



EYE MONEY

JUL/AUG 09

Key Tax Breaks in the American Recovery and Reinvestment Act

Plus:
Creating a Retirement Income Plan
Lower Asset Values and Interest Rates
Offer an Estate Planning Opportunity
The Making Home Affordable Program



The Making Home Affordable Program: Are you eligible to lower your mortgage payment?

Established by President Obama on March 4, 2009, the Making Home Affordable Program may help up to 9 million homeowners modify or refinance their mortgages to a more affordable payment.

Loan Modification

The modification part of the program is designed to help at-risk homeowners better afford their mortgage payments. It aims to do this by incenting mortgage servicers to modify eligible mortgages so that mortgage payments do not exceed 31 percent of the borrower's gross monthly income. Servicers may do this by reducing interest rates to as low as 2 percent or through other loan modifications. Borrowers will need to demonstrate over a 3-month period that they can afford the new payment before the loan is permanently modified for five years.

You may be eligible if:

- Your mortgage must have originated before January 1, 2009.
- You must be the owner-occupant of a one to four unit home that is your primary residence.
- Your unpaid principal balance must be \$729,750 or less for a one unit property (a higher balance is permitted for two to four unit properties).
- Your current mortgage payment must be more than 31 percent of your gross (pre-tax) monthly income.
- You must have experienced a significant increase in mortgage payments or a significant change in income or expenses, to the point that the current mortgage payment is no longer affordable.
- Your mortgage servicer must have chosen to participate in the Home Affordable Modification program; participation is optional.

Loan Refinancing

The refinance part of the program is for homeowners who are current in their mortgage payments, but are unable to refinance because they now owe more than 80 percent of the value of their homes due to decreasing home values. The program allows eligible homeowners whose first mortgages do not exceed 105 percent of the current market value of their homes to refinance so that they can take advantage of lower mortgage rates.

You may be eligible if:

- Your mortgage must be owned or securitized by Fannie Mae or Freddie Mac.
- You must be current on your mortgage payments (you must not have been more than 30 days late on your mortgage payment in the last 12 months).
- You must be the owner-occupant of a one to four unit home that is your primary residence.
- You must have sufficient income to support the new mortgage debt.
- Your first mortgage must not exceed 105 percent of the current market value of the property.

For more information, please contact your mortgage servicer or visit www.MakingHomeAffordable.gov.

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5 Reasons to Roll Your Old Retirement Accounts into an IRA

When you retire or change employers, rolling over the savings in your workplace retirement account to an individual retirement account (IRA) may be a smart move. Here are five reasons why.

1 Maintain the tax-advantaged nature of your savings. When you roll over your savings from a former employer's retirement plan to an IRA, your savings can continue to grow tax-deferred or tax-free. In contrast, if you cash out your old retirement account, the tax advantages are gone for good (unless you move the money into an IRA within 60 days).

2 No taxes or tax penalties on a direct rollover. You can roll over your savings from your retirement account into an IRA without incurring any taxes or tax penalties. In contrast, if you cash out a traditional retirement account, you will owe income tax on any part of the distribution that was not taxed previously, which may be all of it. You may also owe a 10-percent tax penalty if you are under age 59½ when you receive the distribution.

3 You can convert to a Roth IRA. If the idea of paying taxes on your retirement savings now and then potentially never paying another cent of income tax on those savings and their future earnings appeals to you, consider rolling the savings from your traditional retirement accounts into a Roth IRA. Your modified adjusted gross income must be under \$100,000 to convert

your savings to a Roth IRA in 2009, but the income restrictions will be lifted beginning in 2010. If your income exceeds \$100,000, consider rolling over your savings to a traditional IRA for now and then converting that IRA to a Roth IRA in 2010. (Married taxpayers who file separate tax returns generally cannot convert to a Roth IRA.)

4 More investment choices. In general, workplace retirement plans limit your investment choices to about 20 investments. IRAs, on the other hand, typically offer a much wider array of investments, including stocks, bonds, mutual funds, exchange traded funds, and more.

5 One, easy-to-monitor account. If you have multiple retirement accounts from former employers, rolling them over to a single IRA can help simplify things. Instead of multiple statements to review, there is just one, making it easier to see how your investments are performing and track your progress to your goals. ■

If you plan to retire or change employers, please talk to your financial advisor about how to handle the savings in your workplace retirement account.

Keep track of home improvements— they may reduce your taxes when you sell.

Planning on remodeling the kitchen or adding a swimming pool? Save your receipts! The amount you spend on home improvements increases your basis in your home, which in turn decreases your gain when you sell your home at a profit. A lower gain means lower taxes on the sale—or no taxes at all!

When you sell your home, you will need to know your basis in your home to figure any loss or gain (profit). If you purchase a home, your basis begins with the amount you paid for the home originally. This

includes the home's purchase price, as well as some of the settlement fees and closing costs. Improvements that you make to your home over the years increase your basis. To determine your adjusted basis, add in the cost of additions or other improvements that have a useful life of more than one year. These improvements might include adding a new room, putting on a new roof, or any of the other improvements listed on the next page. In order to prove your home's adjusted basis, you will need receipts and other records for the improve-

ments and additions. Of course, if you have replaced some of your improvements—for example, if you have replaced your water heater more than once—only the latest improvement is part of your adjusted basis, and earlier receipts and records are not needed for tax purposes.

Not all fixes to your home increase your basis. Repairs, such as fixing a leak or replacing a broken window pane, are generally not considered improvements and do not affect your basis. The only time repairs count as an improvement is when they are



Home Improvements: Understanding Your Payment Options

done as part of an extensive remodeling or restoration of your home.

