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JimSadPA0622Newsletter

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The next few months will be a key period to reveal the future direction of inflation and monetary policy.

High Inflation: How Long Will It Last?

In March 2022, the Consumer Price Index for All Urban Consumers (CPI-U), the most common measure of inflation, rose at an annual rate of 8.5%, the highest level since December 1981.[1] It's not surprising that a Gallup poll at the end of March found that one out of six Americans considers inflation to be the most important problem facing the United States.[2]

When inflation began rising in the spring of 2021, many economists, including policymakers at the Federal Reserve, believed the increase would be transitory and subside over a period of months. One year later, inflation has proven to be more stubborn than expected. It may be helpful to look at some of the forces behind rising prices, the Fed's plan to combat them, and early signs that inflation may be easing.

Hot Economy Meets Russia and China

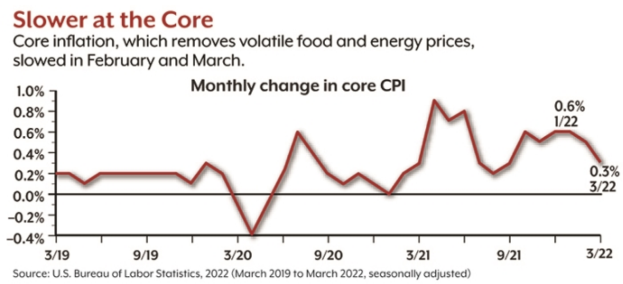
The fundamental cause of rising inflation continues to be the growing pains of a rapidly opening economy — a combination of pent-up consumer demand, supply-chain slowdowns, and not enough workers to fill open jobs. Loose Federal Reserve monetary policies and billions of dollars in government stimulus helped prevent a deeper recession but added fuel to the fire when the economy reopened.

More recently, the Russian invasion of Ukraine has placed upward pressure on already high global fuel and food prices.[3] At the same time, a COVID resurgence in China led to strict lockdowns that have closed factories and tightened already struggling supply chains for Chinese goods. The volume of cargo handled by the port of Shanghai, the world's busiest port, dropped by an estimated 40% in early April.[4]

Behind the Headlines

Although the 8.5% year-over-year "headline" inflation in March is a daunting number to consider, monthly numbers provide a clearer picture of the current trend. The month-over-month increase of 1.2% was extremely high, but more than half of it was due to gasoline prices, which rose 18.3% in March alone.[5] Despite the Russia-Ukraine conflict and increased seasonal demand, U.S. gas prices dropped in April, but the trend was moving upward by the end of the month.[6] The federal government's decision to release one million barrels of oil per day from the Strategic Petroleum Reserve for the next six months and allow summer sales of higher-ethanol gasoline may help moderate prices.[7]

Core inflation, which strips out volatile food and energy prices, rose 6.5% year-over-year in March, the highest rate since 1982. However, the month-over-month increase from February to March was just 0.3%, the slowest pace in six months. Another positive sign was the price of used cars and trucks, which rose more than 35% over the last 12 months (a prime driver of general inflation) but dropped 3.8% in March.[8]



Wages and Consumer Demand

For the 12 months ended in March, average hourly earnings increased 5.6% — not enough to keep up with inflation but enough to blunt some of the effects. Lower-paid service workers received higher increases, with wages jumping by almost 15% for nonmanagement employees in the leisure and hospitality industry. Although inflation has cut deeply into wage gains over the last year, wages have increased at about the same rate as inflation over the two-year period of the pandemic.[9]

One of the big questions going forward is whether rising wages will enable consumers to continue to pay higher prices, which can lead to an inflationary spiral of ever-increasing wages and prices. Recent signals are mixed. The official measure of consumer spending increased 1.1% in March, but an early April poll found that two out of three Americans had cut back on spending due to inflation.[10-11]

Soft or Hard Landing?

