RETIREMENT INSIGHTS

Guide to Retirement

2012 Edition

J.P.Morgan Asset Management

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Setting the stage

"Retirement" is different now than it was for previous generations. Many issues are interconnected which need careful consideration when developing a retirement strategy.

Common misconceptions

"I'll continue to work during retirement."

- 70% of employed Americans plan to work beyond age 64 – but only 28% of current retirees actually did.
- A number of factors can cause people to retire earlier than expected, including health problems, employer issues and family obligations. Page 7

"My spending patterns won't change much."

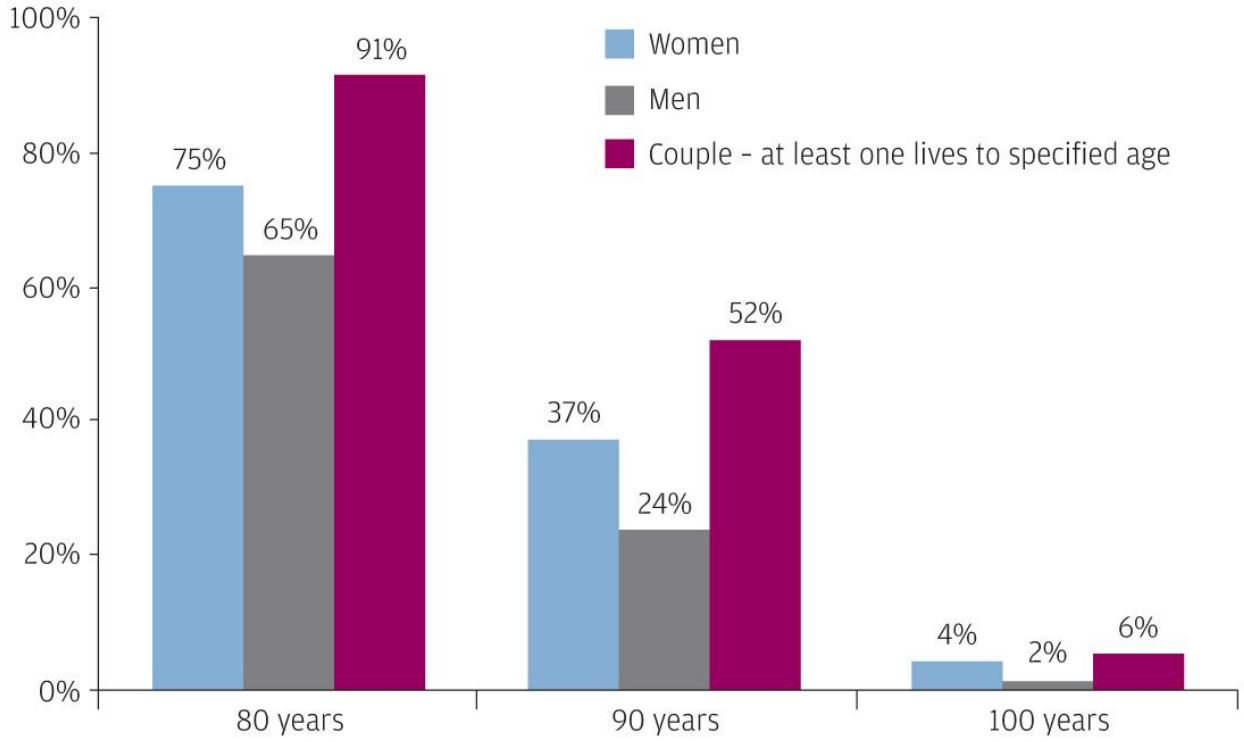
- The inflation rate is higher for retirement-age Americans who spend disproportionately more on items that rise fastest in price, such as health care. Pages 9 and 10

"My medical expenses will be covered."

- Out-of-pocket medical costs make up 15% of a retiree's total expenses. Page 10
- It is estimated that a woman retiring in 2020 without employer coverage would need as much as $357,000 for insurance premiums and other health care costs. Page 11

Life expectancy probabilities

If you're 65 today, the probability of living to a specific age



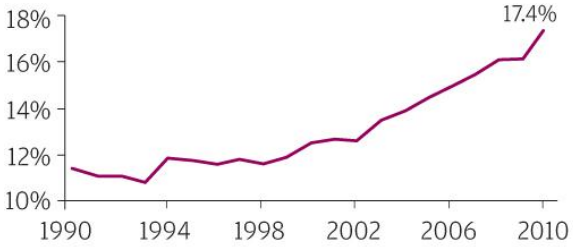
Source: Society of Actuaries, "Key Findings and Issues, Longevity: The Underlying Driver of Retirement Risk," 2005 Risks and Process of Retirement Survey Report, July 2006.

Count on longevity: Life expectancy tells only half the story. Plan on the probability of living much longer, perhaps 30 plus years in retirement.

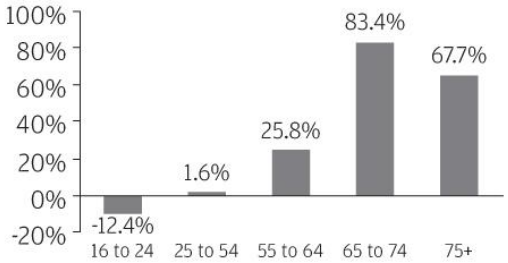
- *For example, there is a 52% chance that one spouse will live to age 90.*

Older Americans in the workforce

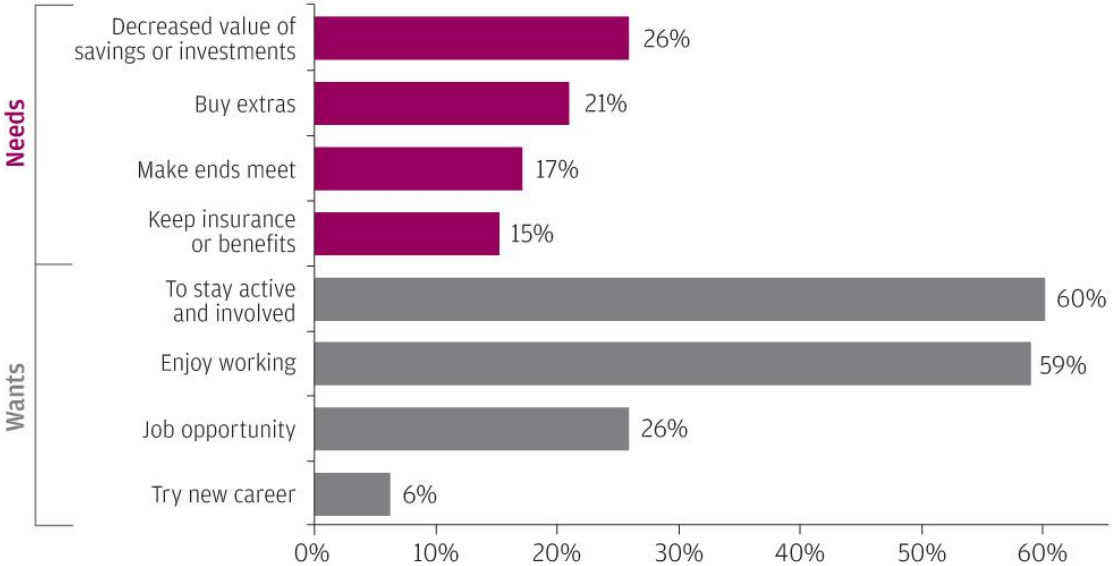
Percent of people over 65 currently in the civilian labor force, 1989 - 2010



Labor Department projected percentage change in labor force by age, 2010 - 2020



Major reasons why people work in retirement



It's *still* off to work I go: More people are working beyond the age of 65 both by choice and for financial reasons.

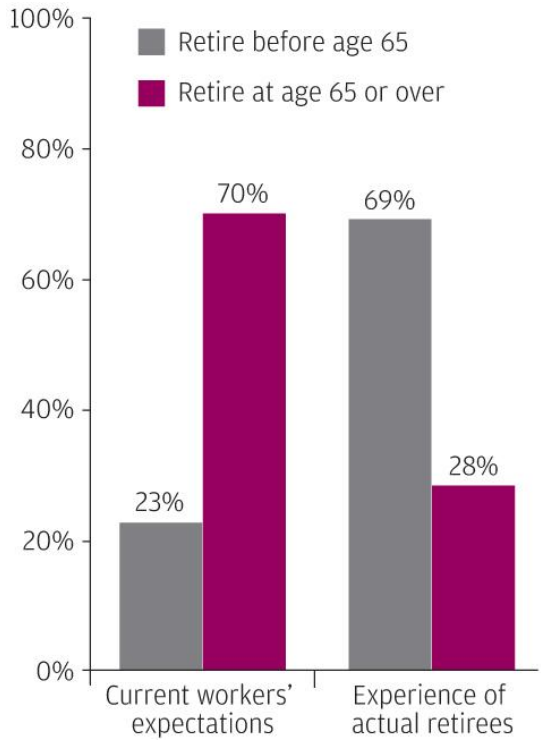
Source (top left chart): Bureau of Labor Statistics. Data as of December 31, 2010. Latest available data through December 31, 2011.

Source (top right chart): Bureau of Labor Statistics. Data as of December 31, 2010. Latest available data as of January 31, 2012.

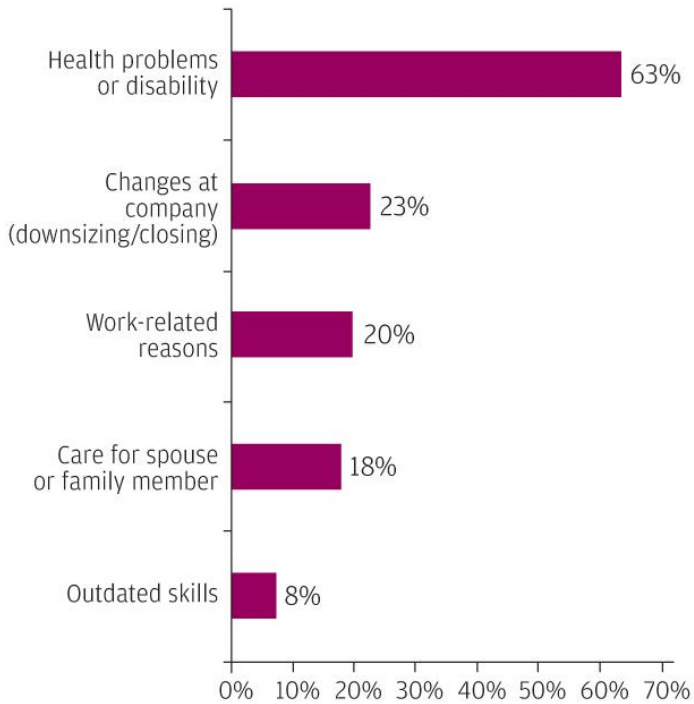
Source (bottom chart): Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2010 Retirement Confidence Survey. Data as of March 2010. Latest available data through December 31, 2011.

Managing expectations of ability to work

Current expectations of retirement vs. experience of actual retirees



Negative reasons cited for retiring earlier than planned

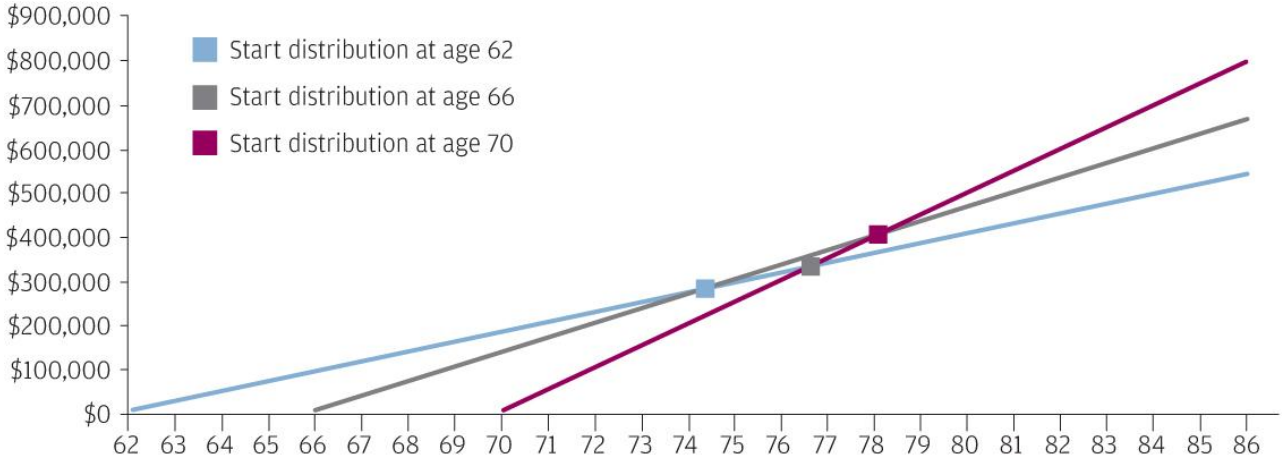


Forced retirement: Although more Americans are working past age 65, not everyone is able to.

