as the best case.

One has to look at nations like Japan that…its market hit over 40,000 in 1992, and it has never gone back above 12,000, and right now it’s trading below 8500. And in that type of a situation, if we were to face that, would you have set up your finances to be prepared for that type of situation?

I think that this should be looked at in tiers of savings. The advantage you have as somebody that will be retiring - have a husband retiring from the federal government--is you will have that base defined benefit annuity. You have the special advantage of it being indexed partially for inflation. You have retiree medical benefits available, with nearly 80% of the costs paid for by the federal government as the former employer.

So relative to most working Americans you have a very substantial base on which you are building. And that may well allow you to take more investment risk than many other Americans would be wise to take.

Jane Walstedt: Michelle, have you done a retirement needs calculation? Dallas referred to that. There’s one for federal employees and the one on EBRI’s Web site.
Michelle Concha: No, I have not. The EBRI’s?

Dallas Salisbury: You may want to go to opm.gov and use the federal ballpark estimate, because it actually allows you to get an estimate of what your husband’s federal pension will be. It allows you to tie in savings and the TSP - the Thrift Savings Plan. It will calculate in if there’s eligibility for Social Security, what that will provide.

And you can put in some budget expected spending level numbers plus play with the life expectancy numbers and get a very good picture on how much additional you need to save. And it also allows you to put in different potential rates of return so you can see how different investment allocations would fare in terms of getting to your goals.

Michelle Concha: Okay. Now with the TSP, what’s the most conservative place to have that money within the government’s savings plan?

Dallas Salisbury: Within the TSP the most conservative fund is what they call the G Fund, which is a…which in the private sector these are called the equivalent of stable value funds, because it is a federal government fund that pays a rate that frankly is a better rate than anybody in the private sector has available to them.

Michelle Concha: All right, well thank you so much. I’ll go ahead and utilize some of those tools.

Jane Walstedt: Thank you, Michelle, for asking the question. Vicky, do we have another question?

Coordinator: Yes, we do. Wendy Weiss, you may ask your question.
Wendy Weiss: Hi. This is a question for Jim. You raised a really interesting idea that folks can transfer their traditional IRA to a Roth IRA. Do they have to pay any taxes to do that?

James Guarino: That’s the cost of taking advantage of it. And the reason behind that is with the traditional IRA once you begin taking distributions from that, it becomes taxable in the year that you take distributions. Under a Roth IRA scenario, as long as you meet the rules and provisions of Roth eligibility and requirements, any distributions you take from a Roth IRA are nontaxable.

So in order to gain entrance to the Roth arena, when you roll your traditional IRA into a Roth IRA, 100% of the funds that you roll over into the Roth are taxable in the year that you roll those funds [over]. So looking at the loss in value of your traditional IRA account would put you in a situation where you would be recognizing a much smaller amount of taxable income in the year that you roll it [over] as opposed to had you done it last year for instance.

So that’s the silver lining that I was trying to get across to everyone. Even though everyone’s portfolios, for the most part, have probably dropped substantially [in value] this year, that’s one of the benefits of having a reduced value. It would mean a smaller amount of taxable income that you would have to report this year [if you rolled a traditional IRA over into a Roth IRA].

Jane Walstedt: And once you were in the Roth, you wouldn’t pay tax on your earnings - on the gains from the money you had in the Roth.

James Guarino: That’s correct. Upon distribution, 100% would be nontaxable to you.

Wendy Weiss: So if you…let’s say you had a Roth that - I’m sorry, a traditional IRA--that dropped to $50,000. If you decided to roll that over, and you qualified and
you rolled it over to…the $50,000 you’d have to declare that as income and then be taxed on it at whatever your marginal rate would be?

James Guarino: That’s correct. And, Wendy, just to remind you and everyone else...

Wendy Weiss: Yes.

James Guarino: ...don’t feel as though you have to roll the entire amount.

Wendy Weiss: Oh.

James Guarino: You certainly can decide to roll over a portion of the IRA.

Wendy Weiss: Okay.

James Guarino: And one of the attractive things again is when it comes to planning for whether or not it makes sense to do a Roth in general, you always want to evaluate “Am I in a higher income tax bracket today than I will be in the future?” I mean, there’s certainly other factors that are going to come into play.

But essentially anyone who sees themselves as being in a higher tax bracket in the future than they’re in today, then there could be an argument to be made “Hey, let me pay my income tax dollars today at the lower rate, because when I draw those funds out of my Roth somewhere down the road, I’m going to be in a higher tax bracket. You can play that arbitrage.

Jane Walstedt: Vicky, let me just ask you how many people are in the queue to ask questions.

Coordinator: We have four more.
Jane Walstedt: Okay. We’re coming up against the hour, and if the speakers are agreeable, I’m going to let the call run over a little bit so those four people can have a chance to ask their questions. Can all of you three speakers stay on for maybe 10 or 15 more minutes?

Kathy Nagle: Absolutely.

Dallas Salisbury: This is Dallas. I can. Sure.

Kathy Nagle: I can.

James Guarino: Sure.