The Federal Open Market Committee (FOMC) of the Federal Reserve has laid out a plan to fight inflation by raising interest rates and tightening the money supply. After dropping the benchmark federal funds rate to near zero in order to stimulate the economy at the onset of the pandemic, the FOMC raised the rate by 0.25% at its March 2022 meeting and projected the equivalent of six more quarter-percent increases by the end of the year and three or four more in 2024.[12] This would bring the rate to around 2.75%, just above what the FOMC considers a "neutral rate" that will neither stimulate nor restrain the economy.[13]

These moves were projected to bring the Fed's preferred measure of inflation, the Personal Consumption Expenditures (PCE) Price Index, down to 4.3% by the end of 2022, 2.7% by the end of 2023, and 2.3% by the end of 2024.[14] PCE inflation — which was 6.6% in March — tends to run below CPI, so even if the Fed achieves these goals, CPI inflation will likely remain somewhat higher.[15]

Fed policymakers have signaled a willingness to be more aggressive, if necessary, and the FOMC raised the funds rate by 0.5% at its May meeting, as opposed to the more common 0.25% increase. This was the first half-percent increase since May 2000, and there may be more to come. The FOMC also began reducing the Fed's bond holdings to tighten the money supply. New projections to be released in June will provide an updated picture of the Fed's intentions for the federal funds rate.[16]

The question facing the FOMC is how fast it can raise interest rates and tighten the money supply while maintaining optimal employment and economic growth. The ideal is a "soft landing," similar to what occurred in the 1990s, when inflation was tamed without damaging the economy. At the other extreme is the "hard landing" of the early 1980s, when the Fed raised the funds rate to almost 20% in order to control runaway double-digit inflation, throwing the economy into a recession.[18]

Fed Chair Jerome Powell acknowledges that a soft landing will be difficult to achieve, but he believes the strong job market may help the economy withstand aggressive monetary policies. Supply chains are expected to improve over time, and workers who have not yet returned to the labor force might fill open jobs without increasing wage and price pressures.[19]

The next few months will be a key period to reveal the future direction of inflation and monetary policy. The hope is that March represented the peak and inflation will begin to trend downward. But even if that proves to be true, it could be a painfully slow descent.

Projections are based on current conditions, are subject to change, and may not come to pass.

1, 5, 8-9) U.S. Bureau of Labor Statistics, 2022

2) Gallup, March 29, 2022

3, 7) *The New York Times,* April 12, 2022

4) CNBC, April 7, 2022

6) AAA, April 25 & 29, 2022

10, 15) U.S. Bureau of Economic Analysis, 2022

11) CBS News, April 11, 2022

12, 14, 16) Federal Reserve, 2022

13, 17) *The Wall Street Journal,* April 18, 2022

18) *The New York Times,* March 21, 2022

For more information on this year's Retirement Confidence Survey, please visit [www.ebri.org.](http://www.ebri.org)

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

There is no assurance that working with a financial professional will improve investment results.

Despite Concerns, Retirement Confidence Remains Steady

Nearly three quarters of workers and 77% of retirees in a recent survey said they remain at least somewhat confident that they will experience a comfortable retirement, according to the Employee Benefit Research Institute. Nevertheless, a third of workers and a quarter of retirees felt less confident this year due to the economic effects of the COVID-19 pandemic, with many respondents citing inflation as the reason.

Not surprisingly, those feeling less confident were also more likely to report poor health, lower income and saving rates, and higher debt. Women were much more likely than men to report lower confidence levels.

In the 2022 Retirement Confidence Survey, more retirees reported higher-than-expected expenses overall compared to 2021, with notable jumps in the housing and travel, entertainment, and leisure categories.

Despite these findings, 67% of workers and 72% of retirees were at least somewhat confident they will have enough money to keep up with the rising cost of living during retirement, and similar percentages were at least somewhat confident they would have enough money to last a lifetime. The majority of retirees said their retirement lifestyle has generally met their expectations, while a quarter actually said they're experiencing a better-than-expected retirement.

Top financial-planning priorities

When asked about their top three long-term financial-planning priorities, saving and investing for retirement made the list for both workers and retirees.

