



RETIREMENT INSIGHTS

# Guide to Retirement<sup>SM</sup>

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2015 Edition

*J.P. Morgan*

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**J.P.Morgan**  
Asset Management

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## Retirement landscape

Retirement is different now than it was in past generations. These days, individuals have varying expectations for how they wish to spend their retirement years. Many planning factors are interconnected, which require careful consideration when developing a retirement strategy.

### COMMON MISCONCEPTIONS

#### *“I’ll continue to work during retirement.”*

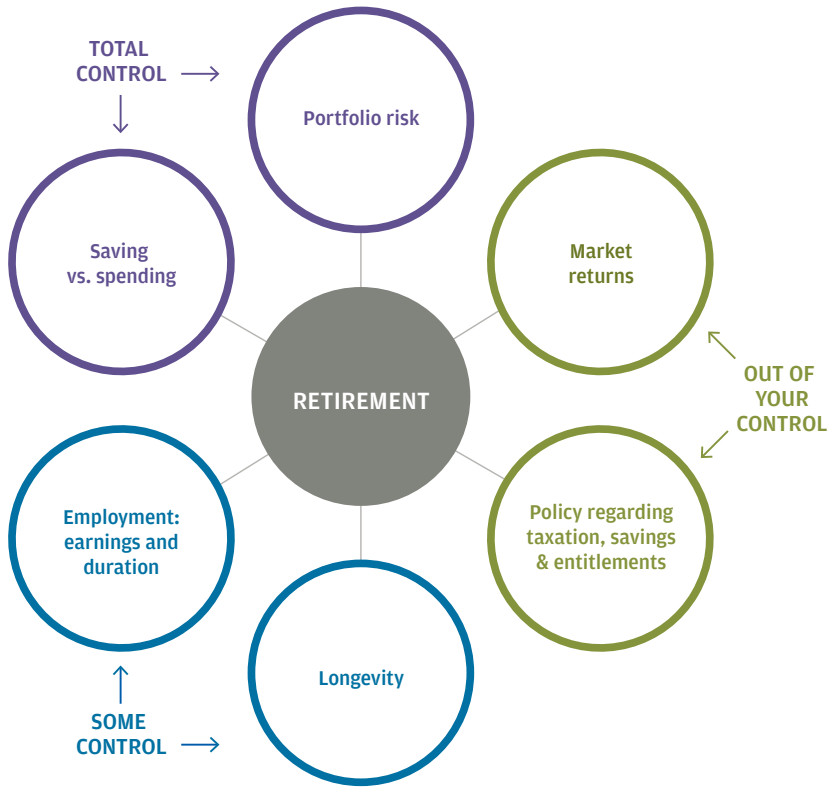
- 73% of employed Americans plan to work beyond age 65 – but only 27% of current retirees actually did.
- A number of factors can cause people to retire earlier than expected, including health problems, employer issues and family obligations. [Page 8](#)

#### *“I need to claim my Social Security benefits as soon as I can.”*

- Claiming Social Security before full retirement age can significantly reduce your benefits. [Page 9](#)
- Increasing life expectancies may make it beneficial to delay benefits. [Page 10](#)

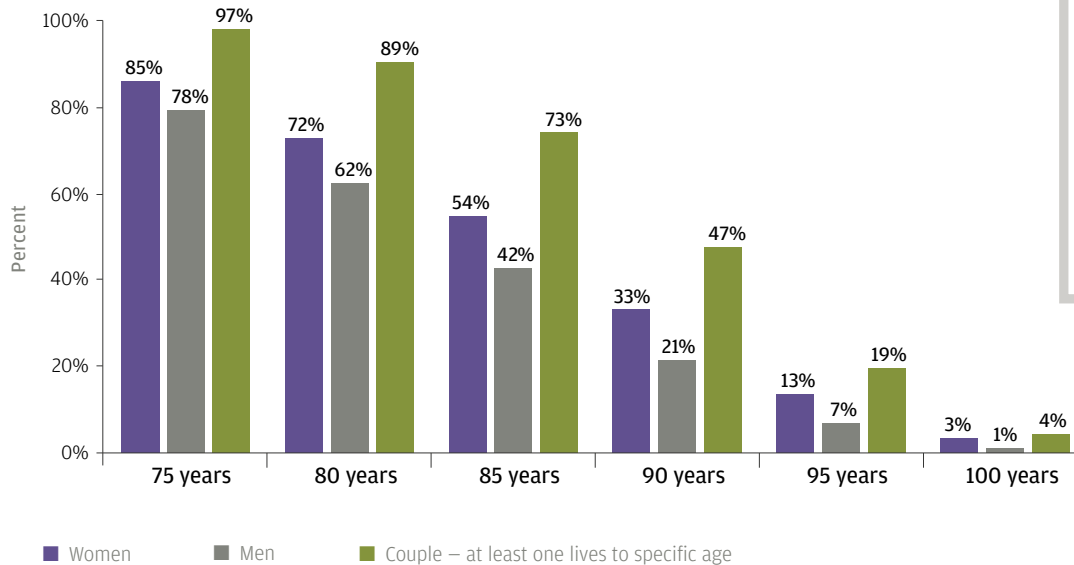
#### *“My spending patterns won’t change much when I retire.”*

- The inflation rate is higher for retirement-age Americans who spend disproportionately more on items that rise fastest in price, such as health care. [Pages 11 and 12](#)



**A SOUND RETIREMENT PLAN**  
Make the most of the things that you can control but be sure to evaluate factors that are somewhat or completely out of your control.

## If you're 65 today, the probability of living to a specific age or beyond

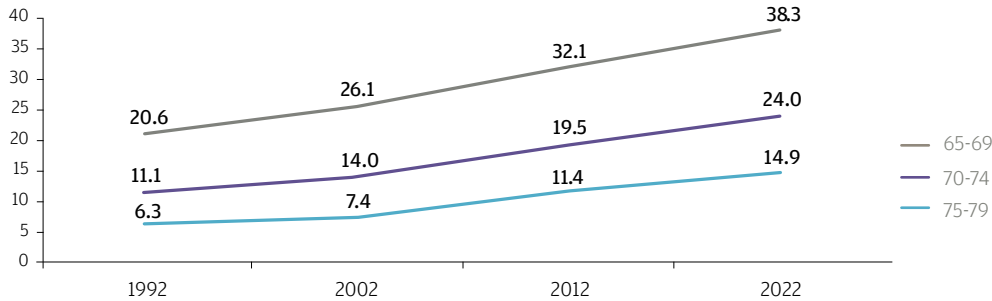


### COUNT ON LONGEVITY

Life expectancy tells only half the story. Plan on the probability of living much longer, perhaps 30 plus years in retirement.

- For example, there is a 47% chance that one spouse will live to age 90 or beyond.

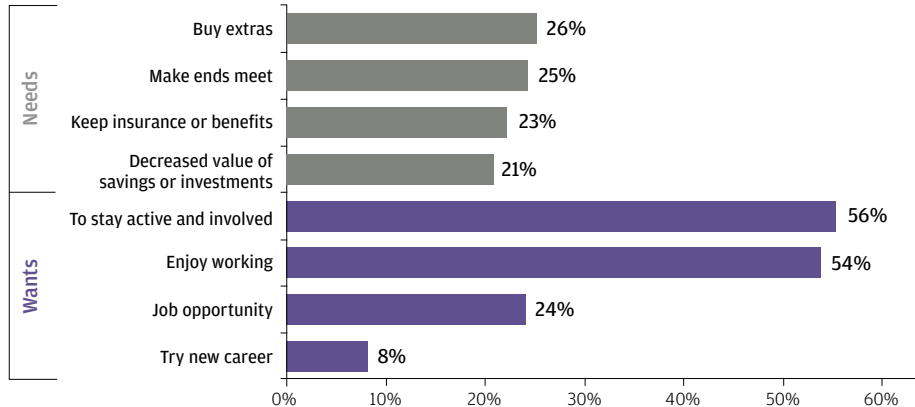
Percent of people currently in the civilian labor force, 1992 - 2022



**IT'S STILL OFF TO WORK I GO:**

More people are working beyond the age of 65 primarily motivated by the desire to do so.

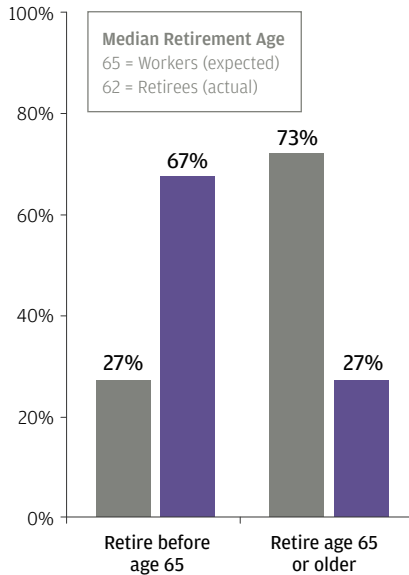
Major reasons why people work in retirement



Source (top chart): Bureau of Labor Statistics, Monthly Labor Review, December 2013.

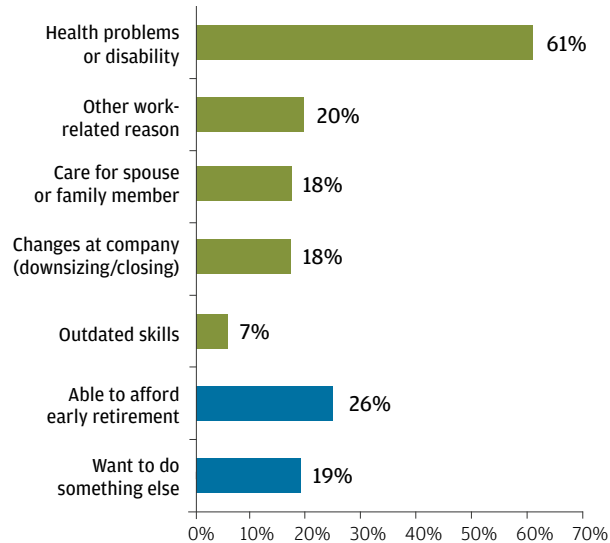
Source (bottom chart): Employee Benefit Research Institute, Mathew Greenwald & Associates, Inc., 2014 Retirement Confidence Survey. Data as of March 2014. Latest available data through December 31, 2014.

## Current expectations of retirement vs. actual experience of retirees



- Current workers' expectations
- Experience of actual retirees

## Reasons cited for retiring earlier than planned

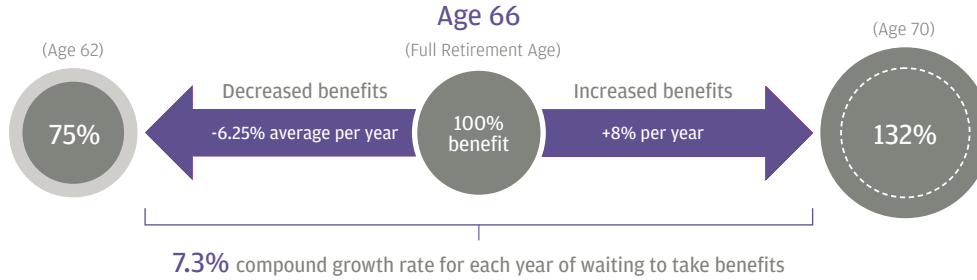


### EARLY RETIREMENT

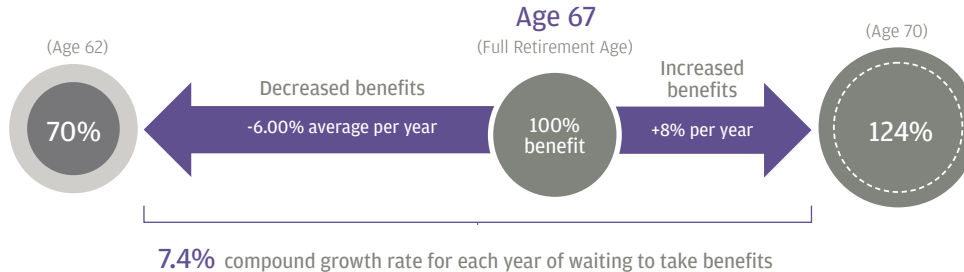
While more Americans are working past age 65, not everyone will be able to control their retirement timing.