While improvements increase your basis in your home, certain items decrease your basis. They include deductible casualty losses, depreciation if your home is used for business or rental purposes, tax credits you claim for home improvements, and other items.

When you sell your home, your adjusted basis will be subtracted from the sale price to arrive at your gain. If you have a gain from your main home, you may be able to exclude up to \$250,000 of it (\$500,000 if you are married and file a joint return) from your income. Amounts that are not excluded will be subject to tax.

When you sell your home, check with your tax advisor about how to calculate the adjusted basis and whether any part of your gain is taxable. And in the meantime, hang on to those receipts and records regarding your home improvements—they may help you trim your tax bill some day! ■

Examples of improvements that increase your basis in your home:

ADDITIONS

Bedroom
Bathroom
Deck
Garage
Porch
Patio

INTERIOR IMPROVEMENTS

Built-in appliances
Kitchen remodels
Flooring
Wall-to-wall carpet

MISCELLANEOUS

Storm windows
Storm doors
New roof
Central vacuum
Wiring upgrades
Satellite dish
Security system
Insulation

HEATING & COOLING

Heating system
Central air
Furnace
Duct work
Central humidifier
Filtration system

PLUMBING

Septic system
Water heater
Soft water system
Filtration system

LAWN & GARDEN

Landscaping
Driveway
Walkway
Fence
Retaining wall
Sprinkler system
Swimming pool

SOURCE: IRS Publication 523

Tips from the Federal Trade Commission (FTC), the nation's consumer protection agency.

You have several payment options for most home improvement, maintenance, and repair projects. For example, you can get your own loan or ask the contractor to arrange financing for larger projects. For smaller projects, you may want to pay by check or credit card. Avoid paying cash. Whatever option you choose, be sure you have a reasonable payment schedule and a fair interest rate. Here are some additional tips:

- Try to limit your down payment. Some state laws limit the amount of money a contractor can request as a down payment. Contact your state or local consumer agency to find out what the law is in your area.

- Try to make payments during the project contingent upon completion of a defined amount of work. This way, if the work is not proceeding according to schedule, the payments are also delayed.

- Don't make the final payment or sign an affidavit of final release until you are satisfied with the work and know that the subcontractors and suppliers have been paid. Lien laws in your state may allow subcontractors and/or suppliers to file a mechanic's lien against your home to satisfy their unpaid bills. Contact your local consumer agency for an explanation of lien laws where you live.

- Some state or local laws limit the amount by which the final bill can exceed the estimate, unless you have approved the increase. Check with your local consumer agency.

- If you have a problem with merchandise or services that you charged to a credit card, and you have made a good faith effort to work out the problem with the seller, you have the right to withhold from the card issuer payment for the merchandise or services. You can withhold payment up to the amount of credit outstanding for the purchase, plus any finance or related charges. ■



Photos: iStockphoto.com (left); iStockphoto.com (middle); iStockphoto.com (right)

Key Tax Breaks

and Other Provisions in
the *American Recovery
and Reinvestment Act*

On February 17, 2009, President Obama signed the \$789-billion *American Recovery and Reinvestment Act of 2009* into law. This massive recovery package contains tax cuts and spending programs aimed at jumpstarting the economy, saving and creating jobs, and providing assistance to unemployed individuals.

More than a third of the Act is tax relief. There's the new Making Work Pay Credit, designed to reduce taxes for most American workers by \$400 per individual or \$800 per married couple who files jointly. There's a \$250 economic recovery payment or credit for retirees. An \$8,000 tax credit for first-time homebuyers who purchase a home before December 2009. A sales tax deduction for purchasers of new vehicles or

motor homes. An expanded Hope Credit, now known as the American Opportunity Tax Credit, to help students and families pay for college. There are increases in the tax credits for making energy-saving improvements to your home. And a one-year patch on the alternative minimum tax (AMT) to help prevent millions of additional taxpayers from being subject to the AMT in 2009.

This article takes a brief look at some of the Act's key tax breaks and provisions that apply to individuals. Although not touched on here, the Act also includes tax breaks for businesses. Please talk to your tax advisor if you would like the details on the provisions affecting you or your business. ■

Tax Credit

- A tax credit lowers your tax liability dollar-for-dollar. For example, a \$3,000 tax credit reduces your federal taxes by \$3,000.
- Usually, credits cannot lower your tax liability below zero. However, some credits can lower your tax liability below zero and provide you with a refund of the amount below zero. These are known as refundable credits. (In this article, credits are nonrefundable unless otherwise noted.)
- You do not need to itemize on your tax return to claim a credit.

Tax Deduction

- A tax deduction reduces the income on which your tax is figured.
- Generally, you must itemize on your tax return to claim a tax deduction.

Phase Out

- Some tax credits and deductions phase out (gradually reduce until they reach zero) for taxpayers with adjusted gross incomes (AGI) above a certain amount.



