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# FINANCIAL OUTLOOK

FALL 2009

## ESTATE PLANNING CONCERNS FOR RETIREMENT ACCOUNTS

For many people, retirement accounts, including 401(k) plans and individual retirement accounts (IRAs), are their most significant assets. While you may think you'll need every bit of money in those accounts for your retirement, what would happen if you die at an

early age? You should include these accounts in your estate plan so heirs inherit them with minimal estate and income tax effects. Some strategies to consider include:

- **REVIEW YOUR BENEFICIARY DESIGNATIONS.** These assets are distributed based on beneficiary designations, not on your will or other estate planning documents.

Thus, you should name primary as well as contingent beneficiaries. Make sure you understand how your assets will be distributed if a primary beneficiary dies before you do. For instance, if your primary beneficiaries are your children and one child dies before you, do you want that child's share to go to your remaining children or to that child's children? Review your beneficiary designations after major life changes, such as marriage, divorce, or the birth of a child.

- **CONSIDER ROLLING YOUR 401(k) PLAN ASSETS OVER TO AN IRA.** Most 401(k) plans now allow nonspouse beneficiaries to withdraw funds over their life expectancy, and beginning January 1, 2010, all plans will be required to offer this alternative. However, many plans still require nonspouse beneficiaries to withdraw funds within five years. Thus, you may want to roll over 401(k) assets to an IRA to ensure that withdrawals can be made over your beneficiary's life expectancy. As long as the rollover is handled properly, there are no income tax ramifications of the rollover.
- **SPLIT AN IRA WHEN THERE ARE**

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## WILL YOU BE ABLE TO WORK LONGER?

Retiring at age 65 without working for the rest of your life is starting to look like a difficult proposition. It was already challenging due to longer life expectancies, uncertain Social Security benefits, declining pension benefits, unknown inflation rates, and low retirement savings. Then, most people's retirement savings decreased significantly over the past couple of years due to declining investment values and home prices. The prospect of funding a retirement that could span 30 years is looking very tough. The most common solution to the problem is to work longer than the current average retirement age of 63.

Today's workers are typically healthier and working at less physically demanding jobs than workers in prior generations, which makes working longer seem like an easy solution. But there are a number of factors that might not make that possible. First, approximately 15% to

20% of workers will not be healthy enough to remain in the work force longer (Source: Center for Retirement Research, September 2008). One study found that approximately half of those who retired early did so for health reasons (Source: *The McKinsey Quarterly*, November 2008). Second, since reduced Social Security benefits are available at age 62, a majority of workers claim benefits as soon as they are available. Finally, a significant portion of older workers no longer work for the same employer from middle age to retirement age. If workers want to remain in the work force until their late 60s, they may be forced to find a new job in their 50s or 60s.

A recent study looked at the percentage of men between the ages of 58 and 62 who were working for the same employer they had at age 50. In 1983, 75% of full-time male workers worked at the same employer, compared to only 50% in 2006

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## ESTATE PLANNING

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**MULTIPLE BENEFICIARIES.** When there is more than one nonspouse beneficiary for an inherited IRA, distributions must be taken over the oldest beneficiary's life expectancy. By splitting the IRA into separate accounts, each beneficiary can take distributions over his/her life expectancy. You can split the account while you are alive, or your beneficiaries can do so within nine months after your death. Separating the account is especially important when one of the beneficiaries is not an individual or qualifying trust, such as a charitable organization. If you die before required distributions begin at age 70 1/2, the entire balance must be paid out in five years. If you die after required distributions begin, the balance must be paid out over your remaining life expectancy. When the account is split, each individual beneficiary can take distributions over his/her life expectancy.

- **MAKE SURE YOUR SPOUSE UNDERSTANDS THE RULES FOR INHERITING AN IRA.** Your spouse should be careful not to roll the balance over to a spousal IRA too quickly. Once the balance is rolled over, some planning opportunities are lost. For instance, spouses under age 59 1/2 can make withdrawals from the original IRA without paying the 10% federal income tax penalty. Once the account is rolled over, withdrawals before age 59 1/2 would result in a 10%



**I**ndividuals age 70 1/2 and older do not have to take a required minimum distribution (RMD) from their company retirement plans or traditional individual retirement accounts (IRAs) in 2009. RMDs for 2009 were suspended as part of the Worker, Retiree, and Employer Recovery Act of 2008. The suspension applies only to defined-contribution plans such as IRAs, 401(k)s, 403(b)s, and government 457 plans, but not to defined-benefit plans or other traditional pension plans.

RMDs are calculated by taking the account balance as of the preceding year divided by the life expectancy factor from a uniform table. Thus, RMDs for 2009 would have been based on account values as of December 31, 2008.

federal income tax penalty. Also, spouses who are older than the original owner can delay distributions by retaining the IRA. The surviving spouse does not have to take distributions until the deceased spouse would have attained age 70 1/2, even if the surviving spouse is over that age. The spouse may want to disclaim a portion of the IRA, which must be done within nine months of the original owner's death. If the account is rolled over, that disclaimer can't be made. Thus, it is usually best for the surviving spouse to determine his/her financial needs before rolling over the IRA balance.

