Kiplinger's

RETIREMENT REPORT

Your Guide to a Richer Retirement

VOLUME 11 NUMBER 1 JANUARY 2004

IN THIS ISSUE

James Yang

BE LULLED INTO A TRUE SENSE OF SECURITY.

Whether you come to the AIG companies for insurance, a loan, or retirement savings, you'll find we provide the kind of security that comes from being part of an organization with over 80 years of experience, $600 billion in assets and 40 million customers. You just might find there's safety in our numbers.

Insurance | Loans | Retirement

AIG®

WE KNOW MONEY.℠

Insurance and financial services provided by member companies of American International Group, Inc., 70 Pine St., Dept. A, NY, NY 10270. Consolidated assets from General Insurance, Life Insurance, Financial Services, and Retirement Savings & Asset Management operations.

Kiplinger's
RETIREMENT REPORT
Your Guide to a Richer Retirement JANUARY 2004 VOLUME 11 NUMBER 1 $5.00

On the Way: A Drug Benefit From Medicare

Up close, some retirees may find that Medicare's new prescription-drug coverage loses its luster.

THE NEW MEDICARE drug benefit doesn't go into effect until 2006, so you won't have to rush to sign up. That's a good thing, because the benefit is complicated, and digesting it will take time. Coverage won't operate the way health insurance usually does. Congress could change the plan before it's implemented. And you'll have to do your homework to determine whether enrolling will be a good deal for you. Outlined below are the program's key elements.


James Yang

The Basic Structure

The new drug benefit is called Medicare Part D. It will be offered by private plans. In most cases, you'll sign up for the program when you join Medicare Part B.

If the program started today, the estimated monthly premium would be about $35, with an annual deductible of $250 before drug coverage starts. In fact, when the program begins two years from now, the premium and deductible will likely be higher. (Exact amounts won't be set until later, as discussed below.)

Once you've met the annual deductible, the plan will cover 75% of your prescription-drug costs, up to $2,250; above that amount, you'll pick up the whole tab until out-of-pocket expenses exceed $3,600—excluding payments made by an employer's health plan or private insurance. Once you've spent $3,600 out-of-pocket for drugs (including the deductible but not the premium), the plan will pay 95% of your drug costs for the rest of the year.

But How Much Will It Cost You?

According to the Congressional Budget Office (CBO), by 2006 the average Medicare enrollee will spend $3,104 a year for prescription drugs. So how would the plan work if your drug costs totaled $3,104?

Let's walk through the math: The plan pays 75%, or $1,500, of the first $2,000 ([$2,250 – $250 deductible] x 75%), and you pay 25%, or $500. Now, add your out-of-pocket drug expenses above the initial cap ($3,104 – $2,250 = $854), plus the $250 deductible you paid. Your expenses under the plan would total $1,604 ($500 + $854 + $250). Tack on the $35 monthly premium ($420 for the year), and your prescription and drug-related costs come to $2,024. Being in the plan saves you $1,080 ($3,104 – $2,024).

To get a feel for how you'd fare under different drug-expense scenarios, check out our easy-to-use calculator at **www.kiplinger.com/tools/medicare.php**.

The way Part D is written, it's quite possible that you will pay more than you receive in benefits, particularly if you are relatively young and healthy. For example, if you spend $500 a year on drugs, joining the plan will cost you close to $733 ($420 for premiums and $313 for drugs). That's $233 more than you'd spend if you simply bought the drugs. Using the current premium and deductible estimates, you break even on the plan once your annual drug costs reach $810. Beyond that, you come out ahead. If you spend $2,000 a year on drugs, you would pay $688, or 34%, of your drug costs. Counting the premium, your total out of pocket comes to $1,108 a year.

Unfortunately, you can't simply postpone signing up for the new Medicare plan until the math works in your favor. If you enroll after the initial eligibility period, premiums will be steeper—increasing by at least 1% a month or as much as 30% each year. (One exception: If you enroll in the plan because you lose retiree health coverage offered through your former employer or continuation benefits, such as COBRA, you can sign up without penalty.)

Changes in Medigap Rx Coverage

Once the new Medicare Part D gets up and running in 2006, no new Medigap insurance policies with prescription-drug coverage will be sold. (Medigap policies are used to supplement Medicare coverage by paying Medicare's deductibles and covering other gaps in coverage.)

If you enroll in Medicare Part D and have a Medigap policy with drug benefits, your policy will be canceled, but you will have a guaranteed right to buy Medigap plan A, B, C or F. You must buy the new policy during the open-enrollment period for Part D.

If your current Medigap plan doesn't offer drug coverage, you may keep it. And if you have a policy with drug coverage and decide not to enroll in the new Part D, you'll be allowed to renew it.

Part B Premiums Poised to Rise

Beginning in 2007, high-income beneficiaries will pay higher premiums for Medicare Part B coverage, which generally covers hospital outpatient, medical and doctor services, and some preventive care. Under current law, everyone pays the same premium: Beneficiaries pay an amount equal to 25% of the total cost of coverage and the government covers the rest. Under the new law, premiums will be tied to income, and beneficiaries who make more than $80,000 ($160,000 for those who file jointly) will pay a greater percentage of the premium cost. Individuals with incomes of $80,000 to $100,000 will pay 35% of the cost, and those with incomes of $100,000 to $150,000 will pay half. Above $150,000, the proportional share will range from 65% to 80%.

Jay Nawrocki, a health-care law analyst at CCH, points out that the new premium structure will be gradually phased in over five years. So a retiree with $80,000 of income would see his rate slowly rise from 25% in 2006 to 35% by 2012. If the new premium contribution levels were in place today, Nawrocki says, a beneficiary with income of $85,000 who now pays about $59 monthly would see his premium grow to $82. A beneficiary with an income of $200,000 or more would pay about $188. According to estimates by Health Policy Alternatives, about 3% of Part B enrollees will see their portion of the premium increase in 2007—and that percentage will rise to 6% by 2013.

More Part B Changes Coming

Look for these additional changes to Medicare Part B:

Higher deductibles. In 2005, the $100 deductible for Part B will rise to $110 and be indexed to inflation and medical costs, which means it's likely to gradually increase. CBO predicts that the Part B deductible will grow to $115 in 2006, and reach $166 by 2013.

Additional preventive care. Beginning in 2005, Medicare will cover an initial physical exam for new beneficiaries. The exam will include screening for cardiovascular

EDITOR IN CHIEF AND PUBLISHER
Knight A. Kiplinger

EDITOR
Priscilla Thayer Brandon

ASSOCIATE EDITORS
Matthew Dembicki, Jean Gruss

CONTRIBUTING EDITOR
Christopher Gearon

COPY EDITOR
Arthur Haupt

ART DIRECTOR
Mary Pat Doherty

ADVERTISING SALES
Vicki Fuchs
TELEPHONE: 312-280-7917
E-MAIL: vfuchs@kiplinger.com
FAX: 312-280-0790

EDITORIAL OFFICES
1729 H St., N.W., Washington, DC 20006-3938
TELEPHONE: 202-887-6491
E-MAIL: retire@kiplinger.com
FAX: 202-785-3648

SUBSCRIBER SERVICES
TELEPHONE: 800-544-0155
E-MAIL: sub.services@kiplinger.com
FAX: 515-246-1020

REPRINT SERVICE
PARS International Corp.
102 W. 38th St., Sixth Floor,
New York, NY 10018
TELEPHONE: 212-221-9595, ext. 322
E-MAIL: reprints@parsintl.com

Published monthly (ISSN# 1075-6671); $59.95 for one year; $89.95 for two years; $114.95 for three years.

Periodicals postage paid in Washington, DC.

POSTMASTER: Send address changes to Kiplinger's RETIREMENT REPORT, P.O. Box 3295, Harlan, IA 51593.

disease and—for beneficiaries at risk—diabetes.

Suspension of the physical-therapy cap. Payment caps placed on outpatient physical therapy have been suspended until January 1, 2006. The caps (see *KRR*, Dec. 2003) had been in effect for just over three months—September 1 to December 8, 2003. People who received outpatient physical therapy during the three months are responsible for therapy bills they incurred over the limit.

Part D Premiums and Deductibles Will Increase

Both the monthly premium and annual deductible are designed to increase annually. The rise will be based on a number of factors, such as inflation in drug prices, the cost of new drugs included in the formularies of the private drug plans, and increased drug usage by Medicare beneficiaries enrolled in Part D. CBO estimates that both the premium and deductible will increase about 10% in 2007, to $37 and $275, respectively. And that by 2013, the monthly premium will be about $58 and the deductible, $445.

