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# Commerce Concepts

Market Updates, Asset Allocation and Investment Education for Plan Participants and Individuals

## How Secure is Social Security?

If you're retired or close to retiring, then you've probably got nothing to worry about: your Social Security benefits will likely be paid to you in the amount you've planned on (at least that's what most of the politicians say). But what about the rest of us?

According to the Social Security Administration (SSA), over 50 million Americans currently collect some sort of Social Security retirement, disability or death benefit. Social Security is a pay-as-you-go system, with today's current workers paying the benefits for today's retirees.

So how much do today's workers pay? Well, the first \$106,800 of an individual's annual wages is subject to a 12.4% Social Security payroll tax, with half being paid by the employee and half by the employer (self-employed individuals pay all of it). This money is put into a big holding tank--the Social Security trust fund--and is used to pay out current benefits.

The amount of your retirement benefit is based on your average earnings over your working career. Higher lifetime earnings result in higher benefits, so if you have some years of no earnings or low earnings, your benefit amount may be lower than if you had worked steadily.

Your age at the time you start receiving benefits also affects your benefit amount. Currently, the full retirement age is in the process of rising to 67 in two-month increments, as shown in the chart to the right.

You can begin receiving Social Security benefits before your full retirement age, as early as age 62. However, if you retire early, your Social Security benefit will be less than if you had waited until your full retirement age to begin receiving benefits. Specifically, your retirement benefit will be reduced by 5/9ths of 1 percent for every month between your retirement date and your full retirement age, up to 36 months, then by 5/12ths of 1 percent thereafter. For example, if your full retirement age is 67, you'll receive about 30 percent less if you retire at age 62 than if you wait until age 67 to retire. This reduction is permanent; you won't be eligible for a benefit increase once you reach full retirement age.

Birth date	Normal retirement age
1940	65 years, 6 months
1941	65 years, 8 months
1942	65 years, 10 months
1943-1954	66 years
1955	66 years, 2 months
1956	66 years, 4 months
1957	66 years, 6 months
1958	66 years, 8 months
1959	66 years, 10 months
1960 and later	67 years

### Demographic trends

Even those on opposite sides of the political spectrum can agree that demographic factors are exacerbating Social Security's problems, namely, life

*(Continued on page 3)*



### WIN A \$25 GIFT CARD

to your choice of Starbucks or Nordstrom!

*{see page 3 for further details}*

Congratulations to our most recent winner: Brian A. of Tigard, OR

Visit [thecommmco.com/quiz](http://thecommmco.com/quiz) for the answer to last issue's question



Retirement & Investment Services

## Market Update

Through March 31, 2010

		Trailing Returns			
		3 mos.	12 mos.	5 yrs.	10 yrs.
<b>Blue Chip U.S. Stocks</b>	Dow Jones Industrial Average	4.819%	46.92%	3.33%	2.28%
<b>Large-Company U.S. Stocks</b>	S&P 500	5.387%	49.77%	1.92%	-0.65%
<b>Non-U.S. Stocks</b>	MSCI EAFE US\$ (Gross Div)	0.942%	55.20%	4.24%	1.68%
<b>Small-Company U.S. Stocks</b>	Russell 2000	8.848%	62.77%	3.36%	3.68%
<b>U.S. Bonds</b>	Barclay's Capital (Lehman) US Aggregate	1.782%	7.69%	5.44%	6.28%
<b>Cash</b>	Citi 3 Month US Treasury Bill	0.010%	0.13%	2.76%	2.70%

Indexes are unmanaged and cannot be invested in directly. Past results are not predictive of future results. Individual results will vary. The trailing returns shown include dividends.

Source:  
Raymond James Financial Services

## Economic Outlook

**Gross Domestic Product:** 2Q10 estimates between 2.7% to 3.7% GDP growth.

**Housing/Construction:** After a substantial correction, housing has begun to improve. However, delinquencies and foreclosures are likely to remain elevated for some time.

**Consumers:** The savings rate appears to be stabilizing. Bank credit remains tight. Gasoline prices have been relatively steady. Spending is likely to improve gradually.

**Employment:** The pace of job losses has decreased significantly, but new hiring doesn't appear to have increased by much.

**Manufacturing:** The inventory correction appears to have largely run its course. Exports are improving. New orders and production have been trending moderately higher.

**Prices:** Core inflation has been low, held down by smaller increases in homeowners' equivalent rent.

## First Quarter Gains Push Dow Toward 11,000

- While the value of crossing market "barriers" may be more psychological than real, investors generally cheered as the Dow Jones Industrial Average edged toward the 11,000 mark when the first quarter of 2010 ended. It seemed a long 18 months since the Dow last finished above 11,000 in September 2008.
- The Dow closed out the quarter at 10,856.63, up 4.1% from its 2009 close. The NASDAQ Composite rose to 2,397.15, for a gain of 5.7%. The S&P 500 finished the quarter at 1,169.43, up 4.9%.
- Despite a worrying pullback in late January and early February, the indices moved slowly upward. Some analysts were quick to warn that both global and domestic recovery remains in the slow lane. Market observers note that a positive first quarter doesn't necessarily point to how the year will play out. Historically, strong first quarters appear to have little correlation with market performance during the rest of the year.
- Economists were surprised by a decline of 23,000 jobs in the private sector nonfarm payroll reported by ADP for March. A gain of 40,000 had been expected. On the other hand, U.S. consumer spending rose 0.3% in February following a 0.2% rise in January, according to the Commerce Department. Spending rose faster than after-tax income, however, and the personal savings rate fell to 3.1% of disposable income, down from 4.2% in December.
- Unemployment, housing market weaknesses and Greece's debt troubles roiled the markets for short periods during the quarter as well, but investors seemed pleased that there wasn't a steady beat of bad news. Even the biggest – or at least the loudest – political issue of the past few months, healthcare reform, seems to have been taken in stride by the markets.