Workers

1. Saving and investing for retirement (59%)
2. Planning for future health and long-term care needs (36%)
3. Developing a strategy for drawing income in retirement (30%)

Retirees

1. Planning for future health and long-term care needs (48%)
2. Saving and investing for retirement (32%)
3. Being able to leave an inheritance to your children or other family members and developing a strategy for drawing income in retirement (tied at 31%)

Savings and confidence hurdles

The survey also highlighted a few challenges workers and retirees face when it comes to achieving a comfortable retirement. More than four in 10 workers said that college savings or payments are limiting how much they can save, and nearly half said that debt has had a negative impact. Similarly, more than a quarter of retirees said debt has hampered their ability to live comfortably.

Nearly four in 10 workers and two in 10 retirees do not know where to go for financial guidance. More than a third of workers and 21% of retirees said they rely on family and friends, while just 29% of workers and 38% of retirees said they work with a financial professional. Of those workers not currently working with a financial professional, 45% said they expect to do so in the future, up from 38% in 2021.

On the positive side, both workers and retirees who work with financial professionals said they were their most trusted resource.

Taxation of Investments

It's nice to own stocks, bonds, and other investments. Nice, that is, until it's time to fill out your federal income tax return. At that point, you may be left scratching your head. Just how do you report your investments and how are they taxed?

Is it ordinary income or a capital gain?

To determine how an investment vehicle is taxed in a given year, first ask yourself what went on with the investment that year. Did it generate interest income? If so, the income is probably considered ordinary. Did you sell the investment? If so, a capital gain or loss is probably involved. (Certain investments can generate both ordinary income and capital gain income, but we won't get into that here.)

If you receive dividend income, it may be taxed either at ordinary income tax rates or at the rates that apply to long-term capital gain income. Dividends paid to an individual shareholder from a domestic corporation or qualified foreign corporation are generally taxed at the same rates that apply to long-term capital gains. Long-term capital gains and qualified dividends are generally taxed at special capital gains tax rates of 0 percent, 15 percent, and 20 percent depending on your taxable income. (Some types of capital gains may be taxed as high as 25 percent or 28 percent.) The actual process of calculating tax on long-term capital gains and qualified dividends is extremely complicated and depends on the amount of your net capital gains and qualified dividends and your taxable income. But special rules and exclusions apply, and some dividends (such as those from money market mutual funds) continue to be treated as ordinary income.

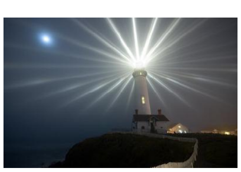
The distinction between ordinary income and capital gain income is important because different tax rates may apply and different reporting procedures may be involved. Here are some of the things you need to know.

Categorizing your ordinary income

Investments often produce ordinary income. Examples of ordinary income include interest and rent. Many investments — including savings accounts, certificates of deposit, money market accounts, annuities, bonds, and some preferred stock — can generate ordinary income. Ordinary income is taxed at ordinary (as opposed to capital gains) tax rates.

But not all ordinary income is taxable — and even if it is taxable, it may not be taxed immediately. If you receive ordinary income, the income can be categorized as taxable, tax exempt, or tax deferred.

- Taxable income: This is income that's not tax exempt or tax deferred. If you receive ordinary taxable income from your investments, you'll report it on your federal income tax return. In some cases, you may have to detail your investments and income on Schedule B.
- Tax-exempt income: This is income that's free from federal and/or state income tax, depending on the type of investment vehicle and the state of issue. Municipal bonds and U.S. securities are typical examples of investments that can generate tax-exempt income.



- Tax-deferred income: This is income whose taxation is postponed until some point in the future. For example, with a 401(k) retirement plan, earnings are reinvested and taxed only when you take money out of the plan. The income earned in the 401(k) plan is tax deferred.

A quick word about ordinary losses: It's possible for an investment to generate an ordinary loss, rather than ordinary income. In general, ordinary losses reduce ordinary income.

