

Retirement

How long a retirement will *you* plan for?

Portfolios

Longer-term investing

Tax currents

Estate tax stalemate
Is there a VAT in our future?



Investment & Trust Newsletter

July 2010

How long a retirement will *you* plan for?

This year, the Social Security Administration will pay out more in benefits than it receives in taxes, a development that was not expected to occur for many more years. Two forces are at work. The recession and accompanying high unemployment have reduced the federal government's revenue intake. We may hope that this is a temporary phenomenon.

The other element is permanent. More people than expected have begun drawing down their benefits, in many cases taking reduced payments before their normal retirement age. In a period of economic difficulty, resorting to all available resources is understandable. However, in the longer term, the decision to start benefits early can come back to haunt a retiree.

Life expectancies have grown dramatically in the U.S., especially the life expectancies of retirees. The 20-year retirement is no longer exceptional, as the table below shows. A couple both aged 65 has a 72% chance that one of them will survive to age 85 and a 45% chance of making it to age 90.

That's a long time to have a reduced income.

As you chart your course for a long retirement, two areas deserve your special attention, each of which will

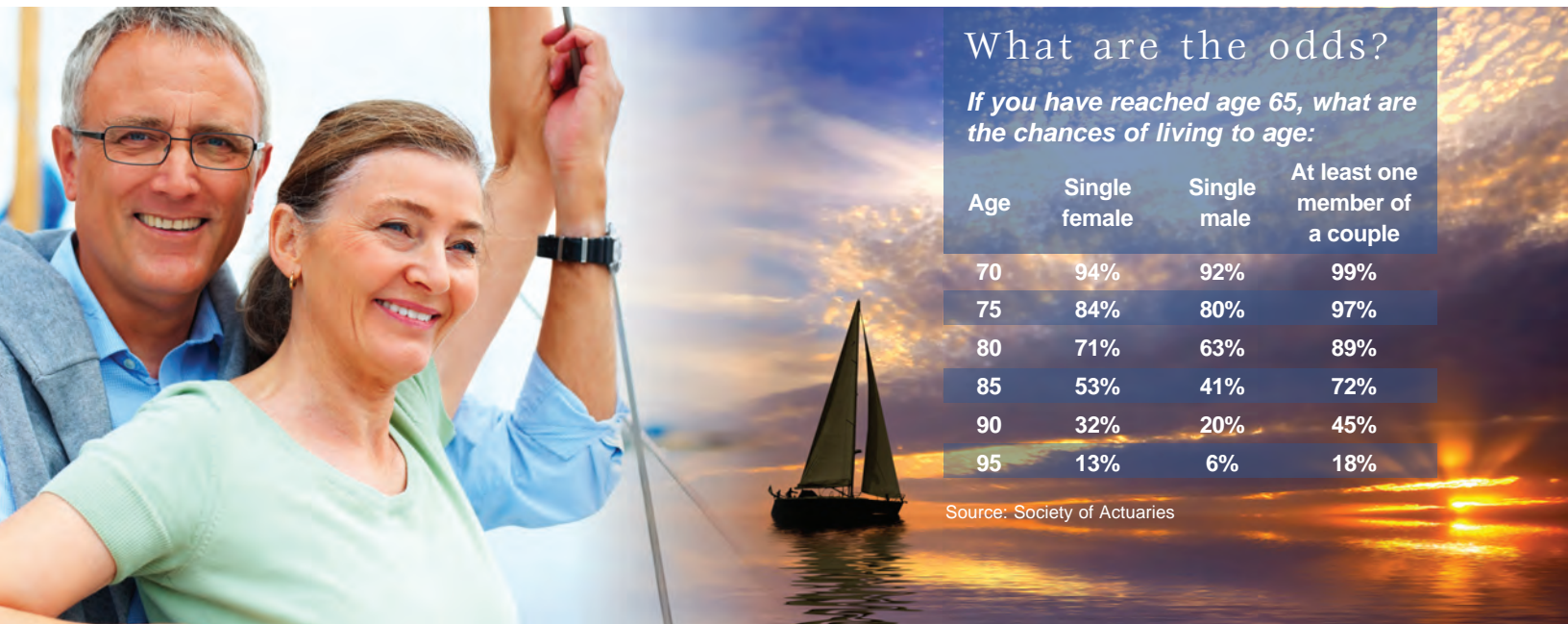
become more important the longer you live: medical care and financial management in the event of incapacity.

Advance health care directives

In recent years, there's been a renewed focus on *living wills*. A living will provides guidance on making medical decisions when one is terminally ill, that is, expected to die within six months. Among the questions to consider before executing a living will are:

- How do you feel about ventilators, surgery, drugs or tube feeding if you become terminally ill? If you are unconscious and not likely to awaken? If you become senile?
- What sort of mental, physical or social abilities are important for you to have to enjoy living?
- What kind of medical treatment would you want if you had a severe stroke or other medical condition that made you dependent upon others for all your care?

A living will tries to answer such questions, yet one readily can see that answers are almost impossible. No one can guess what medical emergency might be faced in the future, nor what medical advances might be made in the coming years to deal with it. In fact, some studies



What are the odds?

