First National Bank
Investment Management & Trust

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FINANCIAL FOCUS

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Estate Planning Checkup

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Significant asset value changes create problems and opportunities in estate planning.

During this turbulent financial market, we've been asked what topics to contemplate before meeting with an advisor. To make the most of a meeting with your estate planning advisor, here are some things we suggest that you consider:

Trust Allocations and Specific Gifts

Many wills use formula allocations to divide an estate among two or more trusts. The expectation of the effect of such provisions may be thwarted when asset values suffer a major decline. Some beneficiaries could be disinherited inadvertently.

Similarly, when a will includes specific bequests ("all my XYZ stock to my son, my home to my daughter," for example), changes in asset values may cause provisions that once looked equal to become very unequal.

A bequest of a specific dollar amount also can be problematic. Specific bequests normally take precedence over residuary bequests, but typically, the residuary language is used to fund trusts. A severe decline in asset values may cause such trusts to be under-funded.

Death Tax Planning

When stocks fall in value by trillions of dollars, estate tax collections fall as well. Fewer estates will be large enough to owe federal estate tax. What's more, the amount exempt from federal estate tax jumps to $3.5 million in 2009 (it was $2 million in 2008).

Don't rely on the fact that current law calls for suspension of the federal estate tax in 2010. Most tax observers expect that Congress will not allow this to happen. Instead, they expect a significant overhaul of the federal estate tax during 2009, perhaps with new exemption amounts and rules for married couples. When that happens, you may need to meet with your estate planning team yet again.

Annual Exclusion Gifts

In 2009, anyone may give up to $13,000 without tax consequences. A grandfather with two children and four grandchildren, for example, may give a total of $78,000 without owing a penny of federal gift tax or be required to allocate any portion of his lifetime $1 million federal gift tax exemption. If grandmother decides to join in, the gift-tax-free transfer may go to as much as $156,000. Something to consider is that when asset values decline, more shares of stock may be gifted to total the permitted $13,000 gift amount, providing a larger capital base for the next generation when the market returns become more favorable.

Grantor Retained Annuity Trusts

Today's low interest rates have created an opportunity to reduce the tax costs of establishing a Grantor Retained Annuity Trust (GRAT). To establish a GRAT, the grantor funds a trust for a specific number of years. During that time, the trust pays the grantor an annuity and at the end of the term, the assets pass to other beneficiaries, typically the grantor's children. A gift tax is due when the trust is funded, but the amount of tax is reduced to reflect the passage of time until the transfer to the remaining beneficiaries takes effect. Because rates are at historic low levels the discount factor is very favorable and increases the tax benefit of forming a GRAT. The trust is usually funded with assets expected to appreciate at a rate that is more than enough to cover the annuity payments. Any appreciation in the value of the trust assets passes to the beneficiaries without additional gift tax.

A special type of GRAT is funded with the grantor's home and is called the Qualified Personal Residence Trust (QPRT). Here the grantor retains the right to live in the home for a specified number of years. Gift taxes due on this strategy will be reduced both by low interest rates and the decline in home values.

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The Financial Crisis: Government Intervention and 2009 Outlook

By Kurt Spieler, CFA
Chief Investment Officer – kspieler@1stnationalbank.com

The U.S. economy finished 2008 in a disappointing manner with Gross Domestic Product growth -3.8% in the 4th quarter. The severity of the economic report represents the largest quarterly decline in 26 years. Job loss was also a major negative during 2008. In total, around 2.6 million jobs were lost, the largest number since 1945.[1]

Due to the severity of the economic decline and concerns about an extended economic slump, the government has aggressively responded to the financial crisis. The following table lists government responses and the size of the commitment:

Economic Provision	Maximum Amount	Amount Spent
TARP	$700 billion	$295 billion
Fannie Mae/Freddie Mac	$200 billion	$14 billion
Traditional Stimulus	$192 billion	$179 billion
Fed Loan Facilities	Unlimited	$975 billion
FDIC Bank Takeovers	$55 billion	$16 billion

Source: Committee for a Responsible Budget

In addition, the Federal Reserve has reduced interest rates to between 0% and 0.25% and has purchased Treasuries and government agencies to reduce yields on debt. The government response has targeted both individuals and companies. For individuals, the government has provided pension relief in 2009, extended unemployment insurance and increased the FDIC insurance limit in banks. The TARP ("Troubled Asset Relief Program") has injected capital into financial institutions and made loans to automakers. The FDIC has taken over smaller banks, provided a conduit for bank mergers and created a temporary liquidity guarantee program. Congress and the White House reached an agreement on a $789 billion economic stimulus package.[2]

The extent of the government's response reflects the view that the Great Depression was partially caused by a lack of government intervention. This includes the Federal Reserve initially keeping interest rates high, the federal government focused on a balanced budget and allowing major banks to fail. Most economists agree that running a budget deficit is the right approach in this economic environment. The disagreement among economists and political parties is the right approach to stimulate the economy.