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2011 Retirement Confidence Survey.

Social Security

Social Security break-even analysis
Estimated total benefits if distributions begin at a certain age



Planning opportunity: Delaying benefits means having more money to spend later, compensating for increased longevity.

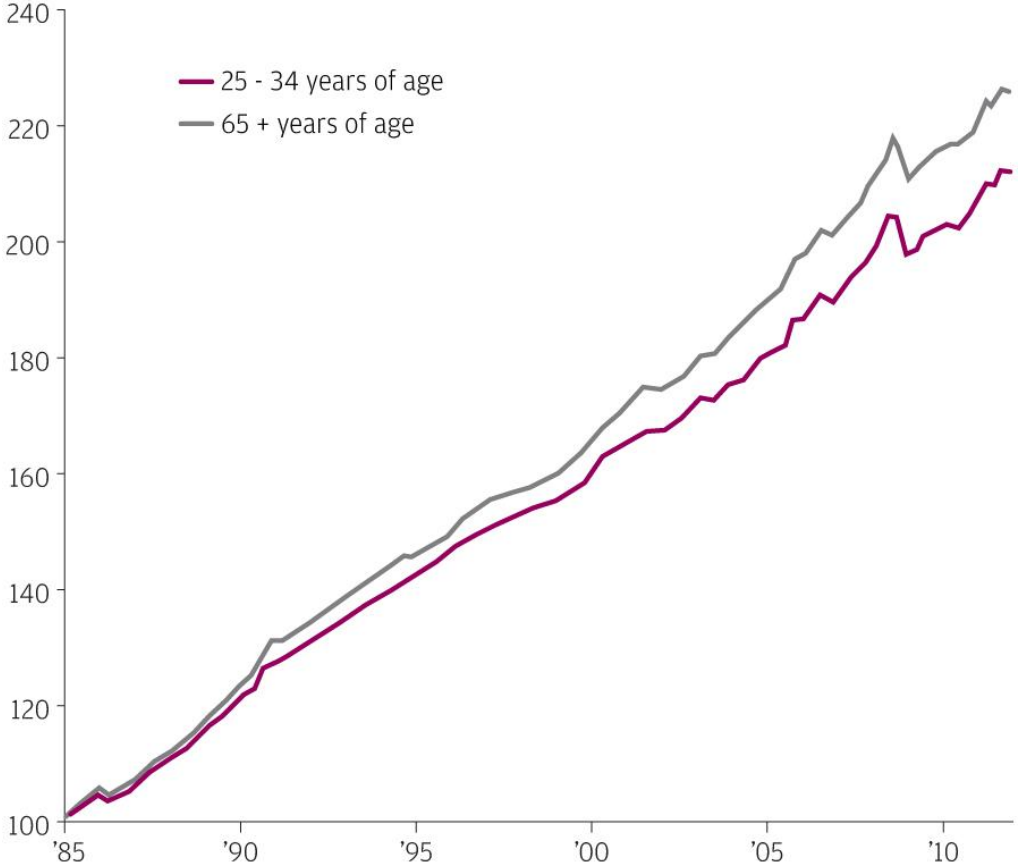
Social Security break-even data

Age	Start distribution at age 62	Start distribution at age 66	Start distribution at age 70
70	$180,384	$131,376	$0
75	$293,124	$295,596	$244,560
77	$338,220	$361,284	$342,384
79	$383,316	$426,972	$440,208
80	$405,864	$459,816	$489,120
85	$518,604	$624,036	$733,680

Source: Break-even calculated using Social Security Administration calculator and assumes maximum Social Security benefits are received for an individual turning 62 in 2012 and assumes monthly benefit remains the same throughout lifetime. For illustrative purposes only. Data as of December 31, 2011.

Inflation impacts on older Americans

Comparison of inflation
Older households vs. younger households, 1985 = 100

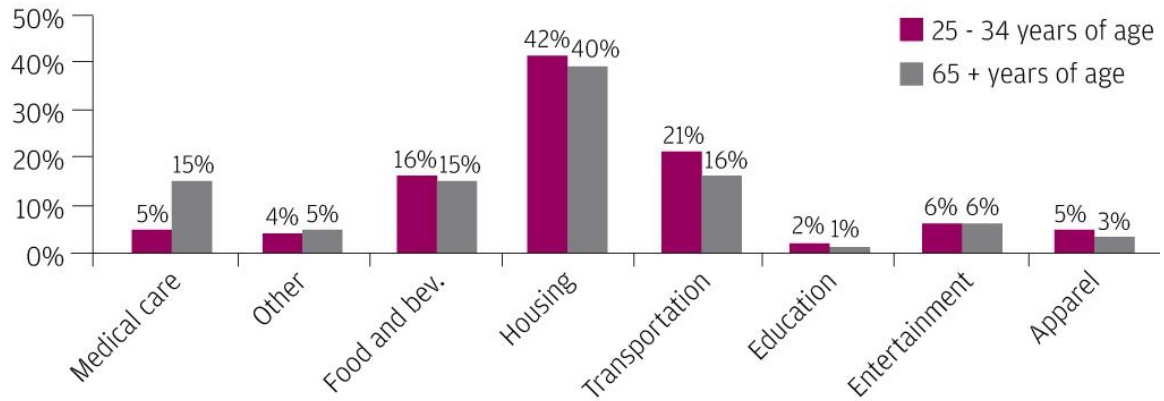


Source: Estimates based on Consumer Price Index and Expenditure Surveys, BLS, J.P. Morgan Asset Management. Data as of December 31, 2011.

Age and inflation: Inflation impacts older households more than younger ones. Staying diversified may help to overcome the effects of inflation eroding their purchasing power.

Spending and inflation

Spending by age and category



Inflation by spending category, 1982 - 2011

Losing ground: Inflation disproportionately affects older Americans due to differences in spending habits and price increases in those categories.

Source (Top chart): BLS, Consumer Expenditure Survey. Data as of December 31, 2011.

Source (Bottom chart): BLS, Consumer Price Index, J.P. Morgan Asset Management. Data represents annual percentage increase from December 1981 through December 2010 with the exception of entertainment and education, which were first published in 1998. Other category consists of personal care products (1.4%), reading (.4%), tobacco (.6%) and other miscellaneous (2.1%).

Cost of health care in retirement

Present value savings needed to fund out-of-pocket health care costs for retirees without employer medical coverage

- *If you have retiree medical coverage through your employer, your out-of-pocket costs may be less and your plan benefits could be greater.*
- *Only 27% of retirees report having access to employer medical coverage.**

Preventative care: Although estimates of future health care costs continue to change, it is important to include potential medical expenses in your retirement planning on a personalized and annual basis.

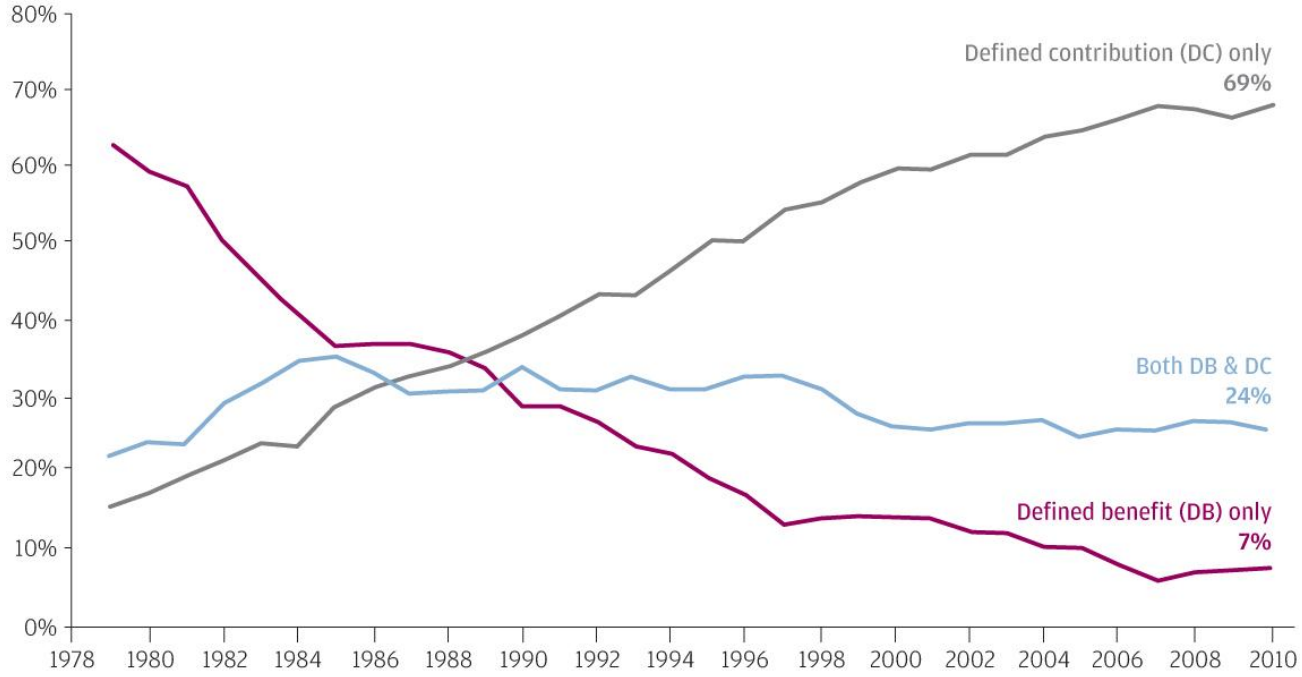
Source: Employee Benefit Research Institute. Issue Brief No. 351, December 2010. Monte Carlo simulation analysis performed to calculate with a 90% and median certainty that a retiree will have enough savings to cover medical costs for Medigap, Medicare Part B Premiums and out-of-pocket health care costs for life, if retiring at age 65. This simulation does not include long-term care expenses. Please note that this simulation is for illustrative purposes only. There is no guarantee that the figures shown would be sufficient to cover out-of-pocket medical expenses.

Chart includes Medicare Part D premium.

*Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2011 Retirement Confidence Survey.

Pension plan coverage

Participation by plan type
Distribution of private-sector, active-worker participants, 1979-2010

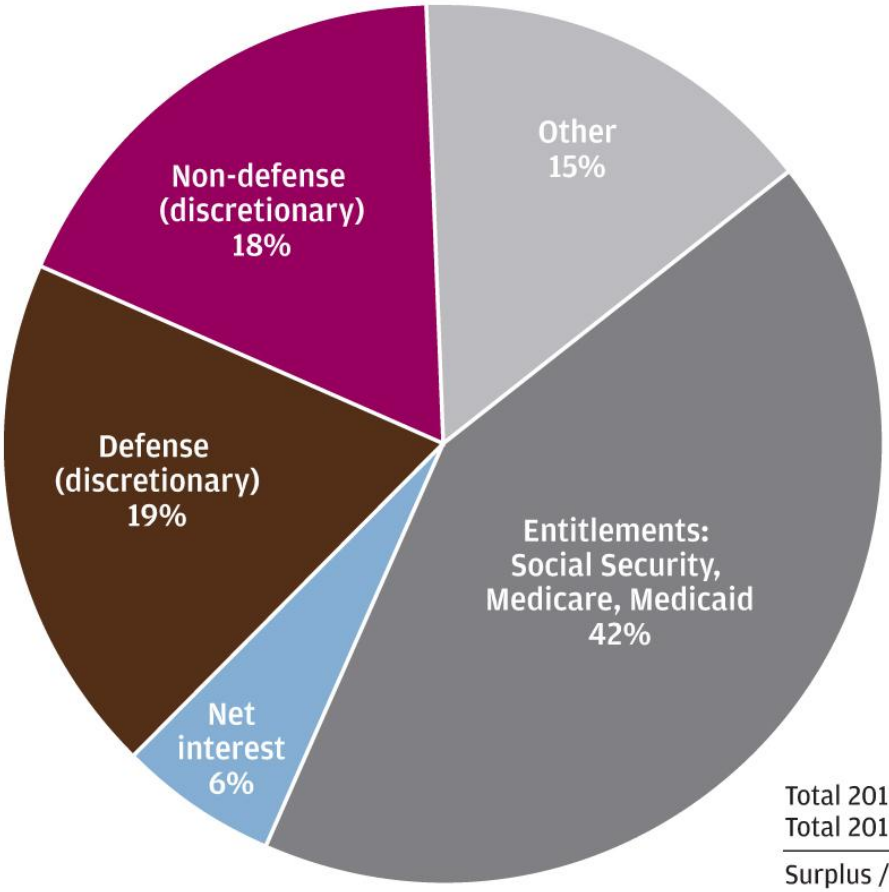


Source: U.S. Department of Labor, Form 5500 Summary Report (summer 2004); EBRI estimates 1999-2010.

Create your own pension: More employers are shifting from offering traditional pension plans to more employee-driven options like 401(k) plans.