**Born 1943 - 1954**  
Age 61-72



**Born 1960+**  
Age 55 or younger



2.43%	Average Cost of Living Adjustment (2000-2015)
1.7%	Cost of Living Adjustment for 2015

**UNDERSTAND THE TRADEOFFS**

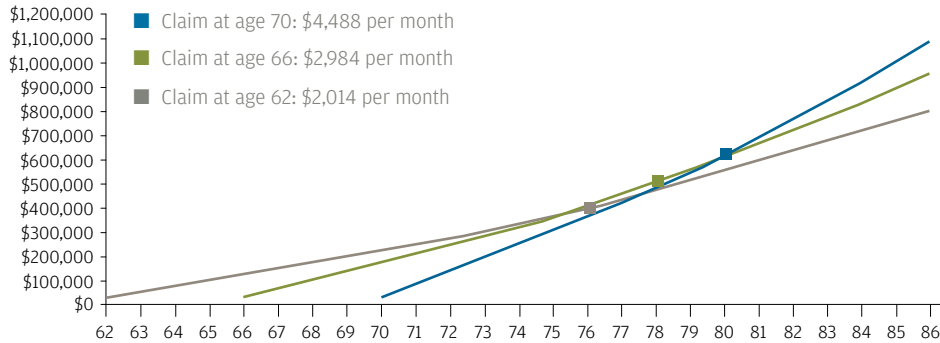
Deciding when to claim benefits will have a permanent impact on the benefit you receive. Claiming before full retirement age can significantly reduce your benefit while delaying increases it.

For illustrative purposes only. For 1955 - 1960, two months are added to the Full Retirement Age each year.

Source: Social Security Administration, J.P. Morgan Asset Management.

## Social Security breakeven analysis

Estimated total benefits of the distributions beginning at a certain age assuming maximum benefits



### PLANNING OPPORTUNITY

Delaying benefits means having more money to spend later, compensating for increased longevity.

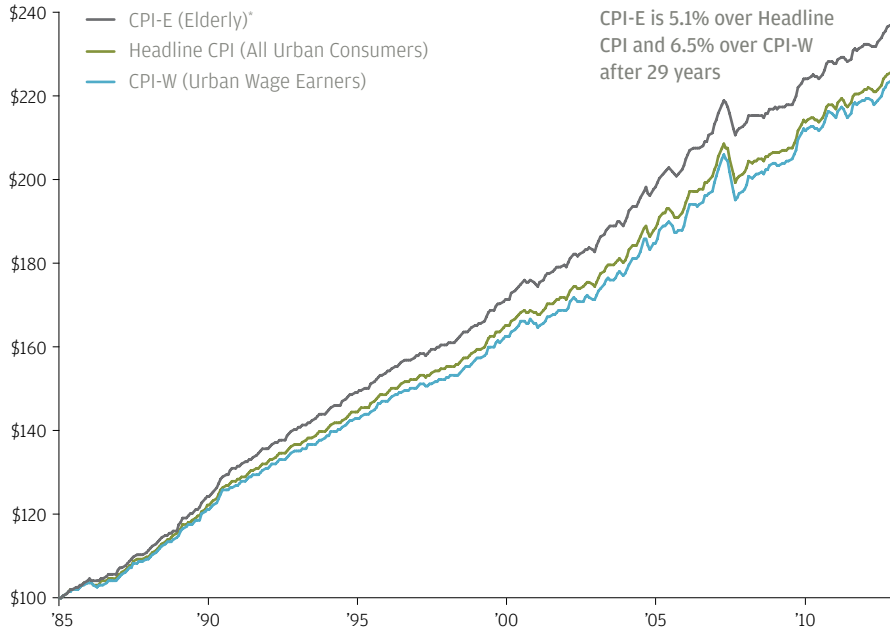
## Social Security breakeven data

	Claim at age 62	Claim at age 66	Claim at age 70	At age 65, probability of living to at least age
70	\$237,120	\$187,701	\$53,628	♂ 91% ♀ 94%
76	\$396,206	\$403,194	\$345,151	♂ 75% ♀ 83%
78	\$466,251	\$498,075	\$473,507	♂ 69% ♀ 78%
80	\$540,274	\$598,343	\$609,152	♂ 62% ♀ 72%
82	\$659,262	\$759,522	\$827,198	♂ 54% ♀ 65%
85	\$788,529	\$934,622	\$1,064,077	♂ 42% ♀ 54%

Source: Breakeven calculated using the Social Security Administration calculator for beginning values at each age. Assumes maximum benefits are received for individuals turning 62 and 1 month, 66 and 70 in 2015 and assumes the benefit will increase each year based on the Social Security Administration 2014 Trustee's Report "intermediate" estimates (starting at 1.7% in 2015 and gradually rising to 2.7% in 2020). Monthly amounts without the cost of living adjustments (not shown on the chart) are: \$2,014 at age 62; \$2,713 at age 66; and \$3,606 at age 70.

## Comparison of inflation, 1985 - 2014

1985 = 100



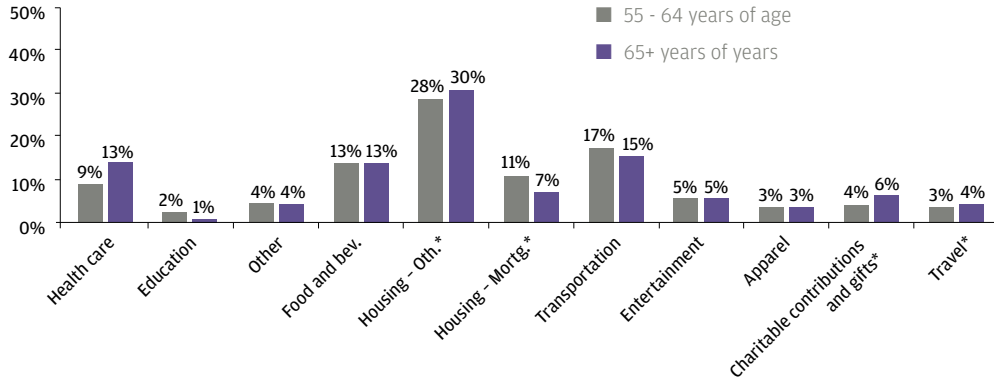
### EROSION OF PURCHASING POWER

Older Americans experience a higher degree of inflation than both urban consumers (Headline CPI) and the inflation measure used to adjust Social Security benefits (CPI-W).

\*CPI-E is an experimental index from BLS that is based on elderly households with the referenced individuals at age 62 and older.

Source: Based on Consumer Price Indexes, BLS, J.P. Morgan Asset Management. Data as of December 31, 2014.

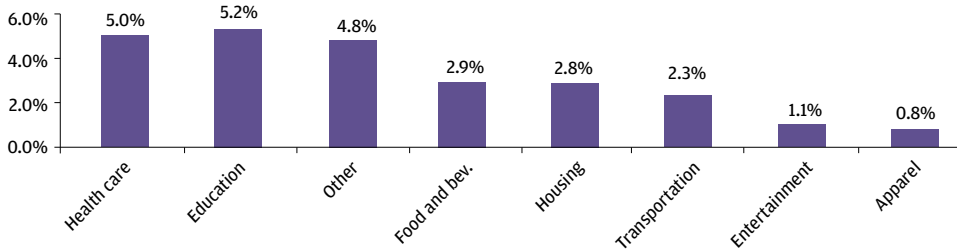
## Spending by age and category



### LOSING GROUND

Inflation disproportionately affects older Americans due to differences in spending habits and price increases in those categories.

## Average inflation by spending category 1982 - 2014

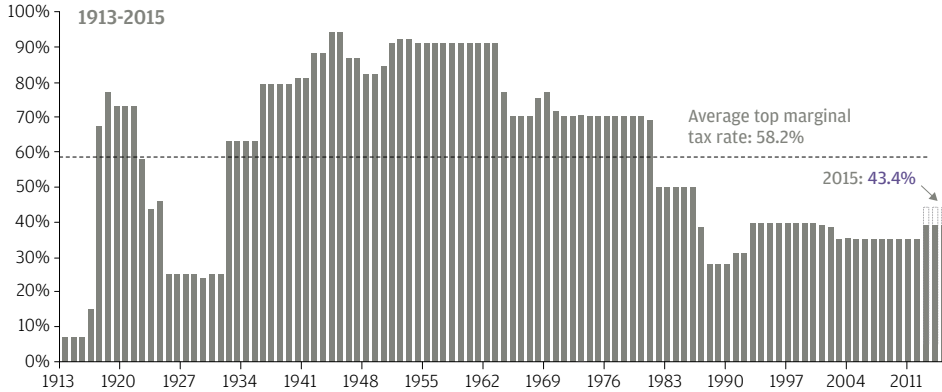


\*There are no individual inflation measures for these specific subcategories.

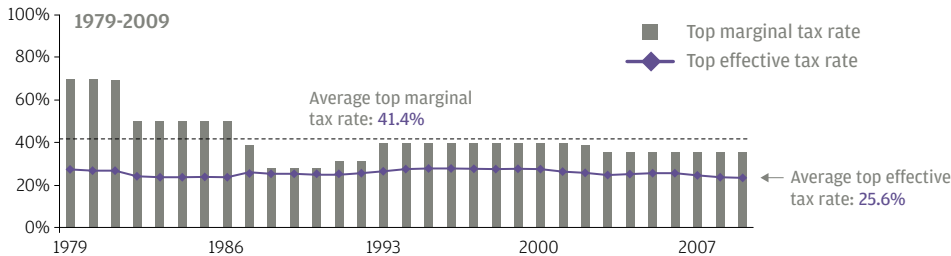
Source (top chart): BLS, 2013 Consumer Expenditure Survey. Charitable contributions include gifts to religious, educational and political organizations, and other cash gifts.

Source (bottom chart): BLS, Consumer Price Index, J.P. Morgan Asset Management. Data represents annual percentage increase from December 1981 through December 2014 with the exception of entertainment and education, which date back to 1993. The inflation rate for the Other category is derived from personal care products and tobacco. Tobacco has experienced more than 7% inflation since 1986 but each age group only spends 0.5% - 0.9% on tobacco (23% - 41% of combined personal care products and tobacco), which is a lower proportion than represented in the Other inflation rate.

## Top marginal federal income tax rate



## Historical view of top marginal federal income tax rate vs. average top effective tax rate for the highest earners



### IMPORTANCE OF INCOME TAX PLANNING

The top marginal bracket of 39.6%, when combined with the 3.8% Medicare surcharge tax, puts high earners at a 43.4% rate for each additional dollar of unearned (non-wage) income – below the long-term historical average. High earners pay on average almost 26 cents of every dollar of income to federal income taxes.

Source: IRS, The Tax Foundation, J.P. Morgan Asset Management. Data as of January 31, 2015. The presenter of this slide is not a tax or legal advisor. Clients should consult a personal tax or legal advisor prior to making any tax- or legal-related investment decisions.

## Saving

The single most important decision individuals can make about retirement is to take responsibility for funding it themselves. Living expenses, health care costs, Social Security, pensions and future employment are all uncertain. But saving today is one way to prepare for a more stable tomorrow.

### COMMON MISCONCEPTIONS

#### *“I’ve already started saving a little – I should be okay.”*

- In 2014, only 44% of workers (and/or spouses) had tried to calculate how much money they would actually need to save for a comfortable retirement.\*
- Use the retirement savings checkpoint chart to see if you are on track to reach your goals. [Page 15](#)

#### *“Retirement is so far away – I have plenty of time to think about it.”*

- The sooner you begin, the more time you have to maximize the power of compounding. [Page 16](#)
- Start saving early and regularly. Early withdrawals, loans and missed contributions can result in lower savings, less compounding and fewer assets at retirement. [Page 18](#)

	\$50,000	\$75,000	\$100,000	\$150,000	\$200,000	\$250,000	\$300,000	\$400,000
Current Age	Checkpoint (x Current Salary)							
30	0.3	0.5	0.9	1.5	1.8	2.0	2.2	2.5
35	0.6	1.0	1.4	2.1	2.5	2.8	3.0	3.4
40	1.1	1.5	2.0	3.0	3.5	3.8	4.1	4.6
45	1.6	2.2	2.8	4.0	4.6	5.0	5.4	6.0
50	2.3	3.0	3.8	5.3	6.1	6.6	7.0	7.8
55	3.2	4.1	5.0	7.0	7.9	8.5	9.1	10.1
60	4.3	5.4	6.6	9.0	10.2	11.0	11.7	13.0
65	5.7	7.1	8.6	11.6	13.1	14.1	15.0	16.6

### MODEL ASSUMPTIONS

- Pre-retirement investment return: 7.0%
- Post-retirement investment return: 5.0%
- Retirement age: 65
- Years in retirement: 30
- Inflation rate: 2.25%
- Confidence level represented: 80%
- Assumed annual contribution rate: 5%

#### How to use:

- Go to the intersection of your current age and your closest current salary.
- Multiply your salary by the checkpoint shown to get the amount you should have saved today, assuming you continue annual contributions of 5% going forward.
- Example: for a 40-year-old making \$100,000:  $\$100,000 \times 2.0 = \$200,000$ .

