CAN WE SAVE THE AMERICAN DREAM?

RETIREMENT ALERT

FALL 1992

A Personal Financial Crisis of Mounting Dimensions

The American dream of a comfortable retirement is eluding a large and growing number of individuals. The vast majority of people are simply not prepared to bear the costs of growing older as lengthening life spans, persistent inflation, and spiraling health care bills make retirement more expensive year after year. Several trends of significant proportion are on a collision course, dramatically magnifying the retirement saving crisis:

- The growth of the over-65 age group is accelerating dramatically. By the year 2010, about 40 million people, or one-eleventh of the population, will be over age 65, and when the last of the baby boom generation approaches 65 around the year 2025, the retired population will have risen to nearly 60 million.
- National health care costs for retirees over age 65 are projected to increase nearly sevenfold to $1.5 trillion by 2010, when each individual over 75 can expect to pay an average annual health care bill of $10,000.
- Despite the scope of the problem, some 51 million (68%) baby boomers (ages 25 to 44) and nine million (47%) preretirees (age 45 to 64) are currently not saving for retirement.

OLDER AMERICANS ARE THE COUNTRY'S FASTEST GROWING POPULATION GROUP

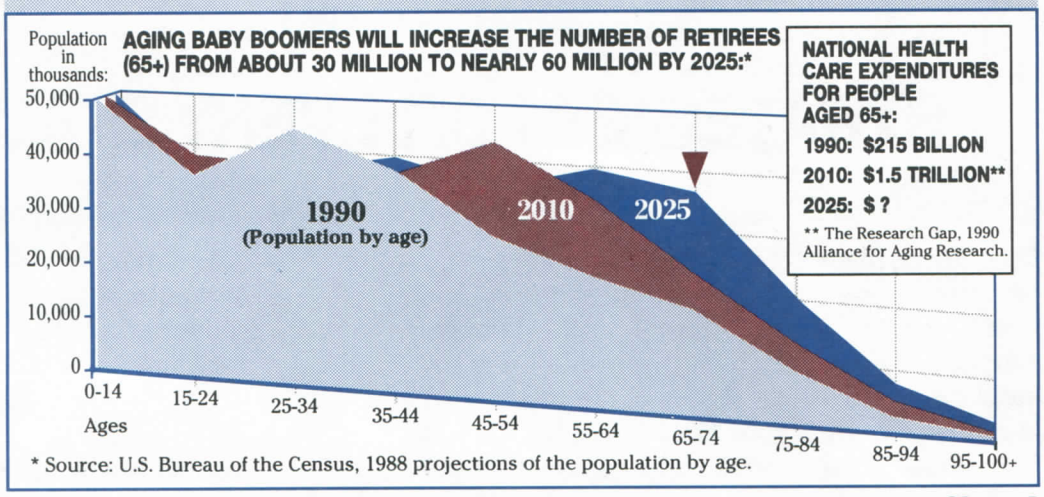


Chart I

YET INDIVIDUALS STILL AREN'T SAVING

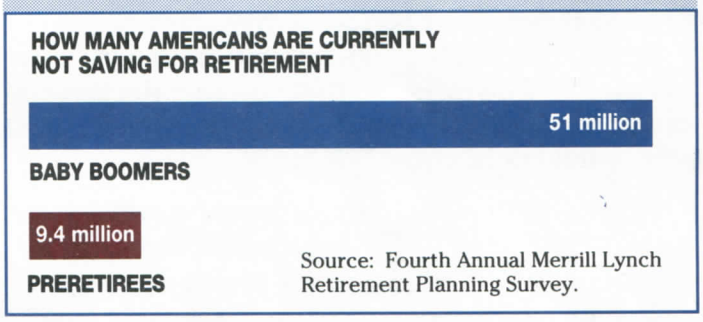


Chart II

Merrill Lynch

Merrill Lynch Can Help You Build, Manage, and Preserve Wealth

Your retirement future is in your hands. There are a number of steps that you can take to assure your financial readiness, **but the time to act is now**. The longer you wait, the more difficult it may be to afford the retirement you want.

Your Merrill Lynch Financial Consultant is a skilled and knowledgeable professional who can help you review your overall financial picture and then evaluate your retirement financial needs through a free, personalized Retirement Builder℠ analysis. He or she can also help you tailor a strategically balanced mix of stocks, bonds, and cash investments to suit your risk profile, the amount of your assets, the length of time you have until retirement, and the current market environment.

No matter what types of investments are right for you, Merrill Lynch can offer you more alternatives than virtually any other source—whether you want to invest in stocks and bonds directly, in diversified, professionally managed mutual funds, go global with your investments, or take advantage of tax-favored investment alternatives. And, through your Financial Consultant, you have the advantage of Merrill Lynch's highly regarded securities research in evaluating investment opportunities.

