

# INVESTORS

R E S O U R C E

## Not Your Parents' Retirement: What Will Yours Be Like?

"Retirement" means vastly different things to different people. For example, your parents probably believed:

- They could rely on Social Security for retirement income
- They could work for one employer and then receive a generous pension with a guaranteed benefit
- Their employer would continue to provide health insurance after they retired
- Once they left the workforce, they probably would never return
- After they retired, their parents would be gone and their kids would take care of them
- Retirement was a fairly short life stage with illness and disability just around the corner

If you're a baby boomer nearing retirement, you probably don't share these beliefs. It's no wonder.

**Social Security is far from secure.** As the first wave of the baby boom approaches age 62 – and becomes eligible for early retirement – Social Security will be hard-pressed to keep up. According to the latest Trustees report, Social Security's income will begin to fall short of expenses in 2018. [Source: Hartford Courant, February 27, 2004, "Greenspan's Prescription Tough Sell," pg. A5] What's more, the full-benefit retirement age is increasing. If you were born after 1942, you can't receive full benefits until you turn 66. If you were born after 1960, 67 is your magic number. Plus, Fed Chairman Alan Greenspan is pushing for a new method of limiting cost of living adjustments and promoting further retirement age increases. [Source: Hartford Courant, February 26, 2004, "Social Security Furor Erupts," pg. A1]

### Boomers are saying goodbye to defined benefit pensions.

When your parents retired, they often drew income from a defined benefit pension. Today, fewer employers offer such plans. Instead, they encourage employees to participate in a defined contribution plan such as a 401(k) plan, where the benefit depends on how much money employees contribute.

According to the Employee Benefit Research Institute (EBRI), the youngest baby boomers (born in 1964) will have substantially less defined benefit income when they retire, compared with today's retirees (32.4 percent less for men and 25 percent less for women). [Source: EBRI Issue Brief, April 2001]

As defined benefit plans become rarer, employees will have to increase their 401(k) plan contributions, a tall order, to be sure. According to EBRI, only 11 percent of 401(k) plan participants contribute the maximum allowed amount.

*(continues on next page)*

### Compliments of:

## An Economist Said ...

“ Ample monetary liquidity, low tax rates, an attractive dollar, and strong productivity all add up to a good future scenario. ”

### Larry Kudlow

Consulting Chief Economist  
for American Skandia, Inc.,  
a Prudential Financial company  
October 20, 2004

## TABLE OF CONTENTS

Not Your Parents' Retirement: <i>What Will Yours Be Like?</i> .....cover - page 2	Ready for Retirement? .....page 4
An Economist Said .....cover	For Your Health! .....page 4
Fixed vs. Variable Annuitization: <i>It Pays to Know the Difference</i> .....page 2	That's A Fact!.....page 4
Tax Efficiency Check-Up .....page 3	

Don't count on your current employer to provide retiree health insurance. According to a recent study, 10 percent of large businesses eliminated health insurance in 2003 for future retirees. Another 20 percent said they were considering doing so within the next three years. [Source: Kaiser Family Foundation and Hewitt Associates, 2002]

**More retirees continue to work, whether they need to or not.**

Today, people want to keep working in retirement if they can. According to AARP, 68 percent of pre-retirees plan to work at least part-time in retirement. Reasons: to stay mentally and physically active, to remain productive, to get health insurance, and to make money. [Source: AARP, "Working in Retirement," 2002]

**Saving for retirement is not the only concern of boomers.**

Because their parents are living longer and because they themselves had kids later in life, baby boomers often care not only for aging parents, but also for children at home. According to AARP, 70 percent of Americans between the ages of 45 and 55 have at least one living parent and nearly 40 percent have children at home. [Source: AARP "In the Middle" study, July 2001] Given these competing demands for time and money, members of the sandwich generation will likely have trouble planning – and saving for – their own retirements.

**Retirees are living longer.**

In 2000, a newborn male could reasonably expect to live just over 74 years. However, a male age 65 stood a good shot of living another 16.3 years. And a 75-year-old male was likely to live even longer – another 10.1 years. [Source: National Center for Health Statistics, December 19, 2002] Increased longevity increases the need to save more for retirement.

**Bottom line: Get Ready for a Different Retirement**

Due to the trends just discussed, your retirement will not be your parents' retirement. The key is to get more involved in planning your retirement, rely less on government and corporate pension plans, and maximize personal savings in vehicles such as fixed and variable annuities. Also consider partnering with an astute financial professional to help you plan a retirement income strategy.