The NASDAQ Composite is an unmanaged index of all common stocks listed on the NASDAQ National Stock Market.

*("Social Security" Continued)*

expectancy is increasing and the birth rate is decreasing. This means that over time, fewer workers will have to support more retirees. According to the SSA, in 1950, there were 16 workers per beneficiary, today there are 3 workers per beneficiary, and within 25 years there will be just 2 workers per beneficiary.

The SSA predicts that in 2016, Social Security will begin paying out more money than it takes in. However, by drawing on the Social Security trust fund that, on paper, is supposed to receive today's payroll surpluses, the SSA estimates that Social Security should be able to pay promised benefits until 2037.

### **Possible fixes**

While no one can say for sure what will happen (and the political process is sure to be contentious), here are some solutions that have been proposed:

- Allow individuals to invest some of their current Social Security taxes in "personal retirement accounts"
- Raise the current 12.4% payroll tax
- Raise the current ceiling on wages currently subject to the payroll tax
- Raise the retirement age beyond age 67
- Reduce future benefits, especially for wealthy retirees
- Tie initial benefit levels to a more modest price index instead of the current wage index
- Allow the Social Security program itself to invest in assets other than government bonds

### **In the meantime, what can you do?**

Aside from following the news to learn of any legislative developments, you should periodically check your Social Security earnings record to make sure that your earnings have been properly credited. You can find this information on your Social Security Statement, which the SSA mails annually to every worker over age 25. You will receive this statement about three months before your birthday. Review it carefully to make sure your paid earnings were accurately reported; mistakes are common. Call the SSA at (800) 772-1213 for more information.

This statement will also estimate the amount of Social Security benefits you will be eligible to receive in the future, based on your actual earnings and projections of future earnings. If you don't receive this statement in the mail, you can request one by calling your local SSA office or through the Social Security website at [www.ssa.gov](http://www.ssa.gov).

To be entered into a drawing to win a **\$25 GIFT CARD**, email [free@thecommco.com](mailto:free@thecommco.com) with the answer to this question:

*True or False? You should review your Social Security Statement carefully, as paid earnings are often reported wrong.*

**Source:** Forefield, Inc.

*William Temple House has been helping Portland area families in need since 1965. Their mission is to restore hope and renew strength in individuals and families in a welcoming and respectful atmosphere.*

[www.williamtemple.org](http://www.williamtemple.org)

## **The Commerce Company**

is celebrating 15 years of business in the Pacific Northwest!

We thank you for your partnership and trust, and look forward to working with you in the coming years.

To commemorate this milestone, we are making a special contribution to a local non-profit organization, and we invite you to join us:

For every 15 emails that are sent to [15years@thecommco.com](mailto:15years@thecommco.com) between now and June 15th 2010, The Commerce Company will donate \$15 to Portland's William Temple House, up to \$1,500. One email per person, please.



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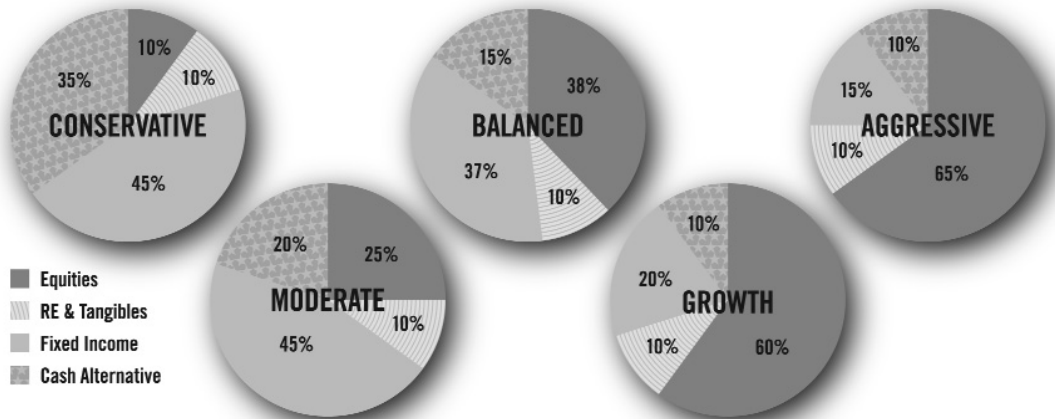
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## Asset Allocation

Our suggested allocations reflect: Up-to-date asset allocations can be viewed online anytime at [www.thecommco.com](http://www.thecommco.com).

- We are shifting 5% from cash to equities in all but the Conservative model, which remains unchanged. We believe that the market has become range bound and that total return stocks will outperform cash for the remainder of the year.
- The economy should continue to improve, although there are some concerns about the pace of activity into 2011. The stock market is a leading indicator and may have gotten ahead of itself, but that doesn't mean that it can't go higher. The bond market outlook is more precarious and will depend on the pace of economic growth the rest of the year.
- Our biggest concerns remain long-term inflationary risk and the risk of rising short-term interest rates. Neither seem likely in the next six months as pricing of consumer products should stay relatively weak and employment-related wage inflation is expected to be modest overall for the rest of this year.