

bank notes



a quarterly newsletter of what matters most.  **SALISBURY BANK** | enriching.

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from the CEO



CEO, John F. Perotti

The trouble with retirement is that you never get a day off.
— Abe Lemons

It's on this note that I would like to announce my retirement as CEO of Salisbury Bank

this June, but that I will remain on the board of directors and will continue to take part in decisions about the bank's growth and future. The title of CEO will be passed into the very capable hands of Richard J. Cantele, Jr. who is currently our president and chief operating officer and who has been with Salisbury Bank since 1981.

Banking has been my passion. I don't know where the past 35 years have gone! My wish for Rick is that he will enjoy his time at the bank as much as I did.

And so it goes that, during the course of our busy lives, we all spend moments daydreaming about the joys of retirement. This newsletter is dedicated to those dreams and how you can take steps to make them a reality.

In this edition, we cover retirement planning from all angles and income levels...

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IRAs: Not as Complicated as You May Think

There's no question that these are uncertain economic times. In spite of this – in fact, because of it – it's more important than ever to plan intelligently for your retirement. Whether you are just starting out in a job, or are looking at retiring within the next few years, it's important to set aside whatever you can to enrich that important phase of your life. Whether you can "go for the max" or just contribute a little, the important thing is to do it consistently, over time ... and watch your nest egg grow.



Over the years, Congress has rewritten the rules on Individual Retirement Accounts, hoping to spur additional savings by individuals and families through expanded tax incentives. But the series of adjustments, along with the introduction of Roth IRAs several years ago, has left many people with questions about their eligibility to make contributions and about how much they are entitled to contribute.

Below are some of the more common questions that we've been asked about IRAs.

Q: How much can I contribute?

Traditional or Roth IRA

| Tax Year | Contribution Limit | Contribution Limit 50+ |
|----------|--------------------|------------------------|
| 2008 | \$5,000 | \$6,000 |
| 2009 | \$5,000 | \$6,000 |

Eligibility and tax benefits may be affected by your income level and other factors. Please consult your tax advisor about your particular situation.

Q: What is the deadline to make my contribution?

With both Traditional and Roth IRAs, you can make contributions up to the deadline for filing your federal income tax return – not including extensions. For most taxpayers, the deadline for 2008 contributions is April 15, 2009.

Q: What if I can't afford to contribute the maximum to my IRA?
You can contribute as much as you can afford each year to your Traditional or Roth IRA. You are also not required to make a contribution every year.

Q: Which IRAs can I make my contributions to?



You can make contributions to a Traditional IRA, Roth IRA or both, as long as the total contribution doesn't exceed the maximum allowed in any year. But you may make a contribution to a Roth IRA only if your modified adjusted gross income (MAGI) for 2008 is no more than \$169,000 (married filing jointly) or \$116,000 (singles). Partial contributions are allowed for AGIs between \$159,000 and \$169,000 (married) or between \$101,000 and \$116,000 (singles).

Q: Are my Traditional IRA contributions tax deductible?

Not necessarily. It depends whether you participate in your company's retirement plan. In 2008, if both you and your spouse are covered by a company plan, file a joint return and your MAGI does not exceed \$85,000, your contribution is fully deductible. The deduction then becomes partial, and is no longer available when your MAGI reaches \$105,000. The corresponding numbers for married couples with only one spouse covered by a plan is \$159,000 and \$169,000. For singles, the phase-out range is between \$53,000 and \$63,000.

Q: Are my Roth IRA contributions deductible?



There's no deduction for a Roth IRA contribution. But, remember, unlike a Traditional IRA, earnings from your Roth IRA are tax free.

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from the ceo

Continued from cover

The Saver's Credit helps low- and moderate-income workers save for retirement.

An IRA helps you save for your future while deferring or saving on taxes.

A SEP is a simple and low cost retirement plan option for small businesses.

The 2009 RMD waiver allows individuals 70-1/2 and older to skip a year of withdrawals from their retirement accounts without penalty.

Our Retirement Savers IRA allows you to make contributions that fit your budget.

#1 Retirement Savings tip: it's never too early to start! Pay yourself first. Set aside a percentage of your pay each pay period. And be faithful to it.

