AlaskaUSA

TrustNotes

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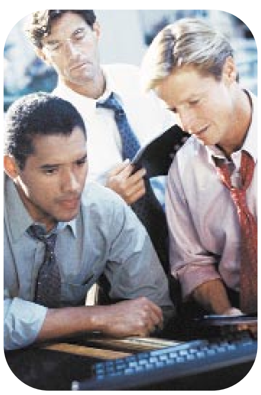
Rethinking Retirement – *Coping with Stock Market Declines*

The fundamentals of planning for a financially secure retirement are simple: have enough money accumulated at retirement so those savings and the earnings on those savings will enable you to afford the lifestyle you want.

Unfortunately, market declines and reduced expectations for future market returns are playing havoc with many retirement plans. Within the current environment, here are some options to consider as you refine your retirement plan.

Save more while you are working.

Be sure to take full advantage of any company offered retirement plan. If you participate in a 401(k) plan, contribute as much as you can and at least enough to earn the entire match your company may offer.



Set up an automatic savings plan. Have a set amount deducted from each paycheck and deposited into an account you earmark for retirement.

Examine your monthly household spending to see if there are ways to spend a little less. Refinancing your mortgage, increasing your insurance deductibles and reducing spending on discretionary items can add up.

Earn more on your retirement assets before you retire.

Examine how your funds are invested and how your "cash" is employed. A well-thought-out asset allocation for your investments, one that incorporates your time horizon and risk tolerance, can provide diversification and some peace of mind. Generally, the younger you are, the more of your long-term investments should be in equities. Over time, high quality stocks have produced greater returns than bonds and cash investments.

Your cash should be working hard, too. Take advantage of higher interest rates on accounts that provide less liquidity and on longer term CDs if you can leave the money in the accounts or CDs for longer periods.

Work longer until you retire.

Delaying your retirement enables you to have more for retirement in several ways:

1. While working, you can save more in your retirement plan and through regular savings.
2. Especially with your tax-deferred retirement accounts, leaving all your funds within the account enables them to grow faster. For example, if you delay retirement for five years and earn just 5% on the funds, you will have about 27% more just from the earnings.
3. Delaying when you start collecting Social Security will increase your monthly benefits. For example, if you are currently 55 years old, you can start collecting full Social Security retirement benefits at age 66. If you start at age 62, you will only get 75% of that amount and if you wait and start collecting at age 70, you will get 132% of that amount.

Spend less during your retirement.

Everyone wants a "full and active lifestyle" during retirement, but you may wish to redefine what that means for you and your situation. A realistic retirement dream may mean less travel or foregoing a second home, for example.

Create a personal trust.

What you don't spend during your lifetime will pass to your heirs. The specifics – how much, when and on what terms

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Mutual Funds and Income Taxes

It's tax season again, and while the focus is currently on 2002 returns, it's also a great time to learn about how your investments may impact future tax years.

As a shareholder in a mutual fund, dividends, net-realized capital gains, and the accompanying tax consequences are passed along to you. Most mutual funds make distributions late in the year and report them on Form 1099. You then list these distributions on your individual income tax return and are taxed at your ordinary tax rate. Unfortunately, since most distributions are made late in the year, it is difficult to know how to include their impact in your income tax planning.

Here are a few tips to help you better assess the tax implications of owning mutual funds.

Before you select a fund

It's a good idea to pay attention to a mutual fund's turnover rate before you select it. If the fund portfolio has a high turnover, you may realize unexpected capital gains distributions even if the value of the fund shares stays relatively constant or declines. These short-term capital gains can significantly increase your tax liability.

To get a better idea of the impact of the fund manager's investment strategy on the tax consequences of ownership, review the portfolio turnover rate on the fund prospectus. The higher the turnover, the more likely you will have your return eroded by taxes. Conversely, funds with lower turnover tend to hold onto their investments longer, letting earnings compound without selling and realizing taxable capital gains.

You can find turnover rates for mutual fund portfolios offered through Alaska USA Trust Company by reviewing the fund prospectus at www.alaskausatrust.com.

Tracking your cost basis

One of the most difficult parts of owning mutual funds can be keeping track of your cost basis in the shares you own. This is important because when you sell your shares, the cost basis will reflect whether or not you have had a gain or loss, thus impacting your taxes.

Your basis starts with the original price you paid for the shares. If you have distributions actually made to you, that remains your basis, and your holding period for the shares starts when you made your original purchase.

However, if you have distributions reinvested in additional shares of the fund, determining your basis is more difficult. Any distributions you have reinvested are considered to be new purchases of fund shares. When you sell the mutual fund shares, you need to increase your basis to reflect that you have paid taxes on the distributions and bought new shares. The holding period for the new shares begins when the distributions are reinvested. For example, if you bought shares years ago and had the distributions reinvested, your total basis will include what you originally paid and all the taxable distributions you reported on your Form 1040. If you sell all your shares, there will probably be some shares you have held for less than the one-year period to qualify for long-term treatment.

The only way to accurately track your cost basis is to keep good tax and investment records.

Consult a tax advisor

Dealing with the tax implications of mutual fund investing can be made easier by paying attention to turnover rates and by tracking your cost basis. You may also wish to consult your tax advisor to get a more complete understanding of how the tax consequences of owning mutual funds may directly affect you.

Mini Glossary

Turnover rate: The percentage of a fund's assets that have changed over the course of a given time period, usually a year. The rate is calculated by dividing the average assets during the period by the lesser of the value of purchases and the value of sales during the same period.

Cost basis: Purchase price, commissions and other expenses used to determine capital gains and losses for tax purposes.

Rethinking Retirement *continued*

what terms your assets will be transferred – can be documented legally with a personal trust. Alaska USA Trust Company can serve as a Corporate Trustee to your personal trust, ensuring that your financial affairs are handled according to your wishes.

If the declining stock market has affected you, it's time to evaluate your overall investment plan. An Alaska USA Trust Company representative can help you revise your plan so that you can still attain your retirement goals.