WELLS FARGO ADVISORS

Third Quarter 2009

Financial Quarterly

An unemployment survival guide

Whether you've lost your job or are worried that you might, there are things you need to do

Even in these uncertain times, you're likely to be among the 90% of Americans who have jobs. But that doesn't necessarily mean you feel secure in your future. On the other hand, you could be among the many who have been displaced by this economic downturn and find themselves managing limited finances.

One of the keys to surviving unemployment or preparing yourself in case you lose your job is to manage your finances intelligently. Here are some issues to consider if you're standing in the unemployment line or worrying that you may be soon.

Still working? Save, save, save.

If you're currently employed but your position looks shaky, you probably need to take advantage of whatever time you have left on the job to build up your cash reserves. If you're like many Americans, you may only have enough in reserve to cover your bills for two months if you should find yourself out of work. A MetLife study released earlier this year revealed that 50% of Americans claim to have only a one-month cushion – that's just two paychecks for most of us – before they would be unable to meet their financial obligations.

Your cash reserves should be enough to cover your financial obligations for six months, or longer. If you don't have enough, you need to cut back as much as possible on your discretionary spending and use what you save to build your reserves.

If you receive severance pay, that money should go directly toward bolstering your reserves. Your severance payments may be based on years of service; if you've been on the job for 10 years, for example, your severance could provide for two weeks' pay for each year of service, or approximately 20 weeks' worth (five months) of your salary.

That may seem like a tidy sum, but in early 2009, that's the average amount of time it took typical workers to find a new job. That's why you need to put your severance pay directly into an FDIC-insured account at your brokerage or bank so it's there if you need it.

Together we'll go far

What if the company drops its 401(k) match?

If your job's future seems uncertain, it's most likely because the company is not faring well, which means management is probably looking to cut costs. Before they let people go, most companies would rather try other tactics, such as reducing or eliminating the company's matching 401(k) contribution. If this occurs, should you continue your contributions to the plan?

There are good reasons to continue to contribute:

- Your contributions help reduce your current taxable income. If you stop contributing, your paycheck will get bigger, but so will your tax bill.
- Your contributions will continue to have the opportunity to grow tax-deferred for your retirement. Tax deferral gives you the chance to accumulate more for your retirement than you would have with a taxable account.
- You'll lose the "out of sight, out of mind" benefit that comes with contributing. In other words, because your contribution is made before you get your paycheck, you're less tempted to spend it.

On the other hand, if you have the discipline, you may consider contributing to your IRA rather than a 401(k) without an employer match. Here's why:

- You'll have easier access to the funds in your IRA rather than a 401(k) – especially if your employer or job situation is uncertain. With an IRA, your funds are as close as a phone call to your broker or a visit to the bank. Getting to your 401(k) funds may involve dealing with plan provisions that restrict immediate access or withdrawals.
- With a 401(k), you're limited to the investment alternatives your employer has chosen to offer. There are very few restrictions, however, on how you invest your IRA contributions, so you may be able to create a portfolio that's better suited to your needs.
- If eligible, some individuals may be better off contributing to a Roth IRA. [Or you could contribute to a Roth 401(k), assuming your employer provides this alternative.] Although you contribute after-tax dollars to a Roth, you can anticipate being able to enjoy tax-free withdrawals in retirement, if you follow the rules. This will be especially beneficial if you're in a lower tax bracket now than the one you'll be in when you make your tax-free withdrawals in retirement.

Note: Although you are permitted to take loans from your 401(k) plan, this is not possible in an IRA. Depending on the investments used to fund the IRA, charges and expenses could be higher or lower than those you would incur inside your 401(k) plan.

Dealing with nonqualified deferred compensation

If your company's future is questionable, things can get particularly complicated if you participate in a nonqualified deferred compensation (NQDC) arrangement. NQDCs provide participants an additional alternative beyond a 401(k) for tax-deferred retirement savings. Because NQDCs are not qualified plans, the employer has greater flexibility in determining who can participate. On the downside, all funds contributed (both by the employer and employee) are always at risk. If the sponsoring company should fail, the NQDC assets would be subject to claims from the company's creditors and could be lost.

The big question: If you're contributing to an NQDC, should you continue to put money into the plan if the company is on shaky financial ground?

If you continue to contribute, the amounts you add to the plan will still have the opportunity to grow on a tax-deferred basis, which potentially will let you accumulate funds for retirement. However, if you're nervous about the company's future, reducing the amount you're deferring will decrease the amount at risk. Deferral elections for 2010 will probably occur just around the corner in the fall. You can change your contribution amount (or stop contributing) during this period.

