Arizona Investment Alliance Financial Group, Inc.

The Quarterly Rapport

2nd Quarter 2012

Visit us on our Website at: www.AIATucson.com

From the Desk of . . . .
Chuck Testino

Our newsletter this quarter offers information that I hope will be educational, insightful and useful as you move forward into the spring and summer months. The old stock-market adage of "sell in May and go away", may not hold much credence in 2012 as pundits discuss their market theories. However, if you are more inclined to be a fixed investor, we have seen some new and interesting products come to the industry, which may interest you in the coming months, as well.

In the article below, "Mix It Up with FIA", a brief overview of Fixed Indexed Annuities, may initiate interest in broadening your portfolio. On page two we look at 457(b) Deferred Compensation Plans for those employed in government or public education. These articles not only give you a brief outline of the features but also an illustration showing benefits of pre-tax contributing that are applicable to anyone contributing on a before tax basis. As always, I am here to help and look forward to serving you.

Mix It Up with "FIA"

Fixed Index Annuities (FIAs)[1] allow for the possibility of upside appreciation in the stock market while protecting against loss of principal due to unexpected market changes. FIAs are long-term investments with possible surrender charges. Getting out early may mean taking a loss. However for the risk adverse, they effectively produce gains, with the exclusion of dividends, for investors while minimizing risk, providing a middle ground where performance meets safety. FIAs track a stock market index, such as the S&P500. The rate of return is a percentage the index showed over a period of time. One of the newest products features the Trader Vic index, which has approximately half the volatility of other standard indexes.

For more information & to see if a fixed index annuity would be a good addition to your current investment strategy, please call me at (520) 323-3036.

Source:www.annuitystraighttalk.com/annuities/fixed-index-annuity

Are YOU Covered???

Some insurance coverages are required. For example, to own and drive a car, you must have auto insurance, or if you own a home your mortgage company most likely requires you to have a homeowners policy. We know we need these coverages because we have little choice in the matter. On the other hand, Life, Health or even Long Term Care insurance are not "required" insurances. Nobody insists on us to have them. That is why it is important to understand how these insurances can cover you and your loved ones in case something does happen. Knowing your loved ones have resources should something tragic happen can help ease your mind. If you do not have Life or Health insurance, or if you are over age 50 and do not have Long Term Care coverage, please consider them. I am here to assist you with any questions.

Are You Retiring?

If you are planning on retiring this year, call me to review all of the options that are available to you. The state of Arizona offers many choices for those who are going to retire and it can be very confusing.

I will review these options with you and explain the differences between each option given. You **DO NOT** want to leave lifetime benefit payments on the table.

I will show you how to maximize your benefits to sustain a lifetime income stream that is suited for your personal needs. You should review and finalize these options **THREE MONTHS (3)** prior to retirement.

Call me at **(520) 323-3036** to set an appointment now.

HAS YOUR CONTACT INFORMATION CHANGED?
If so, please email or call me!

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[1]**Exclusion of Dividends.** (Most FIAs only count equity index gains from market price changes, excluding any gains from dividends. Since you're not earning dividends, you won't earn as much as if you invested directly in the market.) **FIAs are long-term investments.** Getting out early may mean taking a loss. (Many FIAs have surrender charges.) The surrender charge can be a percentage of the amount withdrawn or a reduction in the interest rate credited to the FIA). The information provided here is for informational purposes only. Always consult with a professional tax advisor to determine your potential tax consequences.

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The Benefits of a 457(b) Deferred Comp Plan

Besides tax-deferred compounding of your assets and potentially accumulating more for retirement than you would with an after-tax retirement savings plan, the 457(b) deferred compensation plan sponsored by a governmental entity like a public school offers flexibility and possibly more portability. This means that if you separate from service at any age, retire or go to work for another employer, you have options like rolling your account to a Traditional IRA, a Roth IRA or into your new employer's retirement plan if the plan permits.

If you choose to take your account balance, the distributions will be taxable in the year you receive the money. However, if your account balance is paid out in a series of payments over a period of time, you will only pay federal income taxes on the amount received each year.

In addition to additional withdrawal provisions, some employer sponsored 457(b) Deferred Compensation Plans may offer some attractive investment options like a guaranteed fixed account with rates of 3.00%. If you are unfamiliar with what plans your government or public school employer provides, it may be worth checking with your agent to find out more about the availability of the 457(b) deferred compensation plans.

457(b) Illustration

To illustrate how contributing toward retirement on a pre-tax basis affect your paycheck, let's assume you earn $37,000 in taxable income annually and you want to defer $75 from each paycheck to a deferred compensation plan, like a 457(b). You're paid every other week 26 times a year.

	Before Joining Plan	After Joining Plan
Income	$1,423.00	$1,423.00
457(b) Contribution	00.00	$75.00
Net Taxable Income	$1,423.00	$1,348.00
Federal Tax (25%)	-$355.75	-$337.00
Take Home Pay	$1067.25	$1,011.00

With a deferred compensation plan, like a 457(b), your current federal income tax is reduced, so it only cost you $56.25 out-of-pocket to invest $75.

Now, compare how the $75 per pay deferred compensation contributions could accumulate over time vs. $75 in an after-tax plan. We are assuming federal income tax at 25% and an annual rate of return of 3% compounded without fees.

	After Tax Plan	Deferred Comp Plan
Contribution	$75.00	$75.00
Less Income Tax	-$18.75	-0.00
Net Yearly Contributions	$1,462.50	$1,950.00
After 10 Years	**$16,506.50**	**22,998.00**
After 20 Years	**$38,096.25**	**$56,473.00**
After 30 Years	**$67,581.50**	**$108,710.50**
After-tax (25% bracket) value following lump sum distribution	**$67,581.50**	**$81,532.90**

*(ING 457(b) Deferred Compensation Brochure)

2011 Tax Table*

Tax Rate	Single Filers	Married filing Jointly or Qualifying Widow/Widower	Married filing Separately	Head of Household
10.00%	Up to $8,500	Up to $17,000	Up to $8,500	Up to $12,150
15.00%	$8,501-$34,500	$17,001-$69,000	$8,501-$34,500	$12,151-$46,250
25.00%	$34,501-$83,600	$69,001-$139,350	$34,501-$69,675	$46,251-$119,400
28.00%	$83,601-$174,400	$139,351-$212,300	$69,676-$106,150	$119,401-$193,350
33.00%	$174,401-$379,150	$212,301-$379,150	$106,151-$189,575	$193,351-$379,150
35.00%	$379,151 or more	$379,151 or more	$189,576 or more	$379,151 or more

This chart is an estimation only and should not be solely relied upon. Please visit www.irs.gov for your tax bracket.