Understanding what basis means

Let's move on to what happens when you sell an investment vehicle. Before getting into capital gains and losses, though, you need to understand an important term — basis. Generally speaking, basis refers to the amount of your investment in an asset. To calculate the capital gain or loss when you sell or exchange an asset, you must know how to determine both your initial basis and adjusted basis in the asset.

First, initial basis. Usually, your initial basis equals your cost — what you paid for the asset. For example, if you purchased one share of stock for $10,000, your initial basis in the stock is $10,000. However, your initial basis can differ from the cost if you did not purchase an asset but rather received it as a gift or inheritance, or in a tax-free exchange.

Next, adjusted basis. Your initial basis in an asset can increase or decrease over time in certain circumstances. For example, if you buy a house for $100,000, your initial basis in the house will be $100,000. If you later improve your home by installing a $5,000 deck, your adjusted basis in the house may be $105,000. You should be aware of which items increase the basis of your asset, and which items decrease the basis of your asset. See IRS Publication 551 for details.

Calculating your capital gain or loss

If you sell stocks, bonds, or other capital assets, you'll end up with a capital gain or loss. Special capital gains tax rates may apply. These rates may be lower than ordinary income tax rates.

Basically, capital gain (or loss) equals the amount that you realize on the sale of your asset (i.e., the amount of cash and/or the value of any property you receive) less your adjusted basis in the asset. If you sell an asset for more than your adjusted basis in the asset, you'll have a capital gain. For example, assume you had an adjusted basis in stock of $10,000. If you sell the stock for $15,000, your capital gain will be $5,000. If you sell an asset for less than your adjusted basis in the asset, you'll have a capital loss. For example, assume you had an adjusted basis in stock of $10,000. If you sell the stock for $8,000, your capital loss will be $2,000.

Schedule D of your income tax return is where you'll calculate your short-term and long-term capital gains and losses, and figure the tax due, if any. You'll need to know not only your adjusted basis and the amount realized from each sale, but also your holding period, your taxable income, and the type of asset(s) involved. See IRS Publication 544 for details.

- Holding period: Generally, the holding period refers to how long you owned an asset. A capital gain is classified as short term if the asset was held for a year or less, and long term if the asset was held for more than one year. The tax rates applied to long-term capital gain income are generally lower than those applied to short-term capital gain income. Short-term capital gains are taxed at the same rate as your ordinary income.
- Taxable income: Long-term capital gains and qualified dividends are generally taxed at special capital gains tax rates of 0%, 15%, and 20% depending on your taxable income. (Some types of capital gains may be taxed as high as 25 percent or 28 percent.) The actual process of calculating tax on long-term capital gains and qualified dividends is extremely complicated and depends on the amount of your net capital gains and qualified dividends and your taxable income.
- Type of asset: The type of asset that you sell will dictate the capital gain rate that applies, and possibly the steps that you should take to calculate the capital gain (or loss). For instance, the sale of an antique is taxed at the maximum tax rate of 28 percent even if you held the antique for more than 12 months.

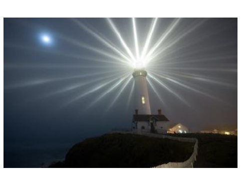
Using capital losses to reduce your tax liability

You can use capital losses from one investment to reduce the capital gains from other investments. You can also use a capital loss against up to $3,000 of ordinary income this year ($1,500 for married persons filing separately). Losses not used this year can offset future capital gains. Schedule D of your federal income tax return can lead you through this process.

New Medicare contribution tax on unearned income may apply

High-income individuals may be subject to a 3.8 percent Medicare contribution tax on unearned income (the tax, which first took effect in 2013, is also imposed on estates and trusts, although slightly different rules apply). The tax is equal to 3.8 percent of the lesser of:

- Your net investment income (generally, net income from interest, dividends, annuities, royalties and rents, and capital gains, as well as income from a business that is considered a passive activity), or



- The amount of your modified adjusted gross income that exceeds $200,000 ($250,000 if married filing a joint federal income tax return, $125,000 if married filing a separate return)

So, effectively, you're subject to the additional 3.8 percent tax only if your adjusted gross income exceeds the dollar thresholds listed above. It's worth noting that interest on tax-exempt bonds is not considered net investment income for purposes of the additional tax. Qualified retirement plan and IRA distributions are also not considered investment income.