If the company survives, the amount you have in the plan will **not** be eligible to be rolled over into an IRA or a new employer's qualified plan or an NQDC arrangement if you are displaced. If the funds are distributed to you in a lump sum, it will create a taxable event.

Rather than continuing to add to your NQDC, redirecting the amount you were contributing from the NQDC to your emergency reserves may help you be better prepared if you are displaced.

Strategies for getting through unemployment

It may seem like the worst possible outcome when it occurs, but losing a job can be an opportunity to restart your career by giving you the time you need to reevaluate your priorities so you can find a job that's better suited to you and that may provide superior financial rewards. Although that may be true over the long term, you first have to get through the short term, which can be difficult. Here are some survival tactics to help get you over the hump.

Deal with tax issues

If you received a lump-sum severance payment, it's likely that your employer withheld taxes at the highest IRS-mandated rate. Your tax advisor can help determine whether that amount will be enough or if you may need to make estimated tax payments. What you don't want is to face a sizable IRS bill at tax time as a result of your severance payment – especially if you're still unemployed when the bill comes along next April.

If you're eligible for unemployment, remember that these benefits are taxable; however, in 2009 only, the first $2,400 is federal-income-tax-free, thanks to a provision in the economic stimulus legislation. See below for more information about unemployment benefits.

Address health insurance issues

Being displaced means more than just losing your source of income – it can also mean the loss of employer-subsidized health insurance. The federal COBRA law requires most employers to offer coverage – at your cost – to fill the gap until you find new employment, up to an 18- to 36-month maximum. Your benefits department can tell you when your old health coverage expires and how to sign up for COBRA.

Although COBRA can be helpful, there are problems. Employers can charge former employees 102% of the employee and employer premiums for COBRA coverage. As a result, COBRA is often difficult for jobless families to afford. However, the economic stimulus package included a subsidy that covers 65% of COBRA premiums for individuals laid off between Sept. 1, 2008, and the end of this year. The subsidy is clearly good news for employees who are eligible and have modified adjusted gross incomes (MAGIs) below the phaseouts for the subsidy ($145,000 for single filers and $290,000 for married couples filing jointly). However, it won't help if your former employer:

- Has gone out of business. If this is the case, you're ineligible for COBRA.
- Employs 19 people or less. Under federal law, your former employer is not required to provide COBRA coverage. However, many states have laws requiring that all employers that provide group coverage offer COBRA-like coverage. If you don't happen to live in one of these states, you may not be able to get continuation of your coverage.

If COBRA coverage is available to you, you must sign up within 60 days of being laid off, or else you'll lose the option.

You'll need to consider finding a health insurance alternative if you:

- Can't get COBRA coverage or its equivalent
- Are still unemployed after your COBRA coverage expires
- Get a new job that does not offer health insurance
- Decide you want to retire and you're too young for Medicare coverage

One possibility to consider is a low-premium, high-deductible (LPHD) insurance plan augmented by a Health Savings Account (HSA). As the name suggests, the premiums for an LPHD are more affordable than other plans because the insured individual is accepting more risk. In exchange for the attractive premium, you are responsible for paying 100% of your health care expenses until you reach the deductible, which, again as the name suggests, is rather high.

An HSA is somewhat similar to a traditional IRA and works hand-in-hand with an LPHD. Like a traditional IRA, the money you put into an HSA is tax-deductible, and funds in the account have the potential to grow tax-free. Unlike a traditional IRA, withdrawals from an HSA are tax-free as long as they're used to pay qualified medical expenses. The idea is to put money into the HSA to get the tax benefits and then withdraw it to pay your medical expenses.

Apply for unemployment benefits

Employers are required to pay into unemployment insurance to help individuals bridge the gap between jobs. Each state administers its own plan according to its own rules. Many states now let you apply online or by telephone, so literally standing in the

unemployment line is becoming a thing of the past. However, if you're unemployed for a while, you will probably be required to appear in person at the state unemployment office at some point. The amount of your benefits and how long you can receive them (usually 26 weeks) vary from state to state.

Unemployment benefits typically come with a number of requirements. For example, to receive benefits, you have to demonstrate to your state that you're actively seeking new employment.

Each state's rules are complex. You need to learn about them and meet all the deadlines to receive your benefits. If you believe you're eligible but are having trouble receiving your benefits, consider hiring an employment lawyer who's familiar with your state's unemployment compensation regulations.

Remember the "little" things

Being displaced can be overwhelming. However, don't forget the "little" things that really aren't so little – like your qualified retirement plan and other benefits, such as stock options, restricted stock and stock purchase plan account balances.