Federal budget implications

U.S. federal budget outlays - 2011



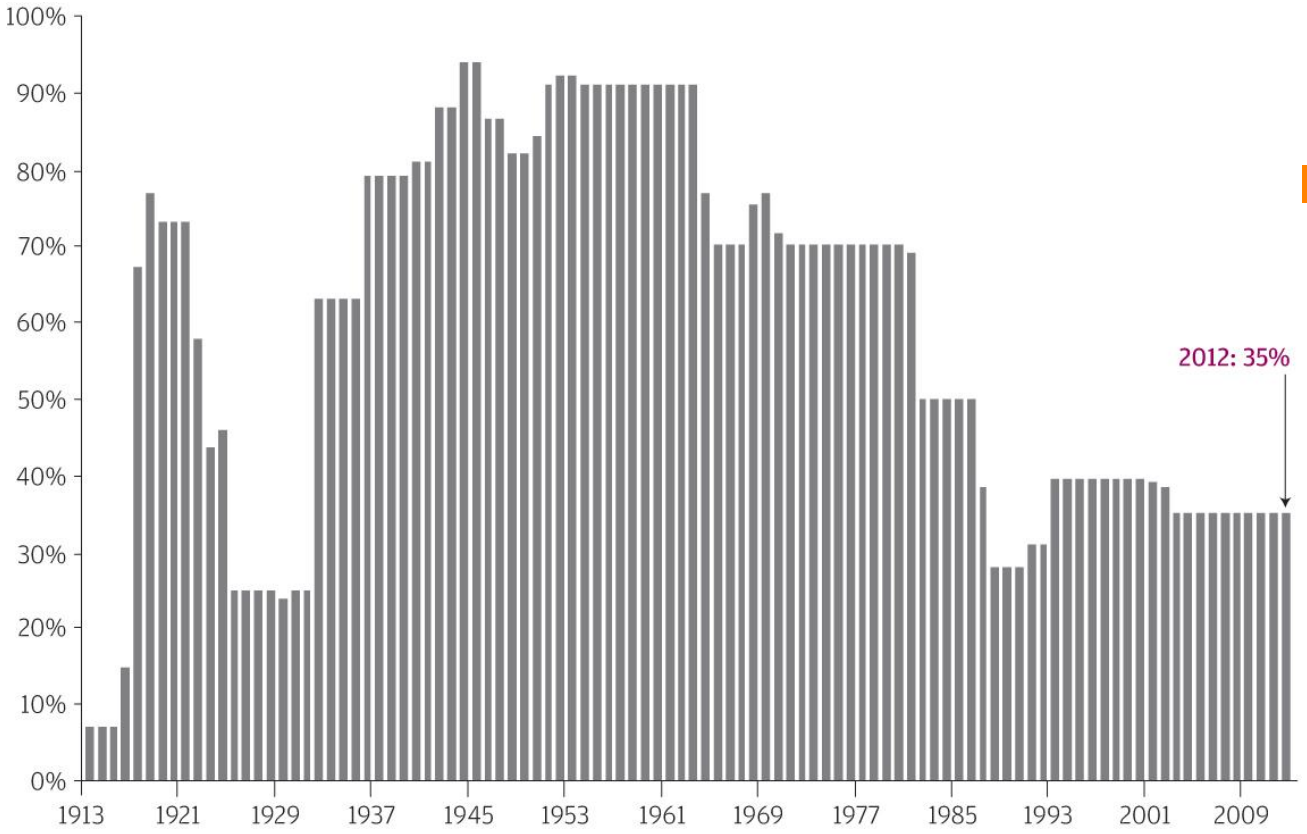
Total 2011 budget receipts:	$2,303 billion
Total 2011 budget outlays:	$3,599 billion
Surplus / deficit:	- $1,296 billion

Adding it up: The budget shortfall could impact government programs, like Social Security and Medicare, as well as impact tax rates overall.

Source: Office of Management and Budget, J.P. Morgan Asset Management. Data as of December 31, 2011.

Historic tax rates

Historical view of top marginal tax rate



Source: The Urban-Brookings Tax Policy Center, Historical Individual Income Tax Parameters. Data as of January 31, 2012.

Contingency planning: Taxes could rise due to government deficits and increasing mandatory spending.

Saving

The single most important decision individuals can make about retirement is to take responsibility for funding it themselves. Living expenses, health care costs, Social Security, pensions and future employment are all uncertain. But saving today is one way to prepare for a more stable tomorrow.

Common misconceptions

"I've already started saving a little – I should be okay."

- In 2011, only 42% of workers (and/or spouses) have tried to calculate how much money they will actually need to save for a comfortable retirement.*
- Use the retirement savings checkpoint chart to see if you are on track to reach your goals. Page 16

"Retirement is so far away – I have plenty of time to think about it."

- The sooner you begin, the more time you have to maximize the power of compounding. Page 17
- Start saving early and regularly. Early withdrawals, loans and missed contributions can result in lower savings, less compounding and fewer assets at retirement. Page 19

*Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2011 Retirement Confidence Survey.

Retirement savings checkpoints

Current Age	Current Salary							
	$50,000	$75,000	$100,000	$125,000	$150,000	$175,000	$200,000	$250,000
	Checkpoint (x Current Salary)	Checkpoint (x Current Salary)	Checkpoint (x Current Salary)	Checkpoint (x Current Salary)	Checkpoint (x Current Salary)	Checkpoint (x Current Salary)	Checkpoint (x Current Salary)	Checkpoint (x Current Salary)
30	2.3	3.1	3.6	3.8	3.8	3.8	3.8	3.8
35	2.8	3.8	4.4	4.7	4.7	4.7	4.7	4.7
40	3.3	4.1	5.1	5.6	5.8	5.8	5.8	5.8
45	3.5	4.4	5.9	6.3	6.9	7.2	7.2	7.2
50	4.2	5.4	6.4	7.8	8.3	8.6	8.9	8.9
55	4.8	6.3	6.7	9.1	9.7	10.3	10.6	11.0
60	5.7	7.0	8.3	9.8	11.3	12.0	12.7	13.7
65	6.6	8.0	9.9	11.6	13.4	14.2	15.1	16.2

Savings requirements increase with salary: Social Security covers a lower portion of income requirements.

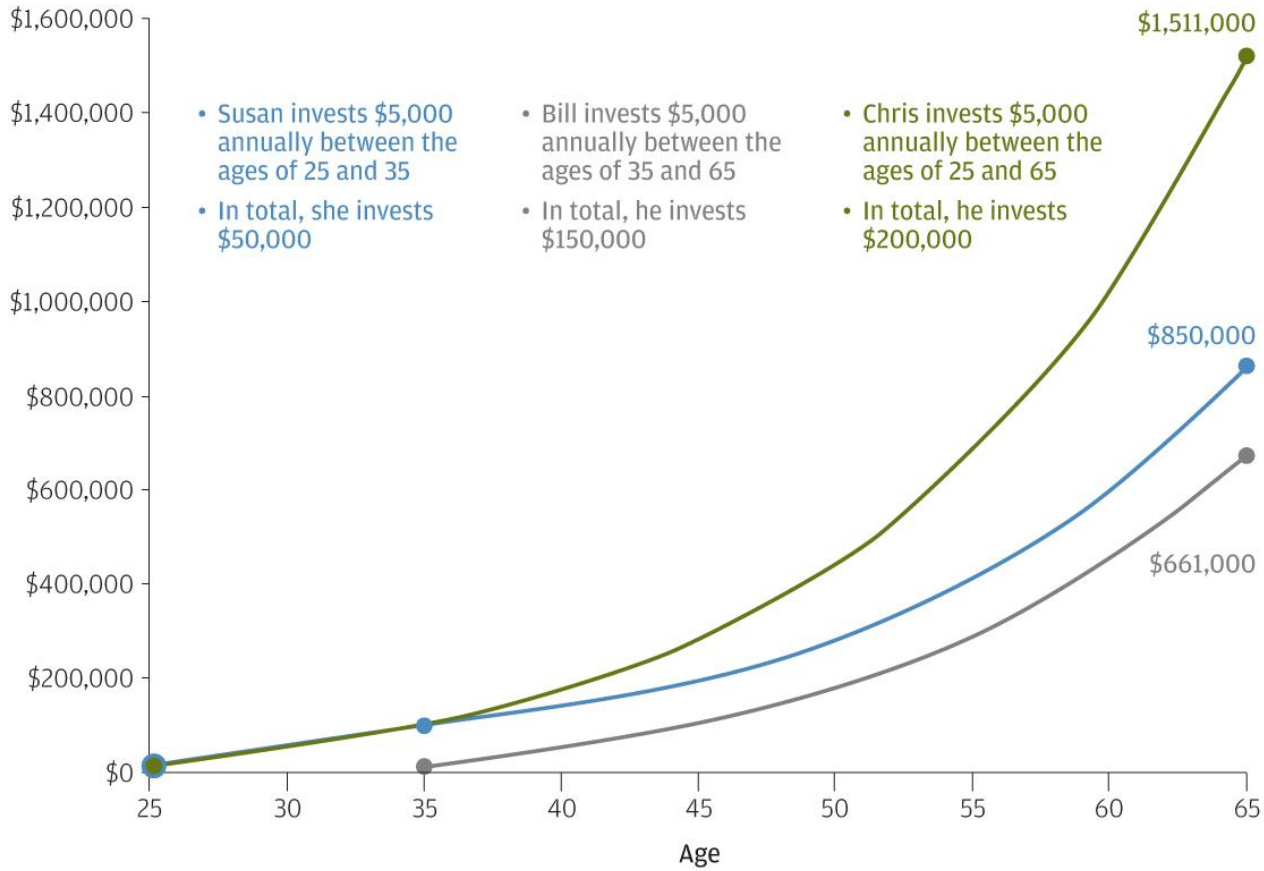
How to use:

- Go to the intersection of your current age and your closest current salary.
- Multiply your salary by the checkpoint shown to get the amount you should have saved today. (For a 40 year old making $100,000: $100,000 X 5.1 = $510,000)

This chart is for illustrative purposes only and must not be used, or relied upon, to make investment decisions. J.P. Morgan's model is based on J.P. Morgan Asset Management's (JPMAM) proprietary long term capital markets assumptions (10 - 15 years). This model represents the median outcome using a 60% equity (S&P 500 Index as a proxy) and 40% bond (Barclays Capital Aggregate Bond Index as a proxy) portfolio during work years and a 30% equity (S&P 500 Index as a proxy) and 70% bond (Barclays Capital Aggregate Bond Index as a proxy) portfolio during retirement of 30 years, with 2.5% wage growth. The resulting projections include only the benchmark return associated with the portfolio and does not include alpha from the underlying product strategies within each asset class. Salary replacement rates based on Aon Consulting's 2008 Replacement Ratio Study data which assumes individuals receive Social Security payments in retirement. Calculations assume an individual earning $50,000 at retirement will need to replace at least 30% of their pre-retirement income; individuals earning $75,000 will need to replace at least 37%; individuals earning $100,000 will need to replace at least 45%; individuals earning $125,000 will need to replace at least 53%; individuals earning $150,000 will need to replace at least 61%; individuals earning $175,000 will need to replace at least 65%; individuals earning $200,000 will need to replace at least 69% and those earning $250,000 will need to replace at least 74%. Allocations, assumptions, and expected returns are not meant to represent JPMAM performance. Given the complex risk-reward trade-offs involved, we advise clients to rely on judgment as well as quantitative optimization approaches in setting strategic allocations. References to future returns for either asset allocation strategies or asset classes are not promises or even estimates of actual returns a client portfolio may achieve.