If you have reached age 65, what are the chances of living to age:

Age	Single female	Single male	At least one member of a couple
70	94%	92%	99%
75	84%	80%	97%
80	71%	63%	89%
85	53%	41%	72%
90	32%	20%	45%
95	13%	6%	18%

Source: Society of Actuaries

have shown that similarly situated patients tend to get the same care whether they have living wills.

That's why most experts advise having a *durable power of attorney for health care* in addition to a living will. This document identifies an individual whom you have chosen to make health care decisions on your behalf, when you are unable to make your wishes known. Most important, this document provides effective guidance before a diagnosis of terminal illness is made. Withholding of nutrition and hydration generally cannot be authorized by a living will, but they can be ordered under a power of attorney for health care.

Finally, persons with terminal illnesses, such as advanced cancer or kidney disease, may have a *do not resuscitate* (DNR) order placed into their medical charts. This is a request not to have cardiopulmonary resuscitation (CPR) when breathing stops or the heart stops beating. A DNR will be respected by doctors and hospitals in all states.

Forms for creating living wills and durable powers of attorney for health care are available in most states and on the Internet. Although do-it-yourself legal advice may be better than none at all, it remains a chancy business. We recommend that you review these important issues with your attorney when you do your will and estate

planning.

Advance financial directives

The most basic tool for delegating authority to make financial decisions is the *power of attorney*. The power normally is drafted by an attorney, and the authority that it creates may be as broad or as narrow as needed. However, a traditional power of attorney is effective only so long as the person who created it is competent. Therefore, a *durable power of attorney* may be a better choice, because it continues in force regardless of the competence of the person whose affairs are being managed. In some cases, a power of attorney doesn't become effective until the occurrence of a future event, such as the onset of a disability. Such an approach is called a *springing power of attorney*.

The more comprehensive approach to financial management at the end of life is the *revocable living trust*. Investment assets are placed in the care of a *trustee*, who manages them consistent with the terms laid out in a trust agreement. The trustee may be empowered to handle routine financial chores, such as paying bills and taxes, for example, as well as the more demanding duties associated with portfolio management.

A living trust provides continuous financial protection in the event that the trust grantor becomes incapacitated. There's no need to involve a court in a public proceeding for a guardianship or conservatorship to handle financial matters.

Privacy and living trusts

Trust planners will occasionally refer to the "Groucho Marx problem" and the "Bing Crosby solution." Toward the end of his life, Groucho's family had a nasty and public legal battle over taking care of him. Groucho's end-of-life financial preparations were woefully inadequate, and the result was a publicity nightmare.

In contrast, no one heard much about Bing Crosby in the years before he died, nor was there much publicity about his will or his estate after his death. The reason was quite simple: The bulk of his estate passed, privately, under the terms of his living trust.

Because living trusts avoid probate, their terms do not normally become a matter of public record, which is what always happens with a will. The benefits are twofold. Decorum and privacy are preserved for the deceased, the trust creator. Equally important, privacy is also maintained for the trust beneficiaries, who may be able thereby to avoid unwanted solicitations.

Are you ready?

Aside from privacy, one of today's most cherished luxuries is attentive, personalized service from people who not only know their business but also enjoy helping others. We work hard to provide our living trust customers with that standard of service. You can gauge our capabilities by talking over your own plans with one of our asset managers. Why not make an appointment this month? □



On retirement

When a man retires, his wife gets twice the husband but only half the income.

—*Chi Chi Rodriguez*

The challenge of retirement is how to spend time without spending money.

—*Author Unknown*

Retirement is like a long vacation in Las Vegas. The goal is to enjoy it to the fullest, but not so fully that you run out of money.

—*Jonathan Clements*

Retirement at sixty-five is ridiculous. When I was sixty-five I still had pimples.

—*George Burns*



Longer-term investing

As stock prices dipped in May, some investors began to worry that a “correction” was in the making or even another leg of a bear market. Few economists are expecting a “double-dip” recession, but the possibility can’t be completely discounted.

The stock markets have not been kind to investors so far in this century, as the following data show:

Returns by decade for various asset classes								
	1930s	1940s	1950s	1960s	1970s	1980s	1990s	2000s
Large company stocks	-0.1%	9.2%	19.4%	7.8%	5.9%	17.6%	18.2%	-0.9%
Small company stocks	1.4%	20.7%	16.9%	15.5%	11.5%	15.8%	15.1%	6.3%
Long-term government bonds	4.9%	3.2%	-0.1%	1.4%	5.5%	12.6%	8.8%	7.7%
Treasury bills	0.6%	0.4%	1.9%	3.9%	6.3%	8.9%	4.9%	2.8%
Inflation	-2.0%	5.4%	2.2%	2.5%	7.4%	5.1%	2.9%	2.5%

Source: M.A. Co. Data: Ibbotson® SBB® 2010 Classic Yearbook

Although stocks have done best in the long term, they have, during meaningful periods, been outperformed by bonds. Market timers try to guess the boundaries of those periods and shift their investments among the asset categories as appropriate.

