

Winter 2010

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QUICK TIP

Just-right withholding

On tax form W-4, you tell your employer how much federal income tax to withhold from your paycheck, based on the exemptions and deductions you expect to claim on your return. The more exemptions you claim, the less tax is withheld. Ideally, your withholding shouldn't be more



(or less) than the tax you'll owe. Be sure to revise your Form W-4 whenever your tax situation changes due to an event like marriage, divorce or a new baby. For assistance, consult your tax advisor. ●

A QUARTERLY PUBLICATION FROM THE HARTFORD

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PLANNING FOR TOMORROW

Take aim at your financial targets

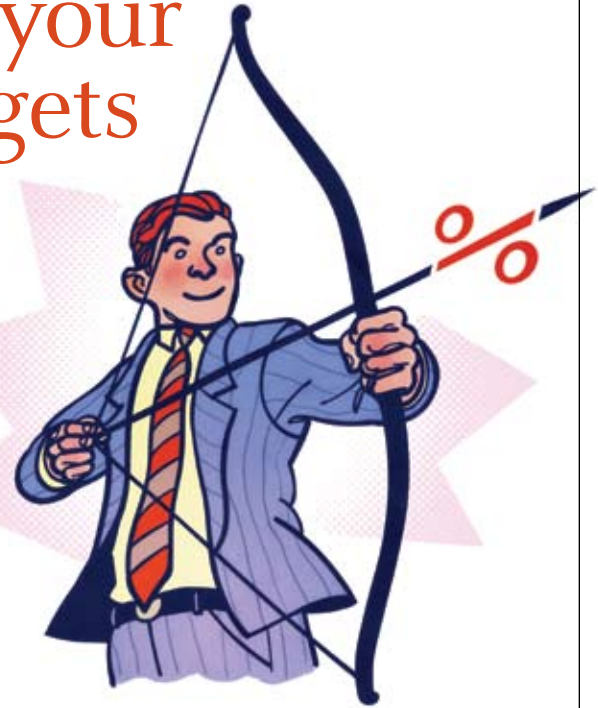
A new year is a great time to set your financial affairs in order. Three smart steps can help get you started:

1 Pay off your credit cards.

The sooner you pay off debt, the sooner you'll improve your cash flow and your credit score. (The chart below provides a to-do list for tackling credit-card debt.)

2 Boost your retirement plan contributions.

By maximizing your contributions, you're investing in your future comfort and security. For 401(k) plans in 2010, the I.R.S.-allowed maximum is \$16,500, plus an additional "catch-up contribution" of \$5,500 if you're age 50 or older and your plan permits it.



3 Review your retirement plan beneficiaries.

Life events may trigger needed changes in your choice of persons to inherit your money. Make sure your beneficiary designations are current.

Take these steps and you'll enhance the financial well-being of those you care about most — and that includes you! ●

Problem plastic?

To help keep your credit-card debt from spinning out of control:

Check your monthly statements carefully and report errors early, when they're easier to correct. If you ignore them, you risk incurring additional fees that add to your debt.

Consolidate debt. One way is to transfer balances to a lower-rate card. For side-by-side card comparisons, go to **cardratings.com** or **bankrate.com**.

Consult a credit counselor. To avoid rip-offs, find a non-profit agency recommended by the National Foundation for Credit Counseling (**nfcc.org**) or the Association of Independent Consumer Credit Counseling Agencies (**aiccca.org**).

GET PERSONAL WITH SMARTMONEY

All in the family

Thanks to longer life expectancies, you may find yourself caring for your aging parents and paying for your own retirement at the same time.

A survey of baby boomers — those born between 1946 and 1964 — found that 71% have at least one living parent, and 29% of them have provided that parent with some financial assistance.*

That takes preparation. As an adult, regardless of what generation you're in, when you help your parents plan ahead to adequately finance their aging years, you're also helping to make your retirement more secure.

Discuss the future

Raising the topic of money and aging requires sensitivity and tact. The best time to talk with your parents about the future is while they're still healthy and independent.

Plan together for emergency situations. In a crisis, it will be very helpful if you have the names and telephone numbers of their doctors, lawyer and financial advisors, for example.

Ask your parents about any important legal documents, such as a durable power of attorney and a health care proxy. Using those documents, your parents can give you the authority to write checks from their accounts to pay their bills, to file their insurance claims and to authorize their medical treatments.

Stress your concern for their welfare

This talk is about helping your parents. You want them to know you'll be there for them if they're ever incapacitated. Knowing about their assets and their preferences will help you help them.

You may find that they are more ready for this talk than you are. In a 2005 survey conducted for the Hartford Financial Services Group, 73% of elderly parents said they'd be very comfortable talking with their adult children about the financial issues they'll face later in life. ●

*Pew Research Center, 2005.



Revocably yours

As part of your parents' estate planning, they may want to consider transferring their assets to a revocable trust. There are no particular tax benefits, but the trust lets them retain full control of their money and also name a co-trustee to help manage their financial affairs if necessary. They can dissolve the trust at any time or alter aspects of it, including the assets in the trust and their choice of co-trustee and beneficiaries to inherit the trust assets when they die.

Use an estate lawyer to set up the trust and make sure assets in the parents' name are re-titled to the trust (making the trust the owner). ●

FYI

Looking ahead



Anyone curious about what's happening with the economy can turn to economic indicators for a sign of how it's progressing. Two notable indicators are Gross Domestic Product (GDP) and the Consumer Price Index (CPI).

