

Retirement planning

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A surrealist painting with a yellow and orange background. On the left, a large red pencil stands vertically. In the center, a white set square is positioned. To the right, a tall, purple thermometer with a scale from 10 to 90 is visible. A small figure of a person stands on a globe at the bottom center, looking up at the thermometer. The overall scene suggests themes of measurement, planning, and global impact.

Reengineering your retirement

401(k) plans have been hammered. According to another survey, nearly one-third of participants experienced a loss of 33% or more in their accounts last year. Personal investment portfolios have suffered similar setbacks.

A great many assumptions about retirement will have to be reviewed. One bright spot: Social Security remains a sound financial foundation for millions. (See *Social Security Facts* on page 2 for details.) Another useful development: Congress has given older retirees more flexibility in managing their retirement assets by suspending “Required Minimum Distributions” for IRAs and 401(k)s for 2009. Although the change is welcome, it’s more complicated than one might think. (See *Suspension of Required Distributions* on page 2 for more information.)

If you are worried about your retirement—and who isn’t?—this is as good a moment as any to begin an active reassessment.

Reassess needs and resources

One sign of how difficult retirement is becoming is the number of retirees who have had to return to the work force. More and more retirement guides are recommending delaying retirement as long as possible, in order to build a better capital cushion against the financial storms that may be ahead.

You can begin your inventory of retirement resources by checking your projected benefits at www.socialsecurity.gov. A variety of online calculators are available to predict the income that your savings—both the already taxed and the tax deferred—are likely to generate. If you fall short, the calculators also may suggest how much more to save to reach your goal.

The trouble with projections is that they cannot factor in market catastrophes such as we have now experienced. Savings may not grow as predicted. Projecting retirement expenses now is equally hazardous. Some observers believe that the government’s response to the economic crisis is likely to bring along a significant increase in inflation, which hits those on fixed incomes very hard. Many

Although the attention of politicians has been focused upon beleaguered homeowners and the auto industry, the recession will have a profound impact on America’s retirees and near-retirees as well. So say 83% of those responding to a poll by the National Institute on Retirement Security. Many participants in

expect that state and local taxes will have to rise as well, to cover shortfalls caused by the economic contraction.

Don't give up on your 401(k)

Despite the gloom, the 401(k) plan does remain a powerful engine for capital accumulation. Tax deferral is important. Unfortunately, to trim expenses during the recession, many companies have been forced to stop their contributions. That is not a good reason for employees to stop their own deferrals. On the contrary, they should make an extra effort to save as much as possible.

However, this may be a good time to revisit your asset allocation program for taxable and tax-deferred savings.

Develop a new investment policy

Everyone would like to have high rates of return, say in the low double digits, with no investment risk whatsoever. Unfortunately, that is exactly what Bernie Madoff promised, and some 13,000 investors have learned to their sorrow that it is not possible.

Many people overestimated their risk tolerance, and the current stock market has put them to the test. Be realistic in your assessments.

At the same time, some stocks have been trading at price/earnings ratios that suggest they may be undervalued by historical standards. We don't know when the bottom will be reached for stocks, or where that bottom will be. Based upon financial market history, however, after the bottom has been reached, a rebound could come quickly, with most of the gains coming on just a few trad-

Social Security facts

- As of December 2008, 32 million retirees were collecting an average of \$1,153 per month in benefits. 2.9 million dependents and 6.5 million survivors were collecting benefits as well.
- Nine out of ten individuals age 65 and older receive Social Security benefits.
- For the elderly overall, Social Security benefits represent about 40% of income.
- For 52% of married couples and 72% of unmarried persons who are retired, Social Security provides 50% or more of their income.
- Social Security benefits provide 90% of total income for 20% of married couples and about 41% of unmarried persons who are retired.

Source: www.socialsecurity.gov

ing days. That's why market timing is almost impossible to get right.

Don't go it alone

Are you concerned about your plans for retirement? We can be a valuable resource as you adapt to the new economic and market realities. Our areas of expertise include professional investment planning and trust management, cornerstones to financial independence. Please call upon one of our officers to learn more about how we might assist you and your family. □

Suspension of required distributions

A rather nasty problem emerged for older retirees in 2008. Those who reach age 70½ are required to start taking a minimum amount from their IRAs each year, geared to their life expectancies. The problem in 2008 was that the distribution amount had to be figured on the account value as of December 31, 2007, even though many accounts fell significantly in value through 2008. Thus, account



owners had the double whammy of overly large withdrawals on top of their paper losses.

A movement to suspend the rules for required minimum distributions came too late to affect the 2008 tax year, but it is in place for 2009. What could be complicated about suspending this tax rule for one year? Lots.