Depending on your employer's plan provisions, you may have a variety of alternatives for dealing with your assets in your former employer's qualified plan. You can:

- Cash out your assets
- Leave your assets in the plan (but this may require you to stay in contact with your former employer)
- Roll your assets into your new employer's qualified plan once you get a job (if the new employer's plan allows you to do so)
- Roll your assets into an IRA

For most individuals, the best alternative may be to roll the assets directly into an IRA. For more information about this strategy's advantages and how to execute it, contact your Financial Advisor.

You may be tempted to cash out your assets – after all, you need the income. However, doing so will create a tax liability, and you will potentially incur a 10% IRS early-withdrawal penalty. And you may jeopardize your financial security in retirement. Therefore, you should only cash out your assets as a last resort.

Take this opportunity to make sure that the beneficiary designations on your retirement plan assets are current. In the time since you made your designations, your family may have experienced a birth, death or divorce that makes them out-of-date. Remember that your beneficiary designations will supersede anything stipulated in your will or trust.

If you hold stock options or restricted stock, you'll need to find out what will happen to your unvested benefits. It's possible that they became vested on the day you were displaced, or they may simply lapse.

Also learn about your vested stock options. It may be that their expiration date was accelerated, which means you have less time before you must exercise them. As a result, you may have to come up with the cash to exercise, and to recognize the taxable income, sooner than you had planned. Finally, keep in touch with the employee benefits department and make sure they have your current address so that you receive timely notifications and deadlines.

How Wells Fargo Advisors can help

Over the years, Wells Fargo Advisors has helped clients face just about any imaginable financial challenge, including unemployment. A few of the many valuable services we provide that can help you deal with the challenges of being unemployed include:

- **Bank deposit sweeps.*** Uninvested cash in your Wells Fargo Advisors account is periodically "swept" into accounts at various affiliated Wells Fargo banks. Through Dec. 31, 2013, each of these accounts is FDIC-insured up to $250,000 per account owner per bank. Because your cash is deposited into accounts at multiple banks, you can put your severance pay into your Wells Fargo Advisors account knowing that you'll enjoy FDIC insurance on a larger balance than you would if you put the money into a single bank. And you'll have easy access to your cash reserves when you need it.
- **Traditional and Roth IRAs.** Leaving a job, whether by choice or because of a layoff, means having to deal with the money in your former employer's retirement plan. Your Financial Advisor can help you roll these funds into a traditional or Roth IRA, which offer you greater investment flexibility.
- **Stock-based benefits assistance.** Whether your former employer granted you restricted stock or stock options, or you participated in a stock purchase plan, you face unique challenges. Your Financial Advisor can work with Wells Fargo Advisors' Home Office experts to help you develop strategies for dealing with these stock-based benefits.

*The temporary increase of FDIC insurance coverage to $250,000 for all insurable capacities has been extended through Dec. 31, 2013. If not further extended, FDIC coverage will revert to $100,000 on Jan. 1, 2014, for all insurable capacities except IRAs and certain other self-directed retirement accounts and plans. Unless the increased coverage is extended, deposit insurance coverage for CDs with a maturity date after Dec. 31, 2013, will revert to the prior FDIC coverage on Jan. 1, 2014, regardless of when you purchased the CD. You should not rely on a possible extension of this increased coverage in purchasing CDs.

Make charitable giving a family affair

Getting your family to join you in supporting charitable causes takes a strategy (and some effort)

More and more families, regardless of their affluence, are working together when it comes to charitable giving. If giving is important to your family, or if you'd like it to be, you may want to craft a family charitable-giving strategy. Depending on your situation, you may decide to start simply and add more sophisticated approaches over time.

One of the primary reasons for having a family giving strategy is to instill in future generations the value of giving back to the community. If you want your children or grandchildren to inherit your desire to help others, you need to first realize that philanthropy is not genetic – it has to be taught. And the more time you have to teach it, the better your chance of success. So if you want the next generation to be charitable, start working with them today.

The good news: Regardless of your family's level of affluence, certain strategies and behaviors are often universal in helping subsequent generations better understand and act on your family's charitable goals.

Do the talk before walking the walk

Initially, charitable behavior is often reactive – we respond to a need or events that move us. Over time, giving matures and becomes more proactive. For that to happen, it's important that your family's values be clearly articulated. Ask questions such as:

- Why do you contribute to the causes you currently support? What experiences have shaped these giving efforts?
- What passions do family members have? (Environmental issues, animals, health concerns, a hobby or other interest, etc.)
- How do family members' life experiences and knowledge shape their charitable-giving efforts? (Was a family member stricken with a certain illness? Does a member have a passion for art or music? Do you have special expertise or competence that you can bring to the table?)