What's Your Retirement Funding Goal?

We urge you to take a few minutes and complete this simple worksheet. It will provide you with a broad approximation of how much you need to save each year in order to retire as comfortably as you would like.

The next step is to talk to your Merrill Lynch Financial Consultant, or call 1-800-637-7455, ext. 4279, for the address and phone number of the Merrill Lynch office nearest you. Your Financial Consultant can help you assess your specific situation and prepare a detailed Retirement Builder needs analysis for you, as well as recommend realistic ways to help make your retirement plans a reality.

Please don't delay. Your retirement is too important to take for granted.

Code #16441

RETIREMENT PLANNING WORKSHEET

1. How many years until your retirement?

_____

2. How much annual income do you anticipate needing in retirement? (rule of thumb is 60% – 80% of current income)

$ _____

3. Estimated Social Security to be received annually in retirement. (current annual average = $12,000, or call 1-800-722-1213 for projection from Social Security)

$ _____

4. What are your estimated current assets that will be used for retirement? [401(k) plan, IRA, and other investments]

$ _____

5. Amount of annual income that will be provided by the assets listed on line 4. (Chart A; multiply line 4 on this worksheet times factor opposite your years from retirement on Chart A)

$ _____

6. Estimated annual retirement income not provided by Social Security benefits and your current retirement savings. (add lines 3 and 5, and subtract from line 2)

$ _____

7. Annual savings needed to reach your goal. (Chart B; multiply line 6 on this worksheet times factor below your years to retirement)

$ _____

Note: This worksheet is intended to give you an approximation of what you may need to save to reach a particular financial goal in retirement. For specific saving goals, we recommend a more detailed analysis be performed and reviewed annually.

CHART A

Years to Retirement	5	10	15	20	25	30
Factors	.084	.099	.118	.14	.166	.197

CHART B

Years to Retirement	5	10	15	20	25	30
Factors	3.208	1.466	.891	.608	.441	.333

Note: Factors assume a 4.5% rate of inflation and a 28% tax bracket along with 8% growth in a tax-deferred type of account. The annual savings are assumed to be in after-tax dollars.

THE BUILDING BLOCKS OF RETIREMENT SECURITY

The following principles of sound investing form a solid foundation on which to prepare for your retirement. As Chart III below shows, the reward for investing well is a substantially larger nest egg and significantly greater income to help secure your later years.

1. HAVE A FINANCIAL PLAN AND UPDATE IT ANNUALLY

A financial plan based on your personal goals and risk tolerance level is essential to choosing the right investments for your portfolio.

2. INVEST REGULARLY AND GET THE FULL BENEFIT OF COMPOUNDING AND DOLLAR COST AVERAGING

Investing a specific sum on a regular basis gives you the benefit of dollar cost averaging, which can help you take advantage of price fluctuations and weather the ups and downs of market cycles. Reinvesting interest and dividends helps you tap the power of compounding, which is the surest method of accumulating assets over time.

3. DIVERSIFY INVESTMENTS USING ASSET ALLOCATION

Asset allocation is a method of diversifying your investment dollars among stocks, bonds, and cash to help moderate fluctuations in your portfolio value and improve your potential total return over major investment cycles. Use asset allocation to structure your portfolio to meet changing economic forces given your particular financial objectives, risk tolerance, and investment time frame.

4. INVEST SUBSIDIZED

For instance, taking advantage of investments that minimize your taxes—such as *tax-deferred* annuities and IRAs, and *tax-free* municipal bonds—is really a way of having Uncle Sam help you accumulate wealth because the dollars you save in taxes can be put to work to earn more money for you. As another example, employer-sponsored retirement programs such as 401(k) plans can offer a dual subsidy: your contributions and earnings accumulate without current taxes and employers often match employee contributions in whole or in part.

5. START EARLY

Used together, the principles of sound investing can exert a powerful impact on your investment results. The sooner you begin investing and the longer these principles are in force, the more dramatic their combined effect.