The initial benefit cap amount will also grow, from $2,250 in 2006, to $4,000 by 2013. But then so will the amount you'll pay out of pocket once you surpass the $2,250 threshold. The requirement that you pick up $3,600 in drug costs before Medicare benefits kick back in is also indexed and may reach $6,400 by 2013.

In the Interim: A Drug-Discount Card

Until broader drug benefits begin in 2006, Medicare beneficiaries will be able to buy a special discount card for about $30 a year from pharmacy-benefit managers, health insurers and chain pharmacies. Many of these companies already offer discount cards to low-income seniors. The Bush administration says that the cards, which will be available in the spring, will lop 10% to 25% off the price of prescription drugs.

What About Employer Coverage and Medigap?

If your former employer is providing you with health and prescription-drug coverage, cross your fingers and hope it continues to do so. Congress is aware that employers may drop their coverage, which is why it provided $88 billion of incentives to encourage them to maintain benefits. Under the bill, firms that offer retirees' plans with drug coverage equivalent in value to Part D can collect a tax break equal to 28% of what they spend on drugs for retirees, up to $1,330 per person. Despite the tax incentives, CBO estimates that nearly a quarter of Medicare beneficiaries could lose their employer-based coverage after the program starts.

As We See It

BEGINNING IN 2006, the new Medicare bill, which was signed by President Bush on December 8, will gradually reshape the way Medicare works and give millions of older Americans access to new prescription-drug coverage. The bill's key provisions are discussed in our lead story.

The drug program is a complex, three-tier program. First tier: After a deductible, you pay 25% for drug costs up to $2,250. Second tier: Zero coverage until you spend $3,600 out of pocket. Third tier: You pay 5% of all additional drug costs. Each year you must spend at least $3,600 before reaching the third tier—the level at which Medicare shields you from catastrophic expenses.

If you spend less than $810 a year on drugs, you'll pay more to participate than you get in benefits. But postpone enrolling and you're betting on good health and believe higher future premiums (if you enroll later) won't outstrip what you saved by delaying. Signing up means you're counting on the program providing the drugs you need. (Generic drugs are emphasized, and different plan providers may offer different drugs.)

Many of you are receiving benefits under your former employer's retiree plan. For you, nothing will change after 2006 unless the plan ends or its drug coverage is dropped. Your coverage will likely be better than the new Medicare program.

Beginning as early as April, Medicare beneficiaries with no drug coverage may buy a discount card. Will the new cards offer the best discounts? Can a card sponsor change its drug prices or formulary once you've signed up? We'll help you sort it all out in the coming months.

A note to Orlando-area residents: Knight Kiplinger will be addressing the World Money Show on February 2, and you're invited to a reception that evening in the Emerald Six room at the Gaylord Palms Resort from 6 to 8 P.M. Register for free tickets to the show using code #002543 (800-970-4355; www.worldmoneyshow.com).

Priscilla Brandon

Editor

MANAGING YOUR FINANCES

Using Exchange-Traded Funds in a Portfolio

IF THE WIDENING MUTUAL fund scandal is prompting you to seek alternative investments, consider exchange-traded funds (ETFs). ETFs are basically index funds that trade like stocks. The main difference between an ETF and an index mutual fund is that you buy and sell shares of an ETF on an exchange; with a mutual fund, your transactions are always with the fund company. When you buy an ETF, you pay a one-time brokerage commission, as with any stock. The ETF's sponsor will also deduct a small annual management fee from shareholders' assets.

Prices on ETFs hew closely to the value of the stocks or bonds in the ETF's underlying portfolio. ETF sponsors create new shares as investors demand them, thus preventing prices on shares from being artificially bid up or down by trading. Because the prices immediately reflect what buyers are paying and sellers are getting, market timers can't exploit pricing discrepancies as they've managed to do with some mutual fund shares.

If ETFs appeal to you, there are 70 U.S. stock, 41 international and five bond funds to choose from. These funds are traded on the American Stock Exchange, and prices are listed in the stock pages of major newspapers.

What's Under the Hood

ETFs have all the hallmarks of a good index fund, including being cheap to own and tax-efficient. Each fund owns a basket of stocks or bonds that closely mirrors the index it tracks—for example, the Standard & Poor's 500-stock index. You can buy ETFs that track broad or narrow indexes. If you want to own a slice of the broad U.S. stock market, you can invest in Vanguard Total Stock Market Vipers (symbol VTI, recent price $102). This ETF mimics the huge Wilshire 5000 index, which consists of all U.S. publicly traded stocks. Or you could buy Cubes (QQQ, $35), which follow the Nasdaq 100 index, a proxy for big technology stocks that includes Microsoft, Intel and Cisco Systems.

In addition, index investing has a proven track record. On average, investors who hitched their investment "fate" to one or more broad-based indexes did better than they would have with an actively managed fund. In fact, broad stock-market indexes outperformed more than 80% of actively managed funds over the past 20 years, according to Burton Malkiel, Princeton University economics professor and author of *The Random Walk Guide to Investing* (W.W. Norton, $23).

Annual expenses are low. Because ETFs track their indexes, the funds don't have to pay analysts and fund managers to select investments. And expenses are often less than even the lowest-cost index mutual funds. For instance, if you own iShares S&P 500, you'll pay a management fee of 0.09% annually, or 9 cents per $100 invested. That's less than the 0.18%, or 18 cents per $100, charged by Vanguard's 500 Index Fund.

How to Buy and Own ETFs

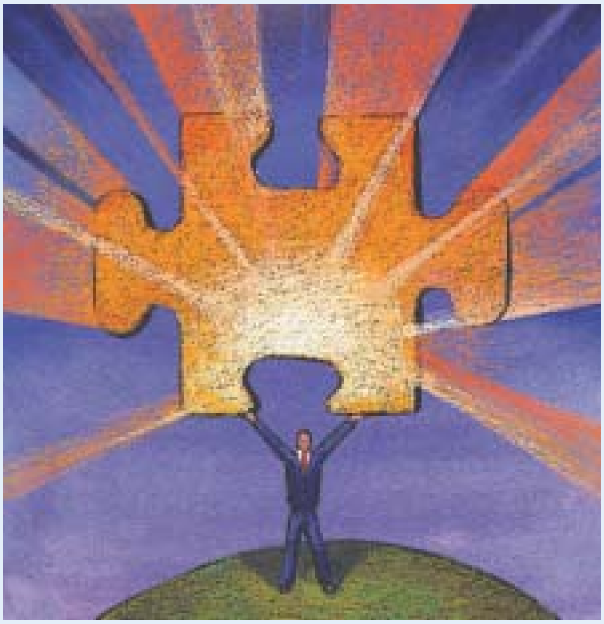
To buy ETFs, you need a brokerage account. And because you'll pay a commission on each transaction, it's best to buy ETFs in substantial blocks. If you intend to invest incrementally on a regular basis, buy a low-cost, no-load, index mutual fund, not an ETF.

If you're investing a considerable sum, ETFs are the ticket to savings. According to Wilfred Dellva, a professor of finance at Villanova University who studies ETFs, if you invest $100,000 in the iShares S&P 500, after just two years you would have paid less in expenses than you would with Vanguard's 500 Index Fund. That assumes you invested the $100,000 in a single transaction and paid a commission of $20. If you pay more, it will take longer to come out ahead. For example, it would take about three years to break even on a $100,000 investment if you pay $45 plus a three-cents-a-share commission.

To compare holding costs and estimate investment returns, the National Association of Securities Dealers has a useful online calculator at **www.nasd.com/investor/tools/calculators** (click on "Analyze Mutual Fund and ETF Fees and Expenses," then click on the "ETF Expense Analyzer" button on the right side of the page). You can enter variables, such as holding periods and commissions, to calculate your balance under various scenarios. The calculator also shows you whether an ETF's annual expenses are above or below average and lets you compare two funds on one screen.

Don't Overlook the Tax Benefits

ETFs typically outshine mutual funds in the tax area because their shares are treated like individual stocks or bonds. With mutual funds, investors can't control when capital gains are distributed. This can happen even with index funds if a fund sells holdings to meet shareholder redemptions or simply changes the makeup of its portfolio.



Investing With ETFs

One of these portfolios may suit your needs. We used Barclays Global Investors iShares because of their low management expenses, but you could substitute other ETFs.