Talk to your children – young and old – about these issues, and discuss each family member's expectations regarding giving.

Holidays or family gatherings can provide an excellent opportunity to have these discussions and begin to nurture charitable goals in family members. Because actions speak louder than words, consider extending holiday gift giving outside the family by contributing to charities and community organizations. At Mother's Day, for example, do a good deed or provide assistance to someone else's needy mother. Over time, you can expand the idea of giving to make it an everyday event, not something just done during the holidays.

Engaging younger family members

Providing an allowance is a great tool for educating children about money. It's also an excellent way to teach them that being charitable isn't just something reserved for certain times of the year.

Instead of just giving your child his or her allowance to spend as he or she

sees fit, try creating three "jars": one for money the child can spend, a second for money to go into a savings account, and a third for giving to charity. Have the child divide his or her allowance into the three jars. To help encourage larger allocations to the charity jar, offer to match the child's money with your own.

Let the child determine where the cash in the charity jar should go. The selected organization should reflect the child's interests and age level. For example, if he or she loves animals, an animal-welfare organization may be a good alternative. If there are multiple children in the house, help each one decide on a different charity. As a result, family donations could be spread among a variety of organizations.

Families may receive a number of solicitations and requests from charitable organizations. You'll want to avoid simply responding to every request. Rather, articulate your goals, set an overall giving budget, and allocate that budget among key causes. You may also want to consider withholding a portion of the fund to respond to emergency requests (hurricane, flood, earthquake, etc.).

Encourage volunteering

Being charitable encompasses donating time as well as money. In fact, a gift of time can often be a more valuable learning experience than making a cash contribution. An Independent Sector and Youth Service America study showed that individuals who started volunteering early in their youth were twice as likely as others to volunteer as adults.

Volunteering doesn't have to be a chore; it can actually be fun. You can suggest to young adults that they invite friends to join them in volunteering to help charitable organizations.

Strategies for expansion

Over time, your personal or family giving efforts will hopefully expand, which can lead to more complex tax issues and may mean you'll want to be more strategic in your giving. The following are some ideas you may want to consider.

Donor-advised funds provide flexibility

If you want to generate a current charitable tax deduction but are uncertain about which charities to benefit – or want to direct your gifts over time – consider a donor-advised fund. With this type of fund, you make an irrevocable (you cannot change or reclaim it) contribution of cash or long-term appreciated securities and receive a tax deduction for the fair market value. Each donor-advised fund will generally set a minimum contribution; see the fund's prospectus for details. If you donate securities, the fund liquidates the assets, and you choose the asset allocation for your account. From time to time, you advise the fund administrator when and to which charities gifts should be made.

By making a sizable donation to a donor-advised fund, you could create a significant charitable tax deduction that will help reduce that year's tax burden. You can then parcel out your donation to your family's favorite charities over a number of years. In effect, you make your charitable contribution in advance, benefiting from a substantial tax deduction in the year you make the gift. Keep in mind that you won't receive additional deductions in future years when distributions are made from the fund.

Employing a charitable remainder trust

A charitable trust can address various estate- and income-tax planning problems at the same time that you make a sizable charitable donation. Keep in mind that before establishing this type of trust, you should seek qualified tax and legal advice.

A charitable remainder trust has two parts – an income interest and a remainder interest. The income interest is the right to receive an income stream from the assets in the trust throughout the trust's term (such as the donor's lifetime or a fixed time period). This "income interest" must be an "annuity" or "unitrust" interest (the donor cannot simply retain the investment income). Thus, you may also hear the terms "charitable remainder annuity trust (CRAT)" or "charitable remainder unitrust (CRUT)."

The remainder interest is the right to the property remaining in the trust when the trust's term is completed. With a charitable remainder trust, the income interest is distributed to you and/or your beneficiaries during the trust's term, while the remainder interest goes to the charity at the end of the term. These trusts are often structured to end upon the donor's death.

Because the trust is tax-exempt, an individual can donate property, such as highly appreciated securities, to it, where they can be sold without incurring an immediate capital gains tax liability. Consequently, all proceeds can be invested to provide income for the donor and/or the beneficiaries.

When you donate property through a remainder trust, you transfer ownership to the trust, which then makes a defined payout to you during the trust's term. And your donation generates a current-year, charitable income-tax deduction based on the "present

value" of the future gift to charity. For younger individuals or trusts that have higher payouts, the income tax deductions could be very limited. At your death, the death of your beneficiary or the completion of the trust's term, the trustee will distribute the trust's balance to the chosen charity (or charities).