The alternative to market timing is having a diversified portfolio, with exposure to many asset classes. Such an approach should reduce investment risk, at the cost of some upside potential. For all five-year periods since 1926, a portfolio invested only in large company stocks has been in the red 11 times. In contrast, a portfolio that has held 30% stocks and 70% long-term government bonds has not had a negative five-year return since 1926. On the other hand, such a portfolio composition was the best performer only twice in that time frame, as the table below shows.

Returns for various portfolio mixes for overlapping five-year periods				
	Best return	Worst return	Times positive (of 80 overlapping periods)	Times highest returning portfolio
100% stocks	28.56%	-12.47%	69	54
90% stocks/10% bonds	26.62%	-10.31%	72	1
70% stocks/30% bonds	22.75%	-6.31%	75	0
50% stocks/50% bonds	20.99%	-2.77%	75	3
30% stocks/70% bonds	21.30%	0.12%	80	2
10% stocks/90% bonds	21.53%	-1.38%	77	1
100% bonds	21.62%	-2.14%	74	19

Source: M.A. Co. Data: Ibbotson® SBB® 2010 Classic Yearbook

What about your portfolio? Could you benefit from a professional review of your holdings? Make an appointment to meet with one of our investment officers, and we’ll be pleased to share our investment perspectives with you. □

Estate tax stalemate

Even before the federal estate tax went on hiatus last January 1, some Congressmen were talking about restoring the tax on a retroactive basis for this year, most likely in the first couple months. That hasn't happened, and more and more tax observers believe that it may not happen at all. This really *will* be a year without federal estate taxes.

That's especially good news for the heirs of Dan Duncan, who died in March. *Forbes* magazine estimated his fortune at \$9 billion. According to press reports, much of his estate will pass to his children, an approach that could have triggered an estate tax bill in the billions of dollars.

The U.S. Supreme Court has upheld retroactive increases in estate tax *rates*, but the imposition of a retroactive estate tax, a form of taxation that had been deliberately suspended by an earlier Congress, could raise constitutional questions. Certainly, the Duncan heirs would have the means and the incentive to raise that challenge. According to one line of thinking, with the stakes this high, Congress is less likely to attempt to reform the estate tax or the gift tax retroactively.

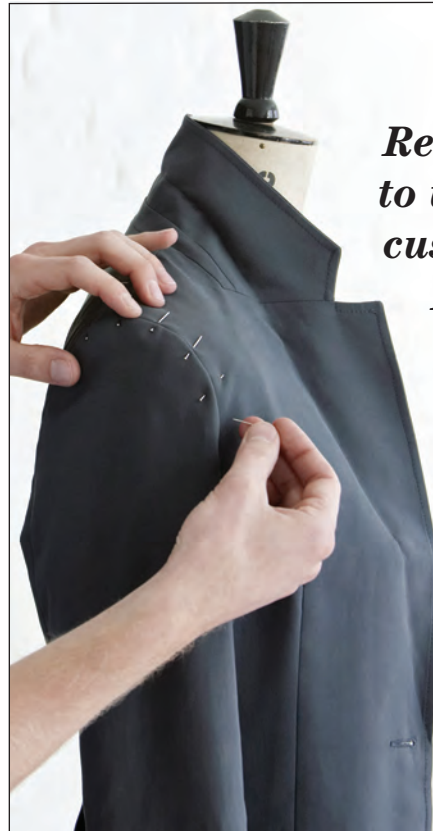
That could mean 2010 will be a unique window of opportunity. The top federal gift tax rate, when lifetime gifts exceed \$1 million, is only 35% this year. Next year it jumps to 55%.

What about the estate tax next year? President Obama has proposed extension of the \$3.5 million estate tax exemption from 2009. Some Congressmen advocate an increase to \$5 million; some want to terminate the estate tax; still others believe that many more estates should be exposed to such taxation at death. If the stalemate continues, the estate tax will return in 2011 with a federal exemption limited to \$1 million. That would result in an eight-fold increase in the number of taxable estates, compared to 2009.

Is there a VAT in our future?

Soon after he was inaugurated, President Obama established a tax reform group, headed by former Federal Reserve Chairman Paul Volcker, as a subcommittee of the President's Economic Recovery Advisory Board. A report from the group, due in December last year, was postponed to gather more input. The report could be released soon, according to press reports in June.

One item that may be on the table is a Value-Added Tax, a sort of national sales tax, as a means to get more revenue for the federal government. Volcker has been quoted as saying that the goal of deficit reduction can't be achieved solely through the income tax. However, as the VAT applies across the income spectrum, it will be challenging to square such a proposal with the President's campaign promise not to raise taxes on families making less than \$250,000. □



Retirees look to us for custom-tailored IRA rollovers.

Will you be receiving a lump sum distribution from your employer's retirement plan? The tax and investment decisions that you make for this money could determine your financial security for the rest of your life.

Don't address these decisions alone. Call upon our professional expertise. We can help with all aspects of retirement planning. Come talk with us this month to learn more.

Call our trust professionals for an appointment.

Randy J. Dickinson
Vice President
& Trust Officer

Michelle Mease
Assistant Vice President
& Trust Officer

Miles Coffland, CPA
Trust Officer



Phone: 989-772-9471 Fax: 989-773-3735