Webster Private Bank®

PRIVATE BANKING INSIGHTS

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In This Issue

Iraq Turmoil - Should We Worry?

The situation in Iraq has changed since the withdrawal of U.S. troops in 2011 with signifcant turmoil in the last few days. Should we worry? We asked our Chief Investment Strategist, Yves Cochez to share his thoughts.

Nick Perna's Economic Review - May/June 2014

A View of Today's Economy with Nicholas S. Perna, Ph.D., Webster Bank Economic Advisor

Living in Retirement: A Three-Phased Approach

Retirement isn't an end -- it's a beginning. Learn about the three phases of retirement and how to plan for them.

"Stretch"-ing Your Wealth to Future Generations

A stretch IRA can be an effective wealth planning tool. Find out if it could be an ideal situation for you.

Charitable Trusts: Choices for Gifting

Want to give back to an organization or charity? Consider establishing a charitable trust.

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Iraq Turmoil - Should We Worry?

We sat down with Yves Cochez, Webster Private Bank Chief investment Strategist, to discuss possible market implications of the recent increase in turmoil in the Middle East. Here's a summary of the discussion:

Oil prices are moving higher on the news of increased tensions, militant uprisings, and civil war violence in Iraq. Historically large swings in the price of oil have either forced central banks to tighten and/or act as a tax on consumers and businesses. Unless the turmoil spreads more significantly, beyond a short term flare up in risk aversion, we don't expect too much damage. Iraq is not a key swing factor for the oil market any more, and fundamentally oil prices should drop due to the trends in supply and demand. There is already a big geopolitical risk premium priced into oil. As far as central banks are concerned, they are not going to take any risk with the economic recovery at this point and will see through any short term spike in oil prices. If anything, because this turmoil might depress business and consumer confidence in the near term, monetary policy might be kept slightly more accommodative than otherwise to offset this headwind. Central banks worry a lot more about weak growth and potential deflation risk rather than inflation.

Yves Cochez joined Webster Private Bank as senior vice president and Chief Investment Strategist in May, 2013. Cochez is responsible for managing the Private Bank's portfolio management team and setting the overall direction of investment management for its high net worth clients. He is based in Stamford, Conn.

Most recently Cochez has held a number of senior investment positions across the globe with Deutsche Bank Private Wealth Management.

A native of Belgium, Cochez earned his Bachelors and MBA from the Universite Libre de Bruxelles, in Brussels, Belgium. He holds Series 7 and 66 Licenses and is fluent in three languages.

A View of Today's Economy with Nicholas S. Perna, Ph.D., Webster Bank Economic Advisor

Nick Perna's Economic Review - May/June 2014

Webster Private Bank is dedicated to bringing you relevant information on today's economy and financial environment from many sources. Webster Economic Advisor Nick Perna is an MIT-trained economist with expert commentary and a down-to-earth style. Perna analyzes complex economic trends and explains them in everyday language in our bi-monthly newsletter *Economic Review*.

This edition features the commentary on:

- Economic Recovery after the Great Recession
- Corporate Profits compared to Jobs Recovery
- Regional Performance
- And more….

Click here for the latest edition of the *Economic Review.*

The web address for Webster's *Economic Review* is www.WebsterBank.com/EconomicReview.

Nicholas S. Perna is one of the nation's most frequently quoted economists and sought-after lecturer noted for his fun, plain-spoken insights on the economic scene. He graduated from Boston College and has a Ph.D. in economics from MIT. In 1999, he founded Perna Associates, a consulting firm specializing in economic analysis, forecasting and strategy. Before that, Perna was chief economist for Fleet Financial Group, Shawmut Bank and Connecticut National Bank. He was also an economist with General Electric, the Federal Reserve Bank of New York and the President's Council of Economic Advisors in Washington. Perna has taught at Williams College, NYU's Stern School of Business and the Haas School of Business at the University of California. He currently teaches a seminar on the U.S. banking system at Yale University. Within the past several years, Perna has appeared numerous times on the Jim Lehrer NewsHour and other local and national news broadcasts. The Wall Street Journal and Business Week have both cited him as one of the top economic forecasters in the United States.

Living in Retirement: A Three-Phased Approach

The need to potentially stretch out income over a longer period than previous generations also means that some people may not want to tap Social Security when they're first eligible.

