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Good Afternoon,

Volatility has taken over! We have had some fairly large swings in both directions and seemed to have ended up right where we started. Buying on dips is a tried and tested adage we still believe works. They always say, "This time is different". Is it??

Personal Notes
Kalie has applied for her first real job. It was quite an experience and much different from when I first interviewed anywhere..all on a computer! Tyler has taken an interest in getting great grades in school. I know its early, but straight A's on his interim report card!

Recommendations
The burgers at Courtine's in Stuart are to die for..but you can only get them in their lounge area.

October 2011

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INVESTING PERSPECTIVES

Year-End Investment Planning: The Clock Is Ticking

Investment planning at the end of 2010 was complicated by uncertainty over whether existing tax rates would be extended. This year, it's the congressional "supercommittee" charged with tackling the country's deficit financing problem that's the source of uncertainty. Even though you may not be sure how the committee's work might ultimately affect you, here are some factors to keep in mind as you plot your year-end strategy.

Harvest tax losses if appropriate

If you plan to harvest losses to offset capital gains, you may want to think about the cost basis of those shares. To maximize your losses for tax purposes, you would sell shares that have lost the most, which would enable you to offset more gains. Unless you specify which shares of stock are to be sold, your broker will typically treat them as sold based on the FIFO (first in, first out) method, meaning that the first shares bought are considered to be the first shares sold. However, you can designate specific shares as the ones sold or direct the broker to use a different method, such as LIFO (last in, first out) or highest in, first out. You can also use a standing order or instruction to specify that a particular method is to be used.

As of this year, brokers must report to the Internal Revenue Service your cost basis for the sale of any shares of stock bought after January 1, 2011. That will make it even more important to make sure when preparing your tax returns that your cost basis records for such sales are accurate and agree with those of your broker. If you decide to specify stock shares in order to determine your cost basis, you must do so by the settlement date (typically, three days after execution of the trade) in order for your broker's records for the stock sale to be accurate.

Mutual funds, dividend reinvestment plans, bonds, and other securities eventually also will be subject to the same mandatory cost basis reporting requirement.

Don't procrastinate on tax break for small business stock

If you plan to invest in a qualifying small business, you may want to do so by December 31. That's because 100% of any capital gains on the sale of qualified small business stock issued after September 27, 2010, and before January 1, 2012, can be excluded from your taxable income. (The exclusion is scheduled to revert to 50% next year.)

To claim the 100% exclusion, you must have acquired the stock at original issue (with some exceptions for stock acquired as an inheritance or gift). Also, the business must satisfy certain requirements, and you must hold the stock for at least five years. There are limits on the total amount of gain that is eligible for the exclusion. There also may be special considerations if you roll over the gain from the sale of your stock to another qualified small business stock, or if you receive qualified stock as part of your deferred compensation plan. Don't hesitate to get expert help with your specific situation.

Consider the potential impact of higher interest rates

Interest rates have been at historic lows in recent years, but as the economy continues to heal, that won't always be the case. The Federal Reserve Board has said that raising interest rates won't be its first step in reducing the support it has given the monetary system. However, at some point, interest rates are likely to begin moving up again. When that happens--and there's no way to know for sure when that might be--bond prices will begin to feel the impact. As bond yields begin to rise, bond prices will begin to tumble, since prices move in the opposite direction from bond yields.

Don't let payroll tax increase derail long-term plans

If you've benefitted from the 2% reduction in workers' Social Security taxes in 2011, congratulations! However, be aware that the provision is scheduled to expire at the end of this year. If you've been saving or investing that money, your long-term plans will benefit if you can figure out how to replace that source of funding for your investment efforts.

Factoring Health-Care Costs into Retirement Planning

Will living a healthy lifestyle reduce health-care costs in retirement? Not necessarily. While living a healthy lifestyle may aid in reducing annual health-care costs, that same lifestyle generally promotes longevity, which may translate to higher total health-care expenditures over a longer lifetime. The moral of the story is even if you're healthy, you still face illnesses and diseases, so don't wait until your health begins to fail to plan for these costs in retirement.

There are many factors to consider in determining how much you'll need to save in order to enjoy a comfortable and financially secure retirement. One often overlooked retirement expense is the cost of health care. You may presume that when you reach age 65, Medicare will cover most health-care costs. However, Medicare currently only pays for a portion of the cost for most health-care services, leaving a potentially large amount of uninsured medical expenses. Without proper planning, health-care costs can sap retirement income in a hurry, leaving you financially strapped.

How much will you need?

How much you'll spend generally may depend on when you retire, how long you live, your health status, and the cost of medical care in your area. But the costs can add up. You won't have to pay for Medicare Part A hospital insurance (unless you don't qualify and have to buy into the program), but you will likely pay either $96.40 or $110.50 each month in 2011 for Medicare Part B physician's coverage (although you may pay higher premiums based on income and other factors), and an average of $30 per month for Medicare Part D prescription coverage. In addition, there are co-pays and deductibles to consider (e.g., after paying the first $162 in Part B expenses per year, you pay 20% of the Medicare-approved amount for services thereafter).