This chart is for illustrative purposes only and must not be used, or relied upon, to make investment decisions. J.P. Morgan's model is based on J.P. Morgan Asset Management's (JPMAM) proprietary long-term capital markets assumptions (10 - 15 years). Post-retirement volatility assumption is 6.3%. Salary replacement rates are derived from Aon Consulting's 2008 Replacement Ratio Study data, which assumes individuals receive Social Security payments in retirement. Calculations assume an individual earning \$50,000 at retirement will need to replace at least 30% of their pre-retirement income; individuals earning \$75,000 will need to replace at least 37%; individuals earning \$100,000 will need to replace at least 45%; individuals earning \$150,000 will need to replace at least 61%; individuals earning \$200,000 will need to replace at least 69%; individuals earning \$250,000 will need to replace at least 74%; individuals earning \$300,000 will need to replace at least 79%; and those earning \$400,000 will need to replace 87%. Allocations, assumptions and expected returns are not meant to represent JPMAM performance. Given the complex risk/reward tradeoffs involved, we advise clients to rely on judgment as well as quantitative optimization approaches in setting strategic allocations. References to future returns for either asset allocation strategies or asset classes are not promises or even estimates of actual returns a client portfolio may achieve.

## Growth of savings accounts



**SAVING FUNDAMENTALS**  
 Harnessing the power of compounding can greatly impact the amount of savings over the long term.

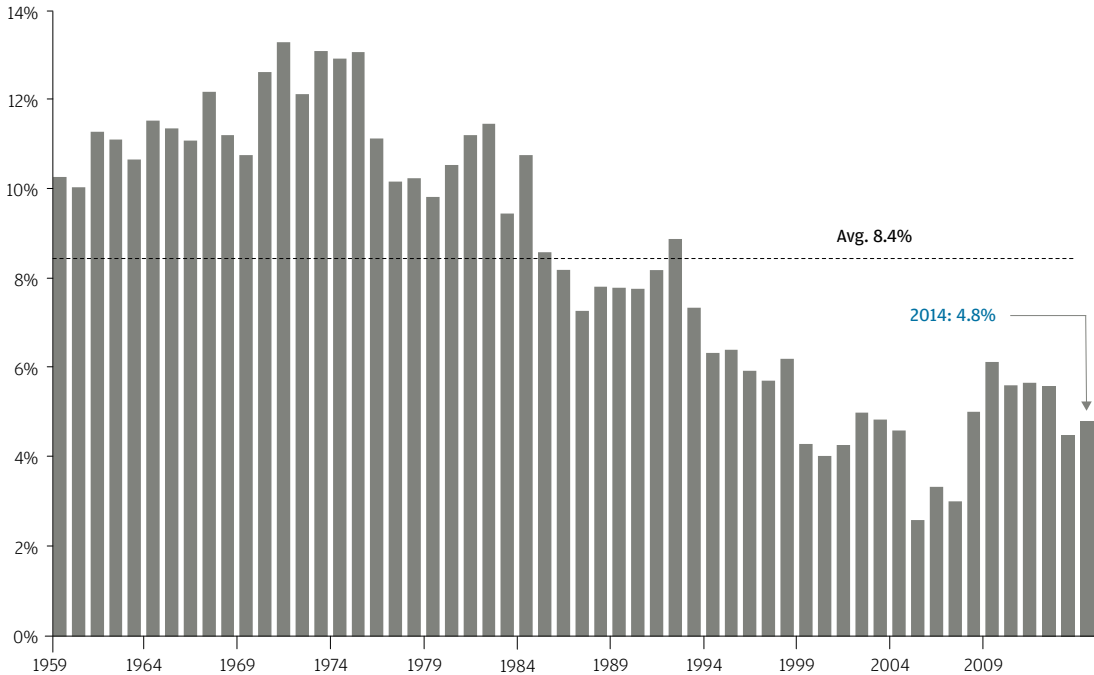
The above example is for illustrative purposes only and not indicative of any investment. Account value in this example assumes a 7% annual return. Source: J.P. Morgan Asset Management.

Compounding refers to the process of earning return on principal plus the return that was earned earlier.



## Personal savings rate

Annual, % of disposable income

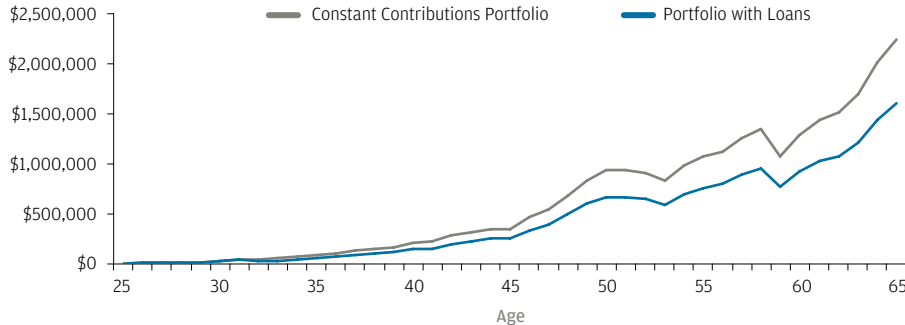


### REMEMBER RETIREMENT

Ongoing low savings rates could have negative effects on the retirement preparedness of Americans.

Source: J.P. Morgan Asset Management, The Bureau of Economic Analysis. Personal savings rate is calculated as personal savings (after-tax income - personal outlays) divided by after-tax income. Employer and employee contributions to retirement funds are included in after-tax income but not in personal outlays, and thus are implicitly included in personal savings. Savings rate data as of December 31, 2014.

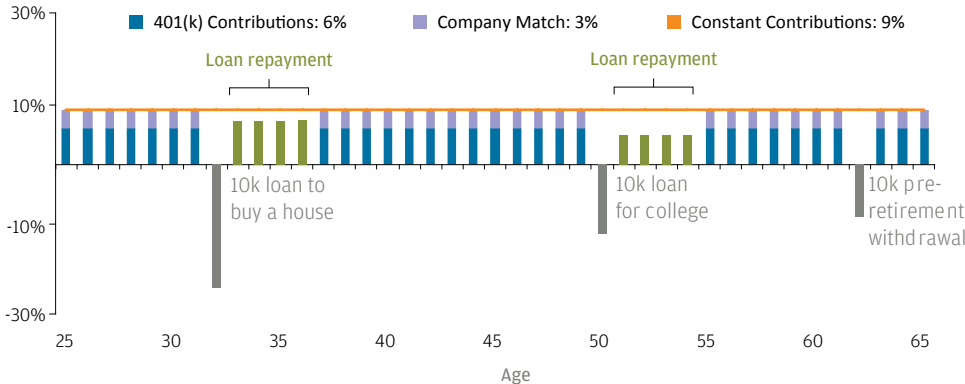
## Growth of a 401(k) investment



### AVOID TEMPTATION

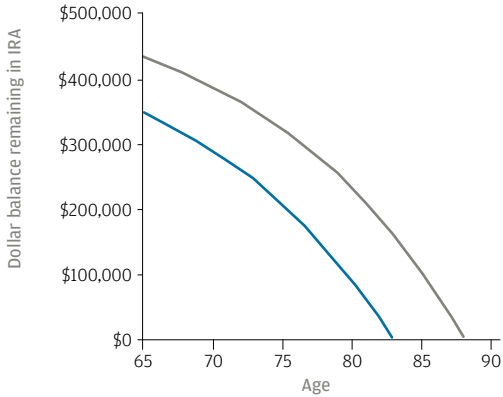
A 401(k) is for long-term retirement savings, not an emergency reserve fund. Investing with a steady contribution rate over time can maximize your account value. Taking loans and early withdrawals can drastically impact your total savings.

## Assumed 401(k) contributions

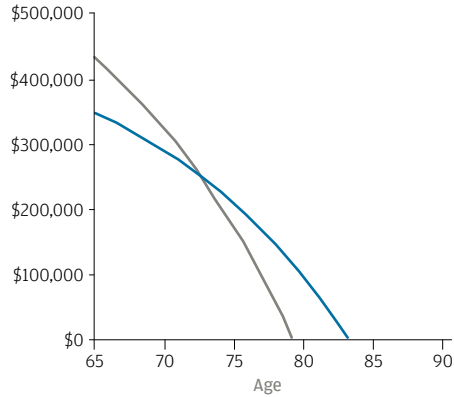


Source: J.P. Morgan Asset Management. For illustrative purposes only. Hypothetical portfolio is assumed to be invested 60% in the S&P 500 and 40% in the Barclays Capital U.S. Aggregate Index from 1974 to 2014. Starting salary of \$30,000 increasing by 2.25% each year.

**Tax rates decrease 10% in retirement**



**Tax rates increase 10% in retirement**



— 401(k) pre-tax contributions (taxed on the way out)

— Roth 401(k) (taxed on way in)

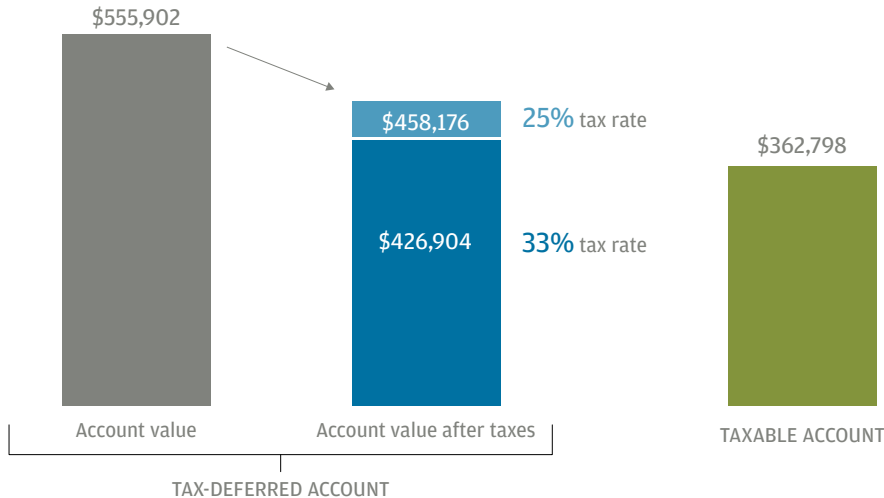
**CONSIDER INCOME TAX DIVERSIFICATION**

A Roth option may make sense if your income taxes are higher in the future – but also can provide flexibility in higher income tax years when meeting your retirement income needs.

For illustrative purposes only. Hypothetical contribution to 401(k) accounts is assumed as an illustrative example. 401(k) pre-tax contributions: \$10,000 is contributed and is taxed upon withdrawal. Roth 401(k): \$10,000 is taxed at 25% resulting in a \$7,500 annual contribution amount. This ensures a direct comparison of current and future income tax rates between the two account types. The assumed annual rate of return is 7%. In retirement, the person withdraws \$150,000 after tax [\$150,000 for Roth in both scenarios, \$176,471 in the 10% decrease scenario and \$230,769 in the 10% increase scenario for the pre-tax 401(k) account] each year until the account is depleted. The breakeven point in the 10% rate increase scenario will change depending on the specific circumstances of the individual and tax rates.

Source: J.P. Morgan Asset Management. The presenter of this slide is not a tax or legal advisor. Clients should consult a personal tax or legal advisor prior to making any tax- or legal-related investment decisions.

## Taxable vs. tax-deferred investing over a 30-year timeframe



### ASSET LOCATION

Tax-advantaged accounts can shelter income-producing investments from current income taxation and result in greater long-term growth than taxable accounts.

Source: J.P. Morgan Asset Management. Assumes \$5,500 after-tax contributions at the beginning of each year for 30 years and 7% annual investment return. Tax-deferred account balance is taken as lump sum and taxed at the 25% and 33% federal tax rate, respectively, at time of withdrawal. Taxable account contributions are after-tax and assume a 33% federal tax rate during accumulation. This hypothetical illustration is not indicative of any specific investment and does not reflect the impact of fees or expenses. This chart is shown for illustrative purposes only. Past performance is no guarantee of future results.

## Spending

Determining income needs during retirement is a complex equation. During working years, the goal was to save and accumulate as much as possible for the future. Now the challenge becomes managing a portfolio by withdrawing some money for today's expenses and investing the rest for tomorrow.