Although many Americans now plan for a retirement up to 20 years, your retirement may last much longer.

Traditionally, retirees were advised to project income needs over the length of time of retirement, add on an annual adjustment for inflation, and then identify any potential income shortfall. But the planning required may not be that linear. For example, research suggests that some retirees' expenses -- other than health care -- may slowly decrease over time. That means many retirees -- depending on personal expenses -- may need more income early in their retirement than later. This necessitates taking a fresh look at retiree expenses and income, as well as withdrawal and estate planning strategies.

Phase 1: The Early Years

The need to potentially stretch out income over a longer period than previous generations also means that some people may not want to tap Social Security when they're first eligible. Consider that for each year you delay taking Social Security beyond your full retirement age until age 70, you'll receive a benefit increase of 6% to 8%, depending on your age. One caveat: If you do decide to delay collecting Social Security, you may want to sign up for Medicare at age 65 to avoid possibly paying more for medical insurance later.

Also plan ahead as to how you'll pay for health care costs not covered by Medicare as you age. Remember that Medicare does not pay for ongoing long-term care or assisted living and that qualifying for Medicaid requires spending down your assets.

If you have accumulated assets in qualified employer-sponsored retirement plans, now may be the time to decide whether to roll that money into a tax-deferred IRA, which could make managing your investments easier. A tax and financial professional can also help you decide which accounts to tap first at this point in your post-retirement planning -- a situation that could significantly affect your financial situation.

Finally, don't overlook any pension assets in which you may be vested, especially if you changed employers over the course of your career. Pensions can supply you with regular income for life.

Phase 2: The Middle Years

By April 1 of the year after you reach age 70½, you'll generally be required to begin making annual withdrawals from traditional IRAs and employer-sponsored retirement plans (except for assets in a current employer's retirement plan if you're still working and do not own more than 5% of the business). The penalty for not taking your required minimum distribution (RMD) can be steep: 50% of what you should have withdrawn. Withdrawals from Roth IRAs, however, are not required during the owner's lifetime. If money is not needed for income and efficient wealth transfer is a goal, a Roth IRA may be an attractive option.

Also, consider reviewing the asset allocation of your investment portfolio. Does it have enough growth potential to keep up with inflation? Is it adequately diversified among different types of stocks and income-generating securities?

Phase 3: The Later Years

Review your financial documents to make sure they are true to your wishes and that beneficiaries are consistent. Usually, these documents include a will and paperwork governing brokerage accounts, IRAs, annuities, pensions, and in some cases, trusts. Many people also draft a durable power of attorney (someone who will manage your finances if you're not able) and a living will (which names a person to make medical decisions on your behalf if you're incapacitated).

You'll still need to stay on top of your investments. For example, an annual portfolio and asset allocation review are important. Keep in mind that a financial advisor may be able to set up an automatic rebalancing program for you. And finally, be aware that some financial companies require that you begin taking distributions from annuities once you reach age 85.

Preparing for a retirement that could encompass a third of your life span can be challenging. Regularly review your situation with financial and tax professionals and be prepared to make adjustments.

This communication is not intended to provide legal or tax advice and should not be treated as such. Each individual's situation is different. You should contact your legal and/or tax professional to discuss your personal situation.

"Stretch"-ing Your Wealth to Future Generations

Creating a stretch IRA has no effect on the account owner's minimum distribution requirements, which continue to be based on his or her life expectancy.

You probably understand that an IRA can be an effective way to save for retirement. But did you know that it can also be an effective estate-planning tool, allowing you to transfer wealth to future generations while reducing, deferring, or even eliminating income taxes on your retirement savings. Transferring wealth with a multigenerational "stretch" IRA could be an ideal solution for you.

A stretch IRA is a traditional IRA that passes from the account owner to a younger beneficiary at the time of the account owner's death. Since the younger beneficiary has a longer life expectancy than the original IRA owner, he or she will be able to "stretch" the life of the IRA by receiving smaller required minimum distributions (RMDs) each year over his or her life span. More money can then remain in the IRA with the potential for continued tax-deferred growth.

Creating a stretch IRA has no effect on the account owner's minimum distribution requirements, which continue to be based on his or her life expectancy. Once the account owner dies, however, beneficiaries begin taking RMDs based on their own life expectancies. Whereas the owner of a stretch IRA must begin receiving RMDs after reaching age 70½, beneficiaries of a stretch IRA begin receiving RMDs after the account owner's death. In either scenario, distributions are taxable to the payee at then-current income tax rates.

