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FINANCIAL OUTLOOK

SPRING 2012

START LONGEVITY PLANNING TODAY

Because we are living longer doesn't mean we're going to remain healthy throughout our longer lives. In the past, seniors who lived long lives tended to be healthier in their senior years, which meant they had lower medical bills. But while some credit goes to more active, health-conscious, smoke-free lifestyles, it's safe to say that today's seniors owe more to prescription drugs and medical advances for lengthening their lifespan.

And as we all know, health care costs money — lots of it. In fact, Fidelity Investments found in its 2011 *Retiree Health Care Costs Estimate* study that a 65-year-old couple retiring this year with Medicare coverage will still need \$230,000 to pay for medical expenses throughout retirement, excluding nursing-home care.

Speaking of which, with a longer life comes the greater likelihood of needing assisted living or long-term care. According to the

Genworth 2011 *Cost of Care Survey*, assisted living averages \$39,000 a year, and nursing homes average more than \$70,000 a year per person. For a couple, this kind of care could cost far more than their annual household income during their highest earning years.

PLAN NOW FOR A LONG LIFE

Some of the things you can do to plan for a long life come down to repositioning your assets — as well as your approach toward life.

For example, lifestyle factors can contribute significantly to both how long you live and the quality of life you lead. Areas where most of us could easily pay more attention include lower caloric intake, higher vegetable and fruit consumption, a higher fiber diet, lower body fat, and regular exercise.

Furthermore, research has revealed that as you age, learning new skills can help protect the brain against age-related memory decline and dementia. This is particularly important during retirement when you no longer have the day-to-day cognitive challenges that kept your mind active. Effective brain-stimulating activities include doing

MAJOR ESTATE TAX LAW CHANGES AHEAD

On December 31, 2012, the provisions of the law that took much of the sting out of estate taxation are due to expire. It was the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010, or TRA 2010, signed into law on December 17, 2010, that ushered in the lightest levies against inherited assets in more than 75 years. Among other things, it raised the estate tax threshold to \$5 million per person (\$5.12 million in 2012), and lowered the estate tax rate to 35%.

The rate hadn't been that low since 1931 when the top rate was 20%. It rose to 45% in 1932 and

soared to 77% from 1941 through 1976, before ratcheting down to 55% in 1984, where it remained through 2001. Changes in the 2000s gradually brought that rate down to 35%.

THE CHANGES EXPLAINED

With the expiration of TRA 2010 set for the end of 2012, estate taxation will revert to what it was in 2001: taxes begin on estates of just \$1 million (still twice that for married couples), and the tax rate moves back up to 55%. To illustrate the impact: the taxes due on a joint estate of \$5 million will rise from nothing this year and next to \$2.75 million in 2013.

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START LONGEVITY

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crossword puzzles, playing video games, learning a new skill such as cooking or ballroom dancing, or learning a foreign language.

Studies have also found that people who feel the most socially connected are four times less likely to develop serious illnesses. A Brigham Young University study reports that social connections — friends, family, neighbors, or colleagues — improve our odds of survival by 50%. In fact, the study asserts that low social interaction is the equivalent to smoking 15 cigarettes a day or being an alcoholic (Source: *Social Relationships and Mortality Risk*, July 2010).

FINANCES

This is a good time to think about your priorities and align your assets to support your personal goals (not just your financial aspirations). In fact, you may need to reposition your assets to accommodate a longer life with fewer assets than you previously thought.

When we talk about reevaluating and establishing financial goals, it shouldn't just be about seeking a 10% average annual return on your investments over the next five years. You should consider what you actually want to do with your money. What is the purpose of it — to live out your life comfortably and secure, or to live in luxury, entertain, and travel extensively? The latter lifestyle may no longer be your priority, so before you determine what changes to make in your finances, it's important to establish what you want from your life.

Even in retirement, your portfolio may need to be positioned for both growth and security. Growth to meet the challenges of a long life and the impact of long-term inflation and health care, but also sources of secure income to ensure that your daily essential living expenses will be met.

INSURANCE

During this continuing era of

HOW SHOULD YOU EVALUATE INVESTMENT RESULTS?

Marked by two recessions, the last decade was one of the weakest for stock returns in a generation, with steep losses in three years and average annual returns in the major indexes of less than 3% — six points below their long-term rates of return. On the other hand, if you look only at the last two calendar years, at certain indexes, stocks, and gold, things look good. But how do you evaluate how your investments have performed?

The best way to tell how your investments are doing is a combination of two perspectives:

- Concentrate on the performance of all of your positions as one investment program, and
- Compare the value of your portfolio to how much your financial plan says you should have now.

A properly constructed financial plan defines how much money you need to have on hand when it's time to begin paying for a goal — whether it's paying for your child's college education, buying a first or second home, or retiring. In addition, the plan should include goals that define, year by year going forward, exact target amounts for the value of your portfolio so you can assess your progress.