The example below shows the potential tax advantage of using this strategy when dealing with appreciated securities, versus selling the securities and reinvesting outside of a charitable remainder trust.

A private foundation can create an enduring family legacy

Creating a foundation provides an enduring vehicle for a family's charitable gifts and can help keep your vision alive for many generations. A private foundation is a sophisticated instrument for family philanthropy, and establishing one can be complicated. As a result, private foundations are employed primarily by high-net-worth families.

In general, a private foundation is established as either a tax-exempt trust or not-for-profit corporation. The trustees or board of directors (depending on the structure) – often consisting primarily, or solely, of family members – has two chief responsibilities:

- To distribute money to nonprofit organizations that will help achieve the foundation's charitable goals
- To manage the foundation's investments

A foundation can be an effective tool for managing a family's charitable giving because it imposes a formal structure. A foundation often has a written mission statement to guide the board in making grants and an investment policy statement for the board to adhere to when managing investments.

Some families view their foundation through rose-colored glasses and have unrealistic expectations regarding the outcome. Disharmonies within a family can create challenges. Some siblings may not be charitably inclined, and even those who have a common philanthropic approach may have varying interests. This leads to potential conflicts regarding which causes to fund. For example, one sibling may favor animal rights, while a brother or sister may want to fund conservation organizations that support hunting. Children may even find themselves in opposition with a founding parent if the child's preferred charitable recipient is out of favor with the parent.

Donating versus selling and reinvesting

Suppose you're in the 25% tax bracket and own $1 million worth of stock with a $100,000 cost basis. You could sell it and reinvest the proceeds at 5%.* Or, you could transfer it to a charitable remainder trust with a 5% payout. The following compares the two strategies.

	Sell and reinvest the proceeds	Transfer to charitable remainder trust
Proceeds/fair market value	$1,000,000	$1,000,000
Capital gains tax ($1,000,000 - $100,000 x 15% outside of charitable trust)	$135,000	$0
Amount reinvested	$865,000	$1,000,000
Payout percentage	× 5%	× 5%
Annual payout	$43,250	$50,000

By using the trust, you would receive $6,750 more income each year than if you sold the stock and reinvested the proceeds without using a charitable trust. Of course, you have irrevocably given $1 million to the charitable trust to receive the additional income.

* This example is for illustrative purposes only and does not reflect the performance of a specific investment.

Often family leaders establish a private foundation upon their death. Children must then learn two lessons quickly and without the leader's guidance: how to work together (which has its own challenges, as noted) and how to give responsibly. Rather than taking this approach, you may want to establish the foundation while you're living. You can retain control and work closely with your children, soliciting feedback and encouraging cooperation throughout the family's decision-making process. You may want to add children to the board as an added measure of confidence.

If there is family disharmony, or if your children's interests vary widely across spectrums, you may want to consider alternatives to a family foundation. For example, you might create separate donor-advised funds or foundations with a child in charge of each. If your children's interests differ greatly from yours, you may want to build an independent board for your family foundation, ensuring that your objectives are carried out. Or you can align yourself and your contribution with an organization (a public charity) you trust to continue your desired mission. Finally, if your children simply are not charitably inclined, you may want to make an outright gift to one or more charitable organizations without creating a family foundation.

Asking the right questions

As you can see, you and your family have a wide range of alternatives to help address your giving goals. When it comes to a creating a family giving strategy, you need to determine how complex – or simple – you need or want it to be. Also realize that not all families want to give as a group, but would rather achieve their philanthropic goals individually. You may want to start simply and employ more sophisticated techniques as time goes by. To get started, pose these questions to yourself and your family members:

- What are our family's passions and values? Among family members, how do they differ? Where are their similarities?
- Which organizations or causes is the family currently supporting through gifts of time or money?
- Is this "budget" of time and money spread too thin to have the desired effect? Would we rather be more focused or more diverse?
- What do we hope a family giving program will accomplish over time?
- Which techniques would best serve our family?
- What is our timetable for periodically reviewing these charitable efforts?

How Wells Fargo Advisors can help

Your Wells Fargo Advisors Financial Advisor can work with you and your family members to help develop and refine a family giving strategy. In addition, he or she can provide more information about topics discussed in this article, including donor-advised funds, charitable remainder trusts* and private foundations.

*Trust services are offered through Wachovia Bank, N.A., a national banking association and subsidiary of Wells Fargo & Company.

64490-v2

0709-4848

0000582771 (Rev 01, 1 ea)