Conservative	% OF PORTFOLIO
iShares Lehman 1-3 (SHY)	35%
iShares Lehman Agg. Bond (AGG)	35
iShares S&P 500 (IVV)	20
iShares Russell Midcap (IWR)	10
Balanced	**% OF PORTFOLIO**
iShares S&P 500 (IVV)	30%
iShares Russell Midcap (IWR)	10
iShares Russell 2000 (IWM)	10
iShares MSCI EAFE (EFA)	10
iShares Lehman Agg. Bond (AGG)	40
Aggressive	**% OF PORTFOLIO**
iShares S&P 500 (IVV)	40%
iShares Russell Midcap (IWR)	20
iShares Russell 2000 (IWM)	10
iShares MSCI EAFE (EFA)	10
iShares Lehman Agg. Bond (AGG)	20

With an ETF, if the fund's institutional sponsor makes such transactions, shareholders are unaffected. For example, when Vanguard creates new Viper shares, it exchanges them in multimillion-dollar blocks for a "basket" of stocks that constitute the underlying index. The big institutions that acquire the Viper shares either hold them in their portfolios or sell all or part of them to individual investors on the American Stock Exchange. When investors buy or sell their Vipers on the exchange, their trades don't affect other Viper shareholders. Essentially, ETF investors are insulated from both the tax consequences of other investors buying or selling, and transaction costs. (In contrast, if an index mutual fund is hit with frenetic trading by shareholders, the trading costs are borne by the fund and passed on to buy-and-hold investors.)

At some later date, the institutions may return the Viper shares they acquired from Vanguard and get back the stocks. Since there never was any actual stock sale, neither the original or subsequent exchange of shares for stock is taxable. And just as with stocks, investors owning Viper shares typically do not report capital gains or losses on their income-tax returns until they sell their shares.

Building a Portfolio With ETFs

If you currently own actively managed mutual funds, shifting to ETFs requires a strategy. Investment inside an IRA can be shifted without tax consequences. But with taxable accounts, you must move slowly and plan ahead to soften the tax bite. For the three portfolios shown in the table, we used Barclays Global Investors' iShares because they are inexpensive to own. Feel free to substitute other low-cost funds, such as the Vanguard Total Stock Market Vipers, which could be used for the stock portion of your portfolio.

For domestic stocks, stick with the ETFs that track broad indexes—the S&P 500 for large-company stocks, for instance, and the Russell Midcap index for midsize companies. For small-company stocks, consider the Russell 2000. The Wilshire 5000 blankets the entire U.S. stock market.

For international stocks, select ETFs that follow the MSCI EAFE (Europe, Australasia, and Far East) index of developed countries. And for bonds, use an ETF that tracks the Lehman Brothers U.S. Aggregate index. To dampen a portfolio's volatility, invest 10% in the short-term Lehman Brothers 1-3 Year Treasury Index and reduce other allocations accordingly.

If you want inflation protection, consider buying the new iShares Lehman TIPS Bond fund. TIPS are Treasury Inflation-Protected Securities issued by the U.S. Government (for more about TIPS, see page 10).

There's plenty of information online about ETFs. You can read about Barclays' ETFs at www.ishares.com. For general information on funds, visit the American Stock Exchange's site, www.amex.com. Analysts at Morningstar also evaluate ETFs at www.morningstar.com.

Investing for Income

Recommended Dividend Stocks

Using the stock-finder tool at Kiplinger.com, we found these banks by screening for stocks with ten years of consecutive dividend increases and good projected earnings.

DIVIDEND STOCKS	YIELD	SHARE PRICE
BB&T (BBT)	**3.3%**	$38
Wells Fargo (WFC)	**3.2**	56
SouthTrust (SOTR)	**2.6**	32
Marshall & Ilsley (MI)	**1.9**	37

U.S. Treasury Yields

MATURITIES	YEAR AGO	3 MONTHS AGO	THIS MONTH	NEXT AUCTION*
Three-month bills	1.21%	0.96%	**0.90%**	weekly
Six-month bills	1.27	1.03	**0.99**	weekly
Two-year notes	1.84	1.71	**1.83**	Jan. 29
Five-year notes	3.03	3.18	**3.21**	Feb. 11

Treasury yields are for Dec. 15, 2002; Aug. 15, 2003; and Dec. 15, 2003.
*Dates are tentative.
SOURCES: U.S. Federal Reserve.

Selected Fixed-Income Mutual Funds

These Ginnie Mae funds have good managers and low expenses. Yields shown are for the past 30 days. For more details on funds, go to www.kiplinger.com/investing/funds.

GINNIE MAE FUNDS	YIELD	PHONE NUMBER
Vanguard GNMA (VFIIX)	**4.9%**	800-635-1511
USAA GNMA (USGNX)	**3.8**	800-531-8448
Fidelity Ginnie Mae (FGMNX)	**3.6**	800-343-3548
Category Average	**3.2%**	

Money-Market Funds

Top-performing funds with minimum initial investments of $10,000 or less. These 30-day compounded money-market yields are to December 15, 2003.

TAXABLE	YIELD	PHONE NUMBER
GE	**0.91%**	800-242-0134
Bunker Hill*	**0.87**	800-572-9336
McMorgan Principal*	**0.85**	800-788-9485
Category Average	**0.52%**	
TAX-FREE	**YIELD**	**PHONE NUMBER**
Alpine Municipal*	**1.12%**	888-785-5578
Strong*	**0.94**	800-368-3863
Vanguard	**0.92**	800-635-1511
Category Average	**0.47%**	

*Fund is waiving all or a portion of its expenses.
SOURCE: *Money Fund Report* (for up-to-date rates, go to www.imoneynet.com and click on "Money Fund Data").

Benchmarks

	YEAR AGO	3 MONTHS AGO	THIS MONTH
Inflation rate*	2.19%	2.16%	**1.77%**
Yield on S&P 500	1.74	1.67	**1.73**
One-year Treasury (CMT)**	1.45	1.24	**1.27**
Ten-year Treasury	4.03	4.27	**4.27**

*Year-to-year change in CPI as of August 2003 and November 2003.
**Constant Maturity Treasury yield.

MANAGING YOUR FINANCES

Your Questions Answered

Handling an Inherited IRA

My wife inherited her sister's IRA and wants to leave it to her niece. What should my wife do, and how will required-minimum distributions be determined?

Your wife should name her niece as the designated beneficiary of the IRA and begin withdrawing from the account by December 31 of the year after her sister's death. How much your wife—and eventually her niece—must withdraw each year depends on what the IRA plan says. In most cases, the mandatory withdrawals will be based on your wife's life expectancy. After her death, her niece would continue the withdrawals based on your wife's distribution schedule. It's also possible that the IRA plan may require your wife to withdraw all the assets from the account within five years of her sister's death. In that case, after your wife dies, her niece must empty the account within that same five-year period.

Interest Rate Role in Annuity Factor

How do interest rates affect the payout factors on the single-premium immediate annuities (SPIAs) listed on page 7?

Interest rates, mortality rates and the fees charged by SPIAs are used to create the payout factor, says Joe Rosenswank of *Comparative Annuity Reports*. Companies weigh those components in their formulas differently, which is why factors differ from one insurer to another. But interest rate changes always affect payout factors. Use the payout factor to determine the amount you would receive from an SPIA. If you invest $100,000 and the payout factor is 7, a SPIA with a life-and-ten-year certain option will pay $700 a month (100,000 ÷ 1,000 x 7). Payments are guaranteed for the life of the annuitant and to the beneficiary for the first ten years.

What Should I Do About My CNA Policy?

I have a letter from CNA telling me that the premium on my long-term-care insurance policy is going up by 50%. I also learned that CNA has stopped selling new policies to individuals. Should I brace for more premium hikes?

Yes. CNA is raising premiums on all its policies sold before 1997, but has not increased rates on policies it sold after that date. We don't have any information on what CNA intends to do about premiums in the future. But unfortunately, once a company stops selling new policies, that boosts the odds that it will hit policyholders with premium increases, says Peter Gelbwaks, an agent in Plantation, Fla., who specializes in selling long-term-care insurance.

The most pressing question is what to do now. Your best option: Have your agent renegotiate the policy benefits for you. Say your policy would pay $100 a day for six years, and your benefit is $219,000. If you reduce that to four years, you'll still have a benefit of $146,000 and the policy will be less expensive. Alternatively, you could consider eliminating the inflation provision in your policy. Another option might be to get your children to chip in the premium increase.