The reason for doing this is that your future doesn't depend on how well any single stock you own performs or whether your portfolio

is doing better or worse than any particular stock index. Invariably, if your portfolio is properly constructed — which means it's properly diversified — it's always going to be underperforming some stock or index.

If you're the kind of person who just has to try to beat an index or enjoys bragging about some hot stock you saddled onto, do this: make sure that given how much you can save and how much money you have tucked away, you're on target for accumulating more than you need to meet your goals, then take some of the excess and play with it.

On the other hand, if your portfolio is currently behind your targets to meet your goals, you have got some reengineering to consider. You may need to adjust your investment strategy to achieve potentially higher long-term returns, save more, postpone the date of your goal, or lower your expectations for the future.

It's this kind of organic perspective that is the most useful for assessing your investment results. And that means that you should have a solid financial plan in place before you start investing.

If you don't have a financial plan or you have one but you're behind schedule for meeting your goals, the best thing you can do is call to discuss this further. ○○○

slow economic recovery, remember that one of the key components to managing wealth is managing risk. In addition to the traditional sources of retirement and estate planning, consider today's popular insurance options, such as annuities, long-term care, and life insurance policies.

A LIFELONG PLAN

Life is long, and it's becoming longer with each generation. They say that life gets in the way of even

the best-laid plans, and it's true. Every plan — even a financial plan — requires tweaking and adjusting periodically to account for current events. However, your personal goals may well remain the same for the rest of your life. So if you establish the purpose of your money — what it is that you want out of life — then you can reposition your assets to help you reach those goals. ○○○

MAJOR ESTATE TAX

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What's more, when TRA 2010 expires, it will also become more difficult to reduce your estate by gifting. In sync with the lowering of the threshold for estate taxation, the lifetime gift tax exemption will be cut from \$5.12 million per person (\$10.24 million for couples) to just \$1 million (\$2 million for couples).

If you're among the Americans who would be affected by the reset of estate tax laws in 2013 (if you have an estate worth more than \$1 million and/or would consider gifts of more than \$1 million), then there are steps you can take today to take advantage of the current favorable estate tax laws. Those steps include:

- **ACCELERATE YOUR GIFTING.** Even if you had previously used your full lifetime gift exemption (which was \$1 million), through 2012, you can make additional gifts up to the limited-time-only lifetime limit of \$5.12 million. Work with a professional advisor to ensure that you balance minimizing estate tax consequences with leaving enough liquidity in your estate to provide for your own needs.
- **MOVE MORE ASSETS INTO TRUSTS.** Sheltered trusts can be an effective way to protect your assets from estate taxes. It always makes sense to ensure that you have maximized your use of trusts to minimize your estate tax burden, but with stiffer tax laws likely in the future, now is a critical time to do so.



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FOLLOW THROUGH ON YOUR ESTATE PLAN

Usually, a great deal of thought and effort goes into estate planning documents. However, your work isn't over once you've signed those documents. You need to make sure your assets are properly positioned to go to your intended heirs. Some problems to look out for include:

- **YOUR ASSETS AREN'T TITLED PROPERLY TO FUND TRUSTS.** A common estate planning strategy used to preserve your estate tax exclusion is to set up a credit shelter or bypass trust. Assets up to the estate tax exclusion amount (\$5,120,000 in 2012, scheduled to decrease to \$1,000,000 in 2013) are placed in trust. Your spouse can then use the income and even some of the principal, with the remaining assets distributed to your heirs after your spouse's death. To fund the trust, however, you need sufficient assets titled only in your name. Assets jointly owned with your spouse will typically pass directly to your spouse and cannot be placed in the trust. However, you may want to split assets so each of you individually owns assets designated to go into the trust.
- **BENEFICIARY DESIGNATIONS CONTRADICT YOUR ESTATE PLANNING DOCUMENTS.** Assets like life insurance, annuities, 401(k) plans, and individual retirement accounts pass directly to named beneficiaries. Provisions in your will and other estate planning

documents cannot change those designations. Thus, review all your beneficiaries ensuring those designations are compatible with your estate plan. Also review contingent beneficiaries in case a beneficiary dies before you. After significant changes in your life, such as a divorce, remarriage, spouse's death, or child's or grandchild's birth, review your designations to see if changes are warranted.

- **OWNING ASSETS JOINTLY WITH JUST ONE CHILD.** Often, a widow or widower will add one child to bank accounts, brokerage accounts, deeds, and titles so that child can help manage the assets if he/she becomes incapacitated. The widow or widower expects the child to share the assets with his/her siblings. However, the asset is considered a gift to the one child. For that child to split the asset with his/her siblings, he/she will have to make gifts to those siblings, possibly raising gift tax implications. Instead, consider using a power of attorney, so one child can help with your financial affairs. Or, make a provision in your estate planning documents that adjusts distributions for any assets that pass to one heir through joint ownership.