PROVISION / EXPLANATION	LIMITS	IN EFFECT
GENERAL TAX RELIEF		
<p>Making Work Pay Credit (Refundable)</p> <p>This provision provides workers with a tax credit of 6.2 percent of their earned incomes, up to a maximum of \$400 for individuals or \$800 for married couples filing jointly. Eligible workers generally receive this credit as a reduction in the amount of tax withheld from their paychecks during 2009 and 2010. Workers who are claimed as a dependent on someone else's tax return or who are nonresident aliens are generally not eligible for this credit.</p>	<p>The credit phases out for taxpayers with modified AGIs above \$75,000 (\$150,000 for joint filers).</p>	<p>2009–2010</p>
<p>\$250 Economic Recovery Payment</p> <p>A one-time payment of \$250 to adults who are eligible for Social Security, Railroad Retirement benefits, or veterans compensation or pension benefits; or individuals who are eligible for Supplemental Security Income (excluding people receiving SSI while in a Medicaid institution).</p>	<p>This payment reduces any Making Work Pay Credit.</p>	<p>Payments to begin no later than mid-June 2009</p>
<p>\$250 Credit for Certain Government Retirees (Refundable)</p> <p>A one-time credit of \$250 for government retirees not covered by Social Security and not eligible for the \$250 Economic Recovery Payment.</p>	<p>This credit reduces any Making Work Pay Credit.</p>	<p>2009</p>
<p>Changes to the First-Time Homebuyer Credit (Refundable)</p> <p>In 2008, Congress provided first-time homebuyers with a tax credit equal to 10 percent of the purchase price of the home, up to \$7,500. The credit, though, was more like an interest-free loan, needing to be repaid over 15 years. The new Act makes the credit a true credit—it does not need to be repaid—for first-time homebuyers who purchase a home in 2009 before December 1. Plus, the Act increases the maximum credit amount to \$8,000 (\$4,000 if married filing separately). FYI: You are considered a first-time homebuyer if you, and your spouse if you are married, did not own a principal residence during the three years prior to purchasing this home.</p>	<p>The credit phases out for taxpayers with modified AGIs between \$75,000 and \$95,000 (\$150,000 and \$170,000 for joint filers).</p>	<p>For homes purchased in 2009 before December 1</p>
<p>Sales Tax Deduction for Vehicle Purchases</p> <p>Taxpayers can deduct the state and local sales and excise taxes paid or accrued to purchase new cars, light trucks, motorcycles, and motor homes. The deduction is limited to the tax on up to \$49,500 of the purchase price. You do not have to itemize to claim this deduction.</p>	<p>The deduction phases out for taxpayers with modified AGIs between \$125,000 and \$135,000 (\$250,000 and \$260,000 for joint filers).</p>	<p>For tax paid or accrued after February 16, 2009 and before January 1, 2010</p>
<p>AMT Patch for 2009</p> <p>This provision prevents an additional 26 million families from being subject to the alternative minimum tax (AMT) in 2009 by increasing the AMT exemption amount and allowing nonrefundable personal credits to offset the AMT liability.</p>		<p>2009</p>



PROVISION / EXPLANATION	LIMITS	IN EFFECT
ENERGY INCENTIVES		
<p>Removal of Most Dollar Limits on the Credit for Residential Efficient Property</p> <p>Under prior law, taxpayers could take a 30-percent credit—but only up to certain dollar limits—for qualifying solar, small wind, geothermal, and fuel cell property they installed in their homes. The Act removes the dollar limits on solar hot water, small wind, and geothermal property, enabling taxpayers to take a full 30-percent nonrefundable credit for all types of qualifying property except fuel cell property. (The dollar cap on solar electric property was removed under an earlier law.) The credit for fuel cell property is limited to \$500 for each 0.5 kilowatt hour of capacity.</p>	<p>Equipment must meet specific efficiency standards to qualify for the credit.</p>	<p>2009–2016</p>
<p>Increased Credit for Energy-Saving Home Improvements</p> <p>The Act increases the Credit for Nonbusiness Energy Property to 30 percent for qualifying energy efficient improvements (windows, doors, certain roofs, insulation, furnaces, boilers, heat pumps, water heaters, central air conditioners, and more) that you make to your <i>main</i> home. The Act also removes the \$500 lifetime cap on the credit. You can now claim up to a total of \$1,500 for property you purchase and begin using in 2009 and 2010.</p>	<p>Equipment must meet specific efficiency standards to qualify for the credit.</p>	<p>2009-2010</p>
<p>Changes to the Credit for Plug-In Electric Vehicles</p> <p>Even though you may not find a plug-in electric vehicle in a showroom yet, there has been a credit waiting for the first consumers who purchase such a vehicle. The Act makes changes to that credit. Beginning in 2010, the credit is limited to a maximum of \$7,500, only vehicles weighing less than 14,000 pounds are eligible, and the credit will begin to phase-out for a manufacturer’s vehicles once that manufacturer sells more than 200,000 qualifying vehicles.</p>	<p>The vehicle must meet specific standards to qualify for the credit.</p>	<p>2010-2014</p>
<p>New Credit for Plug-In Electric Drive Low-Speed Vehicles, Three-Wheeled Vehicles, and Motorcycles</p> <p>A new 10-percent credit, up to a maximum of \$2,500, is available for plug-in low-speed vehicles, three-wheeled vehicles, and motorcycles purchased in 2010 or 2011.</p>	<p>The vehicle must meet specific standards to qualify for the credit.</p>	<p>2010–2011</p>
<p>New Credit for Converting a Vehicle into a Plug-In Electric Vehicle</p> <p>A new 10-percent credit, up to \$4,000, is available for converting a motor vehicle into a plug-in electric drive vehicle.</p>	<p>The conversion must meet specific standards to qualify for the credit.</p>	<p>For vehicles converted after February 16, 2009 and before January 1, 2012</p>



PROVISION / EXPLANATION

LIMITS

IN EFFECT

EDUCATION

American Opportunity Tax Credit (Partially Refundable)

To help students and families pay for college, the Act expands the Hope Credit for 2009 and 2010 and renames it the American Opportunity Tax Credit. Now, instead of eligible students and families being able to claim a credit of up to \$1,800 for the first two years of post-secondary education, they can claim up to \$2,500 for the first *four* years. And instead of a non-refundable credit, forty percent of the new credit is generally refundable, enabling low-income students and families who may not owe income tax to benefit. And, lastly, the income limits on claiming the credit have been significantly increased, enabling more middle-income families to claim it.