The cost of health care is rising. The Centers for Medicare & Medicaid Services (CMS) reports that national health expenditures grew by 4% in 2009. And the CMS Office of the Actuary estimates that out-of-pocket spending is projected to grow at an average rate of 5% from 2015 through 2020.

What can you do?

It's clear that health care is an important factor in retirement planning. And while you may be able to buy a cheaper car, live in a smaller home, or take fewer vacations in order to stay within your retirement income budget, you can't do without necessary medical care. So what can you do? You can better prepare for these expenses by taking the following steps:

- Acknowledge that paying for health care in retirement is an issue to consider. Don't presume Medicare and Medigap insurance will cover all your expenses--they probably won't. Include potential health-care costs in your retirement plan.
- Evaluate your present health and project your future medical needs. That might be easier said than done, but taking stock of your overall health now and factoring in your family's health history may help you determine the type of care you might need in retirement. Are you currently being treated for high blood pressure or diabetes? Do you live a healthy lifestyle? Does heart disease run in your family?
- Understand what Medicare covers and what it costs. For instance, Medicare (Part A, Part B, and Part D) generally provides benefits for inpatient hospital care, medically necessary doctor's visits, and prescriptions. But Medicare doesn't cover everything. Examples of services generally not covered by Medicare include most chiropractic care, dental or vision care, and long-term care. You'll also have to account for deductibles, co-insurance costs for some services, and a monthly premium for Medicare Parts B and D.
- Consider the cost of supplemental insurance. Medigap plans are standardized policies sold by private insurance companies that pay for some or all of the costs not covered by Medicare. In addition to Medigap policies, other types of supplemental insurance include long-term care insurance, dental insurance, and vision insurance. The type and amount of coverage that's best for you depends on a number of factors, including how much premium you can afford, what benefits you need, your financial resources, your health, and your anticipated medical needs.
- Don't forget to factor in the cost of long-term care. The National Clearinghouse for Long-Term Care Information estimates that at least 70% of people over age 65 will require some long-term care services. Medicare does not pay for custodial (nonskilled) long-term care services, and Medicaid pays only if you and your spouse meet income and asset criteria.
- Save, save, save. You may have already begun saving for your retirement, but if you fail to include the cost of health care in your plan, you're likely leaving out a big expense. Your financial professional can help you figure out how much you may need to save and adjust your retirement planning strategies to account for potential health-care costs in retirement.

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Portability of Basic Exclusion Amount between Spouses

Portability allows a surviving spouse to use the unused basic exclusion amount of the first spouse to die to shelter property from federal gift and estate taxes. Portability of the exclusion between spouses would seem to make estate planning easier for many estates. However, unless extended by Congress, portability of the unused basic exclusion amount between spouses is set to expire in 2013.

Your estate plans and documents may need to be revised to reflect the tax changes for 2011 and 2012 and for the uncertainty for 2013 and beyond. Flexibility will be key.

Transfers of property during life or at death are generally subject to federal gift or estate taxes. Each taxpayer has an applicable exclusion amount, which is the amount of property that can be sheltered from federal gift and estate taxes by the unified credit.

Prior to 2011, each spouse was entitled to his or her own applicable exclusion amount, and any amount that a spouse did not use was lost, absent special planning.

But, thanks to legislation passed in 2010, the estate of the first spouse to die can now elect to transfer any basic exclusion amount that is not used to the surviving spouse. This is known as "portability." For 2011 and 2012, the applicable exclusion amount is redefined as equal to the sum of the basic exclusion amount of the surviving spouse and the unused basic exclusion amount of the last deceased spouse. For 2011 and 2012, the basic exclusion amount is $5 million (plus indexing in 2012).

Portability of the exclusion between spouses and an increase in the basic exclusion amount would seem to make estate planning easier for many estates. However, unless extended by Congress, in 2013, portability of the unused basic exclusion amount between spouses is set to expire and the exclusion is scheduled to decrease to $1 million.

Simple planning with portability

If you're planning today, you could transfer everything to your spouse and, if you die in 2011 or 2012, your estate can elect to transfer your unused basic exclusion amount to your surviving spouse. Your spouse will then have an applicable exclusion amount equal to the sum of his or her own basic exclusion amount and your unused basic exclusion amount, which your spouse can use for gift or estate tax purposes. For example, if you transfer your $5 million unused basic exclusion to your surviving spouse, who also has a $5 million basic exclusion amount, your spouse then has a $10 million applicable exclusion amount to shelter property from gift and estate taxes. Such simple planning might be very practical for some married couples, especially where the spouses' combined estates are expected to be less than the applicable exclusion amount.

Potential need for more complex planning

There are a number of reasons why such simple planning with portability may not produce the desired or best results. These include:

- Portability is set to expire in 2013, and tax rates are scheduled to increase while the applicable exclusion amount is set to decrease.
- You have family members or individuals other than your spouse that you would like to benefit prior to the death of your spouse.
- You have grandchildren or younger generations that you would like to benefit. The $5 million generation-skipping transfer (GST) tax exemption is not portable between spouses (and is scheduled to decrease to $1 million as indexed in 2013).
- State exclusion amounts may be lower than the federal applicable exclusion amount and may not be portable between spouses.

