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FINANCIAL OUTLOOK

WINTER 2012

MAKE YOUR SAVINGS LAST THROUGH RETIREMENT

Saving enough by age 65 to ensure that you can maintain your standard of living through a long retirement has become increasingly difficult. You will probably be responsible for the majority of your retirement income, whether you obtain that income from 401(k) plans, individual retirement accounts (IRAs), or taxable investments. Before retiring, you'll want to ensure that you have sufficient savings to support yourself for 20, 30, or even 40 years.

Deciding how much you'll need to accumulate by retirement age is difficult, since so many of the vari-

ables that go into that calculation are uncertain. To come up with an estimate, you need to make assumptions about your life expectancy, how much income you'll need, how much you'll receive from other retirement sources, when you will retire, your long-term rate of return on investments, future inflation, and future income tax rates. If your estimates are inaccurate, you could end up with little in the way of income in your later years.

Because of all the uncertainty, it is typically recommended that you only withdraw modest amounts from your retirement savings, espe-

cially in the early years of your retirement. A common rule of thumb is to withdraw no more than 4% annually from your retirement funds.

But that 4% figure is based on the value of your investments when you are ready to make the withdrawal and is not a static number based on your savings when you retire. During periods of market volatility, your asset balances can fluctuate substantially, causing significant changes in the recommended withdrawal amounts. Market fluctuations are especially dangerous during the early years of your retirement, when it can be difficult to make up for market declines while you are withdrawing money from those reduced balances. If you aren't able to overcome market declines, you could be forced to drastically change your plans.

How can you ensure that your retirement savings will last a lifetime? Consider these points:

- **ANNUITIZE A PORTION OF YOUR RETIREMENT ASSETS.** This will provide you with a definite monthly income for the rest of your life. Annuities can be purchased with or without inflation protection.

YOUR SAVINGS AND LIFE PLANNING

Everybody is unique, so there's no such thing as one financial plan that will suit everyone. But that doesn't mean that there aren't some broad guidelines to fit common situations. So, when it comes to your savings, here are some benchmarks to indicate whether you're following the right priorities and are on track for meeting your financial goals:

IN YOUR TWENTIES. Typically, this is the age when you're likely to have the lowest income in your working

life, but also the fewest dependent-related expenses. At this stage, you should have two top priorities: First, you should concentrate on building an emergency fund equal to three to six months of living expenses held in short-term savings vehicles.

Second, you should begin putting money into an individual retirement account (IRA) or 401(k) retirement plan. The advantage of beginning to save for retirement at this age is time: in a tax-deferred

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MAKE YOUR SAVINGS

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Since an annuity pays for the rest of your life, it protects you from outliving your savings and from the risk that lower-than-expected investment returns will reduce your portfolio. Typically, the benefits will end once you (and your spouse if you elect joint benefits) die, although some annuities will pay a lump sum or periodic benefit to beneficiaries. Thus, it is important to understand that if you (and your spouse if you elect joint benefits) die at a relatively young age, your benefits may not equal the purchase price of the annuity. While you probably do not want to use all of your retirement assets to purchase an annuity, you may want to use a significant portion to purchase an annuity that will cover your regular monthly expenses.

- **WITHDRAW CONSERVATIVE SUMS FROM YOUR RETIREMENT ASSETS.** If you limit your withdrawals to 3% or 4% of your balance, the assets should last for decades. At least annually, reassess your retirement assets and make sure that your withdrawals are reasonable. Market fluctuations can cause your asset allocation to get out of line, so you should rebalance at least annually. Even during retirement, you should allocate your assets among a variety of investment types, ensuring that your allocation is appropriate for your specific situation.
- **REACH RETIREMENT WITH MINIMAL EXPENSES.** Cut back on your living expenses before retirement, and try to enter retirement with as few debts as possible. Mortgage and consumer debt payments consume a significant portion of most people's income. Pay off those debts by retirement, and you can significantly reduce your cost of living. This can have a two-fold impact on your retirement. First, it frees up money to set aside for retirement. Second, you get used to

UNDERSTANDING THE ROTH 401(k)

In 1998, the Roth individual retirement account (IRA) was enacted. Instead of offering a tax break when you contribute, the Roth only allows after-tax contributions; and instead of subjecting retirement-age withdrawals to income taxes, qualified Roth IRA withdrawals are tax free.

The Roth IRA was an immediate hit among higher-income Americans, because it can generate more after-tax income for people who will be in a higher income tax bracket after they retire.

Ironically, the regulations that created the Roth IRA also limited its access by the people who could most benefit from it. In 2012, eligibility to contribute starts to phase out for single filers with an adjusted gross income of more than \$110,000 and disappears altogether at \$125,000. For joint filers, the income limits are \$173,000 and \$183,000, respectively. Beginning in 2010, however, all taxpayers, regardless of income level, can convert from a regular IRA to a Roth IRA. This gives higher-income individuals the means to effectively contribute to a Roth IRA, although it is not as simple as a direct contribution and gets more complicated when other funds are already in a traditional IRA.