- **CONSIDER ROLLING YOUR TRADITIONAL IRA BALANCES OVER TO A ROTH IRA.** While your income must be \$100,000 or less in 2009 to convert, all taxpayers will be able to convert in 2010, regardless of income levels. You must pay income taxes on the taxable amount of the conversion, but those taxes can be paid with funds outside the IRA. That preserves the IRA's value and reduces your taxable

## No RMDs FOR 2009

Unfortunately, no relief was provided for 2008 RMDs, so many retirees found themselves taking large RMDs that were based on account values as of December 31, 2007. After December 31, 2007, their account balances had declined significantly, so they were forced to sell at depressed prices and remove a significantly larger percentage of their current account balance from their account.

This suspension is only for 2009, so unless further legislation is passed, RMDs will be required again in 2010. Even though you do not take an RMD in 2009, your life expectancy factor will decline by one year when calculating the 2010 RMD.

Please call if you'd like to discuss this in more detail. ○○○

estate. Then, your heirs will receive qualified distributions free from income taxes, including all future appreciation on the balance.

- **TEACH YOUR HEIRS THE BENEFITS OF STRETCHING OUT WITHDRAWALS FROM INHERITED IRAS.** After an IRA is inherited, a traditional deductible IRA still retains its tax-deferred growth and a Roth IRA retains its tax-free growth. Your heirs should extend this growth for as long as possible. If the IRA has a designated beneficiary, which includes individuals and certain trusts, the balance can be paid out over the beneficiary's life expectancy. Spouses have additional options which can stretch payments out even longer. Your heirs can elect to take the entire balance immediately, paying any income taxes due. Make sure to stress to heirs the importance of taking withdrawals as slowly as possible.

If you'd like to discuss the estate planning aspects of your retirement accounts, please call. ○○○

## WILL YOU BE ABLE?

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(Source: Center for Retirement Research, September 2008). These results were consistent across all educational levels. If workers are leaving voluntarily, they are probably moving to better jobs with better pay, which should mean they will stay employed longer. If workers are laid off or forced out of their jobs in their 50s or 60s, they are likely to take inferior jobs at lower pay, which may mean they are less likely to stay employed into their late 60s.

While it is difficult to determine why workers changed jobs, the wages of workers who switched jobs were approximately 75% of the wages of those with the same employer (Source: Center for Retirement Research, September 2008). Another study found that workers who left their jobs between the ages of 51 and 65 with at least 10 years of tenure did so due to retirement, layoffs, and voluntary and involuntary quits, with each factor accounting for one-third of the total (Source: Center for Retirement Research, September 2008).

Thus, while it is frequently suggested that workers should work longer before retiring, there are complicating factors that might make that difficult for all workers. Please call if you'd like to discuss this topic in more detail. ○○○



## A TAX-PLANNING MENTALITY

**M**any people confuse tax planning with tax preparation and only think about the subject when preparing their annual tax return. However, there is little you can do to actually lower your bill when preparing your return. If your goal is to reduce income taxes, you need to be aware of tax-planning opportunities throughout the year.

Take time early in the year, perhaps as part of the tax preparation process, to assess your tax situation, looking for ways to reduce your tax bill. Consider a host of items, such as the types of debt you owe, how you're saving for retirement and college, which investments you own, and what tax-deductible expenses you incur. It often helps to discuss these items with a professional who can review strategies you might not have considered.

During the year, consider the tax consequences before making important financial decisions. This will prevent you from finding out later that there was a better way to handle the transaction for tax purposes.

Look at your tax situation again in the fall, which gives you plenty of time before year-end to implement any additional tax-planning strategies. At that point, you'll also have a better idea of your expected income and expenses for the year.

There are basically three strategies that can help reduce your income tax bill:

○ **REDUCE OR ELIMINATE TAXES.** The objective is to receive income in a nontaxable form or to find additional tax deductions, exemptions, or credits. For instance, you might want to consider

municipal bonds, whose interest income is generally not subject to federal, or sometimes state and local, income taxes. Or investigate investments that generate capital gains, such as growth stocks. Gains are not taxed until you actually sell the investment, and if held for over one year, capital gains are subject to the 15% capital gains tax (0% for individuals in the 10% or 15% tax bracket). If you have realized capital gains, you might want to offset those gains by selling investments with losses.

