Taking Control of Your Retirement

MANAGING THE RISK OF AN INCOME SHORTFALL

TOTAL MERRILL®

You’ve spent a lifetime accumulating wealth

Now you need to shift your focus to how to generate and sustain income throughout your retirement. The key to sustainable income in retirement starts with understanding the risks and creating a long-term plan that will help you meet your objectives.

What can contribute to an income shortfall?

Over the last two decades, life expectancy has risen dramatically. Today's retirees are not only living longer, they are living healthier longer. So the question is—what do you do with these extra years—and how will you pay for them?

The burden of retirement income is now on the individual

While all these extra years are great, paying for them requires different strategies than those that worked in the past. Today, the burden of providing your retirement income has shifted from your employer to you.

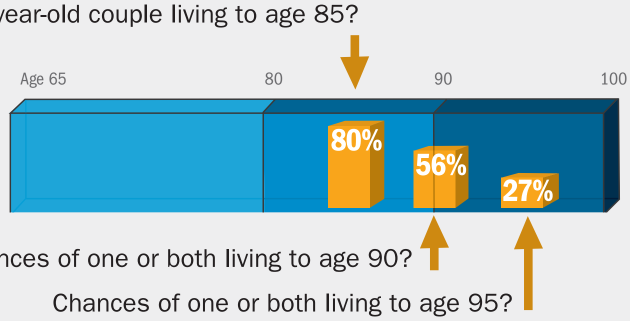
What are some of the risks?

- Longevity risks—not outliving your assets
- Withdrawal risks—having enough to live comfortably without jeopardizing your future income
- Investment risks—including investing to keep ahead of inflation and the timing of investment gains and losses

All of these risks can be managed—with proper planning. You and your Merrill Lynch Financial Advisor can customize and implement a strategy to help you achieve an important goal: securing a comfortable retirement.

LONGEVITY: PROBABILITY OF LIVING TO A CERTAIN AGE AFTER REACHING 65

Chances of at least one member of a healthy 65-year-old couple living to age 85?



Chances of one or both living to age 90?

Chances of one or both living to age 95?

Source: Society of Actuaries, 2000 Annuity Table

Retirement today is a fresh, active life stage

Retirement can include the flexibility to balance work—often a new career—and leisure on your terms.

Retirement income *yesterday* was very basic

Typically, social security benefits were paid. Pension benefits may have been available from your employer. And you may have had taxable savings and investments.

Retirement income *today* offers a lot of choices

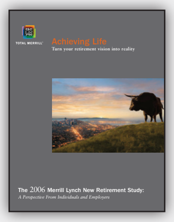
You may have access to tax advantaged retirement plans such as a 401(k) and an IRA; income from part-time employment or consulting work; taxable savings and investments; annuities and Social Security benefits.

Health care costs are another risk to prepare for

Even if you have enough assets to assure a comfortable retirement income, are you prepared for the cost of a long-term illness or disability? For the decade 1995-2004 the inflation rate for health care was almost double the rate of inflation as a whole. (See chart, next page.)

The potential costs of health care, including long-term care, could be a budget-buster for many people who are otherwise adequately prepared.

2006 NEW RETIREMENT STUDY

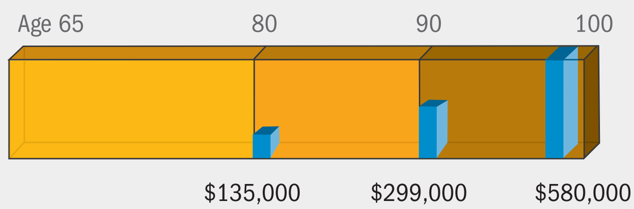


In the 2006 Merrill Lynch New Retirement Study, respondents indicated that they:

- Plan to retire, on average, at age 61
- Plan to work an additional 9 years in retirement, stopping work at age 70
- Want a new career in which they can share and pass on knowledge (66% of respondents)
- Want to achieve a new work/leisure balance
- Want to work to stay mentally and physically active

PROJECTED HEALTH CARE COSTS FOR A 65-YEAR-OLD RETIREE

Amount needed to pay for health care premiums and to cover out-of-pocket costs:



Assumes 10% annual increase in premiums and expenses

Source: Issue Brief No. 271, Employee Benefit Research Institute, July 2004.

Strategies to help optimize your retirement income

There are two factors that impact how long your retirement income will last: how much your money grows and how much you withdraw.