AND if you are already retired, remember... Age is important only if you're wine or cheese.

(With my retirement coming up, I guess I'd better get used to these lines!)

– John F. Perotti,
Chairman and CEO

Special thanks to our customers who so generously donated to our neighbors in need during our Fill the Basket Food Drive in the fall. We collected 34 baskets of food and nearly \$1000. The donations went directly to local food pantries to make the holidays more nourishing for our friends and neighbors.



Good News for Folks over age 70-1/2

Required Minimum Distribution Relief for 2009

IRA owners received an early Christmas present on December 23, 2008, when Congress passed the Worker, Retiree and Employer Recovery Act of 2008. This new legislation waives the required mandatory withdrawals for IRA holders starting at age 70-1/2. The suspension, which also applies to other retirement plans such as 401(k)s and IRA beneficiaries who must withdraw funds from inherited IRAs over five years, is in effect for 2009 only.

How does this work?

The withdrawal rules work like this: If you have a Traditional IRA, you must take a minimum annual amount from your IRA beginning in the year that you reach age 70-1/2. The amount is based upon your account balance at the end of the previous year and your life expectancy. If you don't make a withdrawal or withdraw the incorrect amount, there's a big penalty—50% of the difference between what you should have withdrawn and what you actually did withdraw, in addition to the usual ordinary income tax that you have to pay.



Congress has removed the 50% penalty for this year, eliminating the need to take money from your IRA if you don't need it. As it stands now, mandatory withdrawals will be in effect once again in 2010. For people who have inherited IRAs and are required to withdraw everything within a five-year period, if 2009 falls within those five years, the period is extended by one year.

How good is this news?

If you've seen your IRA balance tumble, as many people who invested their retirement funds in the stock market have, it's some relief that you won't have to take a payout that would further deplete the account (or be forced to sell assets with depressed values that you would rather hold on to for now).

What if I have my IRA funds invested in FDIC-insured deposit accounts? Can I still take advantage of this new law?

Even if your retirement funds are invested in FDIC-insured deposit accounts (for example certificates of deposit), you are not required to take your minimum distribution for 2009.

For more information about the new rules and how it may affect your particular situation, please contact your tax advisor.

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Saving for Retirement? You May Qualify for the Saver's Credit.

When you don't have a lot of money, it can be a challenge to save for the future, especially during these turbulent economic times. The good news is that Uncle Sam has provided two incentives for low and moderate income Americans to save for their retirements. The first is to save on taxes by making eligible contributions to qualified retirement plans. If you make voluntary contributions to an employer-sponsored retirement plan or to an individual retirement account, you may be able to take advantage of the second incentive and receive a tax credit.

Originally called the "Retirement Savings Contributions Credit," the Saver's Credit may be available to taxpayers filing for 2008 who meet the income guidelines in the box to the right.

Married individuals filing separately and singles with incomes up to \$26,500

Married couples, filing jointly, with incomes up to \$53,000

Head of Household with incomes up to \$39,750 for 2008

To be eligible for the credit you must be at least age 18, not be a full-time student, and cannot be claimed as a dependent on another person's return. You may be able to take a credit of up to \$1,000 (up to \$2,000 if filing jointly) if you make eligible contributions to a qualified IRA, 401(k) and certain other retirement plans. The amount of the credit is determined by your filing status, your adjusted gross income, and your other retirement contributions.

There is still time to contribute to an IRA and get the Saver's Credit on a 2008 return. 2008 IRA contributions can be made until April 15, 2009. Ask your branch manager about Salisbury Bank's retirement account options.

To learn more about this tax credit, ask your tax advisor or refer to IRS Publication 590 available at www.irs.gov.

giving back

Salisbury Bank takes its role as a good corporate citizen very much to heart and lends financial support to many worthy non-profit organizations in our area. In each issue we will highlight one of them.

The American Mural Project brings people together from all walks of life

Just as food nourishes our bodies, the arts feed our imagination and spirit. That is why Salisbury Bank is proud to support a wide variety of cultural undertakings.

One exciting example is the American Mural Project (AMP), a three-dimensional painting being made through a cooperative effort of people from across the nation.