GDP measures economic performance in terms of the total value of the nation's goods and services produced over a given time. A flat or shrinking GDP suggests that recession may lie ahead. A rapidly growing GDP may signal higher inflation. When GDP grows steadily but not too fast, it indicates enough economic growth to create jobs and corporate profits but not enough to kick off inflation. The CPI measures inflation by tracking the prices of essential consumer goods and services, including housing, food, transportation, medical care, apparel and entertainment. If prices rise but incomes don't, consumers' budgets are strapped. That may slow spending and dampen the economy. ●

IN SUMMARY

Nest-egg repair

Time is a key factor in retirement planning.

The less time you have until you plan to retire, the harder it will be to make up for the losses caused by the plunge in the financial markets of 2008–2009. Working longer can be an effective way to gain the time to rebuild your portfolio. Here are three potential boosts from working longer:

1. Your portfolio gets an opportunity to grow.

- Working longer means you won't have to start tapping your retirement accounts as early as you'd planned. Instead of locking in your losses, you'll be giving your investments more time to recover.
- You'll be contributing longer to your tax-deferred retirement accounts. Several years of additional contributions can help your nest egg grow — even if you opt for lower-risk, lower-return investments, as people often do when they're nearing retirement.

2. You can delay claiming Social Security benefits, which will increase your monthly benefit.*

- Benefits can start as early as age 62. But if you wait until your full retirement age (FRA) — age 66 for people who were born between 1943 and 1954 — your Social Security check will be almost one-third bigger. Example: If your monthly benefit at age 62 would be \$750, by waiting until age 66, you would collect \$1,000 a month.
- If you decide to keep working beyond your FRA, you'll be able to collect your full Social Security benefit and a paycheck at the same time, regardless of how much you earn.
- If you delay taking Social Security even when you've reached your FRA, your benefit will gain an extra 8% a year until you're age 70. Example: If your monthly benefit at age 66 is \$1,000, by waiting until age 70 to collect, you'd get \$1,320.

3. You won't need as large a nest egg as you'd originally planned.

- The longer you work, the fewer years your investments will have to support you in retirement, and the fewer years in which inflation can erode the value of your savings.
- A nest egg that doesn't have to last as long may be smaller than you'd planned, but sufficient to finance your retirement needs. ●

Time on your side?

If you won't retire for many years, you can take advantage of that longer time horizon to rebuild your investment portfolio.

Think about boosting your annual contributions and gradually increasing them over time.

Also, consider revising your asset mix, opting for a more aggressive allocation in which you take on more risk for greater potential reward. For example, you might consider changing your overall allocation from a mix of 60% stocks/40% bonds to a more aggressive, but still relatively moderate, 65/35 allocation. Work with your financial advisor to determine what asset mix is best for you. ●

*Social Security Administration, 2009.

LEARN MORE

To your credit

There's an important difference between a tax deduction and a tax credit — and tax credits are worth more. Here's why:

A deduction reduces your taxable income. If your tax rate is 30%, for example, a \$500 tax deduction is actually worth only \$150 to you because it shrinks your tax bill by 30% of \$500 — which amounts to \$150.

On the other hand, a tax credit is applied directly to your tax bill. It reduces the income tax you owe dollar for dollar. In other words, a \$500 tax credit shrinks your total tax owed by \$500.

To learn about the new federal credits for tax-year 2009 created by the economic stimulus law, visit the IRS Web site: www.irs.gov (in the Search box, enter, with quotes, "The American Recovery and Reinvestment Act of 2009: Information Center"). ●

Q&A

Q: What is a U-shaped economic recovery?**A: Economists use certain letters of the alphabet to describe the way past economic recoveries have played out.**

In a U-shaped recovery, the economy slumps and remains depressed for a long time, and then finally steadily climbs back up again.

In a V-shaped recovery, the economy takes a rapid dive and then comes back up again very quickly. In a W-shaped recovery, the economy slumps, begins to recover, then slumps back down, and then finally rises definitively. The Great Depression had a W-shaped recovery because it was really two recessions: The first one lasted from 1929 to 1933, and the second from 1937 to 1938.*

The most recent recession began in December 2007, and the economy remained in the longest slump since the Great Depression.* What will the recovery look like? It's too early to say with any certainty.

*National Bureau of Economic Research, 2009.

Q: What is liquidity risk?**A: Liquidity risk is the danger you face that your investment can't be sold — that is, turned into "liquid" cash — quickly or cost-effectively enough to meet your needs.**

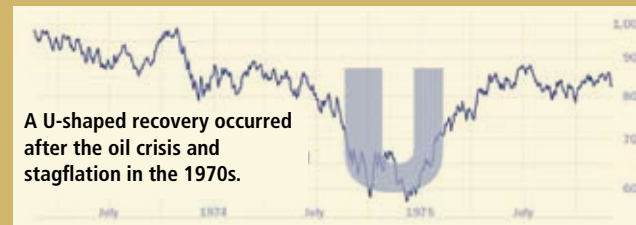
Some investments are illiquid by nature. For example, a house, a silver mine and a stamp collection are all illiquid investments; converting them to cash typically takes time and may require expert assistance.

Stocks are much more liquid than houses because there's a very broad market for stocks. But they, too, carry a form of liquidity risk: Sometimes demand for shares of a company can drop so much that there's almost no market for them. When that happens, the stocks will probably have to be sold at a loss. In a bear market, for example, it may be impossible to sell a stock for its true value. The real estate market also offers many examples of this type of illiquidity.

When you're looking to create an emergency fund, you need to know that you can tap your money at any time without paying a penalty or risking loss. That's why your priority should be liquidity rather than maximum return — as in a money market fund or a traditional savings account. ●

A recovery alphabet

Based on charts showing market returns for the Dow Jones Industrial Average, here's what three different economic recoveries looked like:



Source: Smartmoney.com, 2009.

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Saving Today

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