2009 Economic Outlook

In analyzing past global banking crises, economic downturns have been more severe and longer in duration than the average recession. The reason is the broad negative impact from tight credit for individuals and businesses. We believe credit markets are going to continue to be tight in 2009 as banks look to improve the quality of their loan book and return to profitability. Certain banks are also refusing TARP capital due to the onerous regulation and lending requirements. Currently, economists expect the recession to continue in the first half of 2009 with a subdued economic recovery in the second half. We believe forecasts are too optimistic and expect the recession to continue for the full year.

After 2009, we believe the U.S. and world economy will enter a period of sub-par economic growth. Our reasoning is based on the decades of high consumption and increased debt by individuals. We have seen indications that individuals are lowering debt and increasing their savings for the first time in years. We expect this trend will continue as the U.S. enters a de-leveraging process.

1. *Bloomberg*
2. *Wall Street Journal*

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Charitable IRA Rollover

An extension was granted for calendar year 2009 to enable those who are 70½ or older to make direct transfers to charity of up to $100,000 from their IRAs without any tax consequence. This tax exemption was originally authorized last year and received a new lease with the passage of the $700 billion "rescue plan" at the end of 2008. Charitable transfers from IRAs do count as required minimum distributions.

We're Here to Help

When it comes to wealth management, we bring our experience of investing in up and down markets as well as perspective on the full range of issues that impact family financial security. At Investment Management & Trust, success is driven by our culture of providing superior personalized service and tailoring life planning solutions to meet your goals….today, tomorrow and for generations to come.

Please contact us if we can be of service.

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How far along the way does your retirement planning strategy take you?

Over the years it's likely that you've built up a sizable nest egg through your participation in tax-deferred retirement plans offered by your employers. Or with a traditional IRA, Roth IRA, Keogh or other similar retirement accounts. After "maxing out" those tax-deferred vehicles, you might have invested after-tax dollars in a personal portfolio.

That takes you to the threshold of retirement. Now what happens? Specifically, once you are in retirement, how should you deploy all those assets that you've conscientiously gathered in a manner that will provide you with a comfortable retirement that may last 20 years, 25 years or even longer?

It's not an easy question to answer. There are many variables to consider, and it's a decision as important as the investment choices that you've made along the way.

Tax Considerations

One of your key goals in retirement will be generating the largest income stream possible. To that end, minimizing taxes will play an important role in your postretirement planning.

Income sources generally fall into these categories:

1. Fully taxable income. Withdrawals from tax-deferred retirement accounts, interest from taxable bonds and savings accounts, and dividends from equities and stock funds are, generally, taxed at your ordinary income tax rate.
2. Partially taxable income. The portion of your withdrawals from nondeductible IRAs attributable to your investment gains and earnings is taxable at your ordinary income tax rate, but the amount representing your after-tax investments will not be taxed a second time. Also subject to partial taxation, according to your income level, are Social Security benefits.
3. Long-term capital gain income. Only the appreciation on your investments is taxable and that at a maximum rate of 15%.
4. Tax-free income. Most interest from tax-free municipal bonds and tax-free bond funds is exempt from federal and, possibly, state income tax as well. (But keep in mind that there may be alternative minimum tax considerations.) Also untaxed are proceeds from the sale of assets on which you have no gain, as are all withdrawals from Roth IRAs once the account has been open five years, and the owner has attained age 59 1/2.

In many cases, advisors recommend tapping savings and investments first. That leaves assets in retirement accounts more time to compound free of an annual tax bite. At the same time, taxes may be minimized by taking income from tax-free bonds and bond funds.