Getting help when things get too complicated

The sales of some assets are more difficult to calculate and report than others, so you may need to consult an IRS publication or other tax references to properly calculate your capital gain or loss. Also, remember that you can always seek the assistance of an accountant or other tax professional.

Six Keys to More Successful Investing

A successful investor maximizes gain and minimizes loss. Though there can be no guarantee that any investment strategy will be successful and all investing involves risk, including the possible loss of principal, here are six basic principles that may help you invest more successfully.

Long-term compounding can help your nest egg grow

It's the "rolling snowball" effect. Put simply, compounding pays you earnings on your reinvested earnings. The longer you leave your money at work for you, the more exciting the numbers get. For example, imagine an investment of $10,000 at an annual rate of return of 8 percent. In 20 years, assuming no withdrawals, your $10,000 investment would grow to $46,610. In 25 years, it would grow to $68,485, a 47 percent gain over the 20-year figure. After 30 years, your account would total $100,627. (Of course, this is a hypothetical example that does not reflect the performance of any specific investment.)

This simple example also assumes that no taxes are paid along the way, so all money stays invested. That would be the case in a tax-deferred individual retirement account or qualified retirement plan. The compounded earnings of deferred tax dollars are the main reason experts recommend fully funding all tax-advantaged retirement accounts and plans available to you.

While you should review your portfolio on a regular basis, the point is that money left alone in an investment offers the potential of a significant return over time. With time on your side, you don't have to go for investment "home runs" in order to be successful.

Endure short-term pain for long-term gain

Riding out market volatility sounds simple, doesn't it? But what if you've invested $10,000 in the stock market and the price of the stock drops like a stone one day? On paper, you've lost a bundle, offsetting the value of compounding you're trying to achieve. It's tough to stand pat.

There's no denying it — the financial marketplace can be volatile. Still, it's important to remember two things. First, the longer you stay with a diversified portfolio of investments, the more likely you are to reduce your risk and improve your opportunities for gain. Though past performance doesn't guarantee future results, the long-term direction of the stock market has historically been up. Take your time horizon into account when establishing your investment game plan. For assets you'll use soon, you may not have the time to wait out the market and should consider investments designed to protect your principal. Conversely, think long-term for goals that are many years away.

Second, during any given period of market or economic turmoil, some asset categories and some individual investments historically have been less volatile than others. Bond price swings, for example, have generally been less dramatic than stock prices. Though diversification alone cannot guarantee a profit or ensure against the possibility of loss, you can minimize your risk

somewhat by diversifying your holdings among various classes of assets, as well as different types of assets within each class.

Spread your wealth through asset allocation

Asset allocation is the process by which you spread your dollars over several categories of investments, usually referred to as asset classes. The three most common asset classes are stocks, bonds, and cash or cash alternatives such as money market funds. You'll also see the term "asset classes" used to refer to subcategories, such as aggressive growth stocks, long-term growth stocks, international stocks, government bonds (U.S., state, and local), high-quality corporate bonds, low-quality corporate bonds, and tax-free municipal bonds. A basic asset allocation would likely include at least stocks, bonds (or mutual funds of stocks and bonds), and cash or cash alternatives.

There are two main reasons why asset allocation is important. First, the mix of asset classes you own is a large factor — some say the biggest factor by far — in determining your overall investment portfolio performance. In other words, the basic decision about how to divide your money between stocks, bonds, and cash can be more important than your subsequent choice of specific investments.

Second, by dividing your investment dollars among asset classes that do not respond to the same market forces in the same way at the same time, you can help minimize the effects of market volatility while maximizing your chances of return in the long term. Ideally, if your investments in one class are performing poorly, assets in another class may be doing better. Any gains in the latter can help offset the losses in the former and help minimize their overall impact on your portfolio.