Investing to meet long-term income needs

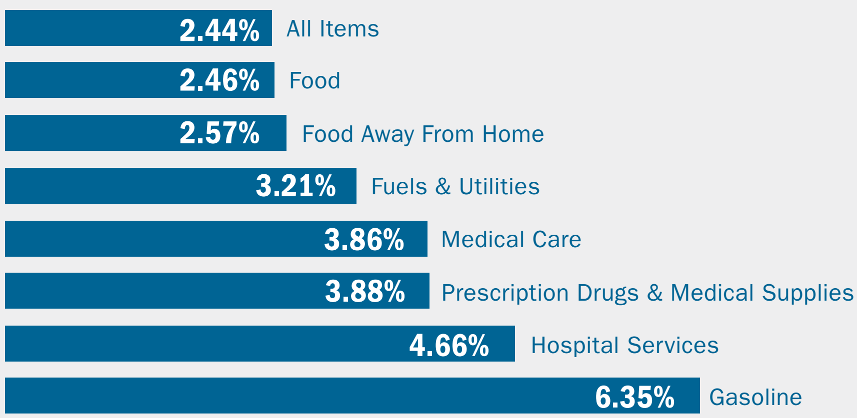
The classic advice to retirees is to put more money into fixed income and less into equities. But this classic advice is based on an outdated premise—that retirement will only last a few years. Over a long term—perhaps 30 years—your portfolio needs to grow just to keep ahead of inflation. For example, rates of increase for 1925 to 2006[1] are:

- Inflation 3.0%,
- Government Bonds 5.4%
- Stocks 10.0%

Based on those numbers, a portfolio made up of government bonds would have barely kept ahead of inflation. In fact, in order to help avoid running out of money, the person owning this portfolio would have to limit withdrawals to 2.3% per year in order to assure that the money would last 20 or more years. On a $1 million portfolio, that would be an income of only $23,000.

AVERAGE ANNUAL INFLATION RATES: 1995 – 2004

Over a 25-year time horizon, these retirement-related expenses can significantly deplete an overly conservative portfolio.



Source: U.S. Bureau of Labor Statistics, Table 26, Average Annual Inflation for 1995-2004

What are safe withdrawal rates?

A safe withdrawal rate is based on three factors: the amount withdrawn, the market performance and the length of time. The adjacent chart shows the likelihood of a portfolio lasting 25 years at various rates of return and withdrawal. Clearly, the more conservative the return rate, the less that can be withdrawn annually and still sustain an adequate retirement.

LIKELIHOOD OF ASSETS LASTING 25 YEARS[2]

Withdrawal Rate	100% bond	75% bonds/ 25% stocks	50% bonds/ 50% stocks	25% bonds/ 75% stocks	100% stocks
4%	74%	90%	88%	84%	79%
5%	21%	50%	62%	64%	63%
6%	1%	12%	34%	44%	47%
7%	0%	1%	14%	27%	34%
8%	0%	0%	5%	14%	22%

< < Less likely — More likely > >

Assumptions: Stock returns: 10.4% — Stock annual fee: 1.49% — Bond returns: 5.1% — Bond annual fee: 1.10% — Inflation: 3.1%

Source: Ibbotson Associates, 2006. Used with permission.
The image was created using Ibbotson's own parametric simulation.

The risks of early losses

Financial professionals agree that over the long term, stocks tend to produce returns that outpace their risk levels. But the first decade in retirement is a critical period. Studies show that any equity losses incurred early in retirement can negatively impact the portfolio's ability to generate sustainable income.

Consider two hypothetical portfolios, both valued at $1 million with no withdrawals. The average annual return rate for both portfolios is 5.1% over a 10-year period. In fact, the return is identical in each year except the years are reversed. In 10 years the portfolios are worth exactly the same.

But look at the difference negative returns early in retirement may make when withdrawals are taken. Just three years of negative returns early on could nearly halve the portfolio's potential value by decade's end.