When Deferral Runs Out

You have to begin taking minimum distributions from traditional IRAs upon reaching age 70 1/2. (There's a severe tax penalty for failing to take timely withdrawals.) The same holds true of 401(k) plans and other employer-sponsored retirement plans, although you may delay withdrawals so long as you continue working. The required minimum distribution rules have been suspended for 2009 only.

The first distribution must be taken no later than April 1 of the year following the year in which you attain age 70 1/2. However, it may not be advisable to delay into that following year because a second distribution would be required before year-end. Two distributions potentially could push you into a higher tax bracket.

When Not to Wait

Sometimes there are good reasons for tapping tax-deferred retirement accounts before absolutely necessary. Once you have reached age 59 1/2, you can take as much or as little as you want with no tax penalty. (There's normally a 10% penalty on earlier distributions.)

You also might want to use tax-deferred assets if you believe that your future income tax rates would be significantly higher. That situation might not depend solely on changes in the tax law. You may find yourself in a low- or no-tax situation because of business losses, unusually high medical expenses, or a preponderance of income from tax-exempt resources. You also can use up to $3,000 of net capital losses to offset ordinary income. In such cases, retirement plan distributions could be taken at little or no tax cost.

Estate Planning Considerations

The general rule to tap unsheltered accounts first also may be reversed when you intend leaving substantial assets to your heirs. IRAs and retirement accounts pass to those you leave behind, along with certain distribution requirements and potential tax liabilities. Assets that have appreciated in value will pass to your heirs with a stepped-up basis (their fair market value at your death). Thus, if the assets are sold promptly, there will be little or no tax on the proceeds. (Note: As the tax law

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stands now, in 2010, when the estate tax is suspended, just $1.3 million of appreciated assets will qualify for a stepped-up basis.)

Estate planning considerations also may govern the deployment of a Roth IRA. If that tax-free income is not needed by the account owner, it can grow and compound throughout his or her lifetime and provide a long-lasting source of tax-free income for your beneficiaries.

Investing in Retirement

There's a natural tendency to gravitate to income-producing investments in retirement. That impulse may arise from the feeling that it's necessary to reduce your investment risk, a reluctance to face an instance when you might have to invade your capital, or both. With today's market turmoil, your concerns are likely to be magnified. You may ask, "Why not just convert all of my assets to bonds, CDs and interest-bearing accounts?"

The answer lies in the time factor. Years ago, with shorter life spans, most retirees considered themselves short-term investors, and, perhaps, rightly so. Today, living healthier and longer means that you're looking forward to 20 or 30 years of retirement, so the picture is a bit different. Your needs are for the long term and you need to think like a long-term investor. Over time, with inflation and your living expenses, fixed-income investments may provide an inadequate income stream and tapping capital could well become a reality—the very result that you were trying to avoid.

As a long-term investor, time is on your side, and your asset allocation strategy should reflect that status. You may, of course, increase your portfolio's allocation to bonds and cash equivalents. However, if you are looking for growth as well as capital preservation, you'll need to retain a significant exposure to equities.

Then, as the years go by, you can gradually reduce your stock market participation. In any event, you'll want to keep a year or two's worth of living expenses in liquid form—in savings accounts, CDs, money market funds and short-term bond funds. That way you won't have to sell stocks when market conditions are unfavorable in order to meet emergency needs.

As you can see, there's a lot to think about and important financial decisions to make as you approach retirement. You don't have to do it all on your own. We will be glad to schedule a meeting to help you plan for the kind of retirement that you've been anticipating all these years.

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Source: Beyond the threshold: Financial management in retirement. Merrill Anderson Company. © 2009 M.A. Co. Reprinted with permission. Any developments occurring after January 1, 2009, are not reflected in this article.

Meet Kathleen Thompson

Kathleen Thompson, CFP®

Financial Planning Account Executive

Kathleen has worked in the financial services industry since 2001 and began her career at First National Bank in 2004. In 2006, she became the first graduate of the First National Bank Management Training Program and then joined Investment Management & Trust. In her current role, Kathleen supports client relationships with a financial planning focus and works with clients in Boulder, Denver, Greeley, Fort Collins and Loveland. She received a Bachelor's degree in Business Administration with an emphasis in Finance from the University of Nebraska. Kathleen recently earned the CERTIFIED FINANCIAL PLANNER™ certification and completed the Financial Planning Association Residency Program. She is a member of the Financial Planning Association.

Questions? Kathleen can be reached at kthompson@1stnationalbank.com or 970.498.1922.