### COMMON MISCONCEPTIONS

*“I’ve already hit my savings target. I should be fine in retirement with the lower cost of living.”*

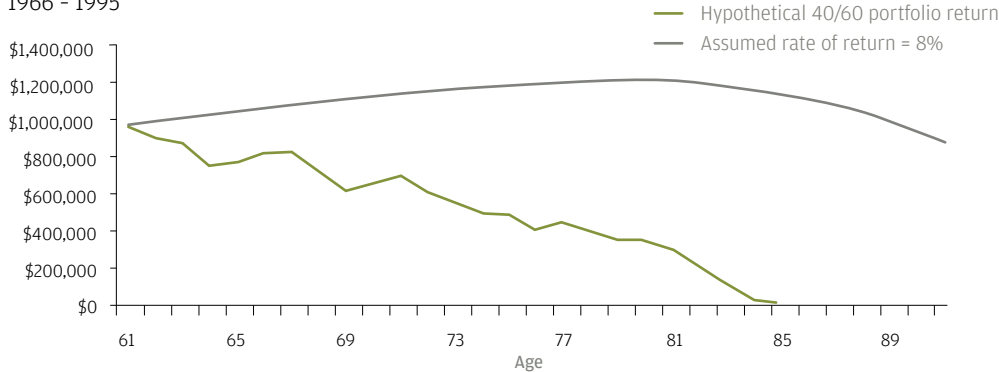
- Spending may not decrease at all in the first few years of retirement. Some expenses tend to decline with age – while others remain steady or increase. [Page 23](#)

*“As long as I withdraw a steady amount, I will be okay.”*

- Withdrawing assets in volatile markets early in retirement can ravage a portfolio. Adjust your plan and strategy regularly. [Page 22](#)
- There is potential danger in investing too conservatively or withdrawing too aggressively. Either may increase the risk of tapping into principal and running out of money. [Page 24](#)

## Growth of investment

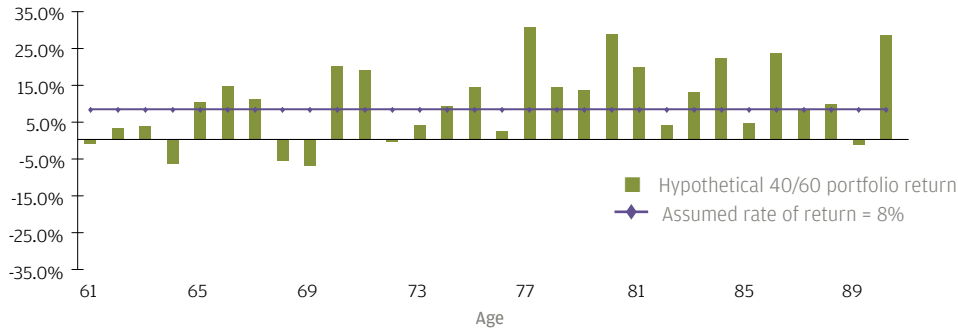
1966 - 1995



**Assumptions:** Enter retirement at age 60 with \$1,000,000. Start with a 5.5% withdrawal of \$55,000. Increase dollar amount of withdrawal by overall rate of inflation (3%) each year, which is lower than the average inflation rate of the period between 1966-1995.

## Rate of return: assumed vs. actual

1966 - 1995



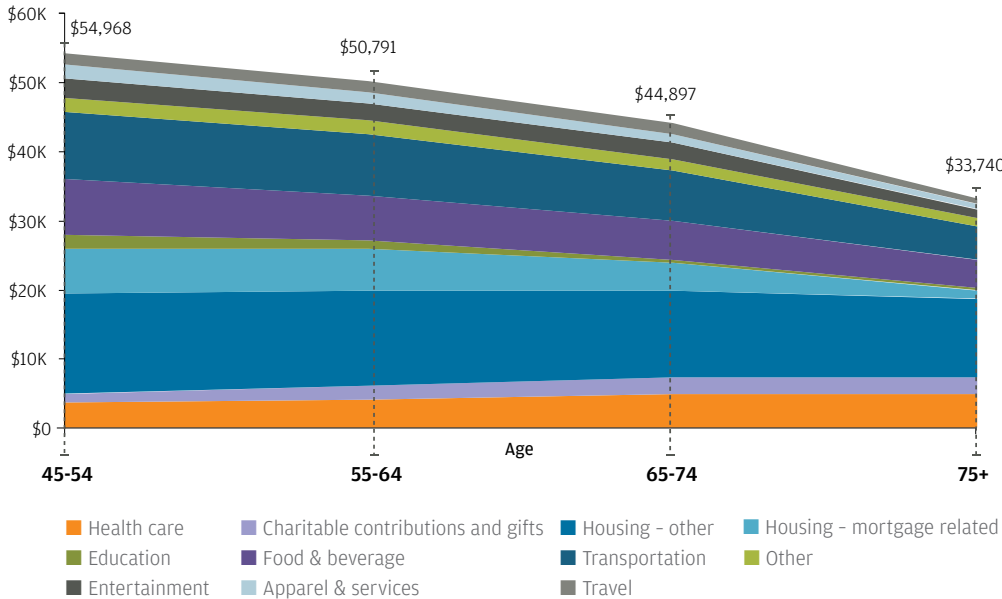
### SEQUENCE RETURN RISK

Withdrawing assets in volatile markets early in retirement can ravage a portfolio. Adjust your plan and strategy regularly.

- **Results:** Actual annual average return of our hypothetical portfolio over the sample period was 9.85%.

Source: J.P. Morgan Asset Management, Convergent Retirement Plan Solutions, LLC. Returns are based on a hypothetical portfolio, which is assumed to be invested 40% in the S&P 500 Total Return Index and 60% in the Barclays Capital U.S. Aggregate Index. The assumptions are presented for illustrative purposes only. They must not be used, or relied upon, to make investment decisions. There is no direct correlation between a hypothetical investment and the anticipated future return of an index. Past performance does not guarantee future results.

Average household spending patterns by various age groups



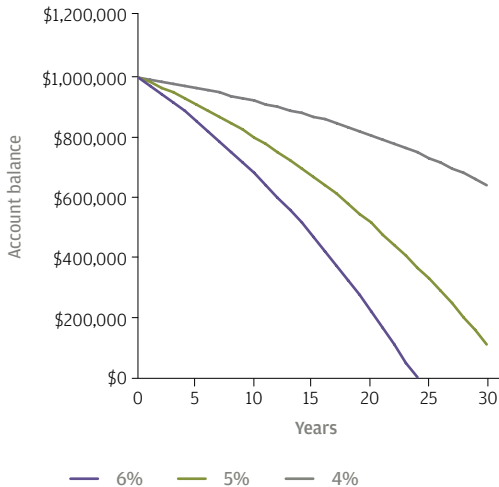
**WHAT TO EXPECT**

Household spending peaks at the age of 45, after which spending declines in all categories but health care and charitable contributions and gifts.

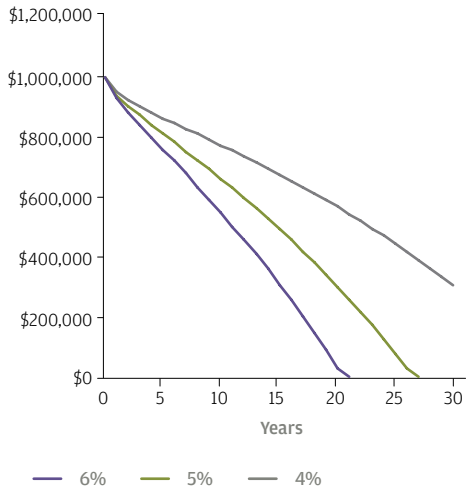
Source: J.P. Morgan Asset Management. Estimates based on average consumer expenditure from the 2013 Consumer Expenditure Survey (BLS) for each age group excluding pension contributions. Average household size for age 45-54 is 2.7; age 55-64 is 2.1; age 65-74 is 1.9 and age 75+ is 1.6.

## Years of sustainable withdrawals for a portfolio of 40% equities and 60% bonds

Projected outcomes for **typical markets** (50th percentile)



Projected outcomes for **extended poor markets** (25th percentile)



### BE CAUTIOUS

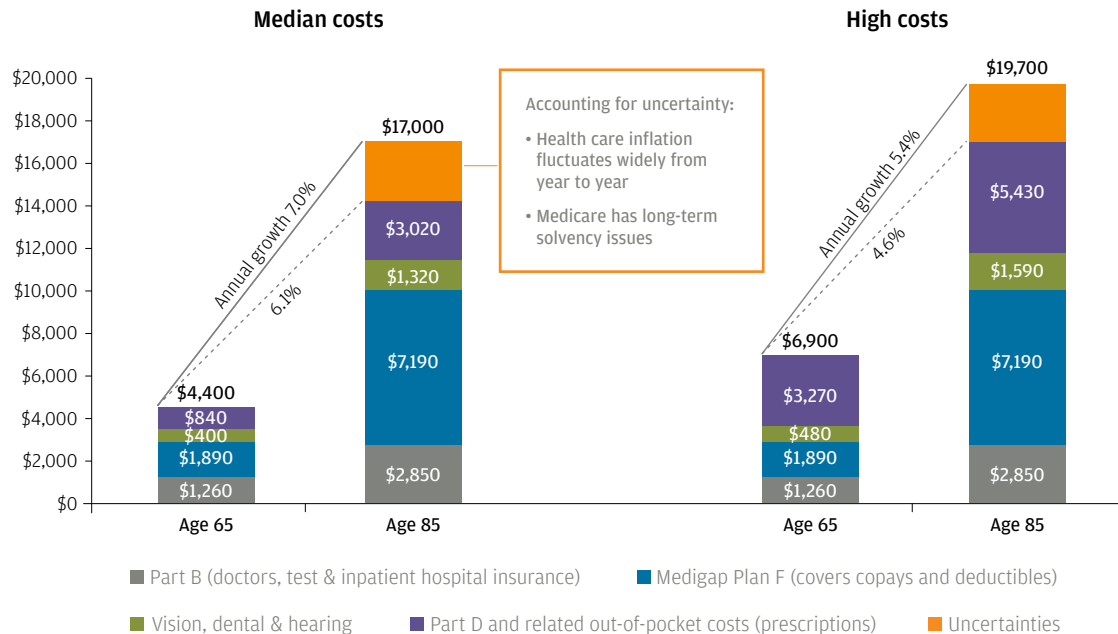
Higher initial withdrawal rates may not be sustainable in extended poor markets. Consider a dynamic approach that adjusts over time to more effectively use your retirement savings.

50th percentile means that 50% of the times you'll have better outcomes. Based on the high percentage of outcomes that tend to be clustered near the median, this may be considered the most likely potential outcome. 25th percentile means that 75% of the times you'll have better outcomes.

These charts are for illustrative purposes only and must not be used, or relied upon, to make investment decisions. Hypothetical portfolios are composed of US Large Cap for equity and US Aggregate for fixed income with projected compound returns projected to be 6.50% and 4.00%, respectively. J.P. Morgan's model is based on J.P. Morgan Asset Management's (JPMAM) proprietary long-term capital markets assumptions (10 - 15 years). The resulting projections include only the benchmark return associated with the portfolio and does not include alpha from the underlying product strategies within each asset class. The yearly withdrawal amount is set as a fixed percentage of the initial amount of \$1,000,000 and is then inflation adjusted over the period. Allocations, assumptions and expected returns are not meant to represent JPMAM performance. Given the complex risk/reward tradeoffs involved, we advise clients to rely on judgment as well as quantitative optimization approaches in setting strategic allocations. References to future returns for either asset allocation strategies or asset classes are not promises or even estimates of actual returns a client portfolio may achieve.



## Estimated traditional Medicare costs for those with median and high prescription drug expenses

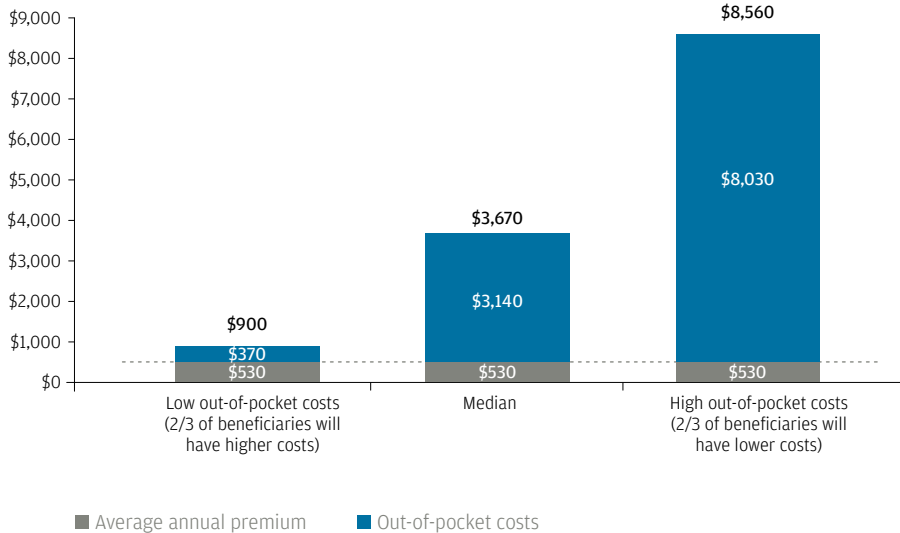


**A GROWING CONCERN:**  
 Given the variability of health care costs, it may be prudent to assume an inflation rate of 7.0%, or a rate of 5.4% for individuals with high prescription drug costs.