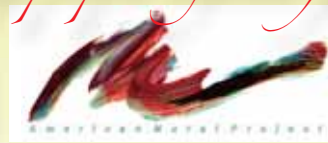


When completed, it will be the largest indoor collaborative artwork in the world: 120 feet long, 48 feet high and 10 feet deep – so large that a special building must be created for it. Depicting American workers of all types, it will contain pieces created in each of the 50 states from materials as varied as blown glass, dyed fabric, copper, marble and aluminum.

A challenge and an inspiration The brainchild of artist Ellen Griesedieck, AMP was first conceived ten years ago, while she was painting pictures of American workers. This gave her the idea of combining the images into a single, monumental mural.

Ellen recalls, "I had been with people doing tough, uncompromising work in copper mines and orange groves, driving cabs and doing open heart surgery, and I realized these men and women were heroes to me. I decided to do a painting . . . paying tribute to this American energy." It was also conceived as a way to demonstrate to people of all ages and types that they can make a contribution to American culture.

Griesedieck created the first study for the mural in 1997. To date, over 10,000 artists, scientists, teachers, and kids have worked on the mural. It is also the basis for an educational program that includes



joint ventures with local schools and an on-site/online curriculum.

Connecticut joins the project

Locally, hundreds of students and teachers have contributed to AMP through the Foundry Project. About 250 kids from eight schools in Connecticut, Massachusetts and New York were brought together in the studio with two tons of clay, resulting in an amazing rendering of a 22-foot molten metal foundry sluice. Other students from the Hotchkiss School in Lakeville worked with kids in Harlem to create an enormous foundry worker. Sections from this project and other finished pieces of the mural will be on exhibit at the Tremaine Gallery, Hotchkiss School from February 12 - March 7. The first collaborative AMP state project, this paved the way for future efforts.

For its permanent installation, AMP has purchased two former mill buildings in Winsted, CT. Renovation will get underway soon, and the Visitor Center should be open to the public by the end of 2009. Once installed, the American Mural Project will be a resource for local schools; a place for field-trips, guest lectures and workshops with local artists and artisans, as well as the onsite portion of the curriculum being developed and piloted in Winsted's Region Seven school district.



If you'd like to get involved or visit the project, go to www.americanmuralproject.org or call (860) 379-3006

Send contributions to: The American Mural Project, P.O. Box 538, 100 Whiting Street, Winsted, CT 06098.

SEP Retirement Plans For Small Businesses

Looking For An Easy, Low-Cost Retirement Plan for your Business? Why Not Consider A SEP?

Simplified Employee Pension plans (SEPs) can provide a significant source of income at retirement by allowing employers to set aside money in retirement accounts for themselves and their employees. Under a SEP, an employer contributes directly to traditional individual retirement accounts (SEP-IRAs) for all employees (including the employer). A SEP does not have the start-up and operating costs of a conventional retirement plan and allows for a contribution of up to 25 percent of each employee's pay.



Here's an illustration of how a SEP could work for your company.

Michael works for the Quincy Construction Company. Quincy decides to establish a SEP for its employees. Quincy has chosen a SEP because the construction industry is cyclical in nature, with good times and down times. In good years, Quincy can make larger contributions for its employees and in down times it can reduce the amount. Quincy knows that under a SEP, the contribution rate (whether large or small) must be uniform for all employees, including Mr. Quincy, the owner. Because only employer contributions are permitted, Michael cannot also make contributions under the SEP. Once the SEP has been started, all employees participating in the plan, including Michael, are fully vested. This means that there is no waiting period, and all funds as they are contributed to their accounts are 100 percent the property of the employees. The funds are tax deferred until the time of withdrawal.

Key Advantages of a SEP IRA

- **Tax savings** - Contributions to a SEP are tax deductible, and your business pays no taxes on the earnings on the investments.
- **Flexible** - Contributions can vary from year to year or need not be made at all.
- **Simplicity** - A SEP is easy to implement and maintain. There is no lengthy or detailed government reporting.
- **Saves money** - Administration costs are low.
- **Easy to set up** - Just visit Salisbury Bank to get things started.

Would you like to find out more about a SEP for your business? We invite you to visit Salisbury Bank today, or call 860-435-9801.