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Oops I Retired Too Early

2:30 to 4:00p.m., Thursday, April 2nd
Spice of Life Event Center
5706 Arapahoe Avenue, Boulder

Has the slumping stock market, falling housing prices, and weakening economy affected your financial peace of mind during retirement? Are you now planning to go back to work? What tax implications are involved with your decisions? How do you develop a new budget and stick with it? Barbara Albert, on behalf of First National Bank Investment Management & Trust, will talk about the mistakes you can't afford to make, what investment opportunities are best for these uncertain times, and help you determine a road map on how to get back on track to protect all of your retirement nest eggs. No charge, but reservations are requested. Please RSVP to Francie Sinton at 303.938.6183 by March 26th.

Set the Course for Spending, Saving and Investing

9:00 to 10:30a.m., Tuesday, April 21, 2009
Big Thompson Canyon Room, Medical Center of the Rockies
2500 Rocky Mountain Avenue, Loveland

You may be exercising more, eating healthier and becoming more organized, but what about your finances? Jeff Kadavy, JD, CTFA, Assistant Vice President and Senior Trust Officer with First National Bank Investment Management & Trust, will share with you the five important strategies for improving your financial situation. Join us for this seminar and give yourself permission to become wealthier and wiser in 2009. No charge, but reservations are requested. Please register by contacting the Aspen Club at 970.495.7500 or mbs@pvh.org.

Strategies for Today's Economic Environment

10:30-11:30 a.m., Tuesday, April 28, 2009
The Worthington
900 Worthington Circle, Fort Collins

Is your nest egg cracking? Many of us have found ourselves changing our financial goals and postponing retirement plans after losing a substantial amount of money due to the current economic struggle. With a prolonged recession, each of us should take a hard look at our financial portfolio and adjust goals to meet retirement security. Will your money last? How should you invest during these uncertain times? Will you need to go back to work? Norman Rehme, CRSP, Relationship Manager, First National Bank Investment Management & Trust, will discuss these and other recommendations regarding investment strategies. No charge, but reservations are requested. Please RSVP by contacting Andrea Hammons at 970.419.5721 or ahammons@1stnationalbank.com.

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Loveland	**Norman Rehme**	970.203.2645			

Women's Series

Financial Fitness for Women: Estate Planning for You and Your Heirs

1:00 to 3:00p.m., Tuesday, March 10, 2009
The Chocolate Café
102 West Olive Street, Fort Collins
Presenter: Jacqueline Zipser, JD, Vice President, Manager of Fiduciary Services, Trust Counsel, First National Bank Investment Management & Trust

This is the first in a series of four seminars designed to provide you with the information needed to make informed decisions regarding your personal finances. Join us at The Chocolate Café and enjoy one of the "Best Desserts" voted by the readers of the Fort Collins Coloradoan and benefit from Jacqui Zipser's presentation on Estate Planning for You and Your Heirs. Her presentation will include estate planning tips, how to plan for retirement and other lifestyle goals, and where to find the resources needed to take charge of your own finances, now, in time of incapacity or the loss of a spouse. Spend an afternoon learning the tips that may help you become more financially fit in 2009! Limited seating. No charge, but reservations are required. Please RSVP by Tuesday, March 3rd to Andrea Hammons at 970.419.5721 or ahammons@1stnationalbank.com.

Be sure to mark your calendars for the remaining Financial Fitness for Women seminars (more information will follow as we get closer to the dates):

Financial Fitness for Women: Questions to Ask Your Advisor

Wednesday, April 22, 2009
Presenter: Christie Hoffer, CFA
Senior Portfolio Manager
First National Bank Investment Management & Trust

Financial Fitness for Women: Retire Well in Uncertain Times

Tuesday, September 22, 2009
Presenter: Lisa Whannel, QKA
Vice President, Retirement Plan Services Manager
First National Bank Investment Management & Trust

Financial Fitness for Women: Planning for Your Future

Thursday, November 5, 2009
Presenter: Kathleen Thompson, CFP®
Account Executive
First National Bank Investment Management & Trust

For questions or general information about the Women's Series, please contact:
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The Financial Focus newsletter is mailed to you on a bi-monthly basis. We hope that you find the information helpful as you make financial decisions. However, should you decide that you'd rather not receive the newsletter, please contact Andrea Hammons at 970.419.5721 or via email at ahammons@1stnationalbank.com.

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