Note: Medigap is insurance for Part A and Part B copays and deductibles. In most states, older individuals have higher premiums. Exceptions: AR, CT, MA, ME, MN, NY, VT and WA have the same Medigap premiums for all ages. Most Medigap policies in AZ, FL, ID and MO will have the same premium for all those who first purchased Medigap at the same age of first purchase. Analysis includes Medigap Plan F (the most comprehensive plan). High costs: these individuals experience higher prescription expenses than 9 out of 10 individuals. Part B and D premiums will be higher for individuals who have Modified Adjusted Gross Incomes (MAGI) over \$85,000 if filing single or \$170,000 if filing jointly.

Source: Employee Benefit Research Institute (EBRI), data as of December 31, 2014. SelectQuote data as of December 31, 2014; Consumer Expenditure Survey data 1984-2014; Kaiser Family Foundation "Medicare Part D in its Ninth Year: The 2014 Marketplace and Key Trends, 2006-2014." J.P. Morgan analysis.

## Annual Medicare Advantage costs (includes beneficiaries of all ages)



### DRAMATIC DIFFERENCES IN COSTS DEPENDING ON HEALTH:

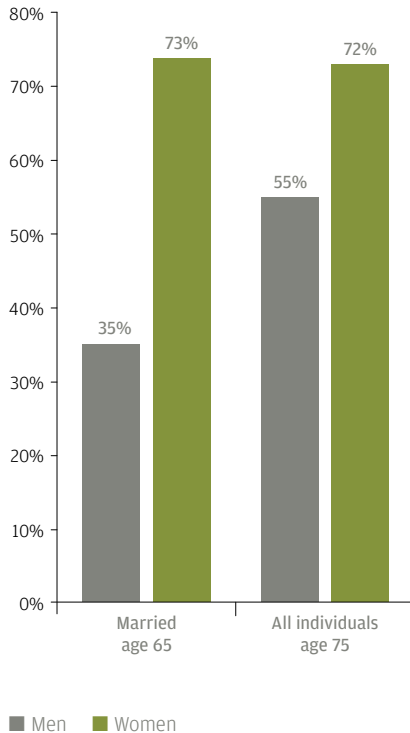
50% of new Medicare beneficiaries choose Medicare Advantage, an alternative to traditional Medicare that is usually limited to a network of providers.

- Medicare Advantage Out-of-pocket costs vary significantly, depending on health status.

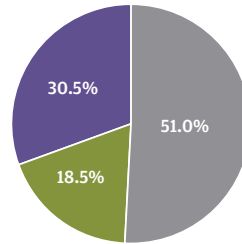
Note: Since plans are sold by private companies, premiums will vary based on geography and plan characteristics. Out-of-pocket expenses includes copays and deductibles for Medicare Parts A & B, plus out-of-pocket prescription drug costs.

Source: 2014 SelectQuote data, J.P. Morgan analysis.

## Likelihood of needing long-term care (LTC)

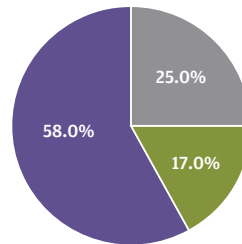


### 2012 new LTC claims by type



Average age of first claim: **79**

### All LTC claims by type

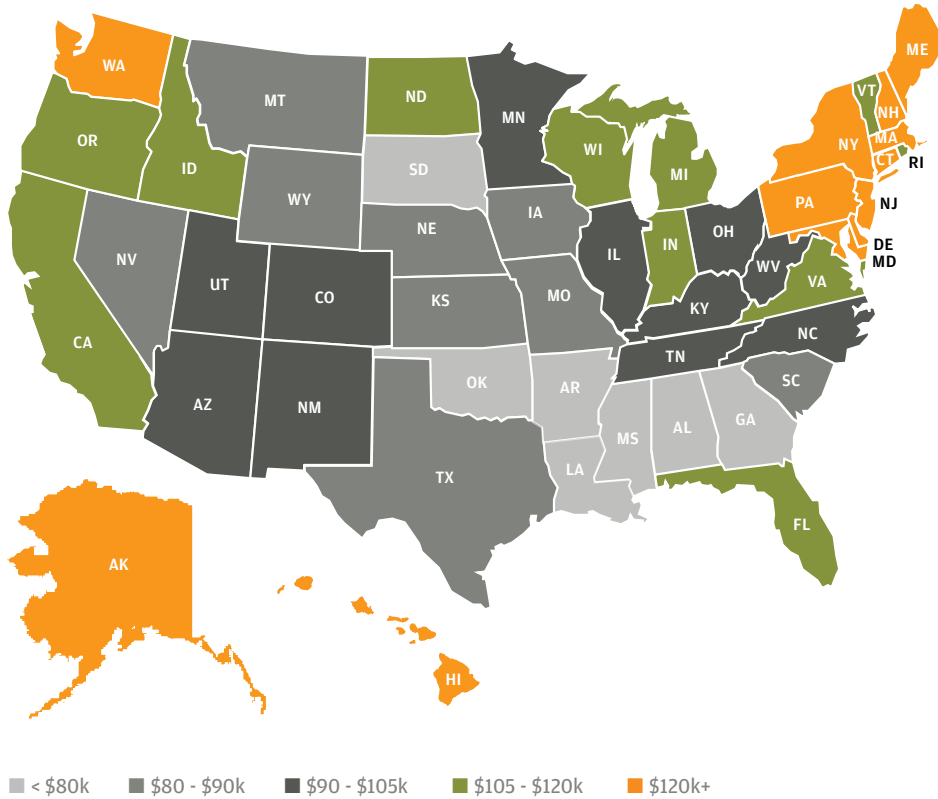


Legend: ■ Home care ■ Assisted living ■ Nursing home

### LONG-TERM VISION

Many individuals will need long-term care. There may be a progression of care that starts with home care.

Source : American Association for Long-Term Care Insurance 2014 Sourcebook. [www.aaltci.org](http://www.aaltci.org). Lifetime chance of using benefits from a LTC policy purchased at age 60 with a 90-day waiting period before benefits start is 35%. There is approximately a 1 in 3 chance of filing a claim that will last less than 6 months; however, there is a 1 in 10 chance of filing a claim for 5 years or more. Annualized inflation 1994 - 2012: 3.81% nursing home care; 1.67% home health care.



**THE COST OF CARE**

Many people realize nursing home care is expensive, but there is significant cost variation depending on where care is utilized.

Spending

Source: New York Life Insurance 2014 Cost of Care Survey developed in partnership with Univita. Average daily costs annualized over 365 days and weighted by city population for each state.

## Investing

Invest for long-term growth potential and consider investing in a broader mix of assets. Financial risks don't end when careers do. Individuals planning for a long, rewarding retirement must anticipate and overcome the obstacles that are likely to arise along the way.

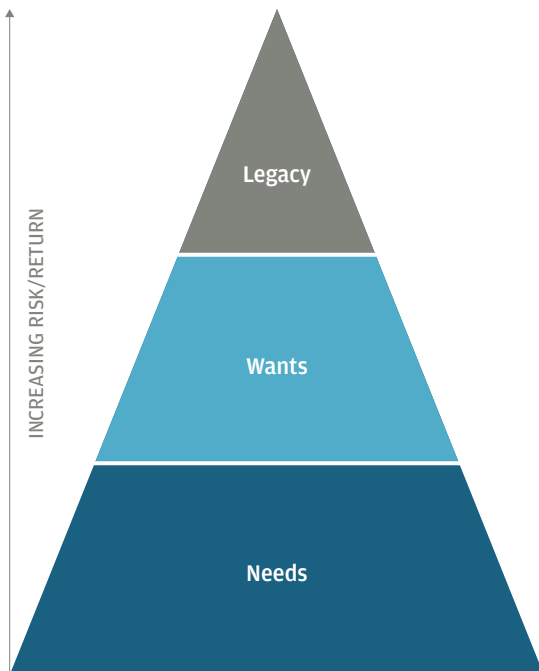
### COMMON MISCONCEPTIONS

***“The market is too volatile. I’m going to sit on the sidelines for a bit so I don’t lose money.”***

- Don't wait to invest in volatile times. It can cause you to miss out on potential market rallies. [Page 33](#)
- Set specific retirement goals upfront – and keep focused on the long term during periods of volatility and uncertainty. [Page 30](#)

***“I should invest conservatively so I don’t run the risk of losing my retirement assets.”***

- Retirement-age investors have potentially long time horizons, due to rising life expectancies. By maintaining an exposure to equities in retirement, you may better keep pace with rising prices, protecting your standard of living throughout retirement. [Page 34](#)
- A well-diversified portfolio may provide a smoother ride over the long term. [Pages 32 and 35](#)



### Considerations

- What is the time horizon and appropriate planning vehicle for your heirs and your estate planning goals?
- What are your desires/wants?
- How much risk are you willing to take?
- What are your basic needs?
- What income sources do you have or will you need to create?

### Potential solutions

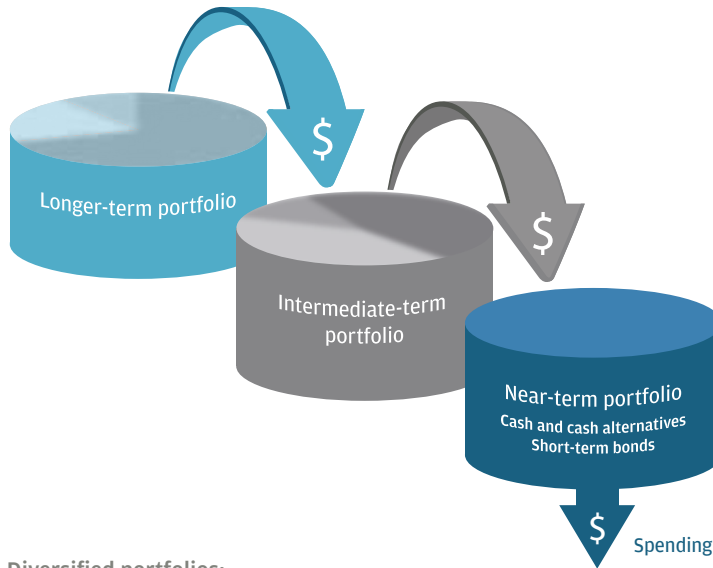
- Equities
- Alternatives\*
  
- Equities
- Extended sector bonds
  
- Social Security
- Pension
- Annuities
- High quality bonds
- Cash and cash alternatives

### BUILDING YOUR PLAN

It may be useful to match dependable income sources with fixed retirement expenses, while coordinating other investments with more discretionary expenses.

For illustration purposes only. Source: J.P. Morgan Asset Management. Bonds are subject to interest rate risks. Bond prices generally fall when interest rates rise. The price of equity securities may rise or fall because of changes in the broad market or changes in a company's financial condition, sometimes rapidly or unpredictably. Equity securities are subject to "stock market risk," meaning that stock prices in general may decline over short or extended periods of time. Investing in alternative assets involves higher risks than traditional investments and is suitable only for the long term. They are not tax efficient and have higher fees than traditional investments. They may also be highly leveraged and engage in speculative investment techniques, which can magnify the potential for investment loss or gain.

\*Equity, fixed income and cash are considered "traditional" asset classes. The term "alternative" describes all non-traditional asset classes. They include private and public equity, venture capital, hedge funds, real estate, commodities, distressed debt and more.



### TIME-BASED SEGMENTATION

Aligning your time horizon with an investment approach may help you be more comfortable with maintaining diversified portfolio allocations in retirement.

#### Diversified portfolios:

- Equities
- Bonds
- Alternatives\*

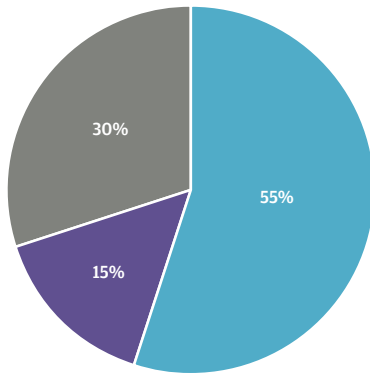
For illustration purposes only. Source: J.P. Morgan Asset Management. Bonds are subject to interest rate risks. Bond prices generally fall when interest rates rise. The price of equity securities may rise or fall because of changes in the broad market or changes in a company's financial condition, sometimes rapidly or unpredictably. Equity securities are subject to "stock market risk," meaning that stock prices in general may decline over short or extended periods of time. Investing in alternative assets involves higher risks than traditional investments and is suitable only for the long term. They are not tax efficient and have higher fees than traditional investments. They may also be highly leveraged and engage in speculative investment techniques, which can magnify the potential for investment loss or gain.

\*Equity, fixed income and cash are considered "traditional" asset classes. The term "alternative" describes all non-traditional asset classes. They include private and public equity, venture capital, hedge funds, real estate, commodities, distressed debt and more.