You can also shop around for a new policy. If you're in good health and relatively young, you may find a comparable policy at an affordable price. But if you are now in your 70s, it's not likely that you'll find comparable coverage for less than you're paying now—even with the premium increase. And certain terms and benefit triggers in your current policy may be more generous than anything on the market today.

Figuring a Portfolio's Return

How can I figure out how my stock portfolio measured against Standard & Poor's 500-stock index in 2003?

If you withdrew money and made deposits during the year, determining your portfolio's actual return becomes a bit tricky. For example, deposits will skew performance upward. Nevertheless, you can still get a pretty solid performance estimate using this formula from Henry Hebeler, author of *J.K. Lasser's Your Winning Retirement Plan.*

$$\frac{\text{Year-end balance} - \text{Start of year balance} - \text{Deposits} + \text{Withdrawals}}{\text{Start of year balance} + (0.5 \times \text{Deposits}) - (0.5 \times \text{Withdrawals})}$$

If your portfolio was worth $100,000 on January 1, 2003, and $110,000 on December 31, and during the year you deposited $3,000 and withdrew $7,000, your total return was 14.3%.

$$\frac{110{,}000 - 100{,}000 - 3{,}000 + 7{,}000}{100{,}000 + (0.5 \times 3{,}000) - (0.5 \times 7{,}000)} = \frac{14{,}000}{98{,}000} = 0.143 \times 100 = 14.3\%$$

You can also do this calculation online at Hebeler's site, **www.analyzenow.com**. Click on "Free Programs" to find the "Free Return Calculator." You'll need Microsoft Excel to run it.

Investing for Income

Certificates of Deposit

SIX MONTHS	YIELD	PHONE NUMBER
Giantbank.com (Fla.)	**1.84%**	877-446-4200
Ascencia Bank (Ky.)	**1.83**	877-369-2265
New South Federal (Ala.)	**1.82**	866-450-7283
Imperial Capital (Cal.)	**1.81**	800-455-4485
Legacy Bank (Okla.)	**1.81**	800-687-9688
National Average	**1.28%**	
ONE YEAR	**YIELD**	**PHONE NUMBER**
Intervest National (N.Y.)	**2.25%**	212-218-8383
Giantbank.com (Fla.)	**2.16**	877-446-4200
NetBank (Ga.)	**2.15**	888-256-6932
Exchange Bank (Neb.)	**2.15**	707-524-3000
Capital One (Va.)	**2.14**	800-564-7426
National Average	**1.68%**	
TWO AND A HALF YEARS	**YIELD**	**PHONE NUMBER**
Capital One (Va.)	**3.05%**	800-564-7426
Salem Five (Mass.)	**3.00**	888-662-5500
Countrywide Bank (Va.)	**3.00**	800-479-4221
Exchange Bank (Neb.)	**2.97**	707-524-3000
Bank of Internet USA (Cal.)	**2.90**	877-351-2265
National Average	**2.16%**	
FIVE YEARS	**YIELD**	**PHONE NUMBER**
Capital One (Va.)	**4.31%**	800-564-7426
ING Direct (Del.)	**4.25**	800-464-3473
Intervest National (N.Y.)	**4.25**	212-218-8383
Countrywide Bank (Va.)	**4.25**	800-479-4221
Advanta Bank (Utah)	**4.20**	800-788-2632
National Average	**3.60%**	

Yields include compounding and are to Dec. 15, 2003. For information on deposit insurance, go to the Web site of the Federal Deposit Insurance Corp. (www.fdic.gov). All deposits are federally insured up to the maximum allowed. For updated rates, visit www.kiplinger.com/finances/yields.

SOURCE: Bankrate.com.

Fixed Annuities

SINGLE-PREMIUM IMMEDIATE-ANNUITY AVERAGE PAYOUT FACTORS	3 MONTHS AGO	THIS MONTH
Monthly payout for 70-year-old male	6.98	**6.98**
Monthly payout for 70-year-old female	6.52	**6.53**
Monthly payout for 75-year-old male	7.74	**7.73**
Monthly payout for 75-year-old female	7.33	**7.32**

Payout factors, as interest rates, fluctuate with Treasury and bond yields. Annuity payouts are guaranteed to the annuitant for life and to his or her beneficiary for ten years. These averages are derived from the top 50 single-premium immediate-annuity programs; the payout factors are per each $1,000 and are applicable to the life-and-ten-years-certain option.

DEFERRED-ANNUITY INTEREST RATES	3 MONTHS AGO	THIS MONTH
Flexible-premium average rate*	3.39%	**3.23%**
Flexible-premium highest rate**	5.00	**4.90**
Single-premium average rate*	3.80	**3.74**
Single-premium highest rate**	5.00	**4.75**
Certificate annuity, 3-year highest rate	3.70	**3.65**
Certificate annuity, 5-year highest rate	4.70	**4.55**

*Average base interest rate of top 100 annuity programs.
**Highest base interest rate among nonbonus annuity programs.

SOURCE: *Comparative Annuity Reports* (916-487-7863; www.annuitycomparativedata.com). Annuity data are to Sept. 1, 2003, and Dec. 1, 2003.

Information to Act On

ECONOMY

■ **Terrorism will inevitably roil markets.** But short of another attack on the scale of 9/11, it won't halt a global recovery. Bomb blasts won't send financial markets into another long slump either.

■ **Interest rates can remain low for a "considerable period."** So says the Federal Reserve. Exactly how long that might be is tough to say, but low rates could be with us through 2004 as long as overall inflation stays low. We expect inflation to run about 2% this year, down from 2.3% in 2003.

INVESTING

■ **Get the scoop on bond and money-market funds.** Standard & Poor's has posted its reports on about 230 mutual funds at www.standardandpoors.com (click on "Funds"). The reports have information on credit quality, portfolio composition, maturity, yield and performance.

■ **International stocks beat their U.S. counterparts.** That performance is a reminder of the benefits of including foreign stocks in your portfolio. Well-managed no-load international stock funds include Longleaf International (symbol LLINX; 800-445-9469) and Oakmark International (OAKIX; 800-625-6275).

■ **A caveat on long-term callable CDs.** These CDs pay higher rates than their fixed-rate cousins, but their allure will be short-lived if interest rates fall and banks call them in to reinvest the money at lower rates. If rates rise, you're stuck with the lower rate.

■ **Higher limits on pay-ins to retirement plans.** If you'll be 50 or over by year end, you can stash up to $16,000 of income in your 401(k), 403(b) or 457 plan this year. Younger workers can save up to $13,000.

TAXES

■ **Estimated-tax payments are due January 15.** If you have significant income from dividends and long-term capital gains, you may save by adjusting your final installment to reflect the lower tax rates.

■ **Discount on Kiplinger's TaxCut software.** You can receive a $5 discount off the price of TaxCut Deluxe 2003, which includes up-to-date tax advice from Kiplinger editors and experts at H&R Block. To order, call 888-482-9288 and mention "Priority Code F603." The discounted price is $24.90 ($19.95, plus $4.95 for shipping and handling).

■ **Long-term-care premiums are a medical expense.** For 2003, taxpayers 71 and older can claim as much as $3,130 per person. Those 61 to 70 can claim up to $2,510; those 51 to 60, up to $940; and those 41 to 50, $470. Taxpayers 40 or younger can claim up to $250. Unreimbursed medical expenses are deductible once they exceed 7.5% of adjusted gross income.

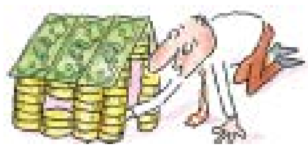
■ **New estate-tax form available.** The IRS has revised the form that executors of taxable estates must file. For a copy of the new Form 706, U.S. Estate (and Generation-Skipping Transfer) Tax Return, call 800-829-3676, or go to www.irs.gov/pub/irs-pdf/i706.pdf.

HOUSING

■ **Condo prices outpace those on detached houses.** Condominium prices are rising 17% annually, versus 9% for detached houses. Demand from first-time home buyers and empty nesters is driving prices up.

■ **Beware of predatory lending.** A federal task force has published a free brochure on the pitfalls of predatory lending, which can include loans for home repairs, and home-equity and reverse mortgages. Call 202-874-4700, or go to www.ots.treas.gov/docs/480016.html.

■ **New incentives for conserving energy.** If Congress passes the energy bill, you'll have two years to claim tax credits on certain home improvements. In a primary residence, you may claim a 20% credit, up to $2,000, for skylights and insulated windows. And a credit of 15%, up to $2,000, for each house (and vacation home) in which you install a solar heating and hot-water system. But warming a pool or hot tub with solar power won't count.