Since 2006, though, many higher-income Americans have an alternative means of accessing the

advantages of the Roth IRA: the Roth 401(k). There are no income limits to contribute to a Roth 401(k) account. However, not all plans offer the Roth 401(k) option.

Some of the most important features of a Roth 401(k) plan include:

- Participants are limited to the same total annual contribution amount as a regular 401(k). In 2012, you can contribute a maximum of \$17,000 plus a \$5,500 catch-up contribution for those age 50 and over, if permitted by the plan. However, your employer may set lower limits to comply with nondiscrimination rules.
- Participants can split their contributions any way they want between a regular and a Roth 401(k) account.
- Employer-matching contributions are based on the total of a participant's contributions to both kinds of accounts, but must be contributed to the regular 401(k) account.
- Withdrawals from Roth 401(k) plans must be taken after age 70½. However, funds in the Roth 401(k) plan can be rolled over to a Roth IRA, which would not require distributions.

Please call if you'd like to discuss Roth 401(k) plans. ○○○

a lower standard of living, which should also reduce the cost of your retirement lifestyle.

- **WORK AS LONG AS POSSIBLE.** While there is something very alluring about totally retiring from the work force, the reality is that a long retirement is very costly. Working a few more years can go a long way in helping fund your retirement. Those years are typically your highest earning years, so hopefully you'll save significant sums during that period.

Also, every year you work is one year you don't have to support yourself with your retirement savings. Once you are ready to retire, try to work at least part-time during the early years of your retirement. That doesn't mean you have to stay at your current job. You can find a totally different job or start a business. Even modest earnings can help significantly with retirement expenses.

Please call if you'd like help planning for your retirement. ○○○

LIFE PLANNING

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account, even relatively small amounts can grow into significant assets when you have 35 to 40 years to harness the power of compounding. For example, if you contribute just \$2,000 a year to an IRA and it grows 8% a year, after 30 years it could be nearly \$227,000, and more than \$518,000 after 40 years. *(This example is provided for illustrative purposes only and is not meant to project the performance of an actual investment.)*

If you're married, you may have a third priority: saving for a down payment on a house. It's best if you can accumulate 20% of the price of the house, to avoid having to pay mortgage insurance; but whatever you can accumulate will help keep your mortgage payments lower.

IN YOUR THIRTIES AND FORTIES. If you have children, it's a good idea to start saving for their education. Consider a tax-advantaged 529 college savings plan that you can invest in the stock market. The principle here is that if you have more than five years before college bills start coming due, you can afford to take some risk to potentially achieve a higher rate of return than you might from bonds or other "safer" investments.

Now you should begin to ramp up your contributions to your retirement accounts. The more you can put aside now the better, as you still have 25 to 30 years of compounding to enjoy. Your emphasis should still be on the stock market; although by your late forties, you might consider increasing your bond investments to guard against losses due to market shocks.

IN YOUR FIFTIES. This is normally



DISCUSSING YOUR ESTATE PLAN

Many people are uncomfortable discussing how they will distribute their estate with their heirs. However, if you don't discuss your estate plan, disagreements and conflicts could erupt once the details of inheritances are revealed. For instance, siblings may resent each other if distributions are not equal. Children may resent a spouse from a second marriage. At that time, you won't be able to explain your thoughts and wishes.

Discussing your estate plan will give you an opportunity to inform your heirs about your estate's distribution and why you decided to do it in that manner. You can go into specific detail, informing heirs how each asset will be distributed, or you can give a general overview of your estate plan. If you have selected one heir as executor or trustee, explain why you chose that individual. As an alternative, you can leave a personal letter with your estate planning documents explaining these items.

Even if you reveal your plans to heirs, you may also want to include a personal letter. In that letter, include information about death and other benefits, special wishes, who should receive personal effects, your cemetery and funeral preferences, and the location of your safe deposit box and important documents. At a minimum, specify where the following documents are located: income tax returns, life insurance policies, other insurance policies, investment details, a list of household contents, outstanding loan documentation, automobile titles, important warranties and receipts, checking account information, credit card details, and information about your home.

Preparing the letter will also force you to organize your records and make sure all important documents can be easily located. Since the information is likely to change, review the letter at least annually. ○○○

the time when people make their largest contributions to their retirement accounts, because their incomes are close to the highest of their careers; and if they have any children, they're typically out of college and on their own.

Federal limits on annual contributions to retirement plans are more generous at this age, too. For example, as of 2012, below age 50, there's a ceiling of \$5,000 for contributions to IRAs and \$17,000 to 401(k) plans; but at age 50, those limits increase to \$6,000 and \$22,500, respectively.

