Johnston Investment Counsel
Trusted Fiduciaries & Fee-Only Advisors

Johnston Investment Counsel
Gregory A. Johnston, CFA, CFP, QPFC, AIF
President & Chief Investment Officer
331 Fulton
Suite 429
Peoria, IL 61602
309-674-3330
309-685-6957
gjohnston@jicinvest.com
www.jicinvest.com

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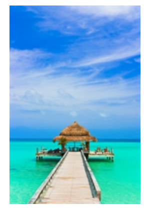
Johnston Investment Counsel
LIFE THE WAY YOU PLANNED IT.

How to Plan a Last-Minute Vacation



Everyone's had their vacation planned for months ... everyone but you, that is. Fortunately, you can still have your adventure in paradise, if you're willing to put in just a little time and effort.

Take the road less traveled

The first step in planning a last-minute getaway is finding a great spot to vacation. When time is short, flexibility is key. Here are some tips.

- Consider "off-peak" destinations. For example, summer may be a good time to visit major U.S. cities that typically host conventions during the fall, or a resort town that is popular with tourists during the winter. Hotels want to fill empty rooms and may offer extra perks, lower rates, or package deals. During the off-season, it may also be easier to get a restaurant reservation and avoid long lines at attractions.
- If you're flying, search for flights at more than one airport. If you're willing to depart from any airport near you or arrive at any airport relatively close to your destination, you'll have more options and a better chance of snagging a lower-cost flight. Also consider flying during off-peak hours or taking nondirect flights.
- Check hotel websites. Many list their rate calendars on their reservations page so you can see for yourself when rooms are available (and at what price). Even top hotels occasionally have empty rooms in-season for a night or two or have last minute cancellations--it doesn't hurt to call.
- Shop around. There's a lot more available than you think, and last-minute deals on airfares, rental cars, cruises, and hotel rooms exist. Once you've decided where to go, experiment with different travel dates (if you have some flexibility) to find the best deals.

Ask the experts

Getting advice is invaluable, and who better to ask than people who have been where you're going?

- Visit travel websites and forums where you can view ratings for attractions, hotel and restaurant reviews, and even suggested itineraries posted by local residents and tourists. You can also purchase or download travel guides.
- Consider working with a travel agent who has access to last-minute package deals or special airfares, and in-depth knowledge of vacation spots.
- Once you arrive at your destination, ask questions. Most major vacation destinations have a visitor's bureau staffed with knowledgeable people just waiting to give you free advice, maps, and even help finding accommodations (sometimes at special discounts). Front-desk staff or hotel concierges are also able to recommend restaurants and sight-seeing options.

Sweat the small stuff

Saving time is a top priority when planning a last-minute vacation--here are a few suggestions that can help you get on the road quickly.

- Make a packing list, and pack most of your items ahead of time. Make sure you have address tags on your luggage before you get to the airport.
- Pick a spot to keep essential (but easy to forget) items such as your wallet or purse, keys, airline tickets, passports, cell phone (and charger), and prescription drugs so that they will be in one place in case you're in a hurry the day you depart.
- If you're flying, confirm your reservations, and if possible, select your seats and complete the check-in process from home. If you're driving to the airport, make sure your gas tank is full so you won't need to stop on the way.

Enjoy the ride

Remember, a vacation is about relaxation--not perfection. The little planning you've had time for will help smooth the way, but inevitably there will be bumps in the road. Take them in stride, and you'll be well on your way to an enjoyable last-minute vacation.

Pay Down Debt or Save and Invest?

Should you pay off debt or should you save and invest? To find out, compare what rate of return you can earn on your investments versus the interest rate on the debt. There may be other factors that you should consider as well.

There are certainly a variety of strategies for paying off debt, many of which can reduce how long it will take to pay off the debt and the total interest paid. But should you pay off the debt? Or should you save and invest? To find out, compare what rate of return you can earn on your investments versus the interest rate on the debt. There may be other factors that you should consider as well.

Rate of return on investments versus interest rate on debt

Probably the most common factor used to decide whether to pay off debt or to make investments is to consider whether you could earn a higher after-tax rate of return on the investments than the after-tax interest rate on the debt if you were to invest your money instead of using it to pay off the debt.

For example, say you have a credit card with a $10,000 balance on which you pay nondeductible interest of 18%. You would generally need to earn an after-tax rate of return greater than 18% to consider making an investment rather than paying off the debt. So, if you have $10,000 available to invest or pay off debt and the outlook for earning an after-tax rate of return greater than 18% isn't good, it may be better to pay off the debt than to make an investment.

On the other hand, say you have a mortgage with a $10,000 balance on which you pay deductible interest of 6%. If your income tax rate is 28%, your after-tax cost for the mortgage is only 4.32% (6% x (1 - 28%)). You would generally need to earn an after-tax rate of return greater than 4.32% to consider making an investment rather than paying off the debt. So, if you have $10,000 available to invest or pay off debt and the outlook for earning an after-tax rate of return greater than 4.32% is good, it may be better to invest the $10,000 rather than using it to pay off the debt.