■ **Search online for home values.** Go to www.kiplinger.com/tools/house for the median prices in more than 300 cities in 2003, and the percentage change in those prices over the past one, three and five years.

HEALTH

■ **Pocket-size book helps track blood-sugar levels.** *Playing the Numbers*, a 61-page pocket-size book published by the American Diabetes Association, can help people with diabetes gain control of their glucose levels using an easy charting system. Cost is $8 at bookstores, or call the ADA at 800-232-6733.

■ **A new drug may help those with moderate to severe Alzheimer's disease.** It's called Namenda and is made by Forest Labs. For more information on the drug, call the Food and Drug Administration at 888-463-6332, or visit the manufacturer's Web site, www.namenda.com.

MEDICARE

■ **Medicare to pay for colorectal-cancer screening.** Beginning this year, a new, easier-to-do fecal occult blood test will be covered annually. Colorectal cancer is the fourth most common cancer in men and women in the U.S. and the second leading cause of death from cancer.

■ **Use www.medicare.gov to compare home-health agencies.** Medicare has improved its Home Health Compare tool so that you can view reports assessing the care provided by home-health agencies.

INSURANCE

■ **Government expands who can apply for its long-term-care insurance.** Now, retired military reservists and federal employees who have 20 or more years of service but who haven't yet turned 60 can apply for the insurance. For more information, call 800-582-3337, or visit www.ltcfeds.com.

■ **Long-term-care insurance industry continues to consolidate.** MetLife is buying TIAA-CREF's long-term-care insurance business. TIAA-CREF says it is exiting because it doesn't have the large customer base to operate efficiently and profitably. MetLife won't stop shopping with this acquisition: It wants to own a bigger slice of this insurance niche.

CONSUMER TIPS

■ **When you need that lost product manual.** The first place to look for a copy is on the manufacturer's Web site. Also try www.livemanuals.com, a Web site that can link you to the manuals published by dozens of manufacturers—from Aiwa to Zenith.

■ **Before you swap your land line for a wireless phone.** You can make the shift without changing your phone number, but consider these potential pitfalls before you act: less-reliable service during power failures and fewer details on your phone bill. Also, you must switch your Internet service to a cable modem.

CARS

■ **Shop for a new car using Kiplinger's Car Finder.** Go to www.kiplinger.com and click on "Spending" to find the dealer's invoice price on models you fancy. With the invoice in hand, you can target a reasonable price to use in negotiating with the dealer. The site is updated as prices change during the model year.

■ **A service for people who hate to haggle.** For $190, CarBargains, which is owned by the nonprofit Consumers' Checkbook, will solicit bids from at least five dealers in your area based on the make, model and style of the car you want. For details, call 800-475-7283, or visit www.kiplinger.com/links/carbargains.

TRAVEL

■ **Move up to first class at the last minute.** Airlines will let domestic travelers buy last-minute promotions to first class if space is available. When you check in, ask the agent about the airline's airport-upgrade program. Recently, for instance, you could upgrade on American for $40 or US Airways for $50 (both per 500-mile segments).

■ **Know someone special who turns 50 this year?** Luxury barge operator French Country Waterways is offering a 50% discount on its Burgundy canal cruise to those who turn 50 this year. The discounted rate is $1,648 to $1,848 per person for all-inclusive six-night sailings from March 28 to October 24. For details, call 800-222-1236, or visit www.fcwl.com.

TAX TIP

When a Nonspouse Inherits an Estate's IRA

If you inherit an IRA as the beneficiary of an estate, the IRS may allow you to move your share of the IRA assets into a separate IRA and be treated as the account's beneficiary.

A man died without specifying who would inherit his IRA. He had already begun taking required minimum distributions from the account. The IRA passed to his estate and the estate was split equally among his heirs. Under a private letter ruling (2003-43030), the IRS allowed one of the heirs—the man's daughter—to transfer her portion of the IRA into a separate account in her father's name and base her withdrawals on his remaining life expectancy—in this case 25.6 years. (A private letter ruling has no standing in court, but could indicate how the IRS might rule on the issue in the future.)

The general rule is less generous: If an IRA owner dies without designating a beneficiary of the IRA and after starting mandatory withdrawals, the heirs must empty the account within five years of the owner's death.

MANAGING YOUR FINANCES

Two New Inflation-Indexed Investments

JUST LAST YEAR, there was talk of the dangers of deflation. But that was before the economy's blockbuster performance resurrected speculation about looming inflation and gave inflation-protected investments a boost.

Retirees are more interested in inflation-indexed products than most investors because they know from past experience how years of inflation can ravage their savings and reduce their spending power.

Inflation-protected investments, such as LaSalle Bank's inflation-protected CDs, can be a valuable way to diversify a portfolio. As with any investment, you should shop, compare performance in good and bad times, and buy with a long-term view.

CDs That Move With Inflation

LaSalle recently began selling inflation-protected CDs, called CDIPs, to brokerage firms. The firms then sell them to individual investors. CDIPs are sold in $1,000 denominations and mature in five or ten years. Brokers make money on them by buying them at a discount from LaSalle and selling them at their $1,000 face value to investors. As with regular CDs, CDIPs are federally insured up to $100,000.

CDIPs pay a fixed interest rate, which recently was 1.4% on five-year and 2.15% on ten-year CDs. In addition, the principal is adjusted up or down for inflation, and the fixed interest is paid semiannually based on the adjusted principal. Investors owe taxes annually on the interest they receive and on the increase in the principal, despite the fact that principal increases aren't paid until maturity. As a result, it's more appealing to hold CDIPs in tax-deferred accounts, such as an IRA. For more information, go to www.lasallecdips.com.

New Twist for an Exchange-traded Fund

Barclays Global Investors offers a good selection of exchange-traded funds (ETFs), and it recently began selling a new one called the iShare Lehman TIPS Bond Fund. Annual expenses are a rock-bottom 0.2%, making this ETF significantly cheaper to own than most mutual funds that invest in Treasury Inflation-Protected Securities (TIPS). For an explanation of how TIPS work, see below; for more on ETFs sold by Barclays and other sponsors, see page 4.

Compare the New Kids With Old Standbys

Before you buy CDIPs or shares in Barclays' new ETF, consider these alternatives:

Traditional CDs. At www.kiplinger.com/finances, we found a dozen traditional, six-month CDs that recently paid more than 1.4%. If you can tie up your money longer or want to ladder CDs, look at five-year CDs with rates above 4%. With traditional CDs, you usually have the option of collecting interest periodically or having the interest added to the account. Interest on CDs is taxable in the year it's either paid or added to the account.

I-bonds. I-bonds are sold by the federal government (www.savingsbonds.gov) in denominations of $50 to $10,000 and pay interest for 30 years. Recently, they were paying 2.19%, and a portion of that rate is adjusted for inflation every six months. Interest accrues semiannually and is taxable in the year you redeem them. The limitations: You can't redeem the bonds for the first year, and you must hold them at least five years in order not to forfeit three months of interest.

Treasury Inflation-Protected Securities (TIPS). These notes pay a fixed rate of interest semiannually, and the principal is adjusted monthly for inflation. You can buy or sell TIPS through a broker or directly from the government in multiples of $1,000. TIPS are auctioned four times a year with ten-year maturities and can be purchased at auction through the TreasuryDirect program (www.treasurydirect.gov). At the most recent auction, the fixed rate was set at 1.88%. You owe federal income taxes each year on the interest payments you receive and on the increase in principal even though you don't receive the adjusted principal until the bond matures. TIPS are best held in tax-deferred accounts.

Mutual funds. American Century, Fidelity, Pimco, T. Rowe Price and Vanguard all offer funds that invest in TIPS. Unlike TIPS, the funds distribute the notes' inflation adjustments each year in the form of short-term capital gains.

MANAGING YOUR FINANCES

Getting to the (Very) Bottom of Schedule D

YOU MAY BE A BIT RICHER thanks to the tax cuts passed by Congress last May, but there's a price to pay. If you have long-term gains or losses, or loss carryovers, in taxable accounts, completing Schedule D of your 2003 federal tax return may take more time.

You can save time if you use tax-preparation software or hire a tax professional to do your return, but it's still up to you to gather the necessary documentation and okay the bottom line.