HOW THE PRINCIPLES OF SOUND INVESTING CAN PAY OFF

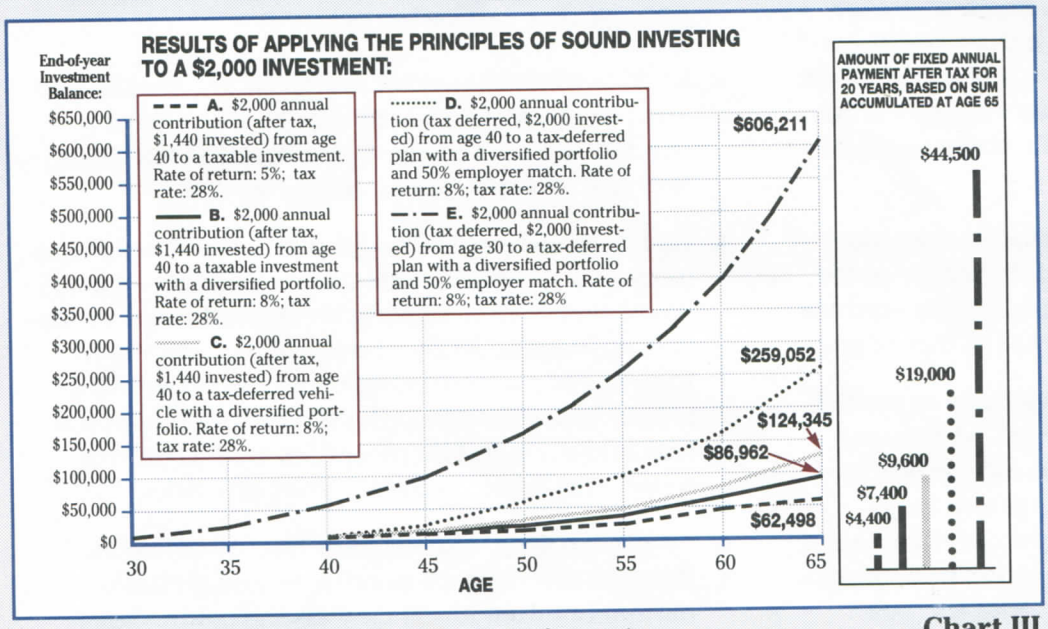


Chart III

The chart illustrates how the principles of sound investing can pay off as you accumulate a retirement nest egg:

- Line A shows the results of applying principles 1 and 2 — having a plan and investing regularly to benefit from dollar cost averaging and compounding.
- Line B shows what happens when you add principle 3, combining a well-diversified asset allocation strategy with dollar cost averaging and compounding.
- Line C shows the difference that a tax-deferred vehicle can make with a well-diversified portfolio that also benefits from dollar cost averaging and compounding.
- Line D gives the results of investing in a tax-deferred vehicle with a 50% employer matching contribution (principle 4), while also benefiting from dollar cost averaging, compounding, and asset allocation.
- Line E shows what happens if you start investing early (principle 5) and employ all five principles together.

As you can see, using all five principles in combination creates a nest egg of $606,211 at age 65 and provides annual after-tax payments of $44,500 for 20 years of retirement — 10 times the amount that would be available if only principles 1 and 2 were used.

Preserving Assets As You Grow Older: Do You Have a Strategically Balanced Plan?

As you approach and enter retirement, you may have built a substantial retirement portfolio, and like many individuals in similar circumstances, your primary focus may be preserving the assets you have accumulated:

- Customized portfolio management by a full-time money manager may be an excellent option if you lack the time, expertise, and research resources to effectively monitor and respond to today's fast-changing global markets.
- Tax-deferred annuities accumulated during your working years can now provide you with retirement income, either for a set number of years or guaranteed for your entire life. Immediate annuities can also be purchased with other accumulated assets to provide income tailored to your needs.
- Proper estate planning — including the use of wills, trusts, lifetime gifts, and other techniques to reduce estate and income taxes — can help maximize the value of your estate during your lifetime and upon your death, and allow you to distribute your wealth to heirs as you would like.
- For business owners, planning for business succession is a crucial element of estate planning. Some of the options you might consider are the sale of the business to a third party, an employee stock ownership plan, recapitalization to maintain family control, expansion financing, and taking your company public through an initial public offering.
- Steady income and safety of principal become increasingly important goals at this stage of life, and fixed income securities typically account for the largest percentage of holdings at this stage.
- U.S. government-guaranteed Treasury securities are often a recommended investment because they are the highest quality security available, and they pay interest free of state and local income taxes. Another sound choice if you are a higher bracket investor might be tax-free municipal bonds and bond funds that offer income exempt from federal income taxes and sometimes state and local taxes, too.