## Maximizing the power of diversification

2000-2014

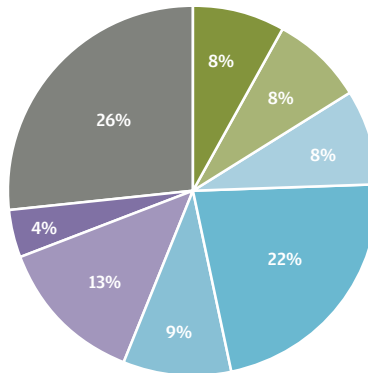
Traditional Portfolio



Return: 4.81%  
Standard Deviation: 10.74%

- S&P 500
- MSCI EAFE
- Barclays Agg.

More Diversified Portfolio



Return: 6.19%  
Standard Deviation: 10.19%

- Equity Mkt. Neutral
- Commodities
- REIT
- S&P 500
- Russell 2000
- MSCI EAFE
- MSCI EM
- Barclays Agg.

### MIX IT UP WISELY

Diversification may provide better returns with less risk.

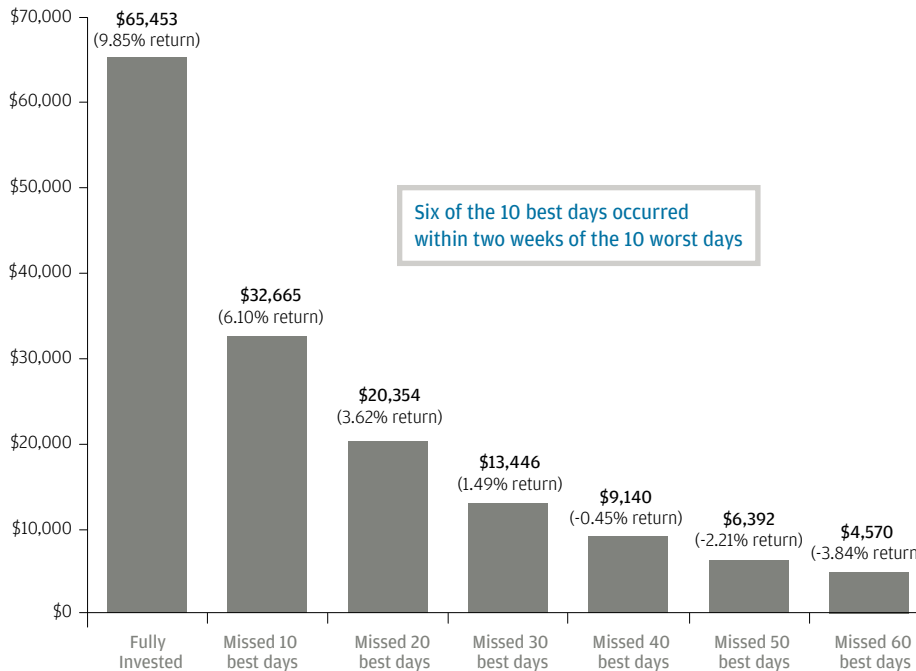
Indexes and weights of the traditional portfolio are as follows: U.S. stocks: 55% S&P 500, U.S. bonds: 30% Barclays Capital Aggregate, International stocks: 15% MSCI EAFE. Portfolio with 25% in alternatives is as follows: U.S. stocks: 22.2% S&P 500, 8.8% Russell 2000; International Stocks: 4.4% MSCI EM, 13.2% MSCI EAFE; U.S. Bonds: 26.5% Barclays Capital Aggregate; Alternatives: 8.3% CS/Tremont Equity Market Neutral, 8.3% DJ/UBS Commodities, 8.3% NAREIT Equity REIT Index. Return and standard deviation calculated using Morningstar Direct.

Charts are shown for illustrative purposes only. Past returns are no guarantee of future results. Diversification does not guarantee investment returns and does not eliminate risk of loss. Data as of December 31, 2014.



## Returns of S&P 500

Performance of a \$10,000 investment between January 3, 1995 and December 31, 2014



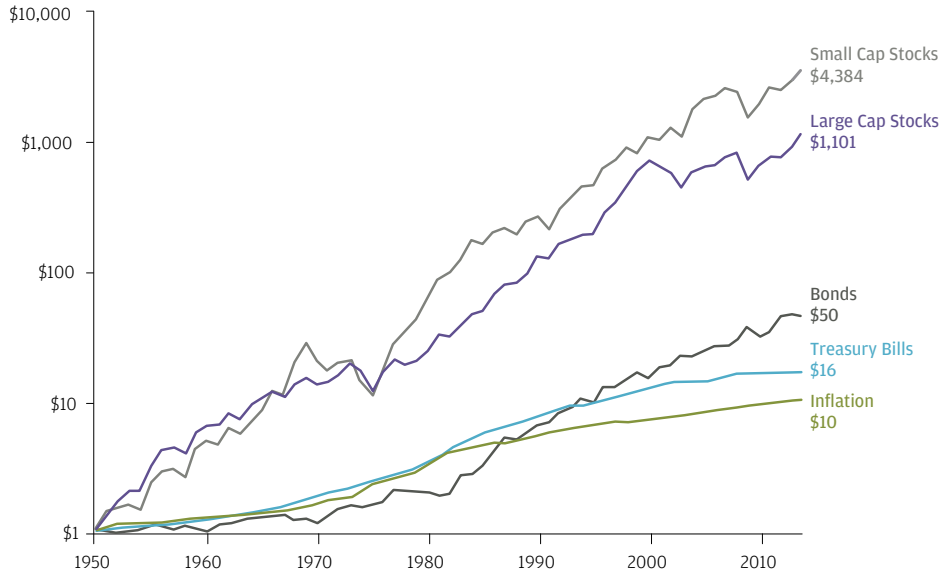
### PLAN TO STAY INVESTED

Trying to time the market is extremely difficult to do consistently. Market lows often result in emotional decision making. Investing for the long term while managing volatility can result in a better retirement outcome.

This chart is for illustrative purposes only and does not represent the performance of any investment or group of investments.

Source: Prepared by J.P. Morgan Asset Management using data from Lipper. 20-year annualized returns are based on the S&P 500 Total Return Index, an unmanaged, capitalization-weighted index that measures the performance of 500 large capitalization domestic stocks representing all major industries. Past performance is not indicative of future returns. An individual cannot invest directly in an index. Data as of December 31, 2014.

## Growth of one dollar 1950 - 2014



### RISK ADVERSE

Cash may not be an effective long-term solution.

Source: Morningstar, Inc., Financial Communications © 2015. All rights reserved. Used with permission.

Past performance is no guarantee of future results. Hypothetical value of \$1 invested at the beginning of 1950. Assumes reinvestment of income and no transaction costs or taxes. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index.

Small-cap stocks in this example are represented by the Ibbotson® Small Company Stock Index. Large-cap stocks are represented by the Standard & Poor's 90® index from 1950 through February 1957 and the S&P 500 index thereafter, which is an unmanaged group of securities and considered to be representative of the U.S. stock market in general. Government bonds are represented by the 20-year U.S. government bond, Treasury bills by the 30-day U.S. Treasury bill, and inflation by the Consumer Price Index. Underlying data is from the Stocks, Bonds, Bills, and Inflation® (SBBBI®) Yearbook, by Roger G. Ibbotson and Rex Sinquefeld, updated annually. An investment cannot be made directly in an index.

Government Bonds and Treasury Bills are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest, while stocks are not guaranteed and have been more volatile than the other asset classes. Small-capitalization stocks typically carry more risk than stock funds investing in well-established "blue-chip" companies since smaller companies generally have a higher risk of failure. Historically, smaller companies' stock has experienced a greater degree of market volatility than the average stock.

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	10-years '05 - '14 Cum.	'05 - '14 Ann.
	MSCI EME 34.5%	REITs 35.1%	MSCI EME 39.8%	Barclays Agg 5.2%	MSCI EME 79.0%	REITs 27.9%	REITs 8.3%	REITs 19.7%	Russell 2000 38.8%	REITs 28.0%	MSCI EME 132.0%	MSCI EME 8.8%
	Bberg Cmnty 21.4%	MSCI EME 32.6%	Bberg Cmnty 16.2%	Cash 1.8%	MSCI EAFE 32.5%	Russell 2000 26.9%	Barclays Agg 7.8%	MSCI EME 18.6%	S&P 500 32.4%	S&P 500 13.7%	REITs 122.3%	REITs 8.3%
	MSCI EAFE 14.0%	MSCI EAFE 26.9%	MSCI EAFE 11.6%	Market Neutral 1.1%	REITs 28.0%	MSCI EME 19.2%	Market Neutral 4.5%	MSCI EAFE 17.9%	MSCI EAFE 23.3%	Barclays Agg 6.0%	Russell 2000 111.3%	Russell 2000 7.8%
	REITs 12.2%	Russell 2000 18.4%	Market Neutral 9.3%	Asset Allocation 24.0%	Russell 2000 27.2%	Bberg Cmnty 16.8%	S&P 500 2.1%	Russell 2000 16.3%	Asset Allocation 17.0%	Asset Allocation 5.2%	S&P 500 109.5%	S&P 500 7.7%
	Asset Allocation 8.3%	S&P 500 15.8%	Asset Allocation 7.4%	Russell 2000 -33.8%	S&P 500 26.5%	S&P 500 15.1%	Cash 0.1%	S&P 500 16.0%	Market Neutral 9.3%	Russell 2000 4.9%	Asset Allocation 87.2%	Asset Allocation 6.5%
	Market Neutral 6.1%	Asset Allocation 15.2%	Barclays Agg 7.0%	Bberg Cmnty -35.6%	Asset Allocation 22.2%	Asset Allocation 12.5%	Asset Allocation -0.6%	Asset Allocation 11.3%	REITs 2.9%	Cash 0.0%	MSCI EAFE 61.5%	MSCI EAFE 4.9%
	S&P 500 4.9%	Market Neutral 11.2%	S&P 500 5.5%	S&P 500 -37.0%	Bberg Cmnty 18.9%	MSCI EAFE 8.2%	Russell 2000 -4.2%	Barclays Agg 4.2%	Cash 0.0%	Market Neutral -0.5%	Barclays Agg 58.4%	Barclays Agg 4.7%
	Russell 2000 4.6%	Cash 4.8%	Cash 4.8%	REITs -37.7%	Barclays Agg 5.9%	Barclays Agg 6.5%	MSCI EAFE -11.7%	Market Neutral 0.9%	Barclays Agg -2.0%	MSCI EME -1.8%	Market Neutral 54.0%	Market Neutral 4.4%
	Cash 3.0%	Barclays Agg 4.3%	Russell 2000 -1.6%	MSCI EAFE -43.1%	Market Neutral 4.1%	Cash 0.1%	Bberg Cmnty -13.3%	Cash 0.1%	MSCI EME -2.3%	MSCI EAFE -4.5%	Cash 15.7%	Cash 1.5%
	Barclays Agg 2.4%	Bberg Cmnty 2.1%	REITs -15.7%	MSCI EME -53.2%	Cash 0.1%	Market Neutral -0.8%	MSCI EME -18.2%	Bberg Cmnty -1.1%	Bberg Cmnty -9.5%	Bberg Cmnty -17.0%	Bberg Cmnty -17.1%	Bberg Cmnty -1.9%

## MAINTAIN A DIVERSIFIED APPROACH

The best and worst performing asset classes vary greatly year to year. Failure to rebalance the Asset Allocation portfolio over this time period would have resulted in an average annual return of 5.9% – 0.6% lower than the annually rebalanced one.

Source: Russell, MSCI, Bloomberg, Standard & Poor's, Credit Suisse, Barclays Capital, NAREIT, FactSet, J.P. Morgan Asset Management. The "Asset Allocation" portfolio assumes the following weights: 25% in the S&P 500, 10% in the Russell 2000, 15% in the MSCI EAFE, 5% in the MSCI EME, 25% in the Barclays Capital Aggregate, 5% in the Barclays 1-3m Treasury, 5% in the CS/Tremont Equity Market Neutral Index, 5% in the Bloomberg Commodity Index and 5% in the NAREIT Equity REIT Index. Asset Allocation portfolio assumes annual rebalancing. All data represents total return for stated period.

Past performance is not indicative of future returns. Data are as of 12/31/14, except for the CS/Tremont Equity Market Neutral Index, which reflects data through 11/30/14. "10-yr" returns represent period of 12/31/04 - 12/31/14 showing both cumulative (Cum.) and annualized (Ann.) over the period. Please see disclosure page at end for index definitions. \*Market Neutral returns include estimates found in disclosures.

Guide to the Markets - U.S. Data are as of 12/31/14.