SEQUENCE OF RETURNS

ACCUMULATION

	CLIENT 1: Down Market Initially	**CLIENT 2:** Down Market at the End
Year 1	-20%	24%
Year 2	-8%	18%
Year 3	-6%	14%
Year 4	4%	12%
Year 5	6%	8%
Year 6	8%	6%
Year 7	12%	4%
Year 8	14%	-6%
Year 9	18%	-8%
Year 10	24%	-20%
Value at End of Year 10	**$1,525,347**	**$1,525,347**

$1 million
Average Rate of Return: 5.1%
Composition:
50% stock
50% bonds

WHEN YOU RETIRE CAN IMPACT HOW YOU RETIRE

DISTRIBUTION: $50,000 annual withdrawl

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Year 6	8%	6%
Year 7	12%	4%
Year 8	14%	-6%
Year 9	18%	-8%
Year 10	24%	-20%
Value at End of Year 10	**$630,178**	**$1,074,455**

$1 million
Average Rate of Return: 5.1%
Composition:
50% stock
50% bonds

Source: Merrill Lynch Insurance Group, Merrill Lynch Retirement Group
Charts are for illustrative purposes only. They do not reflect the return of any particular investment. Investment returns will vary. This is not based on actual performance.

Analyze your retirement goals

Planning is key

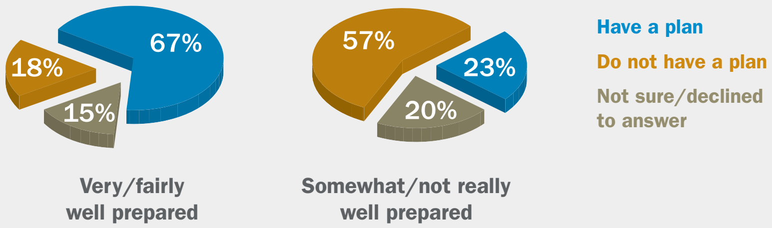
Planning for the future is critical. The first step to addressing the risks of retirement is to create an income plan that lets you feel comfortable about the future. According to the 2006 Merrill Lynch Retirement Study, people who feel prepared for retirement are three times more likely to have a plan than those who do not feel prepared.

Work with your Financial Advisor to determine how much income you need to generate.

Your Financial Advisor will review all your assets to help you build a retirement savings plan and determine how much you will need to meet your anticipated expenses. Once you have "your number," you are in a better position to discuss solutions for filling any gap.

THE KEY TO FEELING PREPARED IS HAVING A COMPREHENSIVE PLAN

Those who feel prepared are three times more likely to have a plan than those who do not feel prepared.



Source: The 2006 Merrill Lynch New Retirement Study: A Perspective from Individuals and Employers.

ASSETS:

- Mutual Funds
- Equities
- Bonds
- CDs
- Managed Money
- Real Estate
- 401(k)
- IRA
- 403(b)
- SEP
- Other

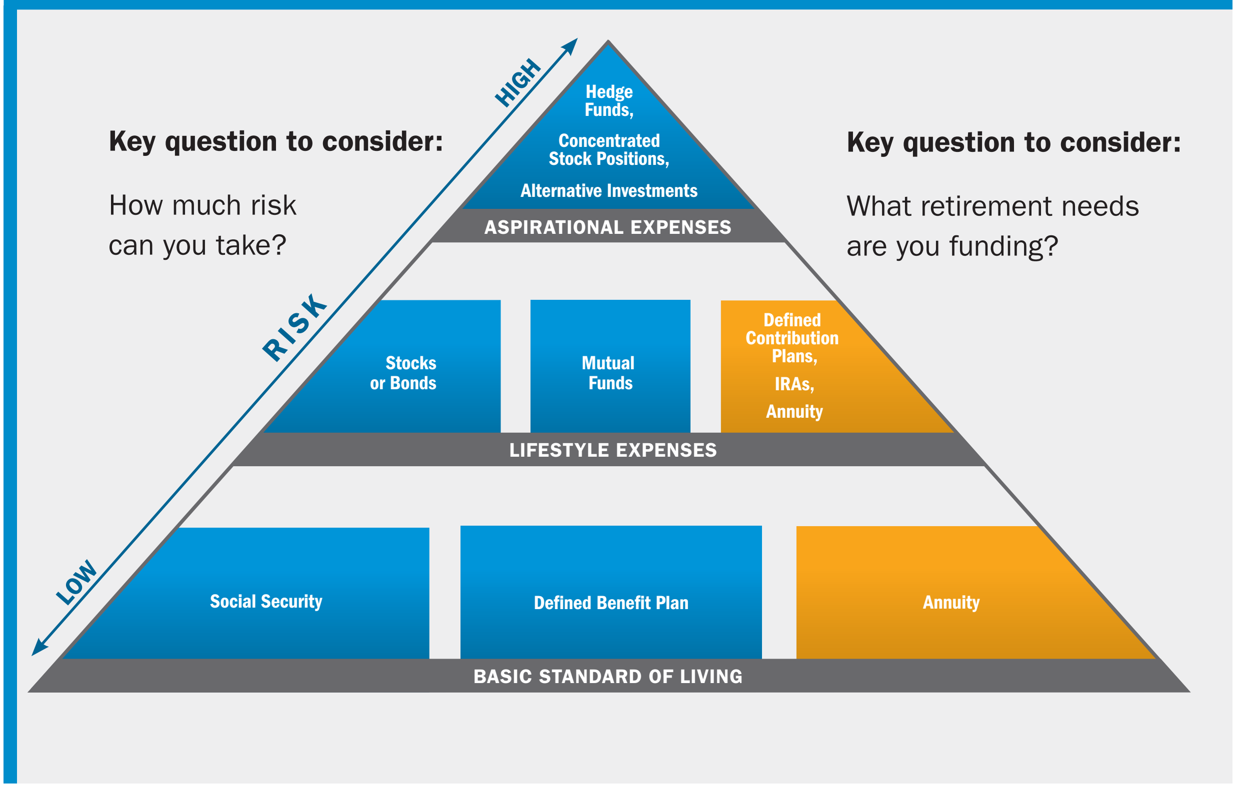
EXPENSES:

- Housing
- Utilities
- Travel
- Food
- Clothing
- Health Care

Expenses – (Pension + Social Security) = Income Need to be Funded by Assets

Annuities and retirement income planning

THE PLANNING PYRAMID



Using an annuity to fund the basics

You don't want to take any chances with your basic standard of living, so you may want to fund these expenses through financial products that guarantee a specified income for life. They include things like social security and a defined benefit plan, if you have one. This level is also where a guarantee from an insurance company—in the form of an annuity—can help you establish a guaranteed income stream to help fund the basics.

An annuity can help fund your lifestyle

Activities such as expanded travel and entertainment, are found on the second level. The risk can be a little higher with these investments, which may include your personal stock and mutual fund portfolio. There is also room for an annuity in this category, as well, since it allows you to potentially benefit from tax deferral and a range of investment options.

Going above and beyond

The final stage includes items that are aspirational, but not really necessary to enjoy a fulfilling and secure retirement. This could include living abroad for a year or more, funding a charity, paying for your grandchildren's education.

Some annuity basics

An Annuity is a contract or agreement where a client makes payments to an insurance company which, in turn, agrees to pay out an income stream or a lump sum amount at a future date.

Two types of annuities

Fixed: Has a rate guaranteed by an insurance company

Variable: Provides equity and fixed-income investment options

Types of guaranteed benefits

Today's variable annuities offer some innovative, guaranteed optional benefits for additional fees that may be useful in planning your retirement income. These are sometimes called "living benefits."

- A Guaranteed Minimum Income Benefit (GMIB)[5] guarantees, through annuitization, a future annual lifetime income stream after a specified waiting period, regardless of market performance.
- A Guaranteed Minimum Withdrawal Benefit (GMWB)[6] guarantees annual withdrawals of a specified percentage for a specified period of time, or for life, regardless of market performance.

How annuities can help you meet retirement challenges:

Longevity:

- One key benefit is that, no matter how long you live, you cannot outlive your income.

Inflation:

- A variable annuity gives you the option to invest in equities, as well as many other choices. Some include the added benefit of cost-of-living adjustments.

Taxes:

- Because annuities offer tax-deferred treatment of earnings, they can potentially accumulate faster than similar, non-tax advantaged investments.

Early losses:

- Today's annuities offer optional benefit guarantees to ensure a steady income stream, no matter what your portfolio does.

VARIABLE ANNUITIES ADVANTAGES AND DISADVANTAGES

Advantages

- Optional guarantees (at an additional charge) can ensure steady lifetime income, regardless of market volatility. This is the only product on the market today that offers this benefit.
- Range of investment options
- Portfolio earnings are not taxed until the investor makes withdrawals or receives annuity payments
- Death benefit to protect assets for heirs (until you annuitize)

Disadvantages

- Annuity contract values fluctuate with the markets
- Insurance costs, investment advisory fees and fund expenses may reduce performance
- Annuity contracts usually carry surrender charges, which are applied if you terminate your contract or make some withdrawals before a specified time period.

