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Financial management for single seniors

Facts of life: Most retirees will be single for some period of time, and most of those singles will be women. Throughout the life cycle, financial planning for singles differs from planning for couples. Obviously, there is only a single set of assets to work with, and no surviving spouse to plan for. Less obviously, taxes are higher for singles, and they have no partner to fall back on in case of adversity.

These differences become especially acute for single seniors, as they have less room for error in their financial management. When the single senior is a widow or widower, it is often the case that the deceased spouse was the financial manager for the couple, making singlehood doubly difficult.

Be organized

Getting your financial house in order is generally the first big project. You must determine the financial needs for the balance of your retirement and assess the resources available to meet those needs. Tax planning and investment strategies will need to be reviewed and monitored.

Some experts counsel seniors to consolidate their financial accounts when possible. Fewer accounts will mean less paperwork, freeing up time to monitor each remaining account more closely. Making the paperwork

more manageable will make it easier to stay on top of bills, avoiding late fees and reducing interest charges. One also may be better able to notice a discrepancy or be able to take advantage of an opportunity if given more time for review.

A net worth statement may tell you where you stand and help create organization for your financial management. Your net worth is the sum of your assets minus your liabilities. If it's a negative number, you will need to face reality and develop a plan to get out of debt. A net worth statement will also help you determine the insurance coverage needed to protect your assets.

Financial planners generally recommend having an emergency fund sufficient to cover 9 to 12 months of your expenses. Keep your debt and your recurring expenses as low as possible and try to have living quarters that fit your situation.

Delegated powers

For single seniors, the most vexing problems are associated with incapacity. If you become incapacitated, temporarily by illness or permanently through aging:

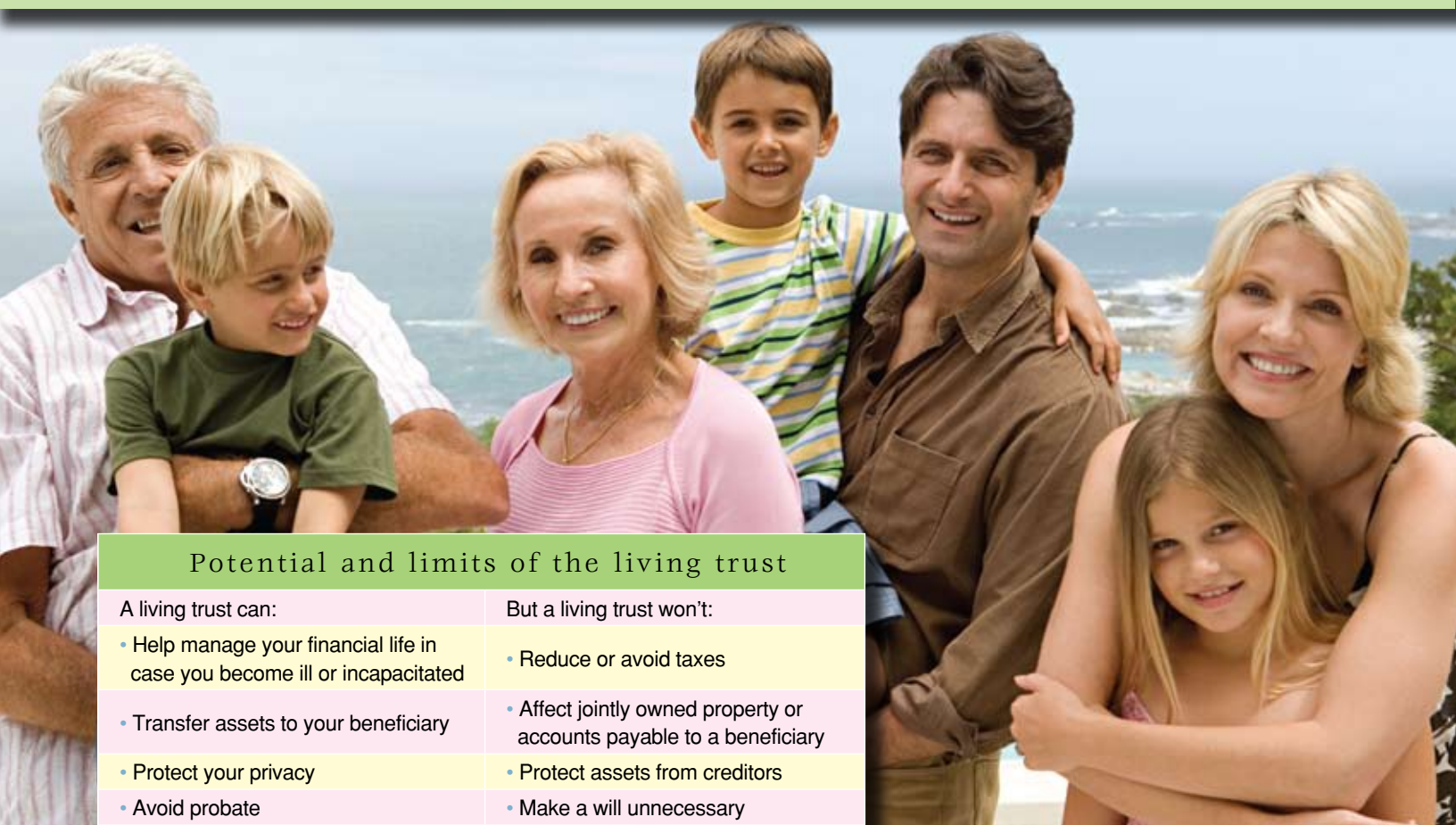
Who will pay the bills?

Who will track the investments?