The root of the Schedule D problem this year is that you may have to wrestle with multiple capital-gains rates. Unlike the dividend tax cut, which was retroactive to January 1, the new lower maximum long-term capital-gains rate of 15% applies only to capital gains realized from May 6 to December 31. The old 20% rate still applies to long-term gains earned from January 1 to May 5, 2003. Gains are long-term if you owned the assets for more than one year before selling it.

In addition to capital gains, qualified dividends must also be reported on Schedule D and are taxed at 15%. Gains on collectibles are taxed at 28%, and recaptured real-estate depreciation at 25%. Short-term gains of one year or less are taxed at ordinary income rates of up to 35%.

Take It One Step at a Time

Watch your mail for Forms 1099-B and 1099-DIV, which will soon arrive from your broker and fund company. These forms show sales proceeds, capital gains and dividend distributions you received in 2003, but they'll look different this year. Dividends that qualify for the low 15% rate and post-May 5 long-term capital-gains distributions will appear in separate boxes.

Pull together the records you or your accountant will need to determine the basis of stocks or funds sold in 2003. The basis is typically what you paid for the investment, including commission, and is expressed as the cost per share. Your capital gain or loss is the difference between the basis and the sales price.

For more information on the various ways to calculate basis, see IRS Publication 564, *Mutual Fund Distributions*, and Publication 551, *Basis of Assets*. Both publications are available from the IRS by calling 800-829-3676, or by downloading them from the agency's Web site at www.irs.gov.

Offsetting Gains and Losses

There's a new column on the first page of Schedule D to help you separate post-May 5 gains or losses. Don't include sales of collectibles, such as art or antiques, here; they go on line 20 of the schedule.

If you have gains and losses that fall on either side of the May 5 date, you must first offset losses against gains within the January to May 5 period and the May 6 to December 31 period before they can be used to offset each other across periods. For example, say you sold stocks late last year, incurring both long-term gains and losses, that when offset resulted in a net loss. Only after you come up with that net-loss figure can you offset any net gains from investments sold before May 6.

Do you have long-term capital loss carryovers from previous years? Apply those to gains realized from January to May 5, then (if there are losses left over) to gains realized after May 5. "Frankly, that [rule] makes the most sense, because the loss was generated when the top capital-gains rate was 20%," says Tom Ochsenschlager, a partner with the Grant Thornton tax firm.

More on Qualified Dividends

Most dividends paid by U.S. and foreign companies qualify for the low 15% rate, but those paid by money-market funds and real-estate investment trusts are taxed at ordinary income-tax rates.

Once you've got everything sorted into the right categories, add up all your qualified dividends as shown on Forms 1099-DIV and report the total on line 9(b) of Form 1040. Then take that amount to line 23 of Schedule D.

After you're done, savor this small consolation: Schedule D shouldn't be such a bear to fill out next year.

IRA 101: Taking Required Distributions

A TRADITIONAL IRA is a good place to park your money, because investments inside the account compound tax-deferred until withdrawn. But nothing good lasts forever. Eventually the law demands that you begin taking the money out. The amount you must withdraw each year is based on your life expectancy and that of your beneficiary, and distributions are fully taxable.

Here's a primer for those approaching the "required beginning date" for such withdrawals.

The Dating Game

You must take required minimum distributions from your IRA by December 31 of each year. The exception: You have until April 1 of the year after you turn 70½ to withdraw your first distribution. If you were born January 1, 1934, and turned 70½ on July 1, 2004, you have until April 1, 2005, to take your first withdrawal.

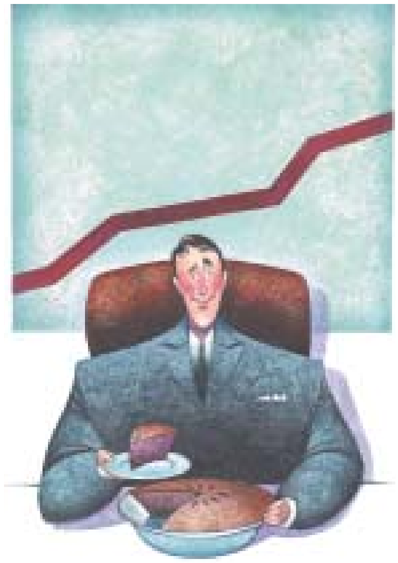
But if you postpone your 2004 withdrawal until April, 2005, your 2005 distribution must still be taken by December 31 of that year. Taking two withdrawals in one year could bump you up into a higher tax bracket. Waiting until April 1 may also cause your 2005 distribution to be higher than if you took your 2004 distribution before December 31, 2004. (For details, see "Tax Tips," *KRR*, Dec. 2003.)

Of course, you don't have to wait until 70½ to withdraw from your IRA. Withdrawals after age 59½ aren't subject to the 10% penalty on early distributions. And there is a way to withdraw at a younger age than that, without penalty, by taking "substantially equal periodic payments" over your life expectancy, using IRS 72(t) rules (see *KRR*, Dec. 2002).

Determining Your Withdrawal Amounts

To determine what you must withdraw from your IRA each year, take the balance of your account as of the end of the previous year (the balance on December 31). Then, use one of several IRS tables to get a divisor.

Most people will use the Uniform Lifetime Table, which bases the divisor on the assumption that your beneficiary is ten years younger than you. If the designated beneficiary of your IRA is your spouse who is more than ten years younger than you, use the Joint Life and Last Survivor Expectancy Table. This reduces your withdrawal compared with the Uniform table.



Using the Uniform Lifetime Table, find the divisor that corresponds to your age. If, for instance, you are 71 in 2004, the divisor is 26.5.

Divide the IRA balance by the divisor to get the minimum required distribution ($300,000 divided by 26.5 = $11,321). That's the amount you must withdraw for 2004. Use our calculator at **www.kiplinger.com/php/ira/question.htm** if you don't want to look up the IRS tables.

Calculate your distribution in subsequent years the same way. To get your 2005 distribution, take your account balance on December 31, 2004, and divide it by the correct divisor (25.6 for a 72-year-old).

If you own more than one IRA, you must compute the required distribution for each one separately, but you can withdraw the distribution any way you wish; you could take it from one IRA and not touch the second one, for example.

The rules for distributions from inherited IRAs are different. In that situation, you must take the required amount from the IRA you inherited. For example, if you own an IRA and inherited another one, compute your required distributions for each IRA separately. Then, withdraw the proper amount from each account.

Distributions From Your Spouse's IRA

If you inherited an IRA from your spouse and are the only named beneficiary, you have two options, both of which affect your withdrawals:

- You can leave the account in your spouse's name and take distributions based on his life expectancy, beginning in the year he would have turned 70½.
- You can roll over his IRA into your own account or open a new one in your name. Distributions must begin by your required beginning date.

If your spouse dies before his first mandatory distribution and you don't take the first withdrawal when he would have been required to do so, the IRS will assume that you've decided on the rollover option.

Ways to Get Tax-Free Income From Your Home

THE U.S. CENSUS Bureau reports that more than half of the net wealth owned by householders age 65 and older is tied up in their homes or other real estate. Rising home values and low returns on income investments have increased to record levels the number of older homeowners seeking reverse mortgages as a way to tap the equity in their homes. They're using the income to pay for prescription drugs, long-term-care insurance and home renovations, or to maintain a reserve for any future emergency.

What Determines the Loan Amount

More than nine in ten reverse mortgages are Home Equity Conversion Mortgages (HECMs), the only reverse mortgage insured by the federal government. A HECM (pronounced "hekem") offers a variety of loan options: a lump sum, credit line, monthly advance or any combination of the three.

The amount of cash you are eligible for depends on:

Your age. You must be at least 62, but the older you are, the more cash you can get. If there is more than one owner, the loan is based on the age of the youngest.

Current interest rates. The lower that mortgage-interest rates are, the more cash you can get from your home.

Your home's value. The maximum loan amount varies from county to county, ranging from an average of $160,176 in rural areas to $290,319 in urban areas.

The loan plus interest is repaid when the last owner dies, sells or moves out of the home permanently (usually defined as one year), and neither you or your heirs can ever owe more than the home is worth.

Four Ways to Get the Proceeds

There are four ways to receive HECM loan payments, and money from a reverse mortgage is tax free.

Lump sum. With this payment option, you receive a single check for the full loan amount. If you're 75 years old, your home is worth $200,000, and the loan rate is 7%, you would receive $107,715. (If the rate was 6%, you would receive $123,332; at 8%, about $93,650).

Credit line. A credit-line account is a preset dollar amount, and you decide when to withdraw money and how much. (The credit-line option is not allowed in Texas.) The amount of the credit line is generally the same as what a lump-sum payment would be.