IF YOU NEED OPPORTUNITIES FOR HIGHER YIELD— CONSIDER THE TAX-EXEMPT ADVANTAGE OF MUNICIPALS

Brackets		IF YOUR TAX-FREE INVESTMENT IS YIELDING—						
		4.00%	4.50%	5.00%	5.50%	6.00%	6.50%	7.00%
		YOUR TAXABLE INVESTMENT WOULD HAVE TO YIELD—						
Federal 28%	State 3%	5.73%	6.44%	7.16%	7.88%	8.59%	9.31%	10.02%
	6%	5.91%	6.65%	7.39%	8.13%	8.87%	9.60%	10.34%
	9%	6.11%	6.87%	7.63%	8.39%	9.16%	9.92%	10.68%
Federal 31%	State 3%	5.98%	6.72%	7.47%	8.22%	8.96%	9.71%	10.46%
	6%	6.17%	6.94%	7.71%	8.48%	9.25%	10.02%	10.79%
	9%	6.37%	7.17%	7.96%	8.76%	9.56%	10.35%	11.15%

Depending on your income tax bracket and whether or not you pay state income tax, tax-exempt municipals can provide greater net income than certain taxable investments. Income may also be subject to local taxes and the Alternative Minimum Tax.

Chart VI

For those of you in the higher tax brackets, your portfolio may benefit from the higher net after-tax yields that tax-exempt investments may provide. Of course, investments providing greater return may also involve greater risk, but your Merrill Lynch Financial Consultant can help you determine which of the following municipal investments and maturities are best for your investment needs: prerefunded munis, insured munis, and general obligation munis; or municipal mutual funds or defined asset funds for diversification. Investors with specific future goals might also consider zero coupon munis.

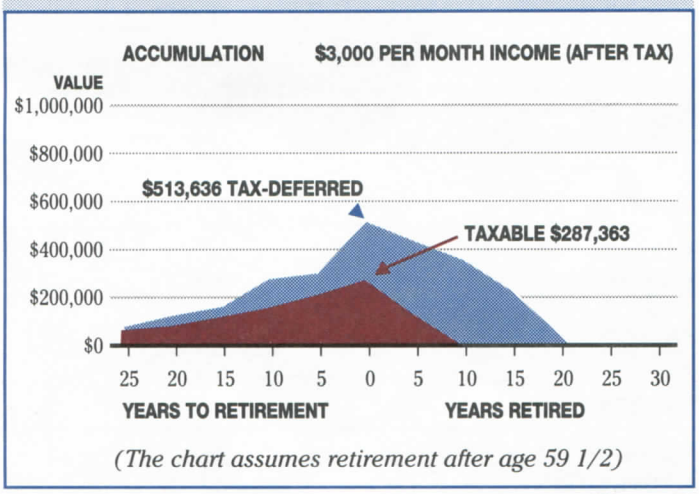
- An effective way to help enhance fixed income returns while controlling risk is to divide your holdings among bonds that mature every year or two, creating a "ladder" of investments ranging from shorter to longer term.
- Keep in mind that asset preservation should also include investing your assets productively to combat the erosive effects of inflation and taxation and to maximize your estate.
- Equity investments should play a meaningful role in asset preservation strategies as part of a personalized, conservatively diversified asset allocation approach. At this phase of life, you might focus equity investments on income-producing stocks that offer the potential for price appreciation and dividend increases, as well as mutual funds that invest in those types of stocks.
- Diversifying retirement investments overseas through direct stock purchases and global/international mutual funds may also provide above-average returns to help preserve and add to your wealth.

Managing Assets at Mid-Life: Are You Saving Enough and in the Right Investment Mix?

As your retirement assets increase in your preretirement years, properly managing those investments to meet your goals becomes more crucial and more complex:

- Reassess your retirement/financial plans and strategies to be sure you have the right investment mix for today's investment climate. Do you have the growth potential you need at the level of risk you're comfortable assuming?
- Make a serious commitment to increase the amount you invest in your retirement program, particularly if you have completed most of your major purchases and financial obligations, such as educating your children.
- At this stage of life, many people realize that even after contributing the maximum they can to IRAs, 401(k) plans, and other retirement accounts, they still aren't saving enough to secure their future. **Annuities** and **life insurance** can be excellent ways of adding to your retirement assets. For example, annuities grow tax-deferred so that you have significantly more dollars available to you at retirement. And, once you retire, annuities can provide you with income for a given number of years or for the rest of your life — no matter how long you live.
- As you're probably in your peak earning years, tax savings may be a key goal. Consider **tax-free municipal bonds and bond funds**, which may provide you with a higher take-home yield than the after-tax yield on taxable investments.
- Make your retirement dollars work as hard as possible. Consolidate your IRA and other retirement assets in one place to keep a clear picture of how your assets are allocated and performing. Also, at Merrill Lynch, you benefit from the guidance of your Financial Consultant and a wide range of investment choices in structuring your portfolio to meet changing market forces and personal needs.
- If you are a business owner, consider establishing and funding a retirement plan. This is critical for your own and for your employees' financial future. A well-designed and managed retirement plan will help you attract and retain qualified employees by assisting them to prepare for their retirement and also provide you as the employer with valuable tax benefits. Merrill Lynch can accommodate the unique needs and goals of your business by offering a broad range of innovative retirement plans and services. For a copy of "Meeting Your Business Retirement Plan Needs," call 1-800-637-7455 ext. 4280.