The credit phases out for taxpayers with modified AGIs between \$80,000 and \$90,000 (\$160,000 and \$180,000 for joint filers).

2009–2010

Computers Are Now Qualified Expenses in 529 Plans

Money from 529 college savings plans can be withdrawn tax-free if it is used for qualified higher education expenses. Under prior law, qualifying expenses included tuition, fees, books, and generally room and board. For 2009 and 2010, qualifying expenses also include computer equipment, technology, and Internet access.

2009–2010

ASSISTANCE FOR UNEMPLOYED WORKERS

Extension of Emergency Unemployment Compensation Program

The Act extends the emergency program (originally set to end March 31, 2009) that provides up to 33 weeks of extended unemployment benefits to workers who have exhausted their regular unemployment benefits.

The program is extended through 2009. (No emergency benefits to be paid after May 31, 2010.)

Increase in Unemployment Compensation Benefits

The weekly regular unemployment benefit is increased by \$25 for 2009. Individuals who have not exhausted their right to regular benefits by the end of 2009 may continue to receive the increased payment into the first half of 2010.

2009

First \$2,400 of Unemployment Benefits Are Tax Free

The Act temporarily suspends federal income tax on the first \$2,400 of unemployment compensation benefits received in 2009.

2009

Assistance for COBRA Health Insurance Premiums

The Act provides a subsidy that pays 65 percent of the COBRA premiums for up to nine months for workers who were involuntarily terminated on or after September 1, 2008 and before January 1, 2010.

The subsidy phases out for taxpayers with modified AGIs between \$125,000 and \$145,000 (\$250,000 and \$290,000 for joint filers).



Financing Options for Adults Returning to College

If you plan to enroll in college or graduate school, getting accepted into a program may be only half the battle. Paying for it may be the other half.

Fortunately, many of the financial resources—student loans, grants, and scholarships—available to students who attend college straight out of high school are also available to adults. Plus, at this stage in your life, you may have assets of your own to draw on or an employer willing to reimburse your tuition expenses.

Here are some ideas to get you started on determining how to fund your own education.

Applying for Financial Aid

If you simply want to know whether you can afford to go back to school, you can get an early estimate of your eligibility for federal aid by using the FAFSA4caster, which you will find at www.fafsa4caster.ed.gov.

To actually apply for financial aid, you will need to fill out the Free Application for

Federal Student Aid (FAFSA). You can do this on the U.S. Department of Education web site, www.fafsa.ed.gov.

The information you provide on your FAFSA about your income, assets, and household is used to determine your expected family contribution—the amount you are expected to contribute towards the cost of your education. Most schools use the expected family contribution to determine your eligibility for federal, state, and college-sponsored financial aid, including scholarships, grants, and student loans.

Much of the financial information you provide will be based on your prior year's tax return. If your circumstances have changed since last year—for example, if you recently lost your job—ask the school's financial aid office to review your eligibility for financial aid based on your special circumstances, not solely on the results of your FAFSA.

In addition to the FAFSA, some schools use a financial aid application known as the CSS/Financial Aid PROFILE to determine your eligibility for nonfederal aid.

Grants and Scholarships

The best type of aid is the type that does not have to be repaid: grants and scholarships.

Federal grant money is generally limited to low-income students pursuing their first undergraduate degree. There are some exceptions, involving the Pell Grant and the TEACH Grant, for students completing course work needed to become a teacher.

Scholarships are an avenue worth exploring. Check with your college, state, and employer, as well as civic groups and trade associations in which you participate, for available scholarships. You can also search on the Internet at sites such as www.ScholarshipExperts.com and www.CollegeAnswer.com.

On a related note, many colleges (particularly public colleges) waive tuition for senior citizens who wish to audit classes.

Financial Assistance for Adult Students

ADULT STUDENTS

Scholarships

Lifetime Learning Credit—A federal tax credit of up to \$2,000 per tax return is available for low- and moderate-income students. This credit can be claimed for an unlimited number of years, and the student does not need to be pursuing a degree.

Tuition and fees deduction—Low- and moderate-income students may be able to deduct up to \$4,000 of qualified higher education expenses that they pay. This deduction is due to expire at the end of 2009.

Student loan interest deduction—Low- and moderate-income students may be able to deduct up to \$2,500 of interest they pay on qualified student loans.

EMPLOYED STUDENTS

Tuition reimbursement from employers

Deduction for work-related education—You may be able to deduct expenses you pay for education that is required by your employer or by law, or that maintains or improves the skills needed in your present work.

ADULT STUDENTS ENROLLED AT LEAST HALF-TIME

Undergraduate Students:

Stafford Loan—Independent students can borrow up to \$9,500 the first year, \$10,500 the second year; \$12,500 the third year and beyond (each year). There are two types of Stafford Loans: subsidized and unsubsidized. Students must demonstrate financial need to qualify for a subsidized Stafford Loan; financial need is not required for an unsubsidized Stafford Loan.

American Opportunity Tax Credit—A federal tax credit of up to \$2,500 per student per year is available for low- and moderate-income students in their *first* four years of post-secondary education. In effect through 2010.

Graduate and Professional Degree Students:

Stafford Loan—Independent students can borrow up to \$20,500 per year.

PLUS Loan—If a Stafford Loan and other types of financial aid do not cover the cost of attendance, a PLUS Loan can be used to cover the balance. Students do not need to demonstrate financial need to be eligible for a Plus Loan; they do need to pass a credit check or have a co-signer.