Consider your time horizon in your investment choices

In choosing an asset allocation, you'll need to consider how quickly you might need to convert an investment into cash without loss of principal (your initial investment). Generally speaking, the sooner you'll need your money, the wiser it is to keep it in investments whose prices remain relatively stable. You want to avoid a situation, for example, where you need to use money quickly that is tied up in an investment whose price is currently down.

Therefore, your investment choices should take into account how soon you're planning to use your money. If you'll need the money within the next one to three years, you may want to consider keeping it in a money market fund or other cash alternative whose aim is to protect your initial investment. Your rate of return may be lower than that possible with more volatile investments such as stocks, but you'll breathe easier knowing that the principal you invested is relatively safe and quickly available, without concern over market conditions on a given day. Conversely, if you have a long time horizon — for example, if you're investing for a retirement that's many years away — you may be able to invest a greater percentage of your assets in something that might have more dramatic price changes but that might also have greater potential for long-term growth.

Note: *Before investing in a mutual fund, consider its investment objectives, risks, charges, and expenses, all of which are outlined in the prospectus, available from the fund. Consider the information carefully before investing. Remember that an investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporate or any other government agency. Although the fund seeks to preserve the value of your investment at $1 per share, it is possible to lose money by investing in the fund.*

Dollar cost averaging: investing consistently and often

Dollar cost averaging is a method of accumulating shares of an investment by purchasing a fixed dollar amount at regularly scheduled intervals over an extended time. When the price is high, your fixed-dollar investment buys less; when prices are low, the same dollar investment will buy more shares. A regular, fixed-dollar investment should result in a lower average price per share than you would get buying a fixed number of shares at each investment interval. A workplace savings plan, such as a 401(k) plan that deducts the same amount from each paycheck and invests it through the plan, is one of the most well-known examples of dollar cost averaging in action.

Remember that, just as with any investment strategy, dollar cost averaging can't guarantee you a profit or protect you against a loss if the market is declining. To maximize the potential effects of dollar cost averaging, you should also assess your ability to keep investing even when the market is down.

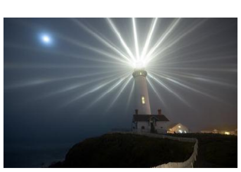
An alternative to dollar cost averaging would be trying to "time the market," in an effort to predict how the price of the shares will fluctuate in the months ahead so you can make your full investment at the absolute lowest point. However, market timing is generally unprofitable guesswork. The discipline of regular investing is a much more manageable strategy, and it has the added benefit of automating the process.

Buy and hold, don't buy and forget

Unless you plan to rely on luck, your portfolio's long-term success will depend on periodically reviewing it. Maybe economic conditions have changed the prospects for a particular investment or an entire asset class. Also, your circumstances change over time, and your asset allocation will need to reflect those changes. For example, as you get closer to retirement, you might decide to increase your allocation to less volatile investments, or those that can provide a steady stream of income.

Another reason for periodic portfolio review: your various investments will likely appreciate at different rates, which will alter your asset allocation without any action on your part. For example, if you initially decided on an 80 percent to 20 percent mix of stock investments to bond investments, you might find that after several years the total value of your portfolio has become divided 88 percent to 12 percent (conversely, if stocks haven't done well, you might have a 70-30 ratio of stocks to bonds in this hypothetical example). You need to review your portfolio periodically to see if you need to return to your original allocation.

To rebalance your portfolio, you would buy more of the asset class that's lower than desired, possibly using some of the proceeds of the asset class that is now larger than you intended. Or you could retain your existing allocation but shift future investments into an asset class that you want to build up over time. But if you don't review your holdings periodically, you won't know whether a change is needed. Many people choose a specific date each year to do an annual review.



Can I deduct home office expenses?

If you use part of your home to conduct your trade or business, you might be able to deduct certain related expenses. To qualify for the home office deduction, you must pass certain tests.

You must use part of your home regularly and exclusively for your trade or business. Exclusive use means that this space is not used for any nonbusiness purpose, such as watching television, during the tax year of the deduction. If the space is used for business only sporadically or occasionally, you may not meet the regular use test.