It takes in-depth calculations to determine how much your retirement portfolio should be and whether you're on track to meet the accumulated value of the nest egg you'll need to retire. That said, it's not unusual for people who are in their 50s to have accumulated only

about half of what they'll need by age 65, yet still be on track for a well-funded retirement. (If your account balances are considerably less than half of what you'll need, you might have some catching up to do, or it might be necessary to consider retiring at an older age.)

IN YOUR SIXTIES. This is the home stretch of the period during which you acquire assets for retirement. As you enter this decade of your life, you should still be contributing more than you ever have to your retirement accounts.

With less than five years before you retire, you should consider reshaping your portfolio to include greater percentages of lower risk investments.

It's never too early to create or update your financial plan, so please feel free to call. ○○○

FINANCIAL DATA

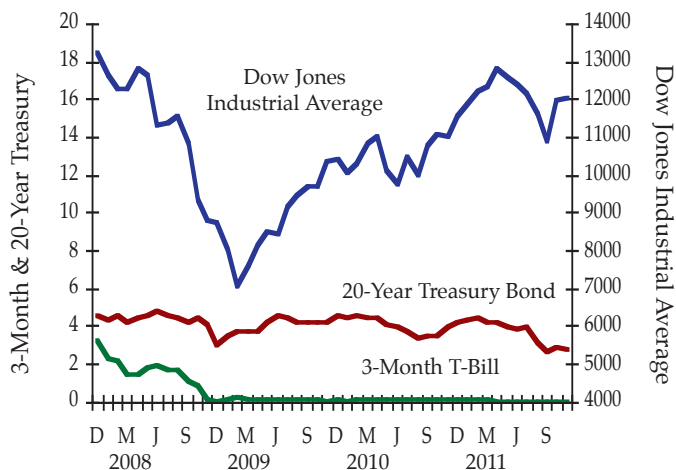
Indicator	Month-end				
	Sep-11	Oct-11	Nov-11	Dec-10	Nov-10
Prime rate	3.25	3.25	3.25	3.25	3.25
Money market rate	0.54	0.50	0.52	0.00	0.02
3-month T-bill yield	0.02	0.01	0.02	0.18	0.18
20-year T-bond yield	2.68	2.92	2.73	4.23	3.94
Dow Jones Corp.	3.69	3.67	3.79	3.89	3.69
30-year fixed mortgage	3.43	3.72	3.61	4.51	4.15
GDP (adj. annual rate)#	+0.40	+1.30	+2.00	+3.10	+2.60

Indicator	Month-end			% Change	
	Sep-11	Oct-11	Nov-11	YTD	12 Mon
Dow Jones Industrials	10913.38	11955.01	12045.68	4.0%	9.4%
Standard & Poor's 500	1131.42	1253.30	1246.96	-0.8%	5.6%
Nasdaq Composite	2415.40	2684.41	2620.34	-1.2%	4.9%
Gold	1620.00	1722.00	1746.00	24.2%	26.2%
Consumer price index@	226.50	226.90	226.40	3.5%	3.5%
Unemployment rate@	9.10	9.10	9.00	-8.2%	-6.3%
Index of leading ind.@	116.20	116.30	117.40	5.5%	5.6%

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

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

DECEMBER 2007 TO NOVEMBER 2011



Past performance is not a guarantee of future results.

NEWS AND ANNOUNCEMENTS

CONSIDER MATURITY DATES

To help control volatility in your bond portfolio, carefully consider maturity dates before purchase. Bonds can be purchased with maturity dates ranging from several weeks to several decades. Before deciding on a maturity date, review how that date affects investment risk and your ability to pursue your investment goals.

Typically, yield increases as the maturity date lengthens, since you assume more risk by holding a bond for a longer time. Investors are often tempted to purchase bonds with long maturity dates to lock in higher yields, but that strategy should be used with care. If you purchase a long-term bond knowing you'll need to sell before the maturity date, interest rate changes can significantly affect the bond's market value. Two fundamental concepts about bond investing apply:

○ **INTEREST RATES AND BOND PRICES MOVE IN OPPOSITE DIRECTIONS.**

A bond's price rises when interest rates fall and declines when

interest rates rise. The existing bond's price must change to provide the same yield to maturity as an equivalent, newly issued bond with prevailing interest rates. You can eliminate the effects of interest rate changes by holding the bond to maturity, when you will receive the full principal amount.

- **BONDS WITH LONGER MATURITIES ARE MORE SIGNIFICANTLY AFFECTED BY INTEREST RATE CHANGES.** Since long-term bonds have a longer stream of interest payments that don't match current interest rates, the bond's price must change more to compensate for the interest rate change.

Although you can't control interest rate changes, you can limit the effects of those changes by selecting bonds with maturity dates close to when you need your principal. In many cases, you may not know exactly when that will be, but you should at least know whether you are investing for the short, intermediate, or long term. Please call if you'd like to discuss bond maturities in more detail. ○○○

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