Loans

Most financial aid is in the form of federal student loans. Private loans are available from banks and credit unions (provided you pass a credit check), but federal loans usually offer better interest rates and benefits. To be eligible for a federal loan, you generally will need to be enrolled in a

degree program at least half-time.

Undergraduate, graduate, and professional degree students may be eligible for a Stafford Loan. With this federal loan, independent undergraduates (those over age 23 or who meet other criteria) can borrow up to \$12,500 per year, depending on grade level. That is \$4,000 or \$5,000 more per year than depen-

dent students are allowed to borrow. Graduate and professional degree students can borrow up to \$20,500 per year and may also be eligible to supplement their Stafford Loans with federal PLUS Loans, up to the cost of attendance minus any other financial aid.

Tapping Your Home Equity

Borrowing against the equity in your home, with either a home equity loan or home equity line of credit, may be another way to finance your education. Keep in mind, though, that this type of debt is secured by your home; if you cannot repay it, you may lose your home.

Tapping Your Retirement Savings

Although there are usually better ways to pay for college, tapping your retirement savings is an option. If you have an IRA, you can withdraw an amount equal to or less than your qualified education expenses without incurring an early distribution penalty. Any part of the withdrawal that was not taxed previously will be subject to income tax. If you have savings in a 401(k) or 403(b) plan, you may be able to borrow from your account. The loan will generally need to be repaid within 5 years. If you leave your job, the loan must be repaid nearly immediately or else the taxable part of your loan will be subject to income tax and perhaps a 10-percent tax penalty.

Tax Breaks

You may be eligible to claim a federal tax credit or deduction for higher education expenses that you pay. Eligibility requirements vary from tax break to tax break, but generally your income must be in the low to moderate range and you cannot claim multiple tax breaks for the same expense. Some states also offer tax credits and deductions to help defray higher education expenses. Your tax advisor can help you determine whether you are eligible for any tax breaks. ■

Please talk to your financial advisor about how to save and pay for college.

Is this a good time to transfer wealth to your children and grandchildren?

Lower asset values and interest rates suggest that it might be.



Wealthy individuals whose estates will be subject to estate taxes may want to take advantage of lower asset values and interest rates by giving assets to the next generations now. This way, any future appreciation will go to their children and grandchildren free of gift and estate taxes.

Is this a good time to transfer wealth to your children and grandchildren? It may be. With stock values, real estate values, and interest rates down, you may be able to transfer depressed assets to your children and grandchildren at little or no gift-tax cost.

There are a few wealth transfer strategies that benefit from the confluence of low asset values and interest rates. We will touch on one here: the grantor retained annuity trust. We will also touch on a strategy that benefits solely from low asset values: outright gifts.

First, outright gifts. You are allowed to give as many recipients as you wish up to \$13,000 each in 2009 without triggering the gift tax. (You can give up to \$26,000 if you split gifts with your spouse.) Instead of cash, consider giving beaten-down stocks that you expect to rebound. This way, any future appreciation belongs to the recipients of your gift—at no gift-tax cost to you! If you do not expect the stock price to rebound, you may be better off hanging onto that stock so you can claim the loss.

But what if you are not ready to make outright gifts or wish to give more than \$13,000 per recipient per year? One solution is to use a grantor retained annuity trust (GRAT). This type of trust may allow you to transfer a good chunk of the appreciation that occurs in the trust to your children at a reduced gift-tax cost—or no gift-tax cost at all.

Here is how a GRAT works. You irrevocably transfer ownership of an asset to the trust for a period of years. The key is to use an asset that you expect will appreciate significantly. During the trust's term, the trust makes annual annuity payments to you. At the end of the term, any assets remaining in the trust become the property of your children or other beneficiaries.

The asset you contribute to the trust is treated as a taxable gift, but you can limit the value of that gift for tax purposes by arranging for all or part of your contribution,

including interest, to be paid back to you in the annuity payments. The interest rate, known as the “7520 rate”, is set by the IRS each month. The rate has been very low in recent months (2.8% in June 2009)—and a low rate works in your favor. Any appreciation above the 7520 rate goes to your beneficiaries free from gift and estate taxes at the end of the trust's term.

When interest rates are low and asset values are low but are expected to increase significantly, GRATs can be a powerful wealth transfer tool. Of course, it all depends on whether the asset in the trust appreciates more than the 7520 rate. It also depends on whether you survive the term of the trust. If you do not, the assets in the trust are considered part of your estate for estate tax purposes. For this reason, this type of trust is frequently set up with a term of just a few years.

Keep in mind, the only reason you would consider using either of these strategies is because you expect your estate to be subject to estate taxes. Of course, that may be difficult to know for certain. The federal estate tax is scheduled to be repealed in 2010 and to return in 2011 with a \$1 million estate tax exemption. Many people expect that Congress will act this year so that the tax is not repealed and that the exemption will remain at its 2009 level (\$3.5 million) or higher.

Also keep in mind that GRATs are irrevocable. Once your asset is transferred to the trust, the asset no longer belongs to you, although you retain the right to receive annuity payments each year during the trust's term.

If your estate will be subject to estate taxes, talk to your financial and legal advisors about wealth transfer strategies designed to cost-effectively transfer your assets to your children, grandchildren, and other beneficiaries. If you wish to take advantage of depressed asset values or what may still be low interest rates, talk to your financial and legal advisors soon. ■

Creating A Retirement Income Plan

Estimating how much cash you can draw from your retirement assets each year—without depleting those assets early—is a critical pre-retirement step that can help ensure a financially secure retirement.