Also, your home office must be used as either (1) your principal place of business or (2) a place where you meet customers, clients, or patients in the normal course of business. You may also be able to take a deduction if you use part of your home to perform administrative or management duties and you have no other location to do this work. If you are an employee and work from home, the business use of your home must be for the convenience of your employer in order to take the deduction. However, for 2018 to 2025, if you are an employee, you cannot deduct your unreimbursed home office expenses.

Certain expenses for a separate structure, such as a garage, may be deductible if the structure is used regularly and exclusively in connection with your business or trade. A separate structure that's used in this way does not have to be your principal place of business, or a place where you meet customers, to qualify for the deduction.

If you qualify under these tests, you can deduct certain expenses related to the business use of your home, but your deduction is limited by the percentage used for business and the deduction limit. You can deduct both direct and indirect expenses that apply to the portion of your home that you use for business purposes. Direct expenses are costs expended solely on the part of your home that you use for business purposes, and these can be deducted in full (subject to the deduction limit). They include such expenses as painting, and installation of separate telephone jacks and wiring. Indirect expenses are costs that benefit your entire home, including the portion you use for business. Indirect expenses include mortgage interest, property taxes, insurance, and so on. You may deduct a percentage of these expenses. You may use a square footage calculation or any other reasonable method to compute the business portion of indirect expenses.

Also, you may be able to take advantage of a new, simplified way to calculate the home office deduction, which took effect in 2013. Under this method, instead of determining and allocating actual expenses such as mortgage interest and utilities, you would simply multiply the square footage of the office by $5.00. The maximum allowed is $1,500 (or 300 square feet). For more information on this deduction, see IRS Publication 587, "Business Use of Your Home."

If you are self-employed and not a farmer, you must file IRS Form 8829 to take advantage of the home office deduction. IRS Publication 587 offers more information on taking this deduction.

How often do I need to review my estate plan?

Although there's no hard-and-fast rule about when you should review your estate plan, the following suggestions may be of some help:

- You should review your estate plan immediately after a major life event
- You'll probably want to do a quick review each year because changes in the economy and in the tax code often occur on a yearly basis
- You'll want to do a more thorough review every five years

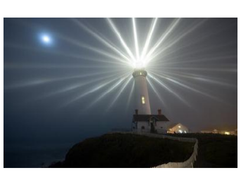
Reviewing your estate plan will not only give you peace of mind, but will also alert you to any other changes that need to be addressed.

There will be times when you'll need to make changes to your plan to ensure that it still meets all of your goals. For example, an executor, trustee, or guardian may change his or her mind about serving in that capacity, and you'll need to name someone else.

Other reasons you should do a periodic review include:

- There has been a change in your marital status (many states have laws that revoke part or all of your will if you marry or get divorced) or that of your children or grandchildren
- There has been an addition to your family through birth, adoption, or marriage (stepchildren)
- Your spouse or a family member has died, has become ill, or is incapacitated
- Your spouse, your parents, or other family member has become dependent on you
- There has been a substantial change in the value of your assets or in your plans for their use
- You have received a sizable inheritance or gift
- Your income level or requirements have changed
- You are retiring
- You have made a change in your estate plan (e.g., you created a trust or executed a codicil to your will)

While trusts offer numerous advantages, they incur up-front costs and often have ongoing administrative fees. The use of trusts involves a complex web of tax rules and regulations. You should consider the counsel of an experienced estate planning professional and your legal and tax advisers before implementing such strategies.



How long should I keep copies of my tax returns?

Answer:

Generally, you should keep your tax returns and supporting information (i.e., receipts, W-2 forms, bank statements) for six to seven years. The IRS has three years to audit a return, or two years after you have paid the tax, whichever is later. However, if income was underreported by at least 25 percent, the IRS can look back six years, and there is no time limit for fraudulent tax returns.

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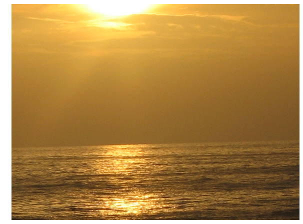

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