Benefit of saving early

Growth of savings accounts



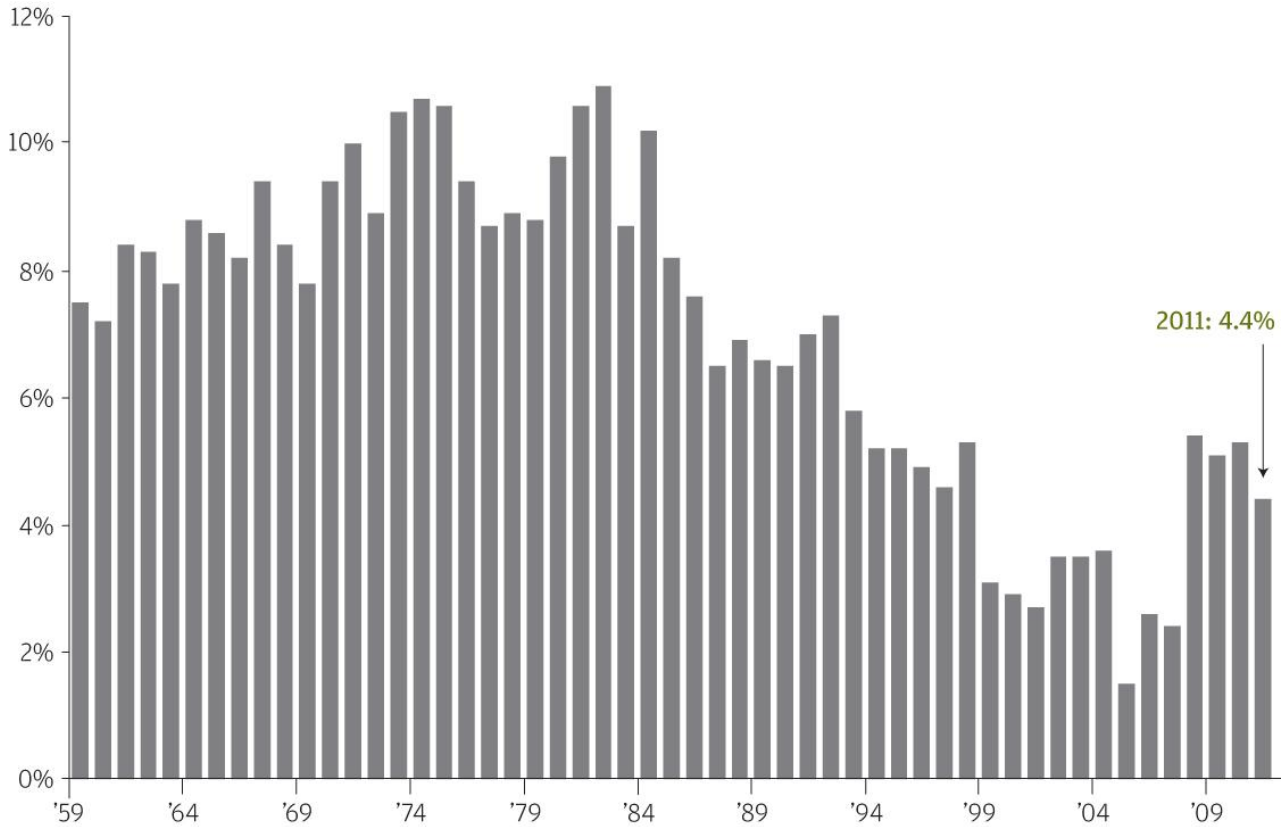
The above example is for illustrative purposes only and not indicative of any investment. Account value in this example assumes an 8% annual return.
Source: J.P. Morgan Asset Management.

Compounding refers to the process of earning return on principal plus the return that was earned earlier.

Saving fundamentals: Harnessing the power of compounding can greatly impact the amount of savings over the long term.

Savings rate

Personal savings rate
Annual, % of disposable income

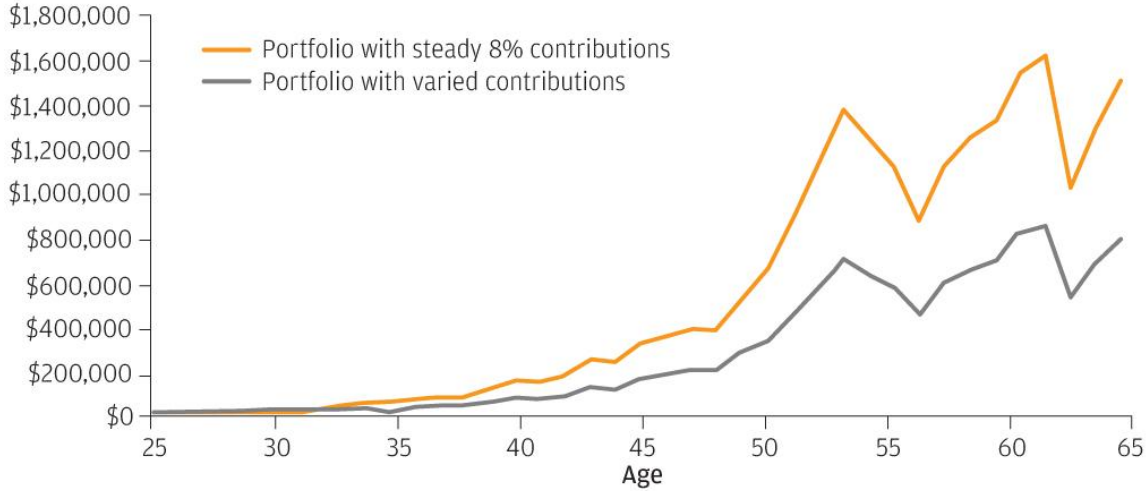


Remember retirement: Recently, many have increased savings to try to offset the decline in household wealth, but they still need to keep retirement a top priority.

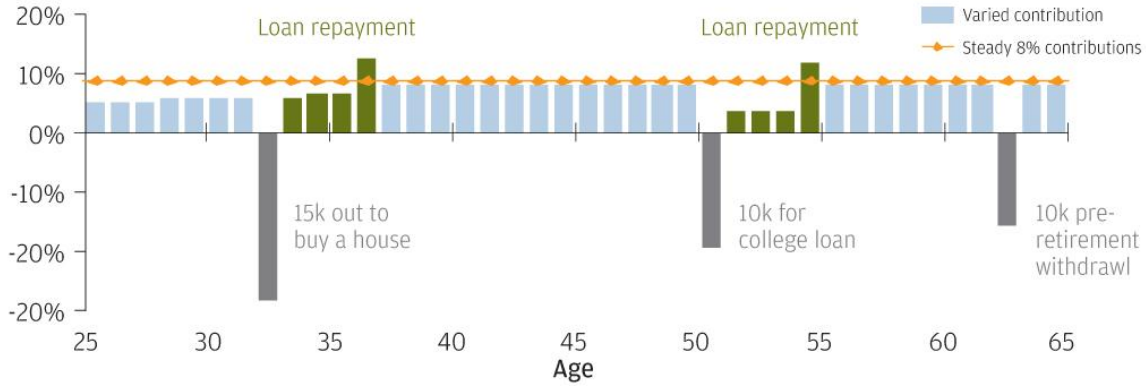
Source: J.P. Morgan Asset Management, The Bureau of Economic Analysis. Personal savings rate is calculated as personal savings (after-tax income – personal outlays) divided by after-tax income. Employer and employee contributions to retirement funds are included in after-tax income but not in personal outlays, and thus are implicitly included in personal savings. Savings rate data as of December 31, 2011.

The toxic combination of varied savings and loans or withdrawals

Growth of a 401(k) investment



Assumed 401(k) contributions



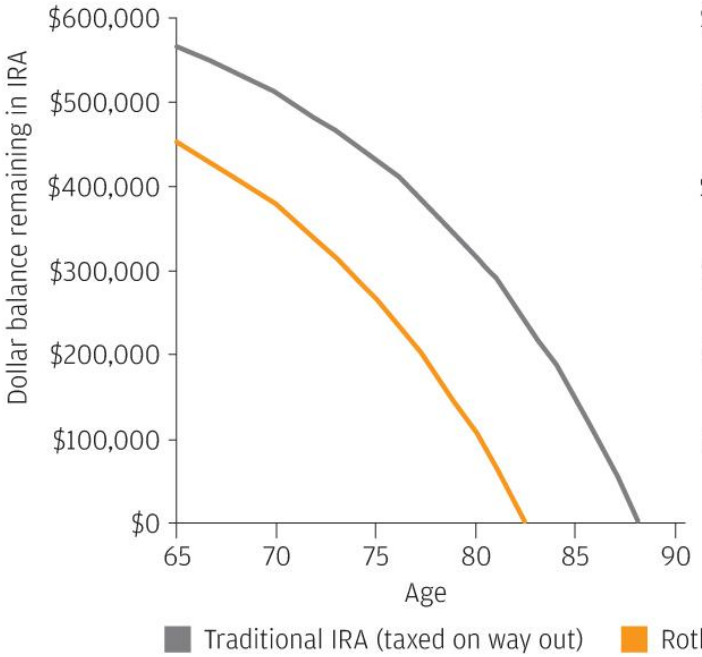
Avoid temptation: Consistent saving can help you meet your retirement goals.

- Taking loans and early withdrawals from a 401(k) account can drastically impact your total savings.
- Investing with a steady contribution rate over time may ensure maximum growth potential.

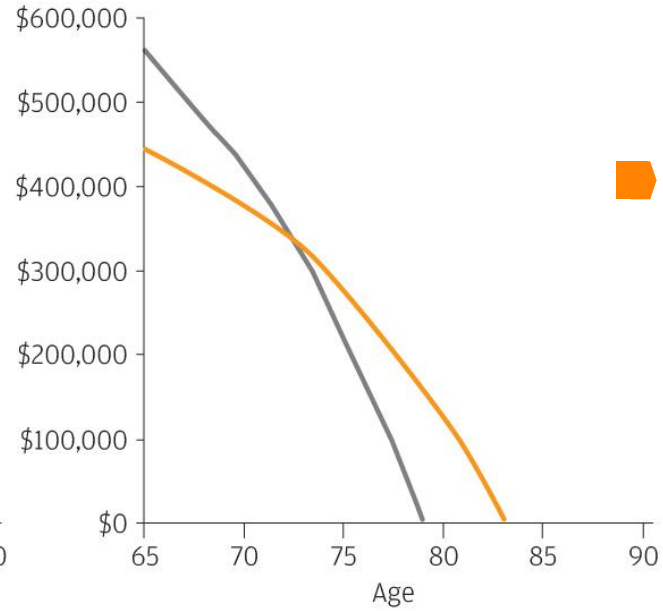
Source: S&P 500 Total Return Index, J.P. Morgan Asset Management. For illustrative purposes only. Hypothetical accounts are assumed to be invested 100% in the S&P 500 total return stock index from 1972-2011. Starting salary of $30,000 increasing by 2% each year.

Evaluate a Roth IRA

Tax rates decrease 10% in retirement



Tax rates increase 10% in retirement



Consider your options: A Roth IRA may be a hedge against potential future tax increases, which may allow your savings to last longer.

For illustrative purposes only. Hypothetical accounts contribute $2,000 before tax ($1,600 to a Roth and $2,000 to a traditional IRA) from ages 25 to 65 with a pre-retirement marginal tax rate of 20%. The assumed annual rate of return is 8%. In retirement, the person withdraws $45,000 after tax ($45,000 for Roth in both scenarios, $50,000 in the 10% decrease scenario and $64,285 in the 10% increase scenario for the regular IRA) each year until the account is depleted. The breakeven point in the 10% rate increase scenario will change depending on the specific circumstances of the individual and tax rates. Source: J.P. Morgan Asset Management.

Spending

Determining your income needs during retirement is a complex equation. During your working years, the goal was to save and accumulate as much as possible for the future. Now the challenge becomes managing your portfolio by withdrawing some money for today's expenses and investing the rest for tomorrow.

Common misconceptions

"I've already hit my savings target. I should be fine in retirement with the lower cost of living."

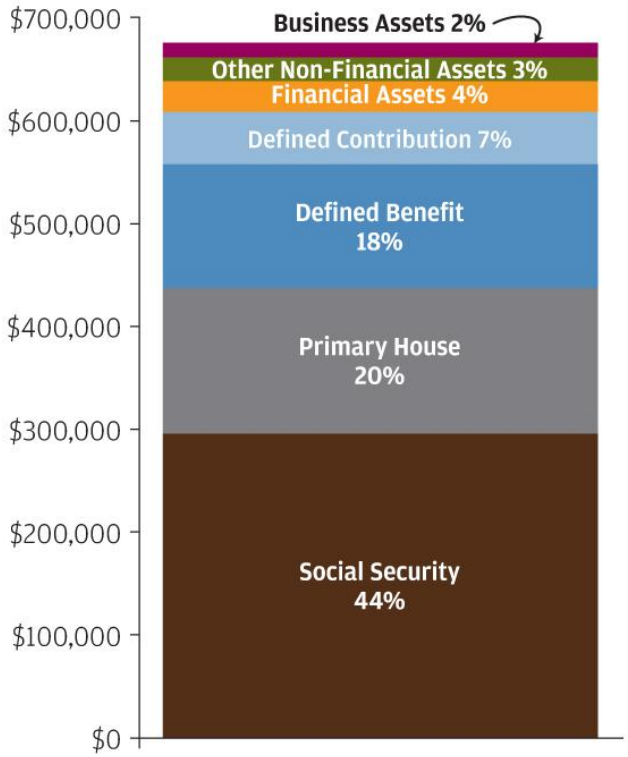
- Social Security plays a big role for many current retirees, but the system's future remains uncertain. Make contingency plans to prepare for potential reductions in traditional income sources like Social Security and pensions. Page 22
- Spending may not decrease at all in the first few years of retirement. Some expenses tend to decline with age 4 while others remain steady or increase. Page 24

"As long as I withdraw a steady amount, I will be okay."