- If you turned 70½ in 2008, you needed to receive your first minimum IRA distribution by April 1, 2009. You still had to take that distribution, because it is attributable to the 2008 tax year, even though it is taxed in 2009.
- If you turn 70½ in 2009, you don't need to take your first required distribution, which would have been due by April 1, 2010. But you will

need to take your second required distribution, which will be due by December 31, 2010.

- If you are receiving required distributions because you inherited an IRA, you can skip the 2009 distribution.
- If your IRA custodian sends you a minimum distribution check that you don't want, you may roll it back into your IRA within 60 days.
- If you annuitized your IRA under Section 72(t), you may not skip your 2009 distribution—that part of the tax code wasn't changed by the new legislation.

If you have questions about your IRA, consult your IRA custodian soon. Although the tax rules are uniform, the responses to them have not been as clear.

Donor control of the use of gifts

The Robertson/Princeton conflict provides lessons to donors and donees.

Perhaps the most famous quote from President John F. Kennedy is: "Ask not what your country can do for you—ask what you can do for your country." Charles and Marie Robertson were so inspired by Kennedy's inauguration speech that they created the Robertson Foundation to fund programs at Princeton University's Woodrow Wilson School of Public and International Affairs. According to the family, the gift's purpose was to create an environment "where men and women dedicated to public service may prepare themselves for careers in government service, with particular emphasis on the education of such persons for careers in those areas of Federal Government that are concerned with international relations and affairs."

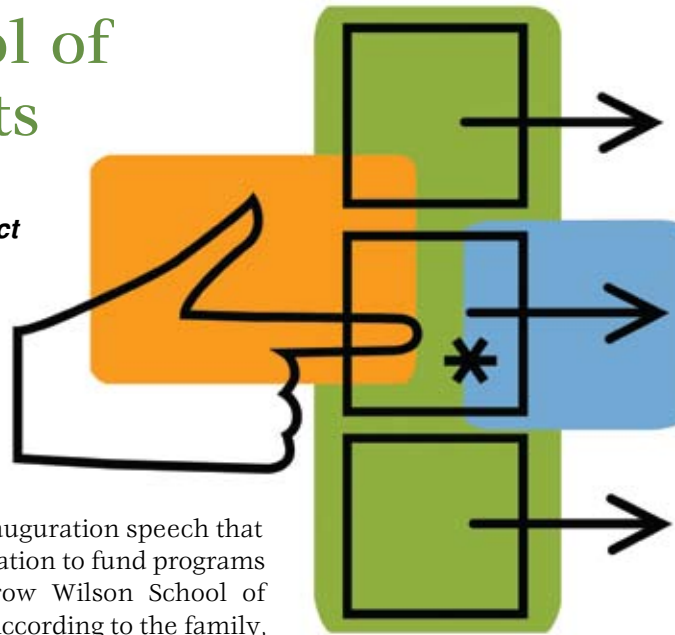
The Robertson Foundation was governed by a Board of Trustees. Princeton supplied the majority of the Board members, with the balance designated by the Robertson family. The Foundation was funded with 700,000 shares of A&P stock, worth \$35 million in 1961. By June 2008, the estimated value of the Foundation was reportedly \$900 million.

Conflict

In 2002, when the Foundation was worth hundreds of millions of dollars, the Robertson family became aware that Princeton may not have complied strictly with the terms of the gift. The number of Woodrow Wilson School graduates going into government service had declined over the years. What's more, according to press reports, the family alleged that:

- \$750,000 of the Foundation's money was spent on students' tuition outside the Woodrow Wilson School, and the financial documents were tailored to hide that fact from the family;
- an analysis by a former Harvard finance official suggested that more than \$200 million had been diverted from the Foundation's mission over the years;
- one of Princeton's deans, speaking about the restrictions, was quoted as saying: "What bothers me is the unspoken premise that, with respect to any American institution dealing in public affairs, the highest per-se loyalty automatically must be to the U.S. government. The University should resist a blind commitment to the nation-state parochialism."

The family filed a lawsuit to remove the Foundation from Princeton's control and to receive a reimbursement of funds spent improperly.



Resolution

Princeton countered that the restrictions placed on the Robertsons' gift were merely "aspirational" and not binding, that times and circumstances had changed since the gift was made, and that Princeton should be free to manage its financial affairs as it saw fit.

A trial was scheduled for January 2009. However, by that time the Robertson family had spent some \$40 million in legal fees, and they realized that even if they won the first court battle, there could be a long war of additional years of appeals. A settlement was reached, and the Robertson Foundation will be dissolved, its assets merged into Princeton's endowment, and the restrictions eliminated. Robertson Foundation funds will be used to reimburse the family for its legal fees, paid out over four years. In addition, the Robertson family will create a new foundation, dedicated to the same purposes as the original foundation, and \$50 million will be transferred to that fund over a ten-year period by Princeton. Presumably, that fund will be controlled solely by Robertson family members.