Variable annuity contracts will fluctuate and are subject to market risk, including the possible loss of principal. You may receive less than the original amount invested, and contingent deferred sales loads and tax penalties may be incurred. Withdrawals of earnings are subject to ordinary income tax, and a federal 10% penalty may apply to withdrawals prior to age 59½. Tax deferral is already provided by a tax-qualified retirement plan. Within a qualified plan, the tax deferral provided by a variable annuity is unnecessary. Be sure to evaluate all of the additional features and benefits (lifetime income benefits, death benefits, etc.) when considering if this product is right for you. Optional benefits and guarantees typically available for an additional fee. All contract guarantees, including optional benefits, are provided by the insurance company issuing the annuity contract and based on its claims-paying ability.

Merrill Lynch can help

We understand the challenge of creating an overall retirement income strategy that complements and sustains your lifestyle. To meet your retirement income needs, we have a range of investment products and benefits that can help sustain a lifetime income stream:

- Annuities
- Asset allocation
- Equities
- Exchange-traded funds
- Fixed-income investments (e.g., bond ladders, municipal bonds)
- Hybrid securities (convertible bonds)
- Managed money accounts
- Private equity
- Real estate investment trusts (REITs)
- Rollover IRA
- Treasury Inflation-Protected Securities (TIPS)

Our history, size and global resources allow us to provide a wide range of innovative retirement income solutions. By looking at your total financial picture, your Merrill Lynch Financial Advisor can work with you to develop the right strategy for your particular situation.

Next steps: Meet with your Financial Advisor

- Discuss your retirement goals
- Discuss your current portfolio
- Analyze options for generating retirement income
- Determine the right product(s) for your specific needs
- When considering an annuity, assess the insurance carriers and feel free to ask questions about ratings, claims-paying ability and risk management strategies

Call Merrill Lynch

To learn more about how you can help manage the risk of an income shortfall in retirement, call your Financial Advisor or visit us online at www.totalmerrill.ml.com.

Important Information:

All contract guarantees are based on the claims paying ability of the issuing insurance company.

Please note that converting your client's annuity into a payment stream or "annuitization" must occur no later than the oldest annuitant's 95th birthday.

Merrill Lynch and its representatives do not provide tax, accounting or legal advice. Any tax statements contained herein were not intended or written to be used, and cannot be used for the purpose of avoiding U.S. federal, state or local tax penalties. Please consult your own independent advisor as to any tax, accounting or legal statements made herein.

Variable Annuities are sold by prospectus only. A current prospectus can be obtained from your Financial Advisor and includes complete details on the product, investment company objectives, risks fees charges and expenses which should be carefully considered. The prospectus contains this and other information about the product and the underlying investment options. You should read the prospectus carefully before they invest.

[1] Hypothetical value of $1 invested at year-end 1925. Results are based on indexes and are for illustrative purposes. They assume reinvestment of income and no transaction costs or taxes. Past performance is no guarantee of future results. Index sources: Large Company Stocks: Standard & Poor's 500®, which is an unmanaged group of securities and considered to be representative of the stock market in general; Government Bonds: 20-year U.S. Government Bond; Inflation: Consumer Price Index. Direct investment cannot be made in an index. Used with permission © 2004 Ibbotson Associates, Inc. All rights reserved. Certain portions of this work were derived from the work of Roger G. Ibbotson and Rex Sinquefield.

[2] Individual results may vary over time and each time the simulation is run. IMPORTANT: The projections or other information generated by Ibbotson Associates regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. No transaction costs or taxes are assumed. One possible limitation of the simulation model is that it assumes a constant inflation-adjusted rate of withdrawal, which may not be representative of actual retirement income needs. This type of simulation also assumes that the distribution of returns is normal. Should actual returns not follow this pattern, results may vary.

[3] Asset allocation and portfolio diversification do not protect against a loss in declining markets.

[4] "Retiree Health Benefits: Time to Resuscitate," Watson Wyatt, 2001.

[5] A Guaranteed Minimum Income Benefit (GMIB) is an optional benefit available at contract issue provided the oldest annuitant is not over a certain age at issue. A GMIB can provide a safety net for retirement assets in the form of a guaranteed minimum income stream – no matter how the underlying annuity investments perform as long as no withdrawals are taken. You must annuitize the contract under the terms and conditions of the GMIB in order to receive a guaranteed minimum annual payment for life. GMIB riders require an additional charge and may be irrevocable once elected.

[6] A Guaranteed Minimum Withdrawal Benefit (GMWB) is an optional benefit that typically must be elected at issue if the owner(s)/annuitant(s) are within the age specifications as set forth in the contract rider and prospectus. GMWB riders require an additional charge (could be applied to the contract value or benefit base) and may be irrevocable once elected.

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