	Traditional IRA	Roth IRA	Roth IRA conversion
Maximum contribution	<ul style="list-style-type: none"> <li>• 100% of earned income up to \$5,500</li> <li>• \$6,500 if eligible for a catch-up contribution<sup>1</sup></li> <li>• Reduced by Roth IRA contributions</li> </ul>	<ul style="list-style-type: none"> <li>• 100% of earned income up to \$5,500</li> <li>• \$6,500 if eligible for a catch-up contribution<sup>1</sup></li> <li>• Reduced by Traditional IRA contributions</li> </ul>	No limit on conversions of Traditional IRAs, SEP IRAs, SIMPLE IRAs (if open 2+ years)
Age limits to contribute	Under 70½ in the year of the contribution	None	None
Income limits to contribute	<p><b>Single:</b> Up to \$60,000 for full deduction, \$70,000 for partial<sup>2</sup></p> <p><b>Joint:</b> Up to \$96,000 for full deduction, \$116,000 for partial<sup>2</sup></p>	<p><b>Single:</b> Up to \$114,000 for full contribution, \$127,000 for partial</p> <p><b>Joint:</b> Up to \$181,000 for full contribution, \$191,000 for partial</p>	None
Federal tax treatment	<ul style="list-style-type: none"> <li>• Investment growth is tax deferred and contributions may be tax deductible. Deductible contributions and investment gains are taxed as ordinary income upon withdrawal.</li> <li>• If non-deductible contributions have been made, each withdrawal is taxed proportionately on a pro-rata basis, taking into consideration all contributions made to all Traditional IRAs owned.</li> <li>• Early withdrawals before 59½ are generally subject to a 10% IRS penalty unless certain exceptions apply.</li> </ul>	<ul style="list-style-type: none"> <li>• All contributions are non-deductible.</li> <li>• Qualified withdrawals of contributions at any time are tax free and IRS penalty free.</li> <li>• Qualified withdrawals of earnings are tax free and IRS penalty free if taken after five years have passed since the account was initially funded and the account owner is age 59½ or older (other certain exceptions may apply).</li> <li>• Early withdrawals of investment gains are subject to taxes and 10% federal penalty unless certain exceptions apply.</li> <li>• Multiple Roth IRAs are considered one Roth IRA for withdrawal purposes and distributions MUST be withdrawn in a specific order deemed by the IRS that applies regardless of which Roth IRA is used to take that distribution.</li> </ul>	<ul style="list-style-type: none"> <li>• Taxes are due upon conversion of account balances not yet taxed.</li> <li>• Converted amounts can be withdrawn tax free.<sup>3</sup></li> <li>• Qualified withdrawals of earnings are tax free and IRS penalty free if taken after five years have passed since the account was initially funded and the account owner is age 59½ or older (other certain exceptions may apply).</li> <li>• Early withdrawals of investment gains are subject to taxes and 10% federal penalty unless certain exceptions apply.</li> </ul>
Mandatory withdrawals	Distributions must begin by April 1 of the calendar year following the year the account owner turns 70½.	None for account owner	None for account owner
Deadline to contribute	April 15, 2015	April 15, 2015	n/a

Source: IRS Publication 590

<sup>1</sup>Must be age 50 or older by December 31 of the contribution year.

<sup>2</sup>Assumes participation in an employer's retirement plan. No income limits apply when investors and spouses are not covered by a retirement plan at work.

<sup>3</sup>Distributions from a conversion amount must satisfy a five-year investment period to avoid the 10% penalty. This pertains only to the conversion amount that was treated as income for tax purposes. The presenter of this slide is not a tax or legal advisor. Clients should consult a personal tax or legal advisor prior to making any tax- or legal-related investment decisions.

	Traditional IRA	Roth IRA	Roth IRA conversion
Maximum contribution	<ul style="list-style-type: none"> <li>• 100% of earned income up to \$5,500</li> <li>• \$6,500 if eligible for a catch-up contribution<sup>1</sup></li> <li>• Reduced by Roth IRA contributions</li> </ul>	<ul style="list-style-type: none"> <li>• 100% of earned income up to \$5,500</li> <li>• \$6,500 if eligible for a catch-up contribution<sup>1</sup></li> <li>• Reduced by Traditional IRA contributions</li> </ul>	No limit on conversions of Traditional IRAs, SEP IRAs, SIMPLE IRAs (if open 2+ years)
Age limits to contribute	Under 70½ in the year of the contribution	None	None
Income limits to contribute	<p><b>Single:</b> Up to \$61,000 for full deduction, \$71,000 for partial<sup>2</sup></p> <p><b>Joint:</b> Up to \$98,000 for full deduction, \$118,000 for partial<sup>2</sup></p>	<p><b>Single:</b> Up to \$116,000 for full contribution, \$131,000 for partial</p> <p><b>Joint:</b> Up to \$183,000 for full contribution, \$193,000 for partial</p>	None
Federal tax treatment	<ul style="list-style-type: none"> <li>• Investment growth is tax deferred and contributions may be tax deductible. Deductible contributions and investment gains are taxed as ordinary income upon withdrawal.</li> <li>• If non-deductible contributions have been made, each withdrawal is taxed proportionately on a pro-rata basis, taking into consideration all contributions made to all Traditional IRAs owned.</li> <li>• Early withdrawals before 59½ are generally subject to a 10% IRS penalty unless certain exceptions apply.</li> </ul>	<ul style="list-style-type: none"> <li>• All contributions are non-deductible.</li> <li>• Qualified withdrawals of contributions at any time are tax free and IRS penalty free.</li> <li>• Qualified withdrawals of earnings are tax free and IRS penalty free if taken after five years have passed since the account was initially funded and the account owner is age 59½ or older (other certain exceptions may apply).</li> <li>• Early withdrawals of investment gains are subject to taxes and 10% federal penalty unless certain exceptions apply.</li> <li>• Multiple Roth IRAs are considered one Roth IRA for withdrawal purposes and distributions MUST be withdrawn in a specific order deemed by the IRS that applies regardless of which Roth IRA is used to take that distribution.</li> </ul>	<ul style="list-style-type: none"> <li>• Taxes are due upon conversion of account balances not yet taxed.</li> <li>• Converted amounts can be withdrawn tax free.<sup>3</sup></li> <li>• Qualified withdrawals of earnings are tax free and IRS penalty free if taken after five years have passed since the account was initially funded and the account owner is age 59½ or older (other certain exceptions may apply).</li> <li>• Early withdrawals of investment gains are subject to taxes and 10% federal penalty unless certain exceptions apply.</li> </ul>
Mandatory withdrawals	Distributions must begin by April 1 of the calendar year following the year the account owner turns 70½.	None for account owner	None for account owner
Deadline to contribute	April 15, 2016	April 15, 2016	n/a

Source: IRS Publication 590

<sup>1</sup>Must be age 50 or older by December 31 of the contribution year.

<sup>2</sup>Assumes participation in an employer's retirement plan. No income limits apply when investors and spouses are not covered by a retirement plan at work.

<sup>3</sup>Distributions from a conversion amount must satisfy a five-year investment period to avoid the 10% penalty. This pertains only to the conversion amount that was treated as income for tax purposes. The presenter of this slide is not a tax or legal advisor. Clients should consult a personal tax or legal advisor prior to making any tax- or legal-related investment decisions.

There are typically four options to consider when leaving an employer's retirement plan, each with its benefits and considerations. Converting a portion of tax-deferred assets to a Roth IRA may be a fifth option to consider in certain circumstances described below.

Option	Potential Benefits	Considerations
Roll the retirement account into an IRA account (IRA rollover) (May also roll the Roth 401(k) portion of a retirement account into a Roth IRA)	No income taxes or penalties for a direct rollover <sup>1</sup> Assets maintain tax-deferred status Ability to make additional contributions subject to income limitations <sup>2</sup> Potential for a broader range of investment choices Opportunity to consolidate multiple retirement accounts If balance includes employer stock, may be eligible for preferable tax treatment (Net Unrealized Appreciation) <sup>3</sup>	Loans are not allowed Fees may vary, and may be higher than what is charged in an employer plan
Leave the money in former employer plan	Not a taxable event Assets maintain tax-deferred status If you are between 55 and 59 ½ and are separated from service, you may be able to take withdrawals without penalties Fees may be lower depending on plan size	Investment options vary according to the plan and may be more limited Assets are subject to policies and contractual limitations of previous employer plan
Move the assets into a new employer plan	No taxes or penalties apply upon transfer Assets maintain tax-deferred status New employer plan may allow loans Ability to make additional contributions potentially with a company match Fees may be low based on plan and size of employer (number of participants)	May require a waiting period to move assets Investment options vary according to the plan and may be more limited Assets are subject to policies or contractual limitations of new employer plan
Withdraw balance of assets or "cash out" of plan	Individual may use remaining funds (after taxes and potential penalties) for other purposes	Upon withdrawal, account balance is subject to ordinary income tax on pre-tax contributions and investment earnings 20% automatically withheld for taxes upon distribution Additional 10% withdrawal penalty tax may apply for owners younger than age 59½ Additional federal, state or local income taxes may apply Loss of tax-deferred growth of assets
Convert all or part of retirement account into Roth IRA (Roth IRA conversion)	May provide income tax diversification in retirement After taxes are paid at conversion, future distributions are tax free Required minimum distributions do not apply at 70½	The pre-tax amount is included in gross income in the year of conversion (and is subject to the aggregation rule) Sufficient taxable assets to pay income taxes owed is strongly recommended

<sup>1</sup> In a direct rollover, qualified retirement assets are transferred directly from the former employer plan to the institution holding the new IRA account, and no taxes or penalties will apply. If an owner chooses to receive the plan assets first, the distribution is subject to 20% mandatory withholding and the assets must be deposited into a new plan or IRA account within 60 days of receipt to avoid further potential taxes and penalties.

<sup>2</sup> Subject to IRA contribution limits: \$5500 / \$6500 in 2015 (if age 50 or older); single filers may make Roth contributions if MAGI is \$116,000 or below; married filing jointly if MAGI is \$183,000 or below; phase-outs on contributions thereafter.

<sup>3</sup> With the Net Unrealized Appreciation (NUA) strategy, an employee may transfer the employer stock portion of a retirement account to a brokerage account. The employee pays ordinary income tax on the cost basis of the stock at the time of transfer, but will owe capital gains tax when he/she later sells the stock.

<sup>4</sup> Subject to 5 year Roth account holding period and age requirements

Medicare is a government health care program available to those who have paid Medicare taxes while working or to non-working spouses of such individuals. Medicare is available when these individuals reach age 65. Citizens who have never paid Medicare taxes may be eligible if they pay a Medicare premium. Individuals under age 65 may also be eligible if they are considered disabled under Social Security or the Railroad Retirement Board for more than 24 months.

	Traditional Medicare	Medicare Advantage (usually limited to a network of providers)
<b>Part A:</b> inpatient hospital insurance	✓	✓
<b>Part B:</b> doctors, tests and outpatient hospital insurance	✓	✓
<b>Medigap:</b> standardized plans that cover Part A and Part B copays and deductibles	✓	Not available
<b>Part D:</b> prescription drug insurance	✓	✓ Most plans include Part D
<b>Prescription drug copays and deductibles</b>	Not covered	Not covered
<b>Most vision, dental &amp; hearing expenses</b>	Not covered	✓ Coverage varies by plan
<b>Long-term care*</b>	Not covered	Not covered

Reference

\*Medicare does not cover most long-term care costs. Medicare does pay for medically necessary skilled nursing facility or home health care on a very limited basis. Custodial care is not covered.