Consult with a tax professional regarding your specific eligibility for retirement programs.

ask the banker

Dear Salisbury Banker:

I would like to begin to save for retirement, but with this economy it is really difficult for me to come up with the \$5,000 annual contribution to an IRA. Do you have any advice?

– Retirement Saver Wanabee

Dear Wanabee:

I understand your situation. We have many customers who are committed to saving for retirement while keeping within their family budgets.

First, \$5,000 is the maximum contribution for folks 50 and under; there is no minimum contribution. My advice is to contribute what you can afford.

You may want to consider establishing a "Retirement Savers IRA" with Salisbury Bank. You can open this account with a small deposit and then make contributions that fit your budget. For example, we can help you set up automatic transfers from your Salisbury Bank savings or checking account into your Retirement Savers IRA for any amount you choose.

Transfers can be weekly or monthly, depending on your situation. You can also make additional deposits in person at any of our branch offices. Even better, we can help you to arrange to have a portion of your paycheck directly deposited into your Retirement Savers IRA, so each time you are paid, a set amount is automatically deposited to your IRA.

Please visit your local branch to find out how Salisbury Bank can help make saving for retirement as easy as possible.

Sincerely,

– Betsy Summerville,
SVP Retail Banking

IRAs: Questions and Answers – continued from front page

Q: How, then, do a traditional IRA and a Roth IRA differ?

Mainly, it's the tax treatment of contributions and distributions. With a Traditional IRA, contributions may be deductible, but never with a Roth IRA. But as long as you meet certain conditions, distributions from a Roth IRA aren't taxed. In most instances, distributions from a Traditional IRA are.

Q: How do I know if a distribution from a Roth IRA is tax-free?

You can receive distributions of amounts that represent your original contribution at any time. Earnings and any amount converted from a Traditional IRA to a Roth IRA may be withdrawn tax-free and without penalty if: (1) you have owned your Roth IRA for at least five years and (2) you are at least age 59-1/2. These requirements are waived if you: become disabled; use the distribution to pay up to \$10,000 of certain first-time home-buying expenses; or are a beneficiary receiving distributions following the death of a Roth IRA owner.

Q: Are there other advantages to a Roth IRA?

Definitely. With a Traditional IRA, you must begin receiving distributions at age 70-1/2. With a Roth IRA, there's no requirement that you must ever begin receiving them. Funds remaining at your death pass to the person whom you have named as the beneficiary of your Roth IRA free of income taxes. And your beneficiary can choose to spread out tax-free distributions over his or her own life expectancy.

Q: What happens if I make a contribution to a Roth IRA during the year and later discover that I am over the income limit for making the contribution?

You will be facing a 6% "excess contribution" penalty. But you can avoid the penalty if you catch

your error before your tax return is due. What you have to do is withdraw your contribution plus the earnings on that money by the due date of your return plus extensions. You must report the earnings as a distribution from your Roth IRA on your Form 1040 and pay tax on that amount (plus a 10% penalty if you are under age 59-1/2). You may, however, be able to avoid the tax and penalty if you can switch your 2008 Roth contribution plus the earnings to a Traditional IRA before the deadline.

Q: Can I move assets from my Traditional IRA to a Roth IRA?

Possibly. Under current rules you can convert your Traditional IRA to a Roth IRA, but only when your AGI does not exceed \$100,000. Strangely, the same cap applies for everyone. The amount that you convert to a Roth IRA is taxed as ordinary income in the year that you make the conversion.

For purposes of determining whether you exceed the \$100,000 limit, the amount that you convert is not counted. Nor does the conversion amount count in figuring your eligibility to make a contribution. But the conversion amount does have an impact on other tax issues relating to your AGI (for instance, medical and casualty loss deductions and the taxation of Social Security benefits).

Some good news: Beginning in 2010, there will no longer be an income cap on conversions. And just for 2010 conversions, you can spread your tax bill over two years.

Do you have additional retirement questions? We invite you to visit Salisbury Bank or call 860-435-9801.

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Bank Notes welcomes reader comments. Please call John F. Perotti, CEO, at 860-435-9801 or email jp@salisburybank.com or write to him in care of Salisbury Bank, P.O. Box 1868, Lakeville, CT 06039-1868.

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