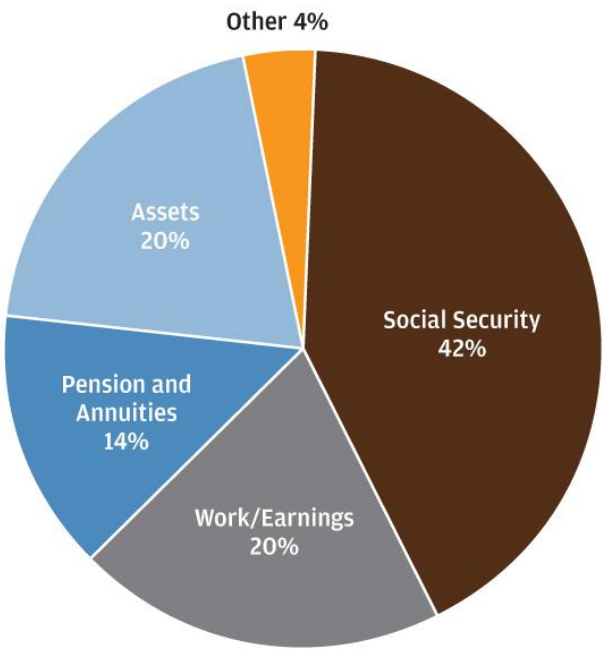
- Withdrawing assets in volatile markets early in retirement can ravage a portfolio. Adjust your plan and strategy regularly. Page 23
- There is potential danger in investing too conservatively or withdrawing too aggressively. Either may increase the risk of tapping into principal and running out of money. Page 25

Typical wealth and sources of income at retirement

Wealth holdings of a typical household approaching retirement



Sources of retirement income
Average for age 65 and over



Creating your income stream: What assets will you have to draw from in retirement?

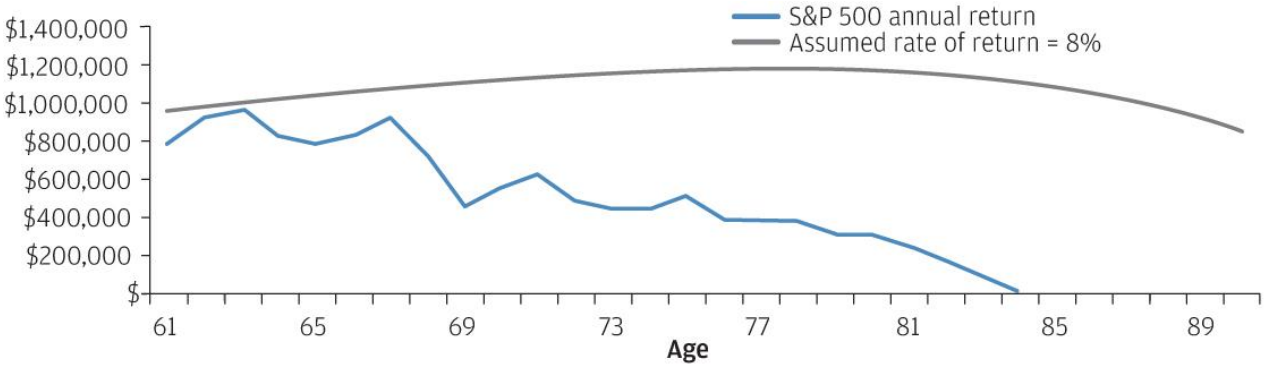
Note: The "typical household approaching retirement" refers to the mean of the middle 10% of the sample of households headed by an individual aged 55-64.

Source (Left chart): Center for Retirement Research calculations from U.S. Board of Governors of the Federal Reserve System, 2007 Survey of Consumer Finances, Washington, DC.

Source (Right chart): EBRI (Employee Benefit Research Institute) Databook on Employee Benefits, Chapter 7. Data as of December 31, 2010.

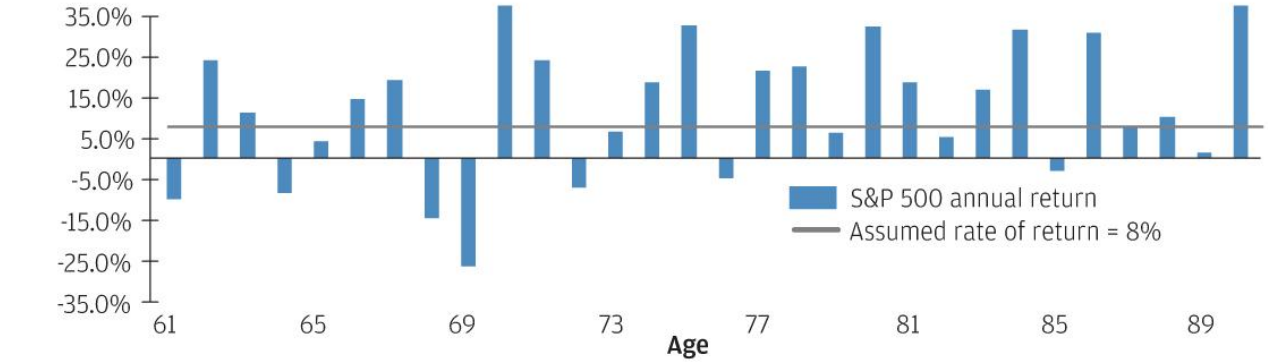
Dollar cost ravaging – impact of market returns on distribution

Growth of investment
1966-1995



Assumptions: Enter retirement at age 60 with $1,000,000 • Start with a 5.5% withdrawal of $55,000 • Increase dollar amount of withdrawal by overall rate of inflation (3%) each year

Rate of return: Assumed vs. actual
1966-1995



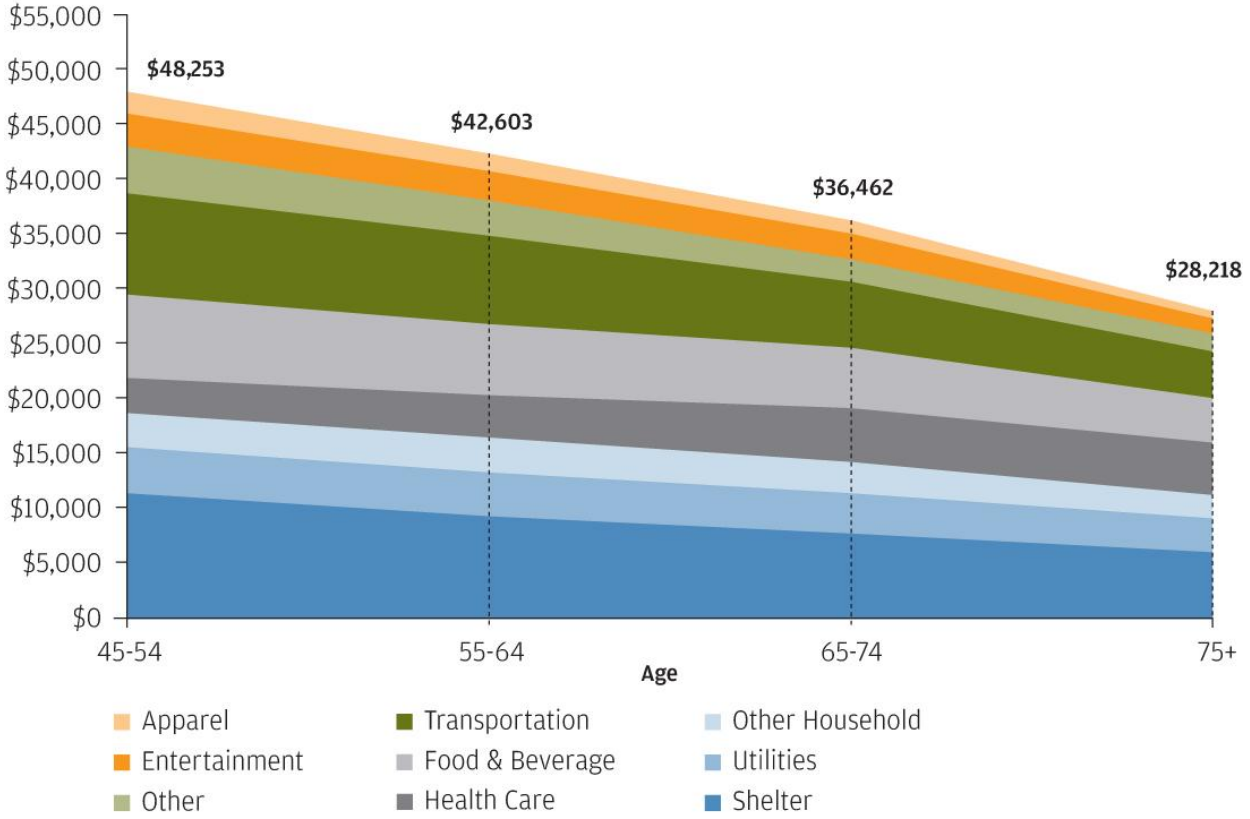
Sequence return risk: Withdrawing assets in volatile markets early in retirement can ravage a portfolio. Adjust your plan and strategy regularly.

- *Results: Actual annual average return of S&P 500 over sample period was 11%.*

Source: S&P 500 Total Return Index, J.P. Morgan Asset Management, Convergent Retirement Plan Solutions, LLC. Returns are based on the S&P 500 Total Return Index. The assumptions are presented for illustrative purposes only. They must not be used, or relied upon, to make investment decisions. There is no direct correlation between a hypothetical investment and the anticipated future return of an index. Past performance does not guarantee future results.

Changes in spending

Average spending patterns of various age groups



Estimates based on average consumer expenditure from the Consumer Expenditure Survey for each respective age group excluding pension and cash contributions, BLS. Data as of December 31, 2011.

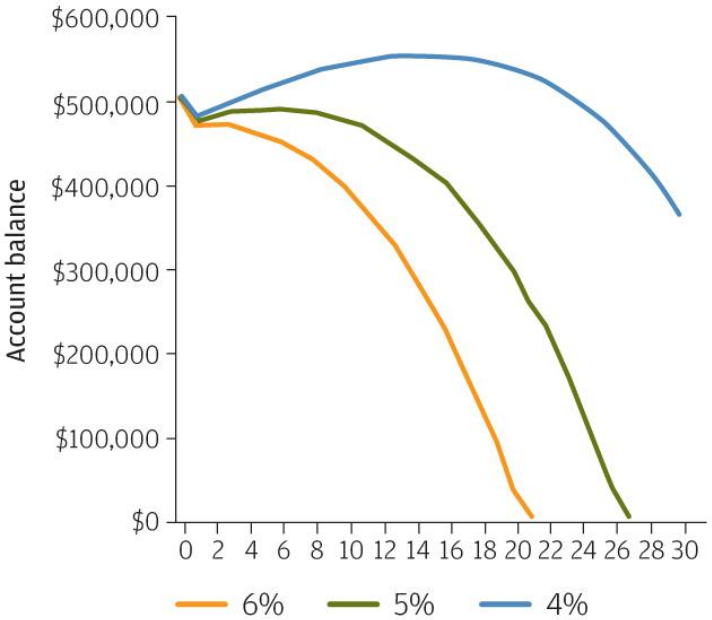
Source: J.P. Morgan Asset Management.

What to expect: Some retirees find their spending does not decrease very much, if at all, for the first several years after retirement.

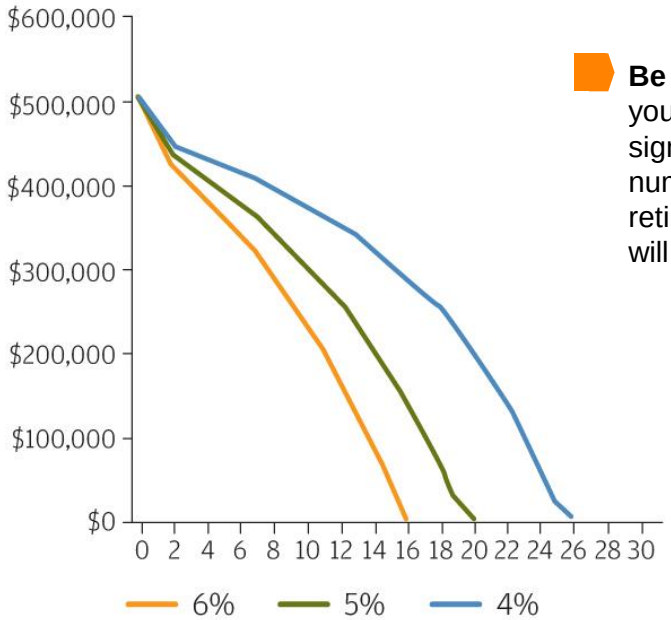
Effects of withdrawal rates on a typical balanced portfolio

Years of sustainable withdrawals for a portfolio of 60% equities and 40% bonds

Projected outcomes for typical markets
(50% confidence level)



Projected outcomes for extended poor markets
(75% confidence level)



Be cautious: Increasing your withdrawal rate can significantly reduce the number of years your retirement savings will last.