Jane Walstedt: Okay. Great. All right, Vicky, then we’ll take our next question.

Coordinator: Kim Council, you may ask your question.

Kim Council: Hi. My question is related to the 401(k). I am 39, and I was recently laid off about two months ago. And in reviewing my 401(k), I’ve lost about $30,000 this year. And I’m not sure…right now I’m on continuation plan severance through next July. And I was wondering if I should continue to invest in the company’s 401(k) or what should I do at this point.

Jane Walstedt: Anybody have an answer? Well if nobody has an answer, maybe they’re thinking about it, Kim. This question, as I mentioned before, will go to the rest of the…to the mentors on our Wi$eUp Web site, of which there are many. And usually when we give them a question, several of them answer.

Kim Council: Okay.
Jane Walstedt: So I guess none of our speakers have a recommendation on that, so I will ask you to look for that to be posted on the [Wi$eUp] Web site [www.wiseupwomen.org]. It’ll go to the mentors after this call and there may be, you know, may be a week’s time lag or something like that before it’s posted.

Kim Council: Okay.

Jane Walstedt: Okay? Thank you. Vicky, our next question.

Coordinator: Jessica Rasta, you may ask your question.

Jessica Rasta: Hi, yes. I have a question about the mortgage write-downs and loan modifications that might be happening. Theoretically if a person had a mortgage that was $295,000, and the property was only worth $220,000 now, if they could get their loan modified down to the new value, maybe at a lower rate, what would be the tax implication of that, and how would it affect the credit score. Is this maybe for James Guarino?

James Guarino: Sure. I can give a shot at your question, Jessica. As I understand it, under the Emergency Economic Stabilization Act that was passed within the past month or so -- last couple of months--there is some relief from mortgage forgiveness. Typically forgiveness of debts results in taxable income, and I believe the package allows for up to $2 million, if I have my numbers correct.

I think for married couples filing jointly it’s up to $2 million that the debt relief is available. I can’t really address how that might affect your credit score though.

[Editor’s Note: The Mortgage Forgiveness Debt Relief Act of 2007 was the original tax legislation that provided exclusion of debt forgiveness (from

Kim Council: Okay. And also can you add on about the Roth? If you roll [over] into a Roth, are there different Roth funds you can…types of accounts you can go into with different risk levels?

James Guarino: Well, that’s not unique to a Roth. Now that’s more of an investment decision in terms of how you want to invest those rollover proceeds. But I think what you want to be sure of is that you are rolling the traditional IRA funds into a Roth IRA, and then, depending upon what your tolerance for risk is, time for investing [the length of time you plan to hold those funds in the Roth before withdrawing them], a lot of investment decisions [such as those] will determine how you invest those proceeds [from the traditional IRA].

And the argument might be that you wouldn’t want to change the investment class from where those funds are coming from, assuming that you have done your due diligence, and where those funds were invested under the traditional IRA would be appropriate for the Roth IRA.

Kim Council: Okay. Thank you so much.

James Guarino: You’re welcome.

Jane Walstedt: Thank you. Vicky, can you give us our next question?
Coordinator: Chris Kahler, your may ask your question.

Chris Kahler: Great, thank you. I am 55 years old and divorced, and the package that I got was the annuity package. And I heard...I’m sure, you know, it’s lost, you know, quite a bit, as everyone has right now, and I’ve been approached about rolling that over into an IRA or a Roth IRA, because it has just recently come to term.

And I don’t know really what to do with that, and I’ve heard someone say that the money, if you really don’t want to lose it, it should have been somewhere else. And I’m not sure if I asked that question clearly enough.

Jane Walstedt: Jim or Dallas, do you have a response to that, or is that another one of those questions that we should rely on our mentors to answer?

Dallas Salisbury: Well my only comment would be that the one thing that many people haven’t thought about in recent years is what their tolerance for loss is and what their acceptability for risk is. They call...the economists refer to it as “loss aversion.”

And essentially what we’ve been seeing in the markets recently and in the data on 401(k) plans is that many people, as the market has been going down, have been totally selling out of the market and moving their 401(k) plans totally out of the market, because they never thought about the fact that the market could go down.

Chris Kahler: Right.

Dallas Salisbury: And that is the risk that history mentions on this is that people then forget to get back in. And they sort of never recover. And that you “lock in losses,”
and so it’s a time for people to think this through very carefully. The reason I use the term if you could afford to lose the money and still get back to where you need to get.

I am not as young as some of the others on this call. I’m 59 ½. Even though I probably will still be working well into my 60s, in my own view I am at the point where I do not personally want to lose money. And people - some planners--would say to me, and, frankly, lifestyle funds, would say that since I am likely to live to 100, that I should always keep 40% or more of my assets in the market.

My personal philosophy is I will keep nothing in the market, because I am beyond the age where I am willing to lose money. And so I personally have my money in Treasury Inflation-Protected Securities [TIPS], that have an average base interest rate, in my case, of 4.2% guaranteed, plus any and all inflation.

