Financial Wellness
& Education

Municipal bonds
Are munis for me?

Frequently asked questions about municipal bonds

The primary benefit of municipal bonds is their tax-exempt status.

Q: What are municipal bonds?

A. Municipal bonds, or "muni bonds" as they are often called, are issued by states, cities, municipalities or county governments to raise money. Proceeds from muni bonds can be used to improve roads, build schools or construct a new stadium—basically any project that is for the public good.

Q: What are some of the benefits of investing in municipal bonds?

A. The primary benefit of municipal bonds is their tax-exempt status. Income from municipal bonds is generally free from federal—and in some cases, even state and local—income taxes. However, it's important to note that these investments may be subject to the alternative minimum tax (AMT).

Municipal bonds can also offer a predictable stream of income with a relatively high degree of safety in regards to the timely payment of interest and principal.

Q: Who can benefit from investing in municipal bonds?

A. The old rule of thumb was that municipal bonds were only appropriate for affluent investors. However, while it's true that investors in the highest tax bracket may benefit most from muni bonds, investors in the lower tax brackets can enjoy their advantages as well. Investors looking to diversify their bond holdings might consider munis, as might those investors who live in high income-tax states. Municipal bonds are generally not appropriate for retirement accounts—such as IRAs and 403(b)s—and corporate or similar business accounts.

Q: What is a municipal bond fund?

A. A municipal bond fund is a mutual fund that invests in municipal securities. As such, a municipal bond fund has the same tax-exempt benefits as a municipal bond.

Q: What are the benefits of municipal bond funds versus municipal bonds?

A. Investors may prefer investing in municipal bond funds because they offer diversification, professional management, monthly income (whereas individual bonds pay interest annually or semiannually), liquidity, the option to reinvest dividends and the ability to begin investing with a relatively small initial amount.

The average investor would likely find it difficult to purchase individual municipal bonds on his or her own, as muni bonds are usually issued in $5,000 increments and are traded in institutional-size positions of $1 million or more.

Similar to other mutual funds, a municipal bond fund will carry certain sales charges, fees, expenses and risks. Each fund is offered through a prospectus, which should be read carefully before making any investment decisions.

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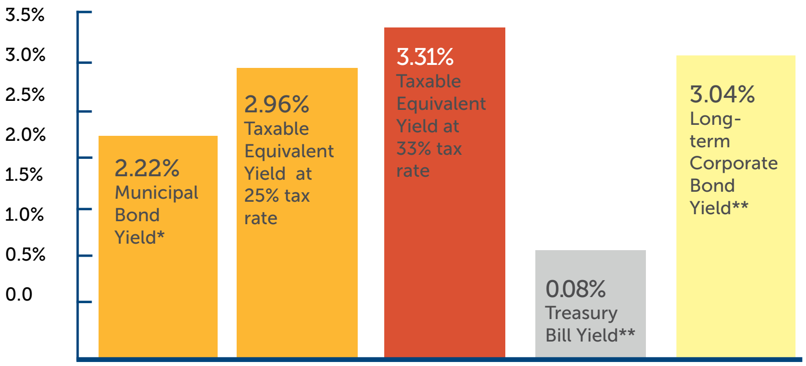
Q: What are the principal risks associated with municipal bond funds?

A. Two basic types of risk associated with bond funds are credit risk and interest rate risk. Credit risk refers to the potential inability of the bond issuer to repay the loan at maturity, as well as the risk that the issuer will miss interest payments. In general, the higher the credit risk, the higher the yield a fund must offer a purchaser.

Interest rate risk refers to the fact that the market price of a bond will fluctuate with interest rates. When talking about municipal bond returns, it's always important to take into account the taxable equivalent yield. This is the pretax yield an investor would need on a taxable bond (such as a corporate or Treasury bond) to match the yield of a tax-exempt municipal bond. This concept is illustrated in the chart below:



ASSUMPTIONS:

Long-term corporate bonds are represented by the Citigroup Long-Term High Grade Corporate Bond Index.

Treasury bills are represented by a one-bond portfolio.

This chart takes into account federal taxes at the 25 percent and 33 percent levels. If exemptions from state taxes were also considered, the taxable equivalent yield would be even greater.

This hypothetical chart is for illustrative purposes only. The yields used as examples do not imply or guarantee the yields or returns of any Foresters Financial product.

The illustration does not reflect the impact of sales charges, fees or expenses. After applicable sales charges, expenses and fees, values will be less. Changes in tax rates and tax treatment of investment earnings and applicable tax laws may also impact results. A fund's shares will fluctuate with changes in market conditions, and when shares are redeemed, they may be worth more or less than their original value. Moreover, pastperformance is not a guarantee of future results.

* Hypothetical yield
** *Source: Bank of America Merrill Lynch U.S. Treasury bills, 0-three months Index; Bank of America Merrill Lynch U.S. Corporate Master Index.*

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