ANNUITIES PUT THE POWER OF TAX DEFERRAL TO WORK FOR YOU



(The chart assumes retirement after age 59 1/2)

Chart V

This example illustrates the differences between taxable investments and tax-deferred annuities in preretirement savings and postretirement income. It assumes you have $75,000 to invest for your retirement, are in a 31% tax bracket, and earn an 8% rate of return. At retirement (Year 0), the tax-deferred annuity value is almost double the taxable amount. After retirement, assuming you take withdrawals equivalent to $3,000 per month after tax, the tax-deferred option provides income for the next 20 years.

Can You Afford the Retirement You Want?

If current trends continue, tens of millions of Americans could be unable to fund their retirement years. While there is no one-size-fits-all solution to retirement planning, the overriding message for each of us is the same: saving and investing for retirement is no longer a choice, but a necessity — particularly as the swelling ranks of future retirees place greater strains on traditional support systems, such as Social Security and private pensions. Your financial independence and the quality of your future life will very much depend on your success in building, managing, and preserving your assets.

THE RETIREMENT PLANNING/FUNDING PROCESS

Your Merrill Lynch Financial Consultant works with you to:

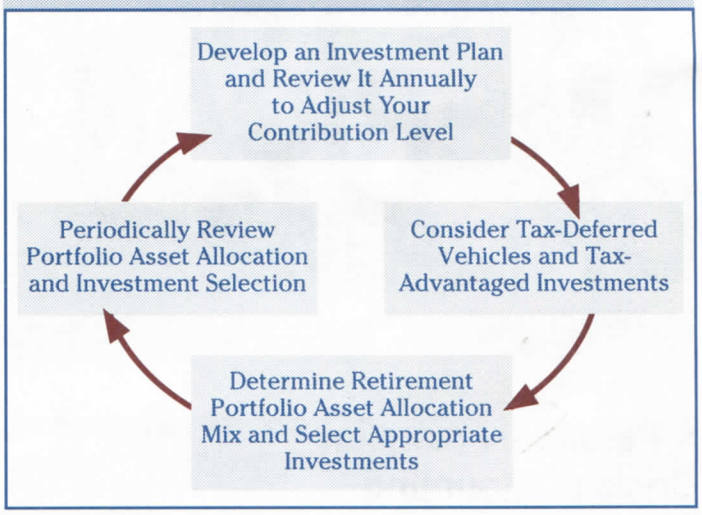


Chart IV

STRATEGIES FOR EVERY STAGE OF LIFE

Retirement planning is very much a personal matter because your financial priorities and preferences are unique to you. But certain broad strategies discussed below may be appropriate for many individuals at various stages of life. Naturally, you should speak with your Merrill Lynch Financial Consultant about specific approaches that suit your needs and goals.

Building Assets When You're Younger: Have You Started Yet?

If you're under 40, retirement may seem only a distant concern, but this is the best time to begin planning and investing so that you gain the greatest advantage from compounding and potential growth over a number of years:

- Despite all the other priorities you may have at this phase of life — buying a home, investing for your children's education, or saving up to open your own business — be sure to set aside something each year for retirement.
- Particularly consider investing through tax-deferred retirement vehicles, such as an **Individual Retirement Account (IRA) or a 401(k) plan**, which can help your assets grow more quickly by giving you the opportunity to invest dollars that would otherwise be owed in taxes.
- Take advantage of ways to "pay yourself first" and automatically build assets, including payroll reduction plans like 401(k) plans, mutual fund systematic monthly investment plans, and dividend reinvestment plans.
- Mutual funds and defined asset funds (also known as unit investment trusts) provide the benefits of professional securities selection, broad diversification, and liquidity for a reasonable minimum investment. And Merrill Lynch offers a wide variety of funds to meet your retirement planning needs. Mutual funds are actively managed while defined asset fund portfolios are relatively fixed.
- Growth stocks and growth stock mutual funds are often a staple in well-balanced retirement portfolios, particularly for investors who are still many years away from retirement, because well-selected growth stock investments can provide the potential for substantial rewards over the long term.
- With economic expansion in many parts of the world expected to outpace the U.S. during the 1990s, international diversification through direct equity investments or global/international funds will become increasingly important in achieving superior growth potential.