In the days when retirees relied mainly on traditional pensions and Social Security, creating a stream of income for retirement was simpler. Retirees signed up and the checks kept coming for the rest of their lives. But today, retirees generally have many more sources of retirement income. While a fortunate few may still receive a pension and most will still be eligible for Social Security, many retirees have an array of retirement accounts with previous employers, as well as personal IRAs, savings accounts, and investment accounts. Most of these retirement assets (with the exception of annuities) are not structured to automatically provide a lifetime stream of retirement income. Instead, retirees are responsible for managing their assets and deciding how to draw sustainable incomes from them.

So, how do you take an array of retirement assets and transform it into an income designed to carry you safely through 30 or more years of retirement? Very carefully.

How much you withdraw from your savings each year and the sequence in which you

tap your accounts can greatly impact the odds of your savings carrying you through retirement. We'll touch on the "how much" and "from which accounts when" aspects of creating a retirement income plan in this article. Your financial advisor can tell you more.

How much can I safely withdraw from savings each year?

Selecting a sustainable withdrawal rate is critical in helping to ensure a secure retirement. Withdraw too much, and you may run out of money. Withdraw too little, and you may not enjoy your retirement to the fullest.

Your age at retirement will partially dictate the initial withdrawal rate that is right for you. And that rate may be lower than you expect. A retiree in their mid-sixties who needs to stretch their savings for 30 years may be looking at a first-year withdrawal rate of 3 or 4 percent. Retire younger, and you may need to withdraw your savings at a lower rate in order to help your savings last longer. Retire later, and you may be able to increase your withdrawal rate a bit.

Asset allocation also factors into the withdrawal rate. Someone with a very conservative investment portfolio may need a lower withdrawal rate than someone with a moderate portfolio that has a greater potential for higher returns.

Typically, the withdrawal percentage applies only to the first year. After that, the amount withdrawn the prior year is increased by the rate of inflation. For example, if you have \$1 million in savings and decide on an initial withdrawal rate of 4 percent, the amount you withdraw in the first year should not exceed \$40,000. If inflation was 3 percent at the end of that year, your second-year withdrawal would be \$41,200 (\$40,000 plus 3 percent). (The numbers used here are hypothetical examples and may not be appropriate for you.)

Before you retire, talk to your financial advisor about how much you may be able to withdraw from your savings each year. Your advisor can help you develop an appropriate withdrawal strategy for your circumstances that helps minimize your risk of running out of money.



Keep in mind that withdrawal rates and amounts are not carved in stone. It is important to periodically assess whether your withdrawals are still potentially sustainable in light of actual market performance.

Even at a “safe” withdrawal rate, there is always a chance that your savings may be depleted prematurely. If you do not have a traditional pension and are relying primarily on savings to carry you through retirement, it may be prudent to hedge your bets by purchasing an immediate annuity with part of your savings. An immediate annuity is a contract between you and an insurance company in which the insurance company guarantees that it will pay you a steady stream of income for life in return for an upfront sum of money. (The guarantee is subject to the claims-paying ability of the issuing insurance company.) Ask your advisor about immediate annuities if you are concerned about outliving your financial resources.

Does it matter which accounts I tap first?

If your savings are spread between tax-favored and taxable accounts, it matters. By making smart choices about the sequence in which you tap your accounts, you may be able to minimize taxes and, in turn, maximize the savings available for your needs.

One rule of thumb is to tap taxable accounts first, leaving

your tax-favored retirement accounts intact for as long as possible so that they can continue to compound tax-deferred or tax-free. Also, the tax impact of tapping a taxable account is often less than that of tapping a tax-deferred account. The current top tax rate on long-term capital gains and qualified dividends is 15 percent. So, if you sell securities that you have owned for more than one year in a taxable account, you pay at most 15 percent federal tax on the gain (profit), plus any state taxes. Although selling that same investment in a traditional IRA or other tax-deferred account does not have an immediate tax impact, when you withdraw the proceeds, the entire withdrawal will generally be taxed as income, at rates up to 35 percent. (2009 rates are used here; the rates may be different when you retire.)

But like all rules of thumb, there are exceptions and, in certain situations, you may be better off tapping your tax-deferred accounts well before age 70½ when required minimum distributions generally must begin. For example, if your traditional IRA or other tax-deferred retirement account is very large, the amount you are required to withdraw each year beginning at age 70½ may be large enough to push you into a higher tax bracket. You may be able to avoid that and minimize your overall taxes by starting withdrawals earlier than required.

Your age also needs to be considered before beginning withdrawals from tax-favored accounts. Remember, you will be slapped with a 10-percent penalty for withdrawing money from tax-favored accounts before age 59½, unless you meet one of the exceptions to the penalty. And Roth accounts generally have the added requirement that the account be open for five years before the earnings escape the penalty. Unless you have money to burn, it pays to avoid penalties.

You may also want to consider your legacy plans when deciding which accounts to tap for retirement. The type of account—tax-free, tax-deferred, or taxable—that you leave to your heirs determines the income-tax treatment of their inheritances. Legacies to charities may also influence your decision of which accounts to tap for your needs.

The tax implications regarding your retirement assets can be complex. Your financial and tax advisors can help you sort through the complexities and arrive at a tax-efficient retirement income plan. ■

Please talk to your financial advisor before you retire. Your advisor can help you create a plan for managing and tapping your retirement assets, as well as help you address the other financial decisions you will need to make as you transition into retirement.



Before you retire:

Create a retirement income plan that lays out how you will transform your retirement assets into income.

Determine how much you may be able to withdraw from savings each year without prematurely depleting your savings. The answer to this question may help you determine whether you can afford to retire at this point.

Plan to keep taxes to a minimum by making smart choices about how you tap your accounts and assets.

Consider consolidating your financial accounts to make your finances easier to manage.