Of course, it isn't an all-or-nothing choice. It may be useful to apply a strategy of paying off debts with high interest rates first, and then investing when you have a good opportunity to make investments that may earn a higher after-tax rate of return than the after-tax interest rate on the debts remaining.

Say, for example, you have a credit card with a $10,000 balance on which you pay 18% nondeductible interest. You also have a mortgage with a $10,000 balance on which you pay deductible interest of 6%, and your tax rate is 28%. So, if you have $20,000 available to invest or pay off debt, it may make sense to pay off the credit card with $10,000 and invest the remaining $10,000.

When investing, keep in mind that, in general, the higher the rate of return, the greater the risk, which can include the loss of principal. If you make investments rather than pay off debt and your investments incur losses, you may still have debts to pay, but will you have the money needed to pay them?

Some other considerations

When deciding whether to pay down debt or to save and invest, you might also consider the following.

- What are the terms of your debt? Are there any penalties for prepayment?
- Do you actually have money that you could invest? Most debts have minimum payments that must be paid each month. Failure to make the minimum payment can result in penalties, increased interest rates, and default. Are your funds needed to make those payments?
- How much debt do you have? Is it a problem? How do you feel about debt? Is it something you can easily live with or does it make you uncomfortable?
- If you say you will save the money, will you really invest it or will you spend it? If you pay off the debt, you will have assured instant savings by eliminating the need to come up with the money needed to pay the interest on the debt.
- Would you be able to borrow an additional amount, if needed, and at what interest rate, if you paid off current debt? Do you have an emergency fund, or other source of funds, that could be used if you lose your job or have a medical emergency, or would you have to borrow?
- If your employer matches your contributions in a 401(k) plan, you should generally invest in the 401(k) to get the matching contribution. For example, if your employer matches 50% of your contributions up to 6% in a 401(k) plan, getting the 50% match is like getting an instant 50% return on your contribution. In addition, there are tax advantages to investing in a 401(k) plan.

How to Raise a Saver

Earmarking savings

To help your child learn how to manage money, encourage a 50-25-25 rule (or some variation) that earmarks 50% for immediate spending needs, 25% for the purchase of big-ticket items, and 25% for long-term savings.

As parents, we naturally want what's best for our kids. We want them to be polite, respectful, healthy, curious, and smart. And we hope that someday, they will grow into successful adults with independent, fulfilling lives. How best to accomplish this? Well, along with teaching the ABCs, 123s, and right from wrong, teaching your child the basics of financial literacy can help you raise a saver and lay the foundation for your child's bright financial future.

The early years, 3 to 7

Children this age may think that money magically appears from special machines whenever Mom or Dad pushes a few buttons, but there is one money concept they can understand. They know people need money to buy things--chances are they've tagged along with you to the grocery store a few times and watched you fill up your cart. Young children often model the behavior of their parents, so on these shopping trips, when you think your child is receptive, you might say things like "I can't buy this right now, I have to save more money and buy it next time" or "That's great these apples are a really good price today--I can buy more." These types of comments sink in and hopefully will get your child thinking about money and spending.

Once children can identify coins and dollar bills, give them a piggy bank or clear plastic jar to keep any money they earn or receive as gifts. Tell them they can buy something they want once they save a certain amount (make sure the item/price is appropriate and within short-term financial reach). Taping a picture of the item on the bank can provide a visual goal. Of course, children need a way to earn some money. Consider giving your child a weekly allowance and/or payment for small jobs around the house. Some parents tie an allowance to chores; others expect chores as part of everyday family life, but pay extra for "super" chores. The overall goal is to get your child excited about seeing the coins and dollar bills pile up.

The middle years, 8 to 12

These years are the sweet spot to lay a solid financial foundation. Children this age are more financially and materially aware--they have a general idea of what things cost (at least the things they want), they see (and covet) the possessions their friends have, they're bombarded by advertising, they get asked what they'd like for their birthday, and they often have a say in the new clothes and school supplies they get every year. And they aren't shy about pointing out the other items they want--electronics, sports equipment, room decor. It's enough to make any parent shudder.

The first thing to do? Explain the difference between "needs" and "wants." Continue to give your child an allowance, and encourage a 50-25-25 rule (or some variation) that earmarks 50% for immediate spending needs, 25% for the purchase of big-ticket items, and 25% for long-term savings. Consider matching a portion of that last 25% so your child is more motivated to save. Open a bank savings account for your child's long-term savings, and explain how interest and compounding works.

Help your child set financial goals, both short-term (a skateboard or sweatshirt) and long-term (a laptop). When it comes to spending, explain--and model--the concepts of delayed gratification, prioritizing purchases, and making tradeoffs. Help your child learn to get the most value for his or her money by selecting quality merchandise, comparison shopping, waiting for sales, and discouraging impulse buying. Let your child see that you, too, can't buy everything you want all the time.