**To live well in retirement or not: the choice is yours.**

*Investors should consider the contract and the underlying portfolios' investment objectives, risks, charges and expenses carefully before investing. This and other important information is contained in the prospectuses that can be obtained from your financial professional. You should read the prospectuses carefully before investing.*

*Annuities are issued by American Skandia Life Assurance Corporation. Securities products and services are distributed by American Skandia Marketing Incorporated, both located at One Corporate Drive, Shelton, CT 06484. Phone: 1-800-752-6342. Both are Prudential Financial companies. American Skandia Life Assurance Corporation is solely responsible for its financial condition and contractual obligations.*

*American Skandia does not provide tax or legal advice. You should contact your own tax or legal advisors in regard to your particular situation.*

*All guarantees are based on the claims-paying ability of the issuing company. Annuity contracts contain exclusions, reductions of benefits and terms for keeping them in force. Your licensed financial professional can provide you with costs and complete details.*

**VARIABLE ANNUITIES**

ARE NOT FDIC INSURED
ARE NOT BANK OR CREDIT UNION GUARANTEED
ARE NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY
MAY LOSE VALUE

**Fixed vs. Variable Annuitization: It Pays to Know the Difference**

If you own an annuity, you face two separate decisions as your retirement date nears. First, whether or not you want to annuitize your contract (converting all or part of your balance into recurring payments over a period of time). And second, whether you want these payments to be fixed or variable (this applies only to variable annuities).

These decisions can be complex. So seek expert financial advice before making them. If you decide to annuitize, you'll need to understand the difference between fixed and variable annuitization.

Annuitization converts your variable annuity investment into a series of "paychecks." You can decide:

- To receive the same-size check (fixed) or
- To give yourself a raise or a decrease if your annuity fluctuates (variable).

Each method has advantages and disadvantages.

A fixed payout offers predictability. If you have fixed expenses for a known period and want to match those expenses with a guaranteed income, then a fixed payout might be best. It also often works well if you have a low tolerance for risk. Finally, a fixed payout is suitable for people who aren't concerned about inflation eroding their purchasing power.

The disadvantage of a fixed payout is that it's, well, fixed. If market conditions improve, you won't benefit.

A variable payout provides flexibility. It helps let you control how your money is invested, perhaps increasing your exposure to equities. This may increase your returns – and your "paycheck" – if equities outperform other asset classes in the future. The market risk is borne by the investor in a variable payout option and the "paycheck" will shrink in a declining market.

Disadvantage of the variable option: Your "paycheck" will fluctuate as the performance of your annuity's separate accounts rise and fall.

Bottom line? If you value predictability, dislike risk, and aren't concerned about inflation, then you may want to go the fixed route. However, if you value flexibility, can tolerate some risk, and are very concerned about inflation, then a variable payout might be right for you.

But, remember, there are no fixed rules. Your decision should be based on your personal needs, an understanding of your retirement income sources, and your financial professional's recommendations.

Making the right payout decision isn't simple. But it can mean the difference between just living in retirement and living your retirement dream.

# Tax Efficiency: Are Your Investments Creating Increased Tax Burdens?

## Maybe it's time for a Check-Up! What do you intend to do with your assets?

College funding, retirement, wealth transfer? It's a simple question, but if you don't ask, you may be paying too much in taxes and not reaching your ultimate goals for the future.

### The time to plan for your financial future is now!

By using the Tax Efficiency Check-Up form, you and your financial professional can uncover assets that may be better positioned to meet your financial goals. You may discover that you have too many assets invested in products that increase your current or potential future tax liabilities. You may find a particular area more heavily allocated than the rest or an area where little or no assets are positioned. By using this Check-Up, you and your financial professional can see where you should shift assets to diversify and optimize the mix. Complete this Check-Up with your financial professional today to help organize your finances.

### Tax Now, Tax Later, Tax Even Later (Possibly) – What does it all mean?

► **Tax Now** assets are generally positioned for current or short-term needs that can be best served with highly-liquid investment instruments such as savings accounts, money market accounts, checking accounts, CDs, mutual funds, stocks, bonds, treasury bills and notes.

► **Tax Later** assets are earmarked for long-term needs such as college funding and retirement. These assets are invested into less-liquid investments where any growth or interest is ultimately taxable at distribution such as IRAs, 401(k) plans, pension plans, variable and fixed annuities, and savings bonds.

► **Tax Even Later (Possibly)** assets are positioned for the future since they receive preferential tax treatment during accumulation and at distribution. Roth IRAs, municipal bonds<sup>†</sup> and the death benefit of life insurance (including variable life insurance) are examples of products that can do this for you, although may be subject to estate taxes.

<sup>†</sup>Certain investors may be subject to the Alternative Minimum Tax (AMT) and federal, state and local taxes may apply.

Tax Now		CF	Ret	Pass	Tax Later		CF	Ret	Pass	Tax Even Later (Possibly) <sup>*</sup>		CF	Ret	Pass
Savings	\$ _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	IRAs	\$ _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Roth IRAs	\$ _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Checking	\$ _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	401(k), 403(b)s and other pension plan assets	\$ _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Muni Bonds	\$ _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
CDs	\$ _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Variable Annuities	\$ _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Single Premium Variable Life Insurance <sup>***</sup>	\$ _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Mutual Funds	\$ _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Fixed Annuities	\$ _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	529 Plan College Savings Programs <sup>**</sup>	\$ _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Stocks	\$ _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Savings Bonds	\$ _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Single Premium Whole Life Insurance <sup>***</sup>	\$ _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Bonds	\$ _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Other	\$ _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Annual Pay Variable Life Insurance <sup>***</sup>	\$ _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Treasuries	\$ _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<b>TOTAL</b>	<b>\$ _____</b>				Annual Pay Whole Life and/or Universal Insurance <sup>***</sup>	\$ _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other	\$ _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>						<b>TOTAL</b>	<b>\$ _____</b>			
<b>TOTAL</b>	<b>\$ _____</b>													

\* Certain events and distributions may be subject to taxation and individuals would be responsible for the appropriate liability. Prudential Financial would issue a 1099 in certain cases. 1099's may also be required for informational purposes only, under certain circumstances. This piece provides general information regarding the Internal Revenue Code and does not take into consideration specific state laws. Prudential Financial does not provide tax advice and strongly recommend that clients consult with a competent tax advisor concerning any tax issues relating to their investments.