Beneficiaries also have the right to receive the full value of their inherited IRA assets by the end of the fifth year following the year of the account owner's death. However, by opting to take only the required minimum amount instead, a beneficiary can theoretically stretch the IRA -- and tax-deferred growth -- throughout his or her lifetime.

If you do not currently have any IRA beneficiaries, employing the stretch technique by naming a beneficiary could provide significantly more long-term benefits than simply allowing the account balance to be paid out to your estate as a taxable lump-sum distribution. So if you're unlikely to deplete your IRA assets during retirement, consider creating a multigenerational stretch IRA. By doing so, you could help to build long-term financial security for a loved one.

Consider the Implications

- The ability to name new beneficiaries after RMDs have begun means that you can include a child in your stretch IRA strategy regardless of when the child was born.
- The ability to change beneficiary designations after the account owner's death means that one beneficiary may choose to disclaim his or her own beneficiary status so that more assets pass to another beneficiary. For example, if an account owner names his son as the primary beneficiary and his grandson as the secondary beneficiary, the son could remove himself as a beneficiary and allow the entire IRA to pass to the grandson. RMDs would then be based on the grandson's life expectancy, not on the son's life expectancy, as would have been the case if the son remained a beneficiary. (When there is more than one beneficiary, RMDs are calculated using the life expectancy of the oldest beneficiary.)
- The ability of beneficiaries to base RMDs on their own life expectancy means that the money you accumulate in your IRA and leave to heirs has the potential to last longer and produce more wealth for younger generations.

Keep in mind that this information is presented for educational purposes only and does not represent tax or financial advice. While it's true that recent regulatory changes have indeed made it much easier to incorporate a stretch IRA into your multigenerational financial planning initiatives, it's always a good idea to speak with a tax professional before implementing any new tax strategy.

A CRT offers flexibility, a lifetime income stream for you, and significant tax benefits to you and your heirs.

Charitable Trusts: Choices for Gifting

The greatest benefit of charitable giving is the knowledge that you've helped make a difference in the lives of others. Charitable trusts allow you to take your generosity one step further than simply writing a check.

A charitable trust is a set of assets that a donor signs over or uses to create a charitable foundation. The assets are held and managed by the charity for a specified period of time, with some or all interest that the assets produce going to the charity. Charitable trusts come in two basic types: remainder trusts and lead trusts.

Charitable Remainder Trusts

A charitable remainder trust (CRT) is an irrevocable, tax-exempt trust in which you place assets to provide income for yourself during a specific period of time. You can choose how you want those interest payments, either in a steady stream to count on (annuity trust) or ride the market fluctuations (unitrust). After the period you've specified (which could end at your death), the remaining assets will be turned over to the charity of your choice. The trust can be funded with a wide assortment of assets, including bonds, mutual funds, stocks, and real estate.

A CRT offers flexibility, a lifetime income stream for you, and significant tax benefits to you and your heirs. Ultimately it may be even more beneficial for you than a simple bequest.

For instance, if you have an appreciated asset like real estate, and you sell the property yourself, you will likely pay a great deal in capital gains taxes. But if you transfer the property to a charity through a CRT, the trustee may be able to sell the property with no gift, estate, or capital gains taxes for the donor. The trustee can then set up an investment that will provide an income stream for you, which will be subject to ordinary income taxes and capital gains. At the death of the last beneficiary or the end of the trust period, the trust ends. The amount remaining in the trust is distributed to the named charity.

Charitable Lead Trusts

In the case of a charitable lead trust (CLT), the charities receive the interest from your gift for a set period -- typically 10 to 20 years. At that time, whatever is left in the trust goes to a noncharitable beneficiary, such as your children or yourself.

Estate planners recommend a CLT for people with substantial wealth to stash assets whose value will undoubtedly appreciate in the future so that the increased value escapes any taxation in the donor's estate. Overall, this route carries fewer tax advantages than other charitable trusts because you don't surrender full responsibility.

Setting Up a Trust

If you do decide to set up a trust, note that you'll have to pay annual administration fees to maintain it. Also note that you can't dissolve the trust, though you can change its beneficiary. Talk to your legal counsel to determine which option is right for you.

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