Alternatives

The Robertson case is not an isolated one, unfortunately, as other philanthropists or their descendants have found that restrictions placed upon charitable gifts have not been honored. On the one hand, how long should a legacy be controlled by dead hands from beyond the grave? On the other hand, if a charity is unwilling to be bound by restrictions, it should simply reject the gift, rather than accept it and later circumvent the donor's intentions.

When donors are considering major gifts that will include restrictions, they may want to consider including provisions for resolving any disputes that may arise. They may want to name alternate beneficiaries. And they probably will want to bar the use of gift funds to pay legal expenses associated with a dispute, as happened in the Robertson case.

Some observers have suggested that a charitable trust may be a superior approach when the family wishes to remain active in philanthropy. Family members may be named trustees, or cotrustees, of the charitable trust. With this approach, the family can make adjustments, should circumstances warrant, to remain faithful to the donor's intent. □

Taxes and charitable gifts

The President's budget package contemplates a reduction in the value of the charitable deduction for upper-income taxpayers. Many charities are alarmed that, at exactly the moment that they most desperately need the funds, the government may reduce the incentives for those who are most able to give. A new study reported in *The Chronicle of Philanthropy* confirms the validity of those fears.

Households with more than \$250,000 of income were asked what effect an elimination of the income tax charitable deduction would have on their charitable giving. A majority said that it would have no effect. However, 37% said that they would somewhat decrease their giving, and 10% (up from 7% in 2005) predicted that they would decrease their gifts dramatically. (Of course, "dramatic" is in the eye of the beholder.) Apparently, a significant number of donors evaluate their gifting on an after-tax basis. Presumably, they would decrease their giving by the amount of lost tax savings.

Interestingly, the same survey examined the effect of estate taxes on charitable giving. Again, a majority of respondents said that taxes made no difference to their gift planning. About 25% said that they would increase their charitable gifts if there were no estate tax, and about 12% said they would dramatically increase their gifts in that circumstance. Evidently, once family needs are taken care of, the balance of the estate may go to philanthropy—in effect, they would give away the amount of estate tax that they otherwise might have to pay. □

Thoughts at tax time

All taxes are a drag on economic growth. It's only a question of degree.

—Alan Greenspan,
former Chairman of the Federal Reserve Board

The council already passed legislation authorizing the sale of beer . . . This has already resulted in considerable reemployment and, incidentally, has provided much needed tax revenue.

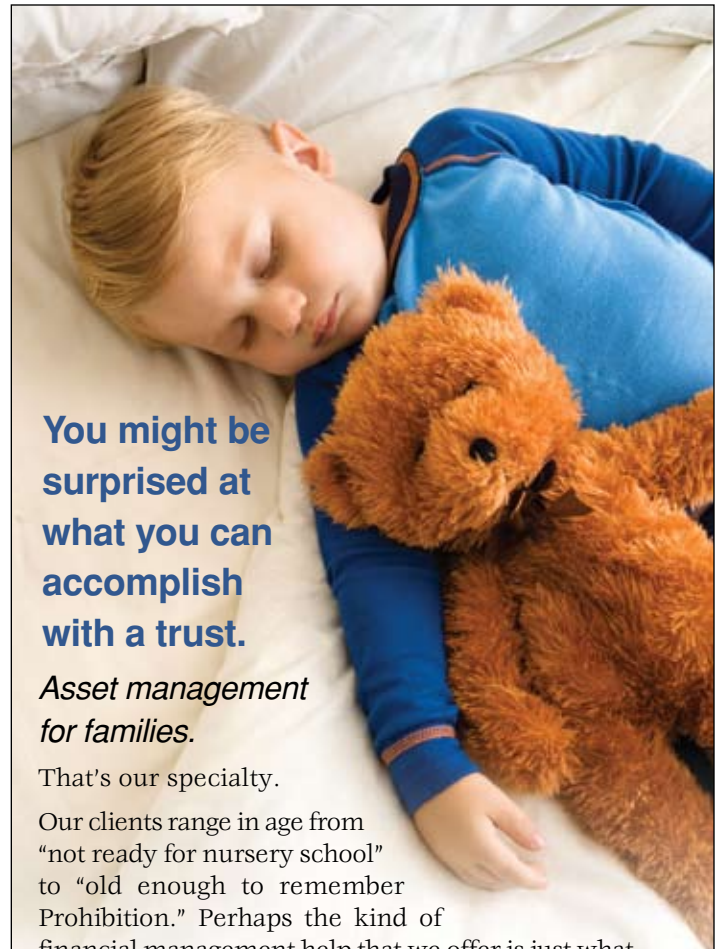
—President Franklin D. Roosevelt

A dynamic economy, with more citizens working and paying taxes, will be our strongest tool to bring down budget deficits.

—President Ronald W. Reagan

Why does a slight tax increase cost you \$200 and a substantial tax cut save you 30 cents?

— Peg Bracken, Author



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