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Sunshine Coast: Coasting Along

BY BRIAN JOHNSTON

I knew I was happy when I started talking to the seals. How could I resist: they lolled on the rocks with their fat bellies distended, and as we paddled past they indolently waved their flippers at me as if saying hello, and smiled their fishy smiles. Their whiskers bristled like a sergeant major's, and cautious mothers coughed in alarm when I veered too close to their pups. But I was only looking at the giant starfish on the rocks and the summer dragonflies with iridescent wings. Above me, cedars towered over the water's edge and cormorants flapped in their nests.

I was in a sunny mood, which is perhaps why locals call this little strip of British Columbian shoreline north of Vancouver the Sunshine Coast. I was with a small group of kayakers in red and yellow boats and we were puttering about on the cold

blue waters, soaking up the exhilarating sense of sea and sky. At lunchtime we pulled up on the stony beach of a small island and sat eating salads and wild blackberries popping with flavor. And as we skimmed our kayaks back to shore, everything shimmered in the pale, luminous northern light of Canada. Back on dry land, there was plenty of daylight left to sit at a waterfront restaurant and savor fresh prawns and Pacific salmon; the sun wouldn't slump behind the islands until nearly eleven o'clock.

Taking to a boat—any sort of boat—is the best way to appreciate the beauty of the Sunshine Coast, and nothing beats a kayak for silence and intimacy with your surroundings. Dozens of companies offer kayak rentals or, if you're a beginner, will take you out with an instructor for a lazy

paddle. You can also join other, larger vessels for whale-spotting trips; the bays hereabouts are haunted by orcas, carving their way gracefully through the water in black and white. Even just getting to the Sunshine Coast involves taking to the water on a car ferry at Horseshoe Bay, just twenty minutes drive out of Vancouver. Wake up in the city with the rain dripping at your windows (which can happen fairly often in Vancouver) and all you have to do is get in your car and head north. Drive onto the ferry and prepare for magic as you chug along in an ocean of grey mist and water. Suddenly the fog breaks open, the sun pushes through, and water fizzes blue at the ferry's wake. People emerge from the ferry's lounge, unfolding from the cocoon of their clothes and turning their faces up to the warmth in anticipation.

Kayaking in the Pacific Northwest, left. Looking out over Davis Bay, right, on British Columbia's Sunshine Coast.



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The Sunshine Coast lies in a rain shadow, protected by the mountains of Vancouver Island which also provide such a pretty backdrop across the water. This little stretch of happiness has the longest frost-free season in all Canada: a full eight months. And while most of the coast is barely a hundred kilometers out of Vancouver as the crow flies and easily accessible on a day trip, there are so many indentations and inlets that parts of the Sunshine Coast can feel surprisingly isolated. To really appreciate the natural surroundings, aim on spending at least a weekend and book accommodations in one of the many secluded lodges off the main road.

The main road hereabouts is Highway 101, which twists and turns as it skirts inlets and peninsulas, and twice takes to ferries at Horseshoe Bay and at Earls Cove. The highway finishes at the township of Powell River, from where you can either backtrack to Vancouver or take another ferry across to Vancouver Island and return via its east coast. This is highly recommended, since the island is itself well worth visiting, particularly for Victoria, the marvelous little capital of British Columbia, from which you can get yet another ferry back to Vancouver. As for the ferry rides themselves, far from being onerous, they're a major highlight of the route as you chug past a myriad of islands and mountain-draped horizons.

There are really only three small towns of any note along the Sunshine Coast. The first is Gibsons, a quiet little seaside community that had a brief moment of fame when it was used as the backdrop to Canadian TV series *The Beachcombers*. These days there's little action except for the morning catch being unloaded from fishing smacks, but it's a good place to charter a boat if you're into salmon and

trout fishing. Another thirty kilometers on, Sechelt is twice as big and has an interesting little museum devoted to the Sechelt Indian Nation. You might also like to visit the salmon hatchery for an insight into the fascinating life cycle of Canada's most famous fish. Sechelt also is one of those seaside places enlivened with cafés and art galleries, and in August hosts a writer's festival. The Highway comes to an end at Powell River, which in contrast is a lumber milling center with few cultural pretensions. The town has little appeal, but it's a good place for diving and kayaking trips, and ferry links to Vancouver Island.

Of course, if you just stick to the Highway and the towns you might end up wondering what all the fuss is about. The Sunshine Coast certainly has its downside, from roadside billboards to bowling alleys and queues for the ferries in the height of summer. Get off the main drag, however, and you'll be amply rewarded. This is a place to breathe deep, smell the pine trees, gaze across the water, hike, kayak or—if you're really brave—go for a swim. (The water is freezing and not for the faint of heart.) Then spend the evening dining on fresh trout at a local inn, and snuggle up in some holiday cottage hidden away in the trees: that's what the Sunshine Coast is really all about.

In short, don't just stick to the obvious. There are hundreds of small islands all along the coast, some linked by passenger ferries, where you can retreat into tranquility: like Gambier Island near Gibsons, home to writers and artists, and incidentally with an outstanding general store stocked with home baked delicatessen treats. (Canadians don't allow the wilderness to deprive them of the fine things in life.) You can also take to your feet and follow some of the 180

kilometers of Sunshine Coast Trail through alpine meadows and ancient forests of cedar and Douglas fir, inhabited by coyotes, raccoons, and eagles. Sargeant Bay boasts redwings, mallards, Canada geese, kingfishers, and herons and is haunted by enthusiastic birdwatchers from across North America. Princess Louisa Marine Park is a spectacular fjord with roaring waterfalls and pristine wilderness, best seen by boat or seaplane. Even underwater has its merits, with some of the best cold-water diving anywhere in the world: check out the sunken warship off Porpoise Bay Provincial Park, now transformed into an artificial reef.