- **POSTPONE THE PAYMENT OF INCOME TAXES UNTIL SOMETIME IN THE FUTURE.** By postponing tax payment, your earnings compound on the entire balance, including the portion that will eventually be paid in taxes. You may also be in a lower tax bracket when taxes are paid. As an example, contribute as much as possible to retirement accounts, including employer plans and individual retirement accounts (IRAs).
- **SHIFT THE TAX BURDEN TO ANOTHER INDIVIDUAL.** The objective of this technique is to transfer assets to other individuals so that any income on those assets becomes taxable to those individuals. Typically, however, you have to give up control of the asset. For instance, you can give tax-free gifts annually of up to \$13,000 in 2009 (\$26,000 if the gift is split with your spouse) to any number of individuals. Any future income generated on those gifts then becomes taxable to those individuals. You may also want to use your lifetime gift tax exclusion of up to \$1,000,000 to make larger gifts. ○○○

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## FINANCIAL DATA

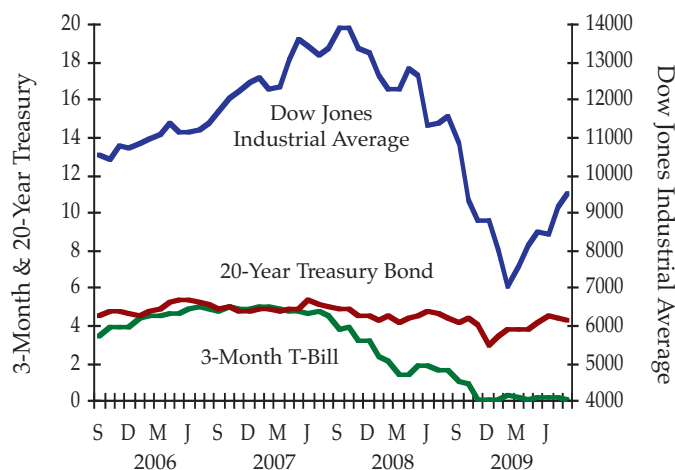
Indicator	Month-end				
	Jun-09	Jul-09	Aug-09	Dec-08	Aug-08
Prime rate	3.25	3.25	3.25	3.25	5.00
Money market rate	0.07	0.04	0.04	1.84	2.18
3-month T-bill yield	0.20	0.19	0.15	0.05	1.71
20-year T-bond yield	4.54	4.46	4.26	3.04	4.48
Dow Jones Corp.	5.34	4.94	4.65	7.16	6.02
30-year fixed mortgage	4.99	4.82	4.91	4.48	6.05
GDP (adj. annual rate)#	-6.30	-6.40	-1.00	-6.30	+2.80

Indicator	Month-end			% Change	
	Jun-09	Jul-09	Aug-09	YTD	12 Mon.
Dow Jones Industrials	8447.00	9171.61	9496.28	8.2%	-17.7%
Standard & Poor's 500	919.32	987.48	1020.62	13.0%	-20.4%
Nasdaq Composite	1835.04	1978.50	2009.06	27.4%	-15.1%
Gold	934.50	939.00	948.50	12.0%	13.9%
Consumer price index@	213.90	215.70	215.40	2.5%	-2.1%
Unemployment rate@	9.40	9.50	9.40	30.6%	64.9%
Index of leading ind.@	100.20	101.00	101.60	2.5%	0.3%

# — 4th, 1st, 2nd quarter @ — May, Jun, Jul Sources: *Barron's*, *Wall Street Journal*

## 4-YEAR SUMMARY OF DOW JONES INDUSTRIAL AVERAGE, 3-MONTH T-BILL &amp; 20-YEAR TREASURY BOND YIELD

SEPTEMBER 2005 TO AUGUST 2009



Past performance is not a guarantee of future results.

## NEWS AND ANNOUNCEMENTS

## THE CASE FOR GRATs

The lifetime gift tax exclusion is \$1,000,000, but it is not scheduled to increase in the future. If you'd like to pass on more than \$1,000,000 to your heirs before your death but don't want to pay gift taxes, you may want to take a look at grantor retained annuity trusts (GRATs).

With a GRAT, you transfer an asset to the trust, retaining an annuity interest for a specified term, typically two to five years, but sometimes longer. During that period, the trust pays you a specified amount every year. When the trust terminates, the property goes to the named beneficiary. The gift is valued based on the present value of the remainder interest, which is the property's value less the retained annuity interest's value. Any appreciation in the asset after transfer to the trust escapes gift and estate taxes. However, if you die before the trust ends, the trust property will be included in your taxable estate.

Recent declines in interest rates have made GRATs a more valuable estate planning strategy for a couple of reasons. When you initially place the asset in the trust, the lower interest rates will result in a lower value for your retained interest, thus reducing the gift's value. When your annuity payments are calculated, lower interest rates will result in a lower required annuity, leaving more assets in the trust for your beneficiaries. The interest rates that must be used for these calculations is 120% of the midterm applicable federal rate, which was 3.32% as of July 2009 (Source: *Federal Taxes Weekly Alert*, June 25, 2009).

Assets that are typically good candidates for a GRAT are those whose value is expected to increase significantly during the trust's term. GRATs are sophisticated estate planning tools that may only be appropriate in certain situations. Please call if you'd like to discuss GRATs in more detail. ○○○

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