[Editor’s Note: Information on Treasury Inflation-Protected Securities can be found on the U.S. Department of the Treasury’s Web site at www.treasurydirect.gov/instit/marketables/tips/tips.htm.]

And that is my security blanket to live to 100 and not have to worry about market losses or market cycles later on. That’s my personal preference. That’s only…that’s applicable to me. It may not be applicable to anybody else. But it’s just to stress [that] people need to think this through in terms of their own…their own financial situation and their own nervousness or willingness to accept risk, and then go forward from there.

Right now…and the reason I mentioned Treasury inflation-protected securities is because they right now, unlike other federal securities, are trading at a very deep discount. You can buy them for a dollar amount well below
their face value because of the focus having turned to deflation--prices declining instead of being on inflation.

And so right now, for example, the federal government in the last few weeks put out a 10-year TIP that is selling right now that would give you an assured rate of return for the 10 years of 4.1%, and then any inflation you would be compensated for on top of that if there were inflation during that 10-year period.

And, relative to other things, the 4.1% real rate of return with essentially no risk of loss or forfeiture, if you were to hold that bond for the full 10 years, against most asset classes, including equities, is a very healthy situation for people if they don’t want a lot of downside risk.

Chris Kahler: Okay.

Jane Walstedt: Were you going to ask...

Chris Kahler: Thank you very much. Oh, I was…if you could handle a little more risk, is it good to stay in the market?

Dallas Salisbury: I think again that we talked about age. One of the folks was in their early 40s. In your early 40s not retiring until 65, then there is, you know, you’re talking about a 20- to 25-year timeframe, and so for a portion of your assets to have it in that realm of risk for many people would be fine. I’m much older than that. I’m an old gray-hair. In fact don’t have a lot of hair.

And that’s what I mean by it really is a factor of the income of the individual, the assets of the individual, the age of the individual, how long the individual is willing to work, and the individual’s own loss aversion. Loss aversion might be thought of in another way: the ability to sleep at night.
Chris Kahler: Okay. Thank you.

Jane Walstedt: Dallas, the other thing you mentioned…yes, Dallas, the other thing you mentioned was people getting out of the market and then never going back in. And in addition to that of course are the people who think they can time the market, and they go out, and they think they’re going to know when the best time to go back in is.

Dallas Salisbury: I agree with the essence of your point. If somebody’s leaving the market not because they want to be out of the market, if you will, but because they want to time it, as you say, that’s a very dangerous game. Even people that are paid a lot of money to do that professionally frankly don’t do it very well.

And so it’s really a base decision. If you don’t want to have money at risk in the market, period, then that’s one issue vis-à-vis selling. If you’re trying to say, “Well I just want to jump out, and then I’m going to jump back in,” I mean, when we started this phone call the Dow Jones Industrial Average was down 4 points. Right now it’s up 214 points.

We’ve had days in recent weeks where the swing from top to bottom, the volatility, has been as much as 900 points. And if and when this market hits bottom, which someday it will, one could see the market go up 2000-3000 points in one day if things were dramatic. And if that happened to be the day that you had the flu, and you weren’t around to time it, and you were intending to get back in, you would end up hitting yourself over the head and saying, “I shouldn’t have gotten out in the first place.”

So it really is that issue of timing is very dangerous. It’s a far more basic decision of do I want my money in an area with that type of volatility or not. I have many friends who they actually sleep better at night with all of this risk.
Jane Walstedt: Thanks, Dallas. Vicky, the last question, I believe. We had one more question?

Coordinator: Correct. Gloria Moses Harper, you may ask your question.

Gloria Moses Harper: Hi. Yeah. I just wanted to find out about the TSP Catch-Up Plan. I don’t quite understand it. Would I have to save $16,000 a year before I can get in that plan?

Jane Walstedt: Do you know, Dallas?

Dallas Salisbury: The catch-up provision is for individuals over the age of 50.

Gloria Moses Harper: Yes. I’m over the age of 50.

Dallas Salisbury: Right. And essentially it…what it is is it simply allows you to contribute $5500 more than you would otherwise legally be able to contribute if you were under the age of 50. So essentially it…the way I think of it…I do make a catch-up contribution to my plan. The only reason that is relevant for me is because I have already contributed as much as the law allows me to contribute, and then this allows me to contribute an additional amount.

Gloria Moses Harper: Okay, as much as the law. How much is that?

Dallas Salisbury: In the TSP case I believe that an individual would be in a position to contribute up to about, I think, about…your number is $16,000, but that depends on the individual’s income level.

[Editor’s Note: Catch-Up contributions are open to employees who will be contributing $16,500 in regular contributions to TSP or to another qualified]
retirement account in 2009. For more information on your eligibility to do Catch-Up contributions, you may wish to download the TSP Fact Sheet entitled “Catch-Up Contributions” at http://www.tsp.gov/forms/oc03-03.pdf and/or consult a tax advisor.

If you are maximizing your regular TSP contributions or tax deferred contributions to other qualified retirement plans, you may elect to make Catch-Up contributions of up to $5,500 in 2009.

Gloria Moses Harper: Okay. All right thank you.

Jane Walstedt: Thank you very much.