A credit line is popular—two-thirds of borrowers select it—simply because you can make withdrawals at will, while whatever is left continues to grow over time. Let's say your credit line is $100,000 and you take out $20,000. After that, you don't use the credit line again for at least a year, and the remaining $80,000 grows at the interest rate being charged on the loan balance. Assuming a rate of 6%, at the end of one year you would have a balance of about $84,800.

Monthly advance. With this option, you receive a monthly tax-free check for a set period of time (a "term" plan), or for as long as you live in your home (a "tenure" plan). A term plan—with typical limits of five, ten and 15 years—provides a larger monthly check than a tenure plan; the shorter the term, the greater the amount. For example, based on a 7% interest rate, a 75-year-old borrower living in a $200,000 home would get $2,144 a month for a five-year period, $1,270 a month for ten years, $992 for 15 years, and $791 for tenure.

A combination of the above. You can select a mix of the above methods. Let's assume you are eligible for a $45,000 loan and decide to take $15,000 in a lump sum and the remaining $30,000 in monthly payments. If you choose lifelong tenure payments, you would receive monthly payments of $460. If you elect the 15-year term plan, payments would be $577; for ten years, $739; and for five years, $1,248.

Up-front costs would make a reverse mortgage an expensive mistake if you move within a few years, so factor in the application and origination fees, closing costs, insurance and a monthly servicing fee before you apply for a loan. The federal Truth-in-Lending law requires lenders to disclose a "total annual loan cost" (TALC), which combines all of a reverse mortgage's costs into a single annual average rate.

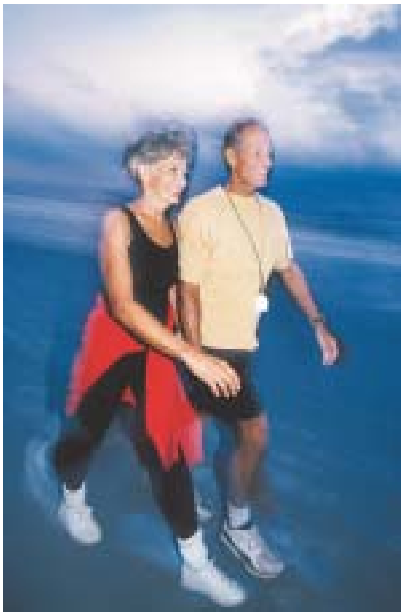
To see what you might get from a reverse mortgage, go to the calculator at **www.aarp.org/revmort**. You can also download AARP's guide *Home Made Money* from the Web site, or get a free copy by calling 800-209-8085.

RETIREMENT LIVING

Newsletters That Are Good for Your Health

Americans are bombarded with health and fitness advice from magazines, radio and TV. Whether it's the latest diet or a report on important research findings, too often our medical and health news comes from unfiltered, even biased, sources.

In the face of this media blitz, it's easy to overlook the reliable advice offered by a handful of monthly health newsletters published by prestigious institutions and geared toward readers 50 and up. Articles are vetted by doctors or other experts and put in lay terms. Each letter puts its own stamp on the topics covered and devotes space to answering readers' questions. Newsletters are listed below in two categories, followed by the *Harvard Women's Letter*, written for women. The standard one-year subscription price is given for each, but discounts and special offers are available.



Putting Medical Issues in Context

These three eight-page monthly newsletters sift the medical "wheat" from the chaff for consumers.

Harvard Health Letter. Since 1975, this newsletter has offered advice on medical, fitness and nutritional issues. The December issue examined last year's most newsworthy health stories and also covered yoga, lactose intolerance and the nutritional benefits of fish. A one-year subscription is $32 (800-829-9045; **www.health.harvard.edu**).

Johns Hopkins Medical Letter, Health After 50. This newsletter published by Johns Hopkins Medicine concentrates primarily on the common diseases affecting baby boomers and their parents, including heart disease, cancer, stroke and diabetes. Treatment options are discussed, sometimes in technical terms. Orthopedic issues receive regular attention, as do medical and health issues in the news. A recent issue included articles on stem cells, stroke prevention, hip replacement and drugs that lower cholesterol. A one-year subscription is $28 (386-447-6313; **www.hopkinsafter50.com**).

Mayo Clinic Health Letter. Articles address a variety of medical conditions and often include colorful graphics that enhance the written material. They also tap into the expertise of the clinic's affiliated physicians. A recent issue included in-depth stories on colon polyps, the pros and cons of alcohol consumption and a new procedure that reduces excessive menstrual bleeding. Shorter items offered practical advice on flying with a cold and discussed the merits of extra-virgin olive oil. The price is $27 (800-333-9037; **www.mayoclinic.com**).

Spotlighting Nutrition and Wellness

For $28 a year, one of these eight-page monthlies can keep you abreast of the latest diet and wellness issues.

Tufts University Health & Nutrition Letter. Published since 1982, Tufts' newsletter is a dependable and up-to-date resource. Its easy-to-read articles are reviewed by experts from Tufts' School of Nutrition Science and Policy, which specializes in nutrition and the aging process. The December issue carried pieces on the Atkins Diet, "hidden" holiday calories, the latest research on testing for prostate cancer and diabetes monitoring. It also answered readers' questions about face creams and the safety of ground beef (800-274-7581, **www.healthletter.tufts.edu**).

University of California, Berkeley Wellness Letter. This newsletter offers excellent nutritional, fitness and self-care advice, and objective examinations of the pros and cons of the treatments and nutritional supplements it discusses. The November issue carried articles on the Portfolio diet, stroke prevention, the benefits of exercise balls, and the nutritional merits of evening primrose oil, squash, grapefruit, fish-oil pills and omega-3s in plants (386-447-6328; **www.wellnessletter.com**).

Harvard Women's Health Watch

This newsletter is among the best of the for-women-only health letters. A recent issue of the eight-page monthly included in-depth articles on radiation therapy for breast cancer and the problems some women have when their blood is too iron-rich. Shorter pieces discussed antidepressant drugs, flu vaccines and compounded hormones. A one-year subscription is $32 (800-829-5921; **www.health.harvard.edu**).

RETIREMENT LIVING

The Cost of Assisted Living Jumps Higher

THE AVERAGE cost of assisted living has increased by 10% over the past year and a half. The monthly cost is now $2,379, or $28,548 a year, according to the latest survey by the MetLife Mature Market Institute. As with nursing homes, costs vary widely from state to state and city to city. Facilities in Washington, D.C., charge the most, on average ($4,429 a month), and those in Jackson, Miss., the least ($1,020).

Assisted living generally costs less than a nursing home and round-the-clock home care. The average daily rate for a private room in an assisted-living facility is about one-third less than an equivalent room in a nursing home.

The MetLife survey covered all types of assisted living, ranging from small group homes to large apartment complexes. There's no single definition of what "assisted living" means, but most facilities offer residents a private room, meals in a dining room, and social and recreational activities. Most have trained staff on call to help residents with activities of daily living, such as bathing and dressing, and to ensure that medications are taken on time and in the right dosages.

Helpful Resources

The National Center for Assisted Living has updated its state regulatory guide, the *Assisted-Living State Regulatory Review 2003*, which summarizes assisted-living regulations in 21 categories and provides contact information for state agencies that oversee the facilities in each state and the District of Columbia. The categories highlighted include requirements for Alzheimer's units, scope of care, medication management, staffing and Medicaid policy. For a free copy, visit **www.ncal.org/news/releases/nr030520.htm**, or call 202-898-6320.

To find facilities in your area, call the Eldercare Locator at 800-677-1116, or visit the Web page of the Assisted Living Federation of America, a trade group (go to **www.alfa.org**, then click on "Consumers"). The site offers a checklist to help you when you shop for a facility and other information about assisted living.

You can also search for facilities on the Web site of Total Living Choices (**www.tlchoices.com**). Click on "Facility Finder," then type in your choice of criteria, such as location and amenities.

Monthly Cost of Assisted Living in Selected Cities

The prices shown are from a 2003 survey by the MetLife Mature Market Institute and are for a private room in a licensed assisted-living facility.