Please call if you'd like to discuss coordinating your assets with your estate plan. ○○○

While it's possible that Congress could pass new laws before the end of 2012 that make the estate tax code more benign, with federal spending cuts in the neighborhood of \$1 trillion on the table along with proposals to increase taxes on the wealthy, it appears that an extension of estate tax relief is a long shot in the near term.

Smart changes in your gifting strategy and your estate plan depend on knowing, in part, how the market has changed the value of your assets and how those changes affect your entire financial picture. Please call if you'd like to discuss your estate plan in more detail. ○○○

FINANCIAL DATA

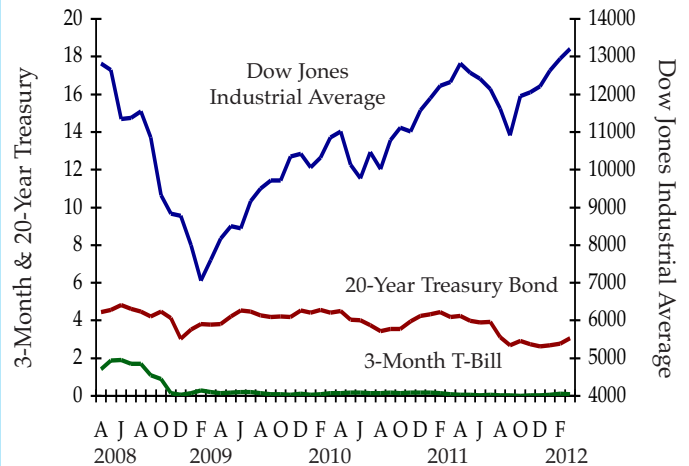
Indicator	Month-end				
	Jan-12	Feb-12	Mar-12	Dec-11	Mar-11
Prime rate	3.25	3.25	3.25	3.25	3.25
Money market rate	0.51	0.50	0.47	0.49	0.00
3-month T-bill yield	0.05	0.12	0.09	0.03	0.10
20-year T-bond yield	2.68	2.76	3.07	2.63	4.18
Dow Jones Corp.	3.42	3.28	3.28	3.74	3.85
30-year fixed mortgage	3.30	3.41	3.58	3.42	4.57
GDP (adj. annual rate)#	+1.30	+1.80	+3.00	+3.00	+3.10

Indicator	Month-end			% Change	
	Jan-12	Feb-12	Mar-12	YTD	12 Mon.
Dow Jones Industrials	12632.91	12952.07	13212.04	8.1%	7.2%
Standard & Poor's 500	1312.41	1365.68	1408.47	12.0%	6.2%
Nasdaq Composite	2813.84	2966.89	3091.57	18.7%	11.2%
Gold	1744.00	1770.00	1662.50	5.9%	15.5%
Consumer price index@	225.70	226.70	227.70	0.7%	2.9%
Unemployment rate@	8.50	8.30	8.30	-4.6%	-6.7%
Index of leading ind.@	94.50	94.80	95.50	-18.7%	-15.9%

— 2nd, 3rd, 4th quarter @ — Dec, Jan, Feb Sources: *Barron's*, *Wall Street Journal*

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

APRIL 2008 TO MARCH 2012



Past performance is not a guarantee of future results.

NEWS AND ANNOUNCEMENTS

YOUR PARENTS' ESTATE PLANS

Estate planning can be a difficult subject to discuss with your parents. But to help ensure their estate is settled quickly according to their wishes, family members should have some basic information. You don't need to know the specifics, but you should find out:

- **WHERE IMPORTANT ESTATE PLANNING DOCUMENTS ARE LOCATED.** Don't ask for specifics, just make sure documents are in place so their wishes will be carried out. Find out if they have a durable power of attorney and a health care proxy. With a durable power of attorney, they designate someone to control their financial affairs if they become incapacitated. If your parents are concerned that this person may assume control prematurely, suggest leaving the document with their attorney who can deliver it to the appropriate person when necessary. A health care proxy delegates health care decisions to a third person when your parent is unable to make those decisions.

Usually, this document also outlines procedures to be used to prolong life.

- **HOW TO CONTACT THEIR ADVISORS.** Ask for a list of names, addresses, and phone numbers of lawyers, accountants, and financial advisors.
- **THEIR RATIONALE FOR DISTRIBUTING THEIR ESTATE.** Often, when heirs understand why an estate is being distributed in a particular manner, it can prevent problems among those heirs. If your parents are reluctant to discuss these things now, suggest they leave a personal letter with their estate planning documents explaining their rationale for distributions.
- **PREFERENCES FOR THE FUTURE.** Find out where your parents would like to live if they're not physically able to live in their current home. Discuss in detail what procedures they want performed to prolong life in the event of a terminal illness. Determine their preferences for funeral arrangements. ○○○

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