\*\* Many federal tax attributes for 529 Plans will expire on December 31, 2010. Unless extended or modified by future legislation, the earnings portion of a qualified distribution from a 529 Plan made after this date will be taxable.

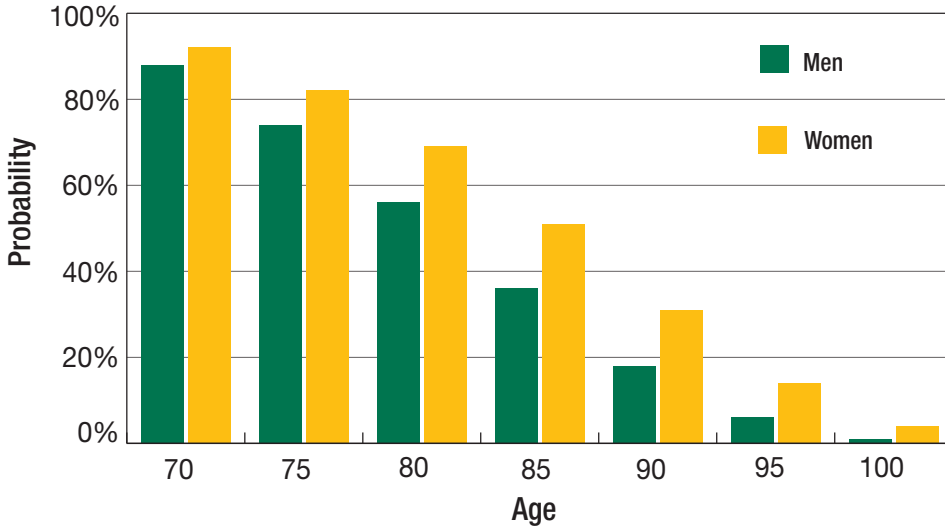
\*\*\*Life insurance death benefits are generally received income tax-free pursuant to IRC Section 101(a).

## Ready for Retirement?

Retirees today are living longer than earlier generations – as many as 30 years or more after their last paycheck. The current life expectancy is about 17 years longer than in the 1930s, according to the U.S. Department of Labor which means you'll need to make your retirement assets last a lot longer than did your parents and grandparents.

Unfortunately, 30% of Americans today retire before reaching their financial goals, according to a survey of recent retirees conducted in 2003 by Prudential Financial. Many are forced to postpone retirement because they didn't save enough or because they need to recover investment earnings eroded by volatile market conditions.

### Today's Life Expectancies at Age 65



Source: Social Security Administration, 2000 Trustees Report

### Will You Have Enough Saved?

Traditional retirement calculators suggest you'll need at least 70% of your pre-retirement income, adjusted for inflation, to sustain your accustomed standard of living in retirement.

Keep in mind your purchasing power decreases over time due to cost-of-living increases. U.S. Bureau of Labor Statistics notes, for example, that you could buy a first-class postage stamp for 20 cents in 1980. A loaf of bread 20 years ago cost only 53 cents. And the median price of a single-family home in 1980 was \$51,300, according to the U.S. Department of Commerce.

Consider the effect of a 4% inflation rate – the average over the past three decades – on your future income needs. Even if your expenses were to stay the same, a \$50,000 annual income today will have to more than double, to \$111,129, to maintain your current lifestyle 20 years from now.

Source: U.S. Department of Labor, U.S. Bureau of Labor Statistics, and U.S. Department of Commerce, October 2004

## For Your Health!



Cholesterol is a substance in the bloodstream and in the body's cells that is used for producing cell membranes and some hormones. But too high a level of cholesterol in the blood is a major risk for coronary heart disease, which leads to heart attack. The American Heart Association suggests that a way to lower your blood cholesterol is to eat more foods low in saturated fat and cholesterol and cut down on high-fat ones. Here are some daily guidelines:

- Watch your caloric intake by eating a wide variety of foods low in saturated fat and cholesterol.
- Eat at least five servings of fruits and vegetables every day.
- Eat six or more servings of cereals, breads, pasta and other whole-grain products.
- Eat fish, poultry without skin and leaner cuts of meat instead of fatty ones.
- Eat fat-free or 1% milk dairy products rather than whole-milk dairy products.
- Enjoy 30-60 minutes of vigorous activities on most (or all) days of the week.
- Maintain a healthy weight.

Source: American Heart Association, October 2004.

### THAT'S A FACT!

Only **61%** of adult Americans have life insurance protection, a decline from 70% in 1984.

Source: LIMRA International Fast Facts, August 2004.