These charts are for illustrative purposes only and must not be used, or relied upon, to make investment decisions. Hypothetical portfolios are composed of Large Cap Growth for equity and US Aggregate for fixed income with projected compound returns projected to be 8% and 3%, respectively. J.P. Morgan's model is based on J.P. Morgan Asset Management's (JPMAM) proprietary long term capital markets assumptions (10 - 15 years). The resulting projections include only the benchmark return associated with the portfolio and does not include alpha from the underlying product strategies within each asset class. The yearly withdrawal amount is set as a fixed percentage of the initial amount of $500,000 and is then inflation adjusted over the period. Allocations, assumptions, and expected returns are not meant to represent JPMAM performance. Given the complex risk-reward trade-offs involved, we advise clients to rely on judgment as well as quantitative optimization approaches in setting strategic allocations. References to future returns for either asset allocation strategies or asset classes are not promises or even estimates of actual returns a client portfolio may achieve.

Investing

Invest for long-term growth potential and consider investing in a broader mix of assets. Financial risks don't end when careers do. If you're going to enjoy a long, rewarding retirement, you must anticipate and overcome the obstacles that are likely to arise along the way.

Common misconceptions

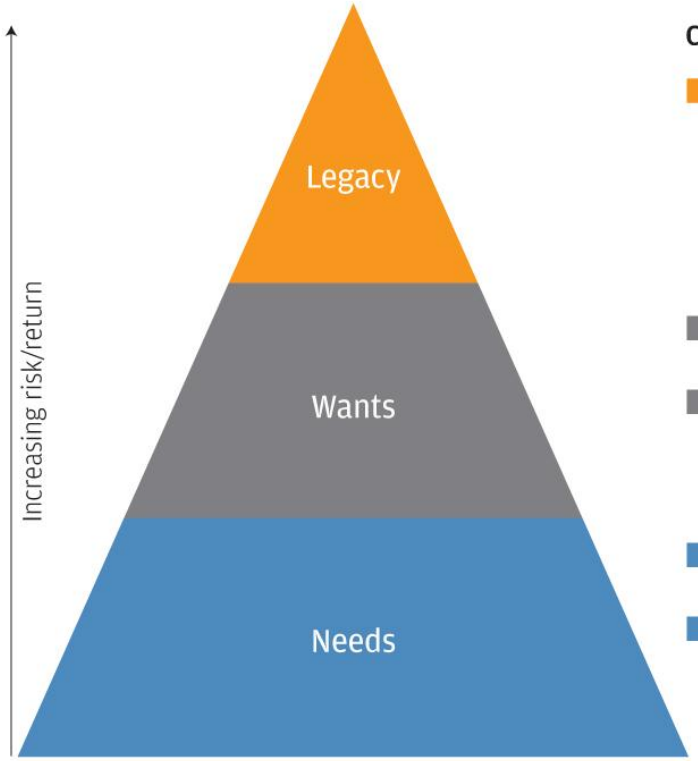
"The market is too volatile. I'm going to sit on the sidelines for a bit so I don't lose everything."

- Don't wait to invest in volatile times. It can cause you to miss out on potential market rallies. Page 29
- Set specific retirement goals upfront and keep focused on the long term during periods of volatility and uncertainty. Page 27

"I should invest conservatively so I don't run the risk of losing my retirement assets."

- Retirement-age investors have potentially long time horizons, due to rising life expectancies. By maintaining an exposure to equities in retirement, you may better keep pace with rising prices, protecting your standard of living throughout retirement. Page 30
- A well-diversified portfolio may provide a smoother ride over the long term. Pages 28 and 31

Structuring a portfolio to match investor goals



Considerations

- What is the time horizon not only of yourself, but also of your heirs or endowment?
- What are your desires/wants?
- How much risk are you willing to take?
- What are your basic needs?
- What income sources do you have or will you need to create?

Potential solutions

- Equities
- Alternatives*
- Equities
- Bonds
- Social Security
- Pension
- Annuities
- Bonds
- Cash Instruments

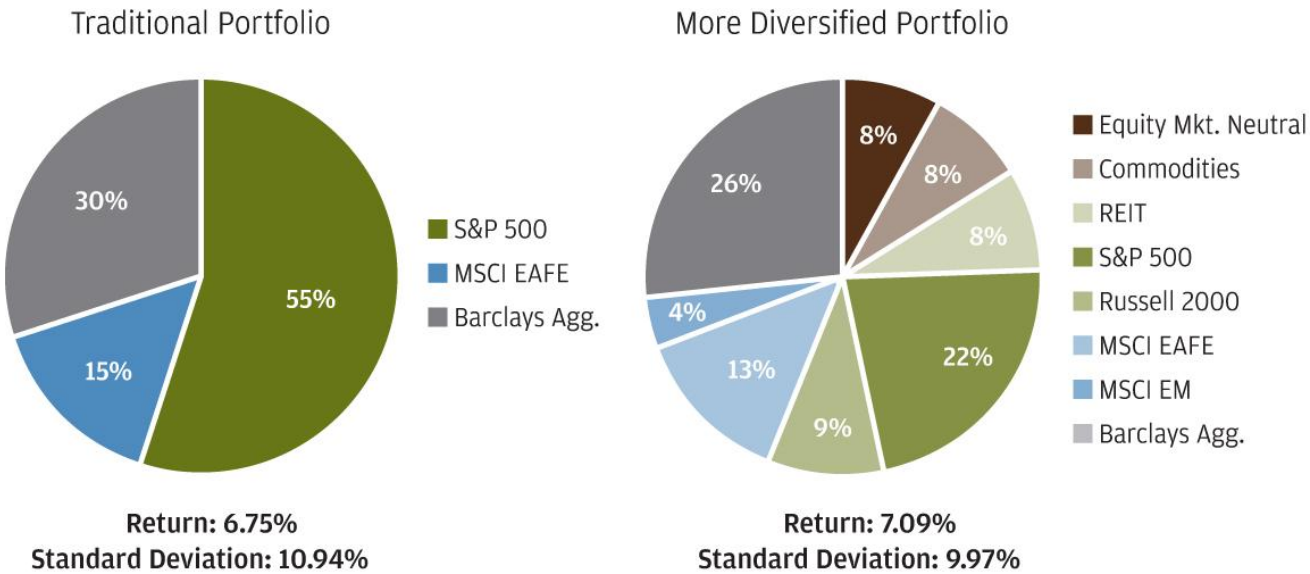
Building your plan: It may be useful to match dependable income sources with fixed retirement expenses, while coordinating other investments with more discretionary expenses.

For illustration purposes only. Source: J.P. Morgan Asset Management. Bonds are subject to interest rate risks. Bond prices generally fall when interest rates rise. The price of equity securities may rise, or fall because of changes in the broad market or changes in a company's financial condition, sometimes rapidly or unpredictably. Equity securities are subject to "stock market risk" meaning that stock prices in general may decline over short or extended periods of time. Investing in alternative assets involves higher risks than traditional investments and are suitable only for the long term. They are not tax efficient, and have higher fees than traditional investments. They may also be highly leveraged and engage in speculative investment techniques, which can magnify the potential for investment loss or gain.

*Equity, fixed income and cash are considered "traditional" asset classes. The term "alternative" describes all non-traditional asset classes. They include private and public equity, venture capital, hedge funds, real estate, commodities, distressed debt and more.

Diversification

Maximizing the power of diversification, 1994 - 2011



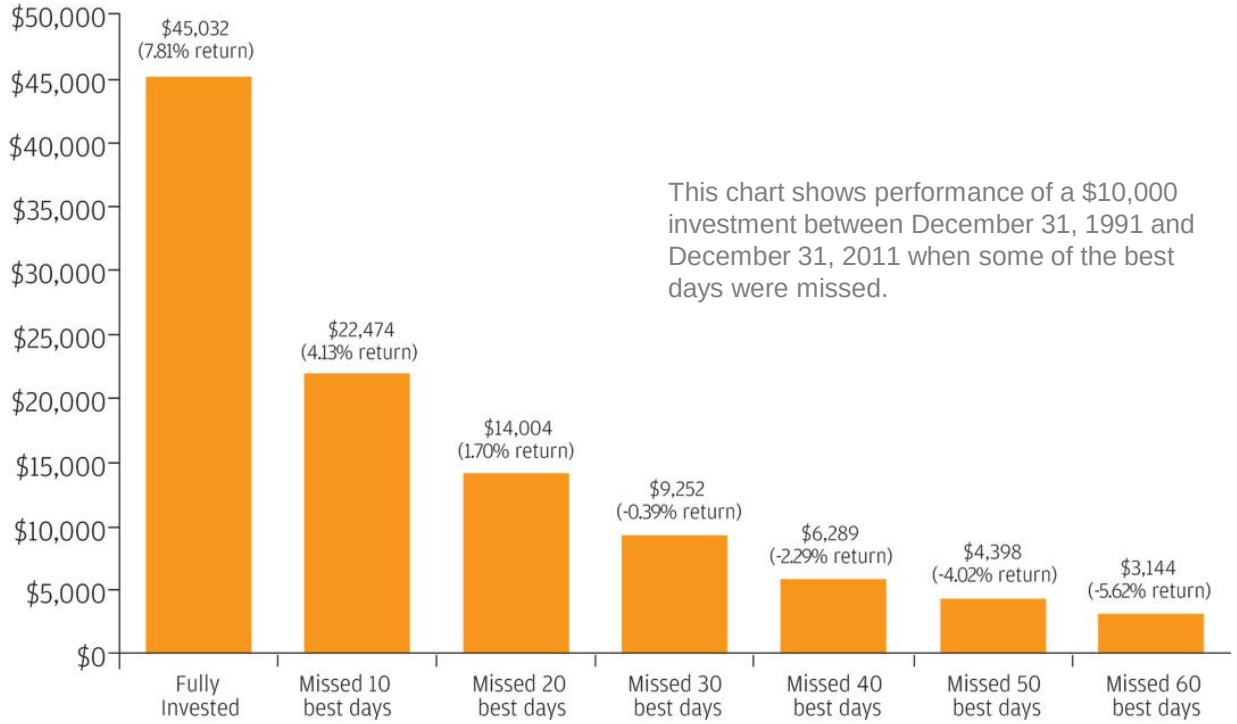
Mix it up wisely: Diversification may provide better returns with less risk.

Indexes and weights of the traditional portfolio are as follows: U.S. stocks: 55% S&P 500, U.S. bonds: 30% Barclays Capital Aggregate, International stocks: 15% MSCI EAFE. Portfolio with 25% in alternatives is as follows: U.S. stocks: 22.2% S&P 500, 8.8% Russell 2000; International Stocks: 4.4% MSCI EM, 13.2% MSCI EAFE; U.S. Bonds: 26.5% Barclays Capital Aggregate; Alternatives: 8.3% CS/Tremont Equity Market Neutral, 8.3% DJ/UBS Commodities, 8.3% NAREIT Equity REIT Index. Return and standard deviation calculated using Morningstar Direct.

Charts are shown for illustrative purposes only. Past returns are no guarantee of future results. Diversification does not guarantee investment returns and does not eliminate risk of loss. Data as of December 31, 2011.

Impact of being out of the market

Returns of S&P 500



This chart shows performance of a $10,000 investment between December 31, 1991 and December 31, 2011 when some of the best days were missed.

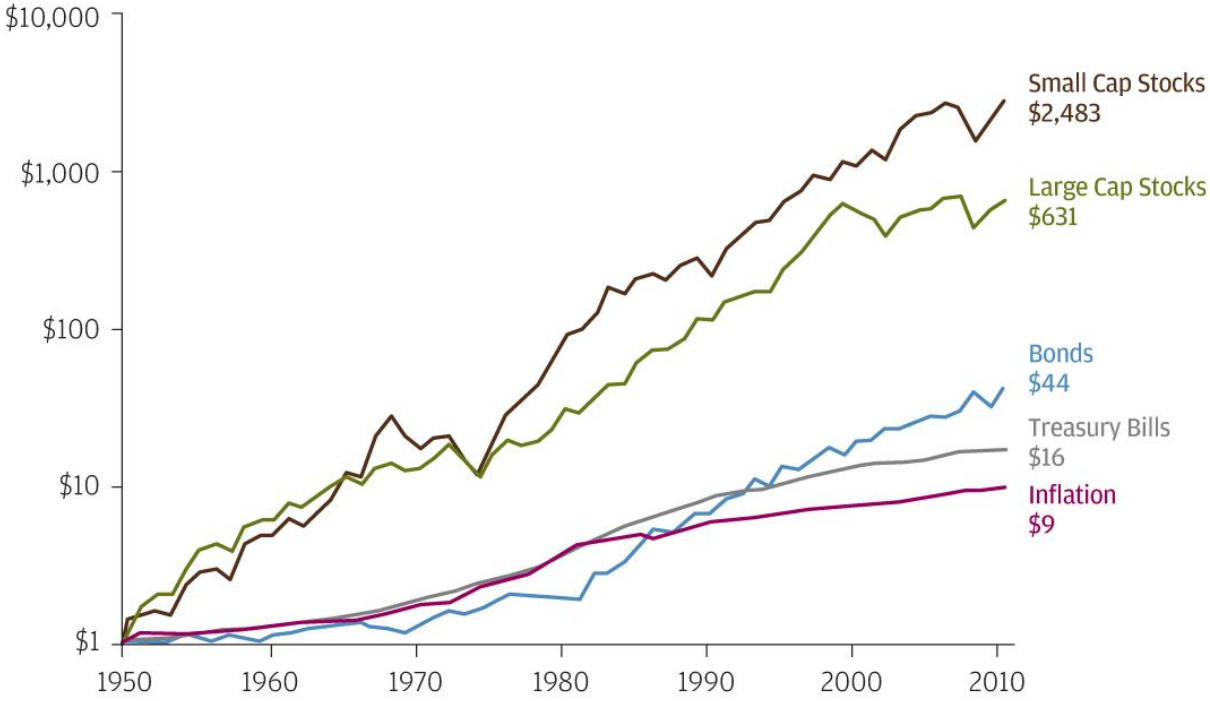
Plan to stay invested: Trying to time the market and missing a few of the best days can significantly affect returns.