CITY	COST
Birmingham, Ala.	$1,944
Montgomery, Ala.	1,922
Little Rock, Ark.	1,587
Phoenix, Ariz.	1,537
Tucson, Ariz.	2,423
Los Angeles, Cal.	2,226
San Diego, Cal.	1,992
San Francisco, Cal.	2,795
Denver, Colo.	1,564
Hartford, Conn.	2,580
Stanford, Conn.	4,073
Washington, D.C.	4,429
Wilmington,Del.	3,383
Jacksonville, Fla.	1,987
Miami, Fla.	1,830
Orlando, Fla.	1,973
Alpharetta, Ga.	2,194
Atlanta, Ga.	2,459
Honolulu, Hawaii	2,990
Des Moines, Iowa	2,351
Boise, Ida.	2,239
Chicago, Ill.	3,659
Highland Park, Ill.	3,775
Indianapolis, Ind.	1,956
Wichita, Kan.	2,117
Lexington, Ky.	2,315
Louisville, Ky.	2,973
New Orleans, La.	2,819
Shreveport, La.	1,865
Boston, Mass.	2,454
Worcester, Mass.	3,090
Baltimore, Md.	2,133
Silver Spring, Md.	2,410
Brunswick, Maine	3,297
Detroit, Mich.	1,297
Grand Rapids, Mich.	1,381
Minneapolis. Minn.	2,110
St. Paul, Minn.	2,906
Kansas City, Mo.	1,608
St. Louis, Mo.	2,281
Jackson, Miss.	1,020

CITY	COST
Billings, Mont.	$2,815
Charlotte, N.C.	2,114
Raleigh, N.C.	2,820
Fargo, N.D.	1,994
Omaha, Neb.	2,508
Manchester, N.H.	1,904
Bridgewater, N.J.	3,886
Cherry Hill, N.J.	3,045
Albuquerque, N.M.	2,005
Las Vegas, Nev.	2,014
New York, N.Y.	3,830
Rochester, N.Y.	2,681
Syracuse, N.Y.	1,901
Cleveland, Ohio	2,720
Columbus, Ohio	2,560
Oklahoma City, Okla.	1,914
Tulsa, Okla.	2,494
Eugene, Ore.	2,251
Portland, Ore.	2,270
Philadelphia, Pa.	1,680
Pittsburgh, Pa.	2,052
Scranton, Pa.	1,444
Providence, R.I.	2,688
Charleston, S.C.	1,900
Columbia, S.C.	1,281
Dell Rapids, S.D.	2,432
Memphis, Tenn.	2,573
Nashville, Tenn.	1,718
Dallas, Texas	2,566
Fort Worth, Texas	2,094
Houston, Texas	1,983
Salt Lake City, Utah	1,776
Arlington, Va.	3,163
Richmond, Va.	2,667
Rutland, Vt.	1,980
Seattle, Wash.	2,783
Spokane, Wash.	2,575
Madison, Wis.	3,210
Milwaukee, Wis.	2,390
Statewide, W.V.	2,320
Statewide, Wyo.	2,059

RETIREMENT LIVING

Spend a Spring Day in Elegant Budapest

Bela Mezey

The Hungarian State Opera House in Budapest is a visual feast.

BUDAPEST is regaining its splendor. Once the center of culture in the Austro-Hungarian Empire, the city's buildings and treasures were neglected or damaged by a succession of invaders and occupiers. But with a democratic government in place since 1990, Budapest is rebuilding and restoring many of its historic landmarks. When Hungary joins the European Union in May, many Hungarians believe Budapest will be on its way to becoming the "Paris of the East." Spring is a good time to visit the city, and prices are reasonable.

A Tale of Two Cities

Until it was unified in 1872, Budapest was two cities: Buda and Pest. Buda sidled up the hilly west bank of the Danube River and was a town of breathtaking views, winding residential streets, and manicured gardens. On the east side of the river lay Pest, a thriving center of commerce and art filled today with cafes, restaurants, boutiques and theaters.

A good place to begin your exploration of Budapest is on the Pest side at Heroes Square—a large open-air plaza with a classic victory column at one end. At the column's base stand statues of the Magyar chiefs, each representing one of the country's seven founding tribes.

Just a short distance from the plaza, partially hidden by tall trees, lies Vajdahunyad Castle, which was constructed in 1896 for the city's millennium celebration. The building was designed as a monument to the abundance of architectural styles found in Hungary.

From the square, head west toward the Danube for a long walk along the tree-lined Andrassy Ut. This is the city's grandest avenue and is sometimes compared with the Champs-Elysées in Paris. Many buildings along the avenue are being cleaned, revealing wonderful details of their neo-Renaissance and neo-Baroque styles.

Toward the end of the avenue is the elegant Hungarian State Opera House with its beautiful ceiling frescoes painted by Karoly Lotz.

A few blocks before you reach the Danube, step into St. Stephen's Basilica to gape at its lavishly gilded interior. Although the outside of the building is currently being restored, the basilica's dome still dominates the city's skyline.

Crossing the Danube

The most interesting gateway to the old Buda section of the city is the Chain Bridge, spanning the Danube River. Once on the other side, you'll see Castle Hill hovering above. Take a funicular to the top of the hill and explore the castle district, a UNESCO World Heritage site. The district is home to the Royal Palace, museums and antique shops.

While you're there, don't miss touring the historic Matthias Church (also known as the Church of Our Lady). When the Turks invaded Buda in the 16th century, they turned the church into a mosque, whitewashed its frescoes and painted it with Turkish-style designs. The Turks were ultimately expelled and the structure was later reconverted into a church in the neo-Gothic style, while retaining strong elements of its Turkish past. Behind Matthias Church is Fisherman's Bastion, a good vantage point from which to get a panoramic view of the city and river.

A Horse Show to Remember

While you're in Budapest, arrange for a trip to a puzta horse farm in one of the surrounding villages, such as Toek. There, herdsmen in traditional dress put their horses through a repertory of amazing drills. Young farmers originally trained their horses to drop down and lie still in the fields with their masters in order to hide from scouts looking to enforce military service. At some shows, you can sample unicum, a bitter herbal liqueur, and enjoy a lunch of goulash, a thick beef soup with paprika, and sweetened cottage cheese. And try a sip of Tokaj, Hungary's signature sweet white wine, before heading home.

experience · independence · discipline

LOW-COST MUTUAL FUNDS

Maybe it's time to switch to T. Rowe Price for your IRA.

At T. Rowe Price, we can help you feel confident you've made the right choice for your IRA. We have a broad selection of no-load funds that have outperformed their 1-, 5-, and 10-year Lipper averages as of 9/30/03. One reason these funds have performed well over time is our consistent, disciplined approach to investing. We are also committed to keeping our costs low: 100% of our funds for individual investors have expense ratios below their Lipper averages, and there are no sales charges or commissions.*

Our Investment Guidance Specialists can help you choose the fund that's right for your goals and tolerance for risk. If you want, we can even help you open an account or transfer your IRA right over the phone.

Make your 2003 IRA contribution before the April 15, 2004, deadline. Call to open or transfer your IRA.

TROWEPRICE.COM/IRA

1-800-395-0360

T. Rowe Price.
No-load funds with proven performance:

	1 year	5 year	10 year
Growth Stock Fund	**27.13%**	**4.23%**	**10.73%**
Lipper Large-Cap Growth Funds Average	21.15%	-1.39%	6.54%
Blue Chip Growth Fund	**25.23%**	**1.91%**	**10.41%**
Lipper Large-Cap Growth Funds Average	21.15%	-1.39%	6.54%
Equity Income Fund	**21.67%**	**5.14%**	**10.91%**
Lipper Equity Income Funds Average	20.35%	2.68%	8.28%
Equity Index 500	**24.06%**	**0.75%**	**9.76%**
Lipper S&P 500 Funds Average	23.55%	0.47%	9.63%
Growth & Income Fund	**22.10%**	**1.19%**	**8.17%**
Lipper Large-Cap Core Funds Average	20.86%	-0.01%	7.84%

Average annual total returns are as of 9/30/03.
Mutual funds are subject to market risk, and past performance can't guarantee future results. When assessing performance, investors should consider both short- and long-term returns.

T. Rowe Price®
INVEST WITH CONFIDENCE

For more information, including risks, fees, and expenses, request a fund profile or prospectus; read it carefully before investing. For updated performance information, please visit our Web site or contact a T. Rowe Price representative. Average annual total return figures include changes in principal value, reinvested dividends, and capital gain distributions. Investment return and principal value will vary, and shares may be worth more or less at redemption than at original purchase. *All funds, including separate share classes, more than six months old as of 9/30/03, are included in this study. (Source for data: Lipper Inc.) T. Rowe Price Investment Services, Inc., Distributor.

IRA068420