Continued on next page

Good candidates for a living trust Just one of these qualifications makes you an excellent candidate for a living trust:

- Worried about financial management upon illness or incapacity
- Own substantial assets
- Own assets in more than one state
- Family will need immediate access to assets after owner's death
- Want financial privacy



Potential and limits of the living trust	
A living trust can:	But a living trust won't:
• Help manage your financial life in case you become ill or incapacitated	• Reduce or avoid taxes
• Transfer assets to your beneficiary	• Affect jointly owned property or accounts payable to a beneficiary
• Protect your privacy	• Protect assets from creditors
• Avoid probate	• Make a will unnecessary
Source: M.A. Co.	

Single seniors . . . continued

Who will make decisions about real estate?
 Who will make certain that the taxes are paid?
 Who will balance the checkbook?

The first solution that comes to mind for these questions is the financial durable power of attorney. This document allows another person to step into your shoes, financially speaking, and make binding decisions on your behalf. A durable power of attorney may be as broad or as limited in scope as needed to make you comfortable. You'll need to see your lawyer to have the power of attorney drafted and executed.

Another axis of anxiety concerns health care. In this area, you may need:

- A health care power of attorney, with medical instructions to be followed if you are incapacitated
- A Health Information Portability and Accountability Act (HIPAA) authorization, so that your agent has full rights to your medical records
- A health care proxy that may give someone decision-making power at the end of life
- A living will that outlines your expectations for medical care near the end of your life

Living trusts

Affluent individuals often rely upon a living trust for financial management in retirement. A living trust can provide financial protection in the event of disability or incapacity, as a durable power of attorney does. However, a living trust offers additional advantages, such as financial privacy at death and probate avoidance. If a corporate trustee, such as us, is named as the trustee, other advantages come with working with an institution compared to an individual. We don't get sick or go on vacation. Trust management is our business, and we attend to it every day.

Would a living trust be right for you? See "Good candidates for a living trust" above for a checklist of factors to help you decide.

For more information

As the table above shows, the living trust is not a panacea. It doesn't solve every financial or investment problem. Still, a trust can be the cornerstone for successful financial and estate planning. If you are a single senior or if your parent is in this situation, please make an appointment to meet with one of our associates to learn more about this important service. □

Q&A on the Medicare surtax and Roth IRA conversions

What is the new Medicare surtax on “unearned” income?

Beginning in 2013, a 3.8% surtax will apply to the unearned income of certain top-bracket taxpayers. The key thresholds are \$200,000 of modified adjusted gross income for singles; \$250,000 for marrieds filing jointly; and \$125,000 for marrieds filing separately.

What is “unearned” income? Does that include pensions?

Unearned income includes interest, dividends, annuities, rents, royalties and net capital gains, reduced by any deductions that may be allocated to such income. Unearned income does not include income from an active trade or business or any income taken into account for self-employment purposes. Most important for retirees, unearned income does not include distributions from IRAs or qualified plans. However, such income will be taken into account in the calculation of the surtax.

What does that mean, “taken into account”?

IRA and qualified plan distributions are added to adjusted gross income and so may push the taxpayer over the threshold into the area where the surtax applies.

For example, let's say Mary (case is fictitious) is single and has \$200,000 of net investment income. So far, the surtax does not affect her. Now, let's say that Mary withdraws \$50,000 from her IRA. That pushes her over the \$200,000 limit, so the 3.8% tax applies to \$50,000 of her investment income.

Would the result be the same if the \$50,000 were a Required Minimum Distribution that Mary only took because she is over 70½?

Yes. The reason for the distribution does not change the tax result.

What if Mary had a Roth IRA instead of a traditional IRA?

In general, Roth IRA distributions are not included in adjusted gross income. If Mary had a Roth IRA instead of a traditional IRA, the tax would not apply.

So Mary should convert her traditional IRA to a Roth IRA?

There is no simple answer to that question. Every taxpayer's situation needs to be assessed by a professional. However, it is true that the advent of this Medicare surtax will tend to make the decision to convert a traditional

IRA to a Roth IRA more attractive to wealthy taxpayers.

What about the conversion to a Roth IRA itself? Would the Medicare surtax apply to that?

The surtax does not apply directly to a conversion to a Roth IRA. However, the taxable amount of a conversion to a Roth IRA will be added to adjusted gross income and will make it much more likely that the taxpayer's unearned income will be hit by the surtax in the year of the conversion. If the taxpayer decides to convert to the Roth IRA before 2013, this problem is avoided because the surtax doesn't begin until 2013.

I have \$300,000 of pension income and \$25,000 of tax-free muni bond income. How much Medicare surtax will I owe?

The surtax does not apply to pension income or tax-free municipal bond income. However, if you sell some bonds and realize a taxable gain, the surtax would apply to the net gain.

I have \$300,000 of pension income and \$50,000 of net investment income. Would a Roth conversion help me out?

At those income levels, the Roth conversion would make no difference to your exposure to the Medicare surtax. You will be paying it. □



Liquidity

Portions of Michael Crichton's art collection will be auctioned by Christie's on May 11 and 12. Crichton is perhaps best known as a best-selling novelist (*The Andromeda Strain*, *Jurassic Park*, etc.) and the creator of the long-running television series *ER*. His art collection includes works of Pablo Picasso, Robert Rauschenberg, Jasper Johns and Roy Lichtenstein. Johns' "Flag" is reproduced below.

The auction is of some 100 works of art, many worth millions, which is a pretty serious collection. Yet Crichton might not agree. He wrote in 1980, "I have never thought of myself as a serious art collector. I have neither the knowledge, the devotion nor the dementia of the deeply committed collector."



Jasper Johns, *Flag*, 1960-1966, painted