Use of A/B trust arrangement

Prior to the 2010 legislation, many married couples with estates that were greater than the applicable exclusion amount would set up an A/B (or A/B/C) trust arrangement. In general, the first spouse to die would transfer an amount equal to the applicable exclusion amount to the "B" or credit shelter (bypass) trust. The B trust could benefit the surviving spouse and their children, but the B trust would be designed to bypass the surviving spouse's estate. The balance of the estate would be transferred to the surviving spouse, either outright or by using an "A" marital trust, and qualify for the marital deduction. In some cases, a "C," "Q," or QTIP marital trust was also used if the first spouse to die wanted to control who received the marital trust property at the second spouse's death. The A/B trust arrangement typically assured that there would be no estate tax at the first spouse's death and that neither spouse's applicable exclusion amount was wasted.

An A/B trust arrangement may still be useful whether or not portability is available. For example, the B trust can assure that the applicable exclusion amount of the first spouse to die is not lost, even if portability is not available in the future. The B trust can be used to provide for family members or individuals other than your spouse (and even your spouse) prior to the death of your spouse. You could also allocate your GST tax exemption or state exclusion to the B trust. The A trust could use your spouse's applicable exclusion amount, GST tax exemption, and state exclusion.

Review estate plans and documents

Your documents and plans may need to be revised to reflect the tax changes for 2011 and 2012 and for the uncertainty for 2013 and beyond. To help guide you through these opportunities and uncertain times, consult an experienced estate planning attorney.

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Ask the Experts

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I'm retiring to a state with no income tax. Can my former state tax my retirement benefits?

The short answer is "no."

In the past, several states enacted "source tax" laws that attempted to tax retirement benefits if they were earned in that state, regardless of where a taxpayer resided when the benefits were ultimately paid. For example, if you earned a $50,000 annual pension while working in California, and then retired to Florida, California would attempt to tax those benefits, even though you were no longer a California resident.

But, in 1996, a federal law was enacted (P.L. 104-95) that prohibited states from taxing certain retirement benefits paid to nonresidents. As a result, if your retirement benefits are covered by the law (most are, see below), only the state in which you reside (or are domiciled) can tax those benefits.

Whether you're a resident of, or domiciled in, a state is determined by the laws of that particular state. In general, your residence is the place you actually live. Your domicile is your permanent legal residence; even if you don't currently live there, you have an intent to return and remain there.

The law applies to all qualified plans (this includes 401(k)s, profit-sharing plans, and defined benefit plans), IRAs, SEP-IRAs, Internal Revenue Section 403(a) annuities, Section 403(b) plans, Section 457(b) plans, and governmental plans.

The law provides only limited protection for nonqualified deferred compensation plan benefits. Benefits paid from nonqualified plans that are designed *solely* to pay benefits in excess of certain Internal Revenue Code limits (for example, Section 415 excess benefit plans) are covered by the law. Also covered are nonqualified plan (for example, top-hat plan) benefits that are paid over the employee's lifetime, or over a period of at least 10 years.

Examples of benefits that are not covered by the law include stock options, stock appreciation rights (SARs), and restricted stock.

What state tax issues should I consider when deciding where to retire?

If you're retired, or about to retire, you may be thinking about relocating to a state that has low (or no) income taxes, or that provides special tax benefits to retirees. Here are some state tax issues to investigate before making your move.

State income taxes typically account for a large percentage of the total taxes you pay. So, consider yourself lucky if you're planning a move to one of the seven no-income-tax states--Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming (New Hampshire and Tennessee impose income tax only on interest and dividends).

If you're considering a state that does impose an income tax, you'll need to know how that state treats Social Security and retirement income. Social Security is completely exempt from tax in more than half the states. Some states tax your Social Security benefits only if your income is above certain levels. Still others provide a general retirement income exclusion that takes Social Security benefits into account. Most of the remaining states tax Social Security benefits to the same extent they're taxed for federal income tax purposes.

Most states with an income tax fully or partially exempt retirement income--only California, Indiana, Nebraska, Rhode Island, and Vermont do not. But the exemptions vary considerably by state. Some states exempt public pensions from taxation but tax private pensions, or exempt public pensions earned in that state, but not public pensions earned in another state.

Some states exempt employer retirement benefits from tax, but not IRA income. Other states exempt a specific dollar amount of retirement income, but only if you've reached a certain age or have income within certain limits. In certain states, military pensions are fully or partially exempt, while in others they're fully taxable. Some states exempt defined benefit pension payments, but tax 401(k) benefits.

Remember that states may also impose many other kinds of taxes (for example, sales, real estate, and gift and estate taxes). Check to see if the state you're considering offers tax breaks to seniors, like property tax reductions, or additional exemptions, standard deductions, or credits based on age.

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