What will strike you most is the sheer wanton abundance of water. Moss grows on grey stones, streams trickle in every gully, dew glistens on morning flowers, and fat berries burst with juice in the hedgerows. Often billed as a great drive, the Sunshine Coast merits clambering out of your car and seeing these vignettes of nature up close and personal. And while the highly indented coast seduces in its details, it also has water views on a grand scale. When it comes to water, nowhere is more impressive than Skookumchuk Narrows Provincial Park, where you'll see a splendid natural display of tidal force: the tide flows back and forwards through the narrow inlet so fiercely you can actually hear the sea roar, and the whirlpools are big enough to swallow a ship.

There are people kayaking here too: mad Canadians who surf the tidal waves, hurtling seawards with impressive skill, paddles flying. Good for them, I say. I'm just happy to meander about the bays, leaning back in my kayak to enjoy the sun and seals. Somewhere under my boat, whales are no doubt singing at each other: like me, just happy to be here. ■



on the water summer 2009

This summer, there is something for everyone who enjoys boats—whether from on shore or on board. There are stately Tall Ships to admire and myriad regattas to win; wickedly fast hydroplanes to gawk at and people-powered dragon boats to cheer. And these are just a few of the events taking place this summer on the water.

Charleston Harbor Fest • June 26–29, 2009

Sail Boston • July 8–13, 2009

Tall Ships Nova Scotia Festival • July 16–20, 2009

The Tall Ships are sailing up the East Coast—Charleston, Boston, and Halifax—this summer! Each city is an official port of the Tall Ships Atlantic Challenge 2009, a 7000-nautical-mile journey around the North Atlantic that begins in Vigo, Spain and ends in Belfast, Ireland. Charleston's Harbor Fest opens on June 26, with access to the docks and tours of the Tall Ships, and will close on June 29 when the Tall Ships exit the harbor in a breath-taking Parade of Sail. In Boston, the Parade of Sail kicks off their event on July 8, with more than 50 Tall Ships parading in flotillas from Broad Sound into the main channel of Boston Harbor and along the Boston waterfront before docking for a few days to allow the public to view the ships. Then it is on to Halifax, Nova Scotia where the Tall Ships will participate in Halifax's festival.



Nantucket Race Week • August 8–16, 2009

This fun-filled week of regattas offers something for everyone from young dinghy sailors to grand prix racers. The Opera House Cup Regatta for wooden boats, to be held on Sunday, August 16, generally attracts some of the finest wooden sailboats in the country.

Hospice Regattas

Albemarle, NC • August 7-9, 2009

Rochester, NY • August 21-23, 2009

San Diego, CA • August 29, 2009

Grand River, OH • August 29–30, 2009

Annapolis, MD • September 26, 2009

Raritan Bay, NJ • October 9–11, 2009

About 25 charity regattas are held each year in the United States and Canada to benefit local hospices. Some of this summer's regattas are listed above. The largest of the hospice regattas—the Hospice Cup—takes place on the Chesapeake Bay off Annapolis, Maryland on September 26.

Chevrolet Cup at Seattle Seafair

July 31–August 2, 2009

The fastest powerboats in the world—the unlimited hydroplanes—race on Seattle's Lake Washington this summer as one of the culminating events of its month-long Seafair Festival. And if powerboat races aren't your thing, just look up—an air show, featuring the U.S. Navy Blue Angels, will be presented on the same weekend.

Dragon Boat Festivals

Racine, WI • July 10–11, 2009

St. Paul, MN • July 11–12, 2009

Denver, CO • July 25–26, 2009

Johnson City, TN • September 19, 2009

San Francisco, CA • September 26–27, 2009

Philadelphia, PA • October 3, 2009

Miami Beach, FL • October 17–18, 2009

Dragon boats—long, canoe-like boats crewed by 20 or so paddlers, a drummer, and a steersman—will race against each other at various festivals (only a few are listed here) across the country this summer and autumn. ■



Where in the world are you?

Aspen Music Festival

The hills really are alive with the sound of music each summer at the Aspen Music Festival and School—and the 2009 season is no exception. From June 25 through August 23, a wide array of orchestral repertoire, contemporary works, and fully-staged operas will be performed—sometimes at a rate of ten events per day.

2009 guest performing artists and conductors include Joshua Bell, Yefim Bronfman, Sarah Chang, James Conlon, Leonard Slatkin, Dawn Upshaw, and many others.

For more information, visit www.aspenmusic.org.

- If you are hanging ten on the Banzai Pipeline, you are surfing at:
 - Cape Town, South Africa
 - The North Shore, Oahu
- If you are dancing to a samba beat as a carnival parade passes by, you are in:
 - Rio de Janeiro, Brazil
 - Venice, Italy
- If you are scanning the trees for ring-tailed lemurs, you are in:
 - Madagascar
 - St. Martins
- If you are diving in the largest coral reef system in the world, you are at:
 - The Great Barrier Reef, off the coast of Australia
 - The Belize Barrier Reef, off the coast of Mexico, Belize, and Honduras
- If you are walking among hundreds of thousands of penguins, you are in:
 - Alaska's Arctic National Wildlife Refuge
 - Argentina's Punta Tombo Natural Reserve
- If you are sailing on a gulet along the Turquoise Coast, you are off the shore of:
 - California
 - Turkey
- If you are shooting the rapids on the Colorado River, you are in:
 - The Grand Canyon
 - Idaho
- If you are teeing off at the "home of golf", you are on the links at:
 - Pebble Beach, California
 - St. Andrews, Scotland