This chart is for illustrative purposes only and does not represent the performance of any investment or group of investments.

Source: Prepared by J.P. Morgan Asset Management using data from Lipper. 20-year annualized returns are based on the S&P 500 Total Return Index, an unmanaged, capitalization-weighted index that measures the performance of 500 large capitalization domestic stocks representing all major industries. Past performance is not indicative of future returns. An individual cannot invest directly in an index. Data as of December 31, 2011.

Major asset classes vs. inflation

Growth of one dollar, 1950 - 2011



Risk averse: Cash may not be an effective long-term solution.

Source: Morningstar, Inc., Financial Communications ㄅ 2012. All rights reserved. Used with permission.

Hypothetical value of $1 invested at year-end 1950. Assumes reinvestment of income and no transaction costs or taxes.

Small Company Stocksㄆrepresented by the fifth capitalization quintile of stocks on the NYSE for 1950ㄡ1981 and the performance of the Dimensional Fund Advisors, Inc. (DFA) U.S. Micro Cap Portfolio thereafter; Large Company StocksㄆStandard & Poor's 500ㄱ, which is an unmanaged group of securities and considered to be representative of the stock market in general; Government Bondsㄆ20-year U.S. Government Bond; Treasury Billsㄆ30-day U.S. Treasury Bill; InflationㄆConsumer Price Index. Government Bonds and Treasury Bills are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest, while stocks are not guaranteed and have been more volatile than the other asset classes. Small-capitalization stocks typically carry more risk than stock funds investing in well-established "blue-chip" companies since smaller companies generally have a higher risk of failure. Historically, smaller companies' stock has experienced a greater degree of market volatility than the average stock. This is for illustrative purposes only and not indicative of any investment. Past performance is no guarantee of future results. An investment cannot be made directly in an index. CDs, savings accounts and money market deposit accounts are insured by the FDIC for up to $100,000.

Asset class returns

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	10-yrs '02-'11
REITs 13.9%	DJ UBS Cmdty 23.9%	MSCI EME 56.3%	REITs 31.6%	MSCI EME 34.5%	REITs 35.1%	MSCI EME 39.8%	Barclays Agg 5.2%	MSCI EME 79.0%	REITs 28.0%	REITs 8.3%	MSCI EME 277.2%
Market Neutral 9.3%	Barclays Agg 10.3%	Russell 2000 47.3%	MSCI EME 26.0%	DJ UBS Cmdty 17.6%	MSCI EME 32.6%	MSCI EAFE 11.6%	Market Neutral 1.1%	MSCI EAFE 32.5%	Russell 2000 26.9%	Barclays Agg 7.8%	REITs 164.2%
Barclays Agg 8.4%	Market Neutral 7.4%	MSCI EAFE 39.2%	MSCI EAFE 20.7%	MSCI EAFE 14.0%	MSCI EAFE 26.9%	DJ UBS Cmdty 11.1%	Asset Alloc. -23.8%	REITs 28.0%	MSCI EME 19.2%	Market Neutral 5.0%	Barclays Agg 75.4%
Russell 2000 2.5%	REITs 3.8%	REITs 37.1%	Russell 2000 18.3%	REITs 12.2%	Russell 2000 18.4%	Market Neutral 9.3%	Russell 2000 -33.8%	Russell 2000 27.2%	DJ UBS Cmdty 16.7%	S&P 500 2.1%	Asset Alloc. 73.5%
MSCI EME -2.4%	Asset Alloc. -5.4%	S&P 500 28.7%	Asset Alloc. 12.5%	Asset Alloc. 8.0%	S&P 500 15.8%	Asset Alloc. 7.3%	DJ UBS Cmdty -36.6%	S&P 500 26.5%	S&P 500 15.1%	Asset Alloc. -0.2%	Russell 2000 72.8%
Asset Alloc. -3.4%	MSCI EME -6.0%	Asset Alloc. 25.2%	S&P 500 10.9%	Market Neutral 6.1%	Asset Alloc. 14.9%	Barclays Agg 7.0%	S&P 500 -37.0%	Asset Alloc. 22.5%	Asset Alloc. 12.7%	Russell 2000 -4.2%	Market Neutral 72.7%
S&P 500 -11.9%	MSCI EAFE -15.7%	DJ UBS Cmdty 22.7%	DJ UBS Cmdty 7.6%	S&P 500 4.9%	Market Neutral 11.2%	S&P 500 5.5%	REITs -37.7%	DJ UBS Cmdty 18.7%	MSCI EAFE 8.2%	MSCI EAFE -11.7%	MSCI EAFE 64.8%
MSCI EAFE -21.2%	Russell 2000 -20.5%	Market Neutral 7.1%	Market Neutral 6.5%	Russell 2000 4.6%	Barclays Agg 4.3%	Russell 2000 -1.6%	MSCI EAFE -43.1%	Barclays Agg 5.9%	Barclays Agg 6.5%	DJ UBS Cmdty -13.4%	DJ UBS Cmdty 58.0%
DJ UBS Cmdty -22.3%	S&P 500 -22.1%	Barclays Agg 4.1%	Barclays Agg 4.3%	Barclays Agg 2.4%	DJ UBS Cmdty -2.7%	REITs -15.7%	MSCI EME -53.2%	Market Neutral 4.1%	Market Neutral -2.5%	MSCI EME -18.2%	S&P 500 33.4%

Maintain a diversified approach: The best and worst performing asset classes vary greatly year to year.

Source: Russell, MSCI, Dow Jones, Standard & Poor's, Credit Suisse, Barclays Capital, NAREIT, FactSet, J.P. Morgan Asset Management.

The "Asset Allocation" portfolio assumes the following weights: 25% in the S&P 500, 10% in the Russell 2000, 15% in the MSCI EAFE, 5% in the MSCI EMI, 30% in the Barclays Capital Aggregate, 5% in the CS/Tremont Equity Market Neutral Index, 5% in the DJ UBS Commodity Index and 5% in the NAREIT Equity REIT Index. Balanced portfolio assumes annual rebalancing. All data except commodities represent total return for stated period. Past performance is not indicative of future returns. Data as of December 31, 2011, except for the CS/Tremont Equity Market Neutral Index, which reflects data through 11/30/11. "10-yrs" returns represent cumulative total return and are not annualized. These returns reflect the period from 1/1/02 - 12/31/11.

Please see disclosure page at end for index definitions. *Market Neutral returns include estimates found in disclosures.

Traditional IRAs vs. Roth IRAs – 2011

	Traditional IRA	Roth IRA	Roth IRA conversion
Maximum contribution	• 100% of earned income up to $5,000 • $6,000 if eligible for a catch-up contribution[1] • Reduced by Roth IRA contributions	• 100% of earned income up to $5,000 • $6,000 if eligible for a catch-up contribution[1] • Reduced by Traditional IRA contributions	No limit on conversions of Traditional IRAs, SEP IRAs, SIMPLE IRAs (if open 2+ years)
Age limits to contribute	Under 70½ in the year of the contribution	None	None
Income limits to contribute	**Single:** Up to $56,000 for full deduction, $66,000 for partial[2] **Joint:** Up to $90,000 for full deduction, $110,000 for partial[2]	**Single:** Up to $107,000 for full contribution, $122,000 for partial **Joint:** Up to $169,000 for full contribution, $179,000 for partial	None
Federal tax treatment	• Investment growth is tax deferred and contributions may be tax deductible. Deductible contributions and investment gains are taxed as ordinary income upon withdrawal. • If non-deductible contributions have been made, each withdrawal is taxed proportionately on a pro-rata basis, taking into consideration all contributions made to all Traditional IRAs owned. • Early withdrawals before 59½ are generally subject to a 10% IRS penalty unless certain exceptions apply.	• All contributions are non-deductible. • Qualified withdrawals of contributions at any time are tax free and IRS penalty free. • Qualified withdrawals of earnings are tax free and IRS penalty free if taken after five years have passed since the account was initially funded and the account owner is age 59½ or older (other certain exceptions may apply). • Early withdrawals of investment gains are subject to taxes and 10% federal penalty unless certain exceptions apply. • Multiple Roth IRAs are considered one Roth IRA for withdrawal purposes and distributions MUST be withdrawn in a specific order deemed by the IRS that applies regardless of which Roth IRA is used to take that distribution.	• Taxes are due upon conversion of account balances not yet taxed. • Converted amounts can be withdrawn tax free.[3] • Qualified withdrawals of earnings are tax free and IRS penalty free if taken after five years have passed since the account was initially funded and the account owner is age 59½ or older (other certain exceptions may apply). • Early withdrawals of investment gains are subject to taxes and 10% federal penalty unless certain exceptions apply.
Mandatory withdrawals	Distributions must begin by April 1 of the calendar year following the year the account owner turns 70½ .	None for account owner	None for account owner
Deadline to contribute	April 17, 2012	April 17, 2012	n/a

Source: IRS Publication 590

[1]Must be age 50 or older by December 31 of the contribution year.

[2]Assumes participation in an employer's retirement plan. No income limits apply when investors and spouses are not covered by a retirement plan at work.

[3]Distributions from a conversion amount must satisfy a five-year investment period to avoid the 10% penalty. This pertains only to the conversion amount that was treated as income for tax purposes.

Traditional IRAs vs. Roth IRAs – 2012

	Traditional IRA	Roth IRA	Roth IRA conversion
Maximum contribution	• 100% of earned income up to $5,000 • $6,000 if eligible for a catch-up contribution[1] • Reduced by Roth IRA contributions	• 100% of earned income up to $5,000 • $6,000 if eligible for a catch-up contribution[1] • Reduced by Traditional IRA contributions	No limit on conversions of Traditional IRAs, SEP IRAs, SIMPLE IRAs (if open 2+ years)
Age limits to contribute	Under 70½ in the year of the contribution	None	None
Income limits to contribute	**Single:** Up to $58,000 for full deduction, $68,000 for partial[2] **Joint:** Up to $92,000 for full deduction, $112,000 for partial[2]	**Single:** Up to $110,000 for full contribution, $125,000 for partial **Joint:** Up to $173,000 for full contribution, $183,000 for partial	None
Federal tax treatment	• Investment growth is tax deferred and contributions may be tax deductible. Deductible contributions and investment gains are taxed as ordinary income upon withdrawal. • If non-deductible contributions have been made, each withdrawal is taxed proportionately on a pro-rata basis, taking into consideration all contributions made to all Traditional IRAs owned. • Early withdrawals before 59½ are generally subject to a 10% IRS penalty unless certain exceptions apply.	• All contributions are non-deductible. • Qualified withdrawals of contributions at any time are tax free and IRS penalty free. • Qualified withdrawals of earnings are tax free and IRS penalty free if taken after five years have passed since the account was initially funded and the account owner is age 59½ or older (other certain exceptions may apply). • Early withdrawals of investment gains are subject to taxes and 10% federal penalty unless certain exceptions apply. • Multiple Roth IRAs are considered one Roth IRA for withdrawal purposes and distributions MUST be withdrawn in a specific order deemed by the IRS that applies regardless of which Roth IRA is used to take that distribution.	• Taxes are due upon conversion of account balances not yet taxed. • Converted amounts can be withdrawn tax free.[3] • Qualified withdrawals of earnings are tax free and IRS penalty free if taken after five years have passed since the account was initially funded and the account owner is age 59½ or older (other certain exceptions may apply). • Early withdrawals of investment gains are subject to taxes and 10% federal penalty unless certain exceptions apply.
Mandatory withdrawals	Distributions must begin by April 1 of the calendar year following the year the account owner turns 70½ .	None for account owner	None for account owner
Deadline to contribute	April 15, 2013	April 15, 2013	n/a

Source: IRS Publication 590

[1]Must be age 50 or older by December 31 of the contribution year.

[2]Assumes participation in an employer's retirement plan. No income limits apply when investors and spouses are not covered by a retirement plan at work.

[3]Distributions from a conversion amount must satisfy a five-year investment period to avoid the 10% penalty. This pertains only to the conversion amount that was treated as income for tax purposes.

Medicare definitions and information

Medicare is a government health care program available to those who have paid Medicare taxes while working or to non-working spouses of such individuals. Medicare is available when these individuals reach age 65. Citizens who have never paid Medicare taxes may be eligible if they pay a Medicare premium. Individuals under age 65 may also be eligible if they are considered disabled under Social Security or the Railroad Retirement Board for more than 24 months.