Introduce the concept of budgeting by explaining how your family's budget works. Without going into detailed numbers, explain how income you receive from your job must be used to pay for needs like food, housing, utilities, and clothing, and how any money left over is set aside for emergency savings, long-term savings, and for "wants" like trips to the movies, restaurants, and new toys and gadgets.

The teen years

Children this age often seem to be ever-growing financial sinkholes--$10 here, $20 there, a laptop, sports equipment, an instrument, school trips, gas for the car, not to mention looming college expenses. Build on the saving, goal-setting, and budgeting lessons from earlier years. Be more specific about what things cost in your family's budget, and explain that in addition to paying day-to-day expenses and saving for college, you're saving for your own retirement.

When your child is old enough, encourage him or her to get a job to help pay for some typical high-school expenses and to start building a nest egg. Teach your child how to use an ATM/debit card, balance a checkbook, and wisely manage credit--skills they'll need in college. Finally, you can introduce your child to more advanced financial concepts, such as stocks, bonds, IRAs, and diversifying investments, by looking at teen-oriented investing books and financial websites.

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Gregory A. Johnston, CFA, CFP, QPFC, AIF
President & Chief Investment Officer
331 Fulton
Suite 429
Peoria, IL 61602
309-674-3330
309-685-6957
gjohnston@jicinvest.com
www.jicinvest.com

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What happens to my retirement benefits if my employer goes out of business?

If your employer goes out of business, any retirement plan your employer sponsored will be terminated. If the plan is a 401(k) or other defined contribution plan, your benefits are held in trust, apart from your employer's assets, and you'll generally be entitled to receive your full account balance in a lump sum. (You can take the cash, or roll your payout into an IRA or another employer's plan.)

But if your employer sponsors a defined benefit plan, it gets a little more complicated. A defined benefit plan promises to pay you a specific monthly benefit at retirement. While defined benefit plan assets are also held in trust (or insurance contracts), apart from your employer's assets, whether a particular plan has enough cash to pay promised benefits depends on your employer's contributions and the plan's investment earnings and actuarial experience.

When a defined benefit plan is about to terminate, the Pension Benefit Guaranty Corporation (PBGC), a federal agency created specifically to protect employees covered by these plans, is notified. If the plan has enough money to cover all benefits that participants have accrued up to the plan termination date, then the PBGC will permit a "standard termination," and your employer will either purchase an annuity from an insurance company (which will provide lifetime benefits when you retire) or, if your plan permits, let you choose a lump-sum equivalent.

However, if the plan doesn't have enough money to pay all promised benefits earned up until plan termination (that is, the plan is "underfunded"), the PBGC will take over the plan as trustee in a "distress termination," and assume the obligation to pay basic plan benefits up to legal limits. For plans ending in 2012, the maximum annual benefit (payable as a single life annuity) is $55,840 for a worker who retires at age 65. If you begin receiving payments before age 65, or if your pension includes benefits for a survivor or other beneficiary, or if your plan was adopted (or amended to increase benefits) within five years of the termination, the maximum amount is lower. According to the PBGC, only 16% of retirees in recent years have seen their benefit reduced because of the annual dollar limits.

What is the Pension Benefit Guaranty Corporation?

The Pension Benefit Guaranty Corporation (PBGC) is a federal agency created by the Employee Retirement Income Security Act of 1974 (ERISA) to help protect pension plan benefits. When a pension plan ends (a "plan termination") without enough money to pay all benefits owed to participants, the PBGC takes over and assumes the obligation to pay those benefits.

The PBGC only protects defined benefit plans--that is, qualified employer pension plans that promise to pay a specific monthly benefit at retirement, based on your pay and years of service with your employer. The PBGC doesn't protect 401(k) or other defined contribution plans, plans not covered by ERISA (for example, governmental plans and certain church plans), or plans offered by professional service employers (such as doctors and lawyers) with fewer than 26 employees.

The PBGC guarantees that you'll receive basic pension benefits up to a specified dollar amount. Basic benefits include normal and early retirement benefits, survivor annuities, and disability benefits. The maximum pension benefit is set by law and adjusted yearly. For plans ending in 2012, the maximum annual amount (based on a single life annuity) is $55,840.92 (or $4,653.41 per month) for a worker who retires at age 65. According to the PBGC, most people receive the full benefit they had earned before the plan terminated. However, this amount may be lower than the benefit you had counted on from your plan at retirement.

The PBGC maintains two insurance programs: the single-employer program protects about 33.6 million workers and retirees in about 27,600 pension plans, and the multiemployer program protects 10.4 million workers and retirees in about 1,500 pension plans. (Multiemployer plans are set up by collectively bargained agreements involving more than one unrelated employer, generally in one industry, such as trucking or construction.)

The PBGC isn't funded by general tax revenues. Rather, the PBGC collects insurance premiums from employers that sponsor insured pension plans, receives funds from the pension plans it takes over, and earns money on its investments. Employers are required by ERISA to pay insurance premiums to the PBGC.