<p><b>What is an annuity?</b></p>	<p>An annuity is a contract between the owner (investor) and an insurance company. The owner makes a lump-sum deposit or several purchase payments to the insurance company in order to secure the receipt of a series of periodic payments paid immediately or at some future date. Most annuities have a surrender charge, which is a penalty for making early withdrawals from the contract beyond the free withdrawal amount. Surrender charges typically diminish over 7 years.</p>
<p><b>Why purchase an annuity?</b></p>	<p>Annuities are generally purchased for a guarantee of income as part of an effective retirement income plan. They provide tax deferral, and distributions made prior to age 59 ½ may be subject to tax and penalties.</p>
<p><b>How does an annuity work?</b></p>	<p>There are 2 phases of an annuity contract: the accumulation (growth) phase and the distribution (payout) phase. The owner is the person who purchases the annuity contract and may make changes to the contract; the annuitant is the insured person/the "life" the contract is based on; and the beneficiary is the designated person who receives remaining proceeds of the annuity after the death of annuitant. Often, the owner and annuitant is the same person.</p>
<p><b>What are the most common types of annuities?</b></p>	<p><b>Fixed:</b> Investor makes a lump sum or series of payments, and money invested grows at a fixed interest rate during the accumulation phase of the contract. Investor is promised a fixed payment and principal guarantee.<sup>1</sup></p> <ul style="list-style-type: none"> <li>• May include <b>life annuities</b> that pay a specified amount to the investor at certain times until the death of annuitant (can also be joint life).</li> <li>• <b>Term certain annuities</b> are fixed annuities that pay a predetermined amount for a period certain, which could be before the death of annuitant.</li> </ul> <p><b>Indexed</b> (also known as hybrid or equity-indexed): A type of fixed annuity, whereby the insurance company guarantees a minimum return or a return based on changes in a specific index, such as the S&amp;P Composite Stock Price Index, whichever is greater.</p> <ul style="list-style-type: none"> <li>• A participation rate determines how much of the gain in an index will be credited to the annuity. Some indexed annuities also place a cap on the rate of interest the annuity will earn.</li> </ul> <p><b>Immediate/Deferred:</b> Investor makes a lump sum payment or series of payments to the insurance company and receives a regular stream of payments until death or period certain.</p> <ul style="list-style-type: none"> <li>• With an <b>immediate annuity</b>, the owner receives periodic payments immediately, as early as 30 days after contract begins. With a <b>deferred annuity</b>, the owner begins receiving payment sometime in the future for life or for specified period of time.</li> </ul> <p><b>Variable:</b> A type of deferred annuity in which the owner makes a series of purchase payments that are invested among a range of pooled investment options like mutual funds (subaccounts). The rate of return will be based on performance and market value of underlying subaccounts. Investor receives a stream of periodic payments for a term certain (i.e. for 20 years) or for an indefinite period of time like the life of investor and spouse.</p> <ul style="list-style-type: none"> <li>• An <b>investment-only</b> annuity is a low-cost variable annuity that invests in subaccounts but offers no additional living benefit add-ons.</li> <li>• A <b>guaranteed living benefit (GLB)</b> may be added to the contract for an additional fee that would provide a payout to the owner that is based on a minimum growth rate (usually 5%) or market value, whichever is greater.</li> <li>• A <b>death benefit</b> provision may be added to the contract, usually at an additional cost, that would pay a specific value (i.e. total purchase payments made, greater of account value or minimum amount) to beneficiaries at the death of owner(s).</li> </ul>

Variable annuity guarantees are only as good as the insurance company that gives them. While it is an uncommon occurrence that the insurance companies that back these guarantees are unable to meet their obligations, it may happen. Annuity withdrawals prior to 59 ½ may be subject to tax penalties, are subject to market risk and may lose value. Riders have additional fees and costs associated with them and are subject to additional condition, restrictions and limitation.

US Securities and Exchange Commission

FINRA Investor Education Series

<sup>1</sup>Subject to the claims paying ability of the insurance company.

<sup>2</sup>Indexed annuities are not registered with the SEC.



## Federal income tax rates applicable to taxable income

Tax rate	Single filers	Married filing jointly	Capital gains & dividends	Medicare tax on earned income	Medicare tax on investment income	PEP and Pease Limitations**
10%	Up to \$9,225	Up to \$18,450				\$258,250 single/ \$309,900 married AGI threshold
15%	\$9,225-\$37,450	\$18,450-\$74,900	0%	2.90% (includes 1.45% employer portion and 1.45% employee portion)	0%	Pease: Itemized deductions reduced by lesser of a) 3% of AGI above threshold or b) 80% of itemized deductions
25%	\$37,450-\$90,750	\$74,900-\$151,200				
28%	\$90,750-\$189,300	\$151,200-\$230,450				
33%	\$189,300-\$411,500	\$230,450-\$411,500	15%			
35%	\$411,500-\$413,200	\$411,500-\$464,850				
39.5%	\$413,200 or more	\$464,850 or more	20%	3.80% (includes 2.90% tax referenced above plus additional 0.90% tax for earned income above MAGI* \$200,000/250,000 threshold)	3.80% (additional tax will be levied on lesser of a) net investment income or b) excess MAGI above \$200,000/250,000 thresholds)	PEP: Exemption reduced by 2% for every \$2,500 above AGI threshold

\*Modified Adjusted Gross Income (MAGI) is AGI plus tax exempt Social Security benefits, interest and foreign income.

\*\*Itemized deduction limitation (Pease) and personal exemption phaseout (PEP). Does not apply to medical expenses and casualty or theft losses. Standard deduction is \$6,300 single/\$12,600 married couple. Personal exemption is \$4,000. Personal exemption phases out completely at \$380,750 (single) or \$432,400 (married couple).

## Top/tax rates for ordinary income, capital gains and dividend income

Type of gain	Maximum rate	Alternative minimum tax (AMT) exemption**		
		Filing Status	Exemption	Exemption phase-out range
Top rate for ordinary income & nonqualified dividends	39.6%/43.4%*	Single/Head of Household	\$53,600	\$119,200-\$333,600
Short-term capital gains (assets held 12 months or less)	39.6%/43.4%*	Married filing jointly	\$83,400	\$158,900-\$492,500
Long-term capital gains (assets held more than 12 months) & qualified dividends	20%/23.8%*			

\*Includes top tax rate plus 3.8% Medicare tax on net investment income beyond MAGI threshold.

\*\*The exemption amount is reduced .25 for every \$1 of AMTI (income) above the threshold amount for the taxpayer's filing status.

## Federal estate, Generation-Skipping Transfer (GST) tax & gift tax exemption

Top federal estate tax rate	40%
Federal estate, GST & gift tax exemption	\$5.43 million
Annual gift tax exclusion	\$14,000 (\$28,000 per couple)

The presenter of this slide is not a tax or legal advisor. This slide is for informational purposes only and should not be relied on as tax or legal advice. Clients should consult their tax or legal advisor before making any tax- or legal-related investment decisions.

**Indexes are unmanaged and an individual cannot invest directly in an index. Index returns do not include fees or expenses.**

The **S&P 500 Index** is widely regarded as the best single gauge of the U.S. equities market. This world-renowned index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. Although the S&P 500 Index focuses on the large cap segment of the market, with approximately 75% coverage of U.S. equities, it is also an ideal proxy for the total market. An investor cannot invest directly in an index.

The **S&P MidCap 400 Index** tracks a diverse basket of medium-sized U.S. firms. A mid cap stock is broadly defined as a company with a market capitalization ranging from about \$2 billion to \$10 billion.

The **S&P SmallCap 600 Index** invests in a basket of small cap equities. A small cap company is generally defined as a stock with a market capitalization between \$300 million and \$2 billion.

The **Russell 2000 Index**<sup>®</sup> measures the performance of the 2,000 smallest companies in the Russell 3000 Index.

The **MSCI<sup>®</sup> EAFE (Europe, Australia, Far East) Net Index** is recognized as the pre-eminent benchmark in the United States to measure international equity performance. It comprises 21 MSCI country indexes, representing the developed markets outside of North America.

The **MSCI Emerging Markets Index<sup>SM</sup>** is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. As of June 2007, the MSCI Emerging Markets Index consisted of the following 25 emerging market country indices: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand and Turkey.

The **CS/Tremont Equity Market Neutral Index** takes both long and short positions in stocks with the aim of minimizing exposure to the systematic risk of the market (i.e., a beta of zero).

\*Market Neutral returns for November 2008 are estimates by J.P. Morgan Funds Market Strategy and are based on a December 8, 2008 published estimate for November returns by CS/Tremont in which the Market Neutral returns were estimated to be +0.85% (with 69% of all CS/Tremont constituents having reported return data). Presumed to be excluded from the November return are three funds, which were later marked to \$0 by CS/Tremont in connection with the Bernard Madoff scandal. J.P. Morgan Funds believes this distortion is not an accurate representation of returns in the category. CS/Tremont later published a finalized November return of -40.56% for the month, reflecting this mark-down. CS/Tremont assumes no responsibility for these estimates.

The **NCREIF Property Index** is a quarterly time series composite total rate of return measure of investment performance of a very large pool of individual commercial real estate properties acquired in the private market for investment purposes only. All properties in the NPI have been acquired, at least in part, on behalf of tax-exempt institutional investors – the great majority being pension funds. As such, all properties are held in a fiduciary environment.

The **FTSE NAREIT EQUITY REIT Index** is designed to provide the most comprehensive assessment of overall industry performance and includes all tax-qualified real estate investment trusts (REITs) that are listed on the NYSE, the American Stock Exchange or the NASDAQ National Market List.

The **Barclays Capital U.S. Aggregate Index** represents securities that are SEC-registered, taxable and dollar denominated. The index covers the U.S. investment-grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities and asset-backed securities. These major sectors are subdivided into more specific indexes that are calculated and reported on a regular basis.

The **HFRI Equity Market Neutral Index** is an equally weighted performance index. The HFRI is broken down into 33 different categories by strategy. The strategy of this index seeks to profit by exploiting inefficiencies between related equity securities, neutralizing exposure to market risk by combining long and short positions. In many cases, portfolios are structured to be market, industry, sector and dollar neutral. One example of this strategy is to build portfolios made up of long positions in the strongest companies in several industries and take corresponding short positions in those showing signs of weakness. Due to the mutual agreements with the hedge fund managers listed in the HFRI database, the index is not at liberty to disclose the particular funds behind this index.

The **Merrill Lynch Global Government Index** tracks the performance of investment-grade sovereign debt publicly issued and denominated in the issuer's own domestic market and currency. In order to qualify for inclusion in the Index, a country (i) must be an OECD member; (ii) must have an investment-grade foreign currency long-term sovereign debt rating (based on an average of Moody's, S&P and Fitch); (iii) must have \$50 billion (USD equivalent) outstanding face value of Index qualifying debt (i.e., after imposing constituent level filters on amount outstanding, remaining term to maturity, etc.) to enter the Index; (iv) must have at least \$25 billion (USD equivalent) in outstanding face value of Index qualifying debt in order to remain in the Index; (v) must be available to foreign investors; and (vi) must have at least one readily available, transparent price source for its securities.

The **Merrill Lynch U.S. High Yield Index** tracks the performance of US dollar-denominated below-investment-grade corporate debt publicly issued in the U.S. domestic market. Qualifying securities must have a below-investment-grade rating (based on an average of Moody's, S&P and Fitch) and an investment-grade-rated country of risk (based on an average of Moody's, S&P and Fitch foreign currency long-term sovereign debt ratings).

The **Dow Jones Industrial Average** measures the stock performance of 30 leading blue-chip U.S. companies.

The **Bloomberg Commodity Index** is composed of futures contracts on physical commodities and represents twenty two separate commodities traded on U.S. exchanges, with the exception of aluminum, nickel, and zinc.

Unless otherwise indicated, all illustrations are shown in U.S. dollars.

*Past performance is no guarantee of comparable future results.*

*Diversification does not guarantee investment returns and does not eliminate the risk of loss.*

**Bonds** are subject to interest rate risks. Bond prices generally fall when interest rates rise.

The price of **equity** securities may rise or fall because of changes in the broad market or changes in a company's financial condition, sometimes rapidly or unpredictably. These price movements may result from factors affecting individual companies, sectors or industries, or the securities market as a whole, such as changes in economic or political conditions. Equity securities are subject to "stock market risk," meaning that stock prices in general may decline over short or extended periods of time.

**Small capitalization** investing typically carries more risk than investing in well-established "blue-chip" companies since smaller companies generally have a higher risk of failure. Historically, smaller companies' stock has experienced a greater degree of market volatility than the average stock.

**Mid capitalization** investing typically carries more risk than investing in well-established "blue-chip" companies. Historically, mid cap companies' stock has experienced a greater degree of market volatility than the average stock.

**Real estate** investments may be subject to a higher degree of market risk because of concentration in a specific industry, sector or geographical sector. Real estate investments may be subject to risks including, but not limited to, declines in the value of real estate, risks related to general and economic conditions, changes in the value of the underlying property owned by the trust and defaults by borrower.

**International** investing involves a greater degree of risk and increased volatility. Changes in currency exchange rates and differences in accounting and taxation policies outside the U.S. can raise or lower returns. Also, some overseas markets may not be as politically and economically stable as the United States and other nations.

Investments in **emerging markets** can be more volatile. As mentioned above, the normal risks of investing in foreign countries are heightened when investing in emerging markets. In addition, the small size of securities markets and the low trading volume may lead to a lack of liquidity, which leads to increased volatility. Also, emerging markets may not provide adequate legal protection for private or foreign investment or private property.

Investments in **commodities** may have greater volatility than investments in traditional securities, particularly if the instruments involve leverage. The value of commodity-linked derivative instruments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates or factors affecting a particular industry

or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs and international economic, political and regulatory developments. Use of leveraged commodity-linked derivatives creates an opportunity for increased return but, at the same time, creates the possibility for greater loss.

Investing in **alternative assets** involves higher risks than traditional investments and is suitable only for sophisticated investors. Alternative investments involve greater risks than traditional investments and should not be deemed a complete investment program. They are not tax efficient and an investor should consult with his/her tax advisor prior to investing. Alternative investments have higher fees than traditional investments and they may also be highly leveraged and engage in speculative investment techniques, which can magnify the potential for investment loss or gain. The value of the investment may fall as well as rise and investors may get back less than they invested.

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