Part	Explanation	Enrollment information
A	This is hospital insurance. It pays for hospital, home health, skilled nursing facility costs (on an extremely limited basis) and hospice care for the aged or disabled.	If receiving Social Security, enrollment is automatic at age 65. If not getting Social Security, sign up in the 3 months either before or after turning age 65. There is a deductible and coinsurance for hospital stays.
B	This is medical insurance. It helps pay for physician, outpatient care and home health (in the rare instance when a person does not have Part A coverage). It also pays for other medical services for the aged and disabled who have voluntarily enrolled and pay Part B premiums.	Automatic enrollment like Part A, but Part B may be rejected by individual. Premiums, an annual deductible and coinsurance apply. There is a late enrollment penalty.
C	"Medicare Advantage" plans are private health plans offered as an alternative to Medicare Parts A and B. These plans contract with Medicare to provide coverage that is at least equal to Medicare A and B. People will need to decide whether to enroll in such a plan, and, if so, which one. This choice may involve many comparisons—between premiums, co-pays, network providers, coverage offered in addition to basic Medicare, etc. Making comparisons again at annual reenrollment time may be helpful, too, since plan features do change. Options vary a great deal by geographic area.	Enroll as an alternative to coverage in Part A and Part B.
D	Offered by private insurers, these plans provide voluntary insurance for prescription drugs for all beneficiaries, and premium and cost-sharing subsidies for low-income enrollees. In many areas, insurers offer many competing plans, so choosing a Part D plan will involve comparisons between plan costs, features, providers and other factors. At annual reenrollment time, new plans and options may be available and the relative costs may have changed, so new plan comparisons may be in order.	Enrollment is optional. There is a monthly premium, plus co-pays on certain prescription purchases. There is a late enrollment penalty.
Medigap Policies	Offered by private insurance companies, this insurance covers items that may not be covered by Medicare. Examples of items not covered by Medicare are listed below.	Enrollment is optional. Individual may purchase directly from a private insurance company.

Medicare does **not** cover:

- Long-term care (Medicare does pay for medically necessary skilled nursing facility or home health care on a very limited basis)
- Custodial care
- Vision care
- Dental care
- Hearing devices

Summary of information taken from Society of Actuaries, "Taking the Health Insurance Journey" 2012.

Annuity basics

Annuities can offer a lifetime income guarantee that can be a part of an effective retirement income plan. The major types of annuities are highlighted below.

Type	Explanation
Income Annuity	This is an insurance policy. The purchaser pays a certain dollar amount up front and the annuity pays a fixed amount per month for life. Income annuity products come with various features that make them adaptable for individual situations. For example, income annuities: • Cover either single lives or joint lives. • Come with various refund options—for example, a guarantee that payments will last at least 10 years even in event of death of the payee. (The more attractive the refund feature, the lower the monthly payment.) • Pay a flat monthly amount for life, in most cases, or make payments that step up by a set percentage each year. • May adjust the monthly payments each year for actual inflation. Not all income annuities do this. (Note: The pricing—which shows up as a reduction in monthly payments otherwise available—may be overly steep. Some retirees may prefer to purchase an annuity that pays a flat amount or a set percentage step-up, and use other investments to provide inflation protection.)
Variable Annuity with a Guaranteed Lifetime Withdrawal Benefit	The variable annuity (VA) lets annuity owners invest the policy's account value in an assortment of subaccounts including equity, bond and even a fixed interest account. Individuals can add a guaranteed lifetime withdrawal benefit (GLWB) to their VA for an annual fee. The GLWB guarantees that the policy owner can make lifetime withdrawals from the VA at a fixed percentage (typically 5%) — even if the VA subaccount value drops to zero. Those who are interested in VAs with GLWBs should compare them to income annuities. The VA with GLWB is conceptually like an income annuity with an equity-linked refund feature. The "refund," in this case, is the value (if greater than zero) of the underlying subaccounts. However, unlike lifetime income annuities, which provide no death benefit, VAs with GLWBs protect heirs from financial losses due to early death of the purchaser. Also, because there is less financial loss from early death, monthly payments tend to be lower than those for no-refund income annuities. On the other hand, some income annuities provide inflation-adjusted payouts while current VAs with GLWBs do not.
Stand-alone Living Benefits	The stand-alone living benefit product is similar to a VA with a GLWB except the core product is a mix of mutual funds rather than VA subaccounts. The guarantee ensures that the account owner can take withdrawals at a fixed percentage—for life—even if the portfolio is depleted. The owner pays for the guarantee with an annual fee that is a percentage of the portfolio value.
Longevity Insurance	This product is like an income annuity except that the initial payout is delayed for a number of years. For example, a policy bought to begin at age 85 would only begin paying the individual at age 85, and then would pay for the remainder of the individual's life. This allows an individual who is concerned about outliving their savings to protect against this risk.

U.S. Securities and Exchange Commission
Society of Actuaries, "Designing a Monthly Paycheck for Retirement," 2012.

J.P. Morgan Asset Management – index definitions

Indexes are unmanaged and an individual cannot invest directly in an index. Index returns do not include fees or expenses.

The **S&P 500 Index** is widely regarded as the best single gauge of the U.S. equities market. This world-renowned index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. Although the S&P 500 Index focuses on the large cap segment of the market, with approximately 75% coverage of U.S. equities, it is also an ideal proxy for the total market. An investor cannot invest directly in an index.

The **S&P MidCap 400 Index** tracks a diverse basket of medium-sized U.S. firms. A mid cap stock is broadly defined as a company with a market capitalization ranging from about $2 billion to $10 billion.

The **S&P SmallCap 600 Index** invests in a basket of small cap equities. A small cap company is generally defined as a stock with a market capitalization between $300 million and $2 billion.

The **Russell 2000 Index®** measures the performance of the 2,000 smallest companies in the Russell 3000 Index.

The **MSCI® EAFE (Europe, Australia, Far East) Net Index** is recognized as the pre-eminent benchmark in the United States to measure international equity performance. It comprises 21 MSCI country indexes, representing the developed markets outside of North America.

The **MSCI Emerging Markets Index℠** is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. As of June 2007, the MSCI Emerging Markets Index consisted of the following 25 emerging market country indices: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand and Turkey.

The **CS/Tremont Equity Market Neutral Index** takes both long and short positions in stocks with the aim of minimizing exposure to the systematic risk of the market (i.e., a beta of zero).

*Market Neutral returns for November 2008 are estimates by J.P. Morgan Funds Market Strategy and are based on a December 8, 2008 published estimate for November returns by CS/Tremont in which the Market Neutral returns were estimated to be +0.85% (with 69% of all CS/Tremont constituents having reported return data). Presumed to be excluded from the November return are three funds, which were later marked to $0 by CS/Tremont in connection with the Bernard Madoff scandal. J.P. Morgan Funds believes this distortion is not an accurate representation of returns in the category. CS/Tremont later published a finalized November return of -40.56% for the month, reflecting this mark-down. CS/Tremont assumes no responsibility for these estimates.

The **NCREIF Property Index** is a quarterly time series composite total rate of return measure of investment performance of a very large pool of individual commercial real estate properties acquired in the private market for investment purposes only. All properties in the NPI have been acquired, at least in part, on behalf of tax-exempt institutional investors – the great majority being pension funds. As such, all properties are held in a fiduciary environment.

The **FTSE NAREIT EQUITY REIT Index** is designed to provide the most comprehensive assessment of overall industry performance and includes all tax-qualified real estate investment trusts (REITs) that are listed on the NYSE, the American Stock Exchange or the NASDAQ National Market List.

The **Barclays Capital U.S. Aggregate Index** represents securities that are SEC-registered, taxable and dollar denominated. The index covers the U.S. investment-grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities and asset-backed securities. These major sectors are subdivided into more specific indexes that are calculated and reported on a regular basis.

The **HFRI Equity Market Neutral Index** is an equally weighted performance index. The HFRI is broken down into 33 different categories by strategy. The strategy of this index seeks to profit by exploiting inefficiencies between related equity securities, neutralizing exposure to market risk by combining long and short positions. In many cases, portfolios are structured to be market, industry, sector and dollar neutral. One example of this strategy is to build portfolios made up of long positions in the strongest companies in several industries and take corresponding short positions in those showing signs of weakness. Due to the mutual agreements with the hedge fund managers listed in the HFRI database, the index is not at liberty to disclose the particular funds behind this index.

The **Merrill Lynch Global Government Index** tracks the performance of investment-grade sovereign debt publicly issued and denominated in the issuer's own domestic market and currency. In order to qualify for inclusion in the Index, a country (i) must be an OECD member; (ii) must have an investment-grade foreign currency long-term sovereign debt rating (based on an average of Moody's, S&P and Fitch); (iii) must have $50 billion (USD equivalent) outstanding face value of Index qualifying debt (i.e., after imposing constituent level filters on amount outstanding, remaining term to maturity, etc.) to enter the Index; (iv) must have at least $25 billion (USD equivalent) in outstanding face value of Index qualifying debt in order to remain in the Index; (v) must be available to foreign investors; and (vi) must have at least one readily available, transparent price source for its securities.

The **Merrill Lynch U.S. High Yield Index** tracks the performance of US dollar-denominated below-investment-grade corporate debt publicly issued in the U.S. domestic market. Qualifying securities must have a below-investment-grade rating (based on an average of Moody's, S&P and Fitch) and an investment-grade-rated country of risk (based on an average of Moody's, S&P and Fitch foreign currency long-term sovereign debt ratings).

The **Dow Jones Industrial Average** measures the stock performance of 30 leading blue-chip U.S. companies.

The **Dow Jones-UBS Commodity Index** is composed of futures contracts on physical commodities and represents 19 separate commodities traded on U.S. exchanges, with the exception of aluminum, nickel and zinc.

J.P.Morgan
Asset Management

J.P. Morgan Asset Management – disclosures

Past performance is no guarantee of comparable future results.

Diversification does not guarantee investment returns and does not eliminate the risk of loss.

Bonds are subject to interest rate risks. Bond prices generally fall when interest rates rise.

The price of **equity** securities may rise or fall because of changes in the broad market or changes in a company's financial condition, sometimes rapidly or unpredictably. These price movements may result from factors affecting individual companies, sectors or industries, or the securities market as a whole, such as changes in economic or political conditions. Equity securities are subject to "stock market risk," meaning that stock prices in general may decline over short or extended periods of time.

Small capitalization investing typically carries more risk than investing in well-established "blue-chip" companies since smaller companies generally have a higher risk of failure. Historically, smaller companies' stock has experienced a greater degree of market volatility than the average stock.

Mid capitalization investing typically carries more risk than investing in well-established "blue-chip" companies. Historically, mid cap companies' stock has experienced a greater degree of market volatility than the average stock.

Real estate investments may be subject to a higher degree of market risk because of concentration in a specific industry, sector or geographical sector. Real estate investments may be subject to risks including, but not limited to, declines in the value of real estate, risks related to general and economic conditions, changes in the value of the underlying property owned by the trust and defaults by borrower.

International investing involves a greater degree of risk and increased volatility. Changes in currency exchange rates and differences in accounting and taxation policies outside the U.S. can raise or lower returns. Also, some overseas markets may not be as politically and economically stable as the United States and other nations.

Investments in **emerging markets** can be more volatile. As mentioned above, the normal risks of investing in foreign countries are heightened when investing in emerging markets. In addition, the small size of securities markets and the low trading volume may lead to a lack of liquidity, which leads to increased volatility. Also, emerging markets may not provide adequate legal protection for private or foreign investment or private property.

Investments in **commodities** may have greater volatility than investments in traditional securities, particularly if the instruments involve leverage. The value of commodity-linked derivative instruments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates or factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs and international economic, political and regulatory developments. Use of leveraged commodity-linked derivatives creates an opportunity for increased return but, at the same time, creates the possibility for greater loss.

Investing in **alternative assets** involves higher risks than traditional investments and is suitable only for sophisticated investors. Alternative investments involve greater risks than traditional investments and should not be deemed a complete investment program. They are not tax efficient and an investor should consult with his/her tax advisor prior to investing. Alternative investments have higher fees than traditional investments and they may also be highly leveraged and engage in speculative investment techniques, which can magnify the potential for investment loss or gain. The value of the investment may fall as well as rise and investors may get back less than they invested.

Opinions and estimates offered constitute our judgment and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions. We believe the information provided here is reliable, but do not warrant its accuracy or completeness. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The views and strategies described may not be suitable for all investors. This material has been prepared for informational purposes only and is not intended to provide, and should not be relied on for, accounting, legal or tax advice. References to future returns are not promises or even estimates of actual returns a client portfolio may achieve. Any forecasts contained herein are for illustrative purposes only and are not to be relied upon as advice or interpreted as a recommendation.

The views expressed are those of J.P. Morgan Asset Management. They are subject to change at any time. These views do not necessarily reflect the opinions of any other firm.

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