



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

compliments of:



Are Munis for Me?

Frequently Asked Questions About Municipal Bonds

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 in order to raise money. Proceeds raised 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 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 too. An investor looking to diversify his 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), 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, expenses and risks. Each fund is offered through a prospectus, which should be read carefully before making any investment decisions.

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

A: There are two basic types of risk associated with bond funds—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 that must be offered to a bond purchaser.

Interest rate risk refers to the fact that the market price of a bond will fluctuate with interest rates. As interest rates fall, bond prices rise. Conversely, when interest rates rise, bond prices fall. The longer the maturity of a bond, the more its price tends to be affected by interest rate changes.

Q: Are there different types of municipal bond funds?

A: Yes, there are a number of funds available that can vary in many different ways, from degree of credit quality to average length of maturity.

Another important distinction is national versus single-state municipal bond funds. National tax-exempt funds invest in bonds from all over the country, offering investors high diversification as well as exemption from federal income tax. Single-state funds, on the other hand, focus on one state—giving residents of that state the benefit of exemption from both national *and* state income tax.

Why Should You Consider Investing in a First Investors Municipal Bond Fund?

A Long History of Serving Investors—First Investors has been serving the needs of investors nationwide since 1930.

Market Leadership in Muni Bond Funds—First Investors has long been a pioneer in the municipal bond fund market, launching a ground-breaking tax-exempt fund in 1977.

Professional Management—All First Investors Funds are actively managed by experienced portfolio managers or management teams.

Exceptional Service—First Investors Financial Services Representatives pride themselves on providing the highest degree of professional service possible to their clients. In addition to offering advice and guidance, your representative will be available to meet with you to review and assess your investment choices.

Tax Advantages—Income from First Investors municipal bond funds is free from federal income taxes. The Single State funds are exempt from state taxes, and in some cases, local taxes as well.

Exemption from the AMT—First Investors municipal bond funds only invest in bonds that are not subject to the alternative minimum tax (AMT), a form of taxation that has increasingly been eroding middle-class incomes.

High Credit Quality—The Funds will generally purchase municipal securities that are rated as investment grade, at the time of purchase, by at least one nationally recognized statistical rating organization, such as Moody's or Standard & Poor's. If the securities are unrated, the Fund's manager must determine them to be of investment grade quality.

Talk To Your First Investors Financial Services Representative

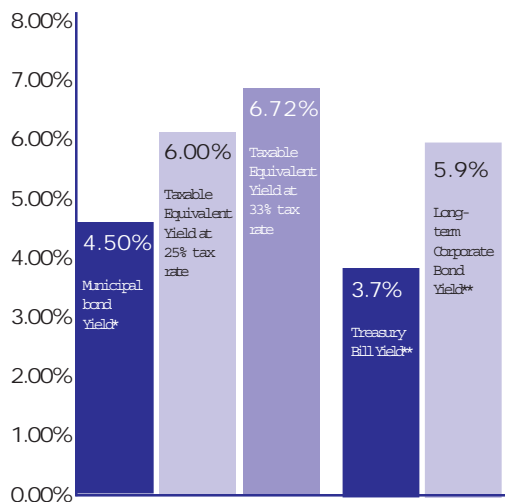
Now that you know a bit more about municipal bond funds, the next step is determining if they should play a role in your financial portfolio. Every investor has different needs and goals, which is why working with a professional, such as a First Investors Financial Services Representative, can help. Whether you're a new investor or an experienced veteran, your representative will work with you to develop a financial strategy to help you reach your long-term goals. However, it's important to remember that no strategy can guarantee a profit. All investing involves risk, including the possible loss of principal.

Neither First Investors nor its representatives offer tax, legal or estate planning services. Clients should contact their personal tax and legal advisers for any advice about tax-related investment decisions, estate planning or gifting.

For more information about First Investors funds or First Investors Life Insurance Company variable products, you may obtain a free prospectus by contacting your financial services representative, writing to the address below, calling (800) 423-4026, or visiting our website at www.firstinvestors.com. You should consider the investment objectives, risks, charges and expenses carefully before investing. The prospectus, or in the case of a variable insurance product, both its policy and underlying fund prospectus, contains this and other information, and should be read carefully before you invest or send money. An investment in these products is not a bank deposit and is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency.

Q: What does "taxable equivalent yield" mean?

A: 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) in order to match the yield of a tax-exempt municipal bond. This concept is illustrated in the chart below:



*Hypothetical return

**Compound Annual Returns, 1926-2008; Source: Stocks, Bonds, Bills and Inflation® 2009 Yearbook © 2009 Morningstar. All rights reserved. Used with permission.

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% and 33% 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 First Investors product. The illustration does not reflect the impact of fees or expenses. After applicable 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, past performance is not a guarantee of future results.

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Financial Services With A Personal Touch

First Investors has been serving the needs of investors since 1930. Through the Great Depression, World War II, numerous recessions and bull and bear markets alike, we have remained committed to our mission—helping our clients reach their financial goals. Today, we offer a wide range of financial products and services, including mutual funds, annuities, and life insurance. We pride ourselves on delivering financial services with a “personal touch.” Your First Investors Financial Services Representative is a licensed professional who will take the time to learn about your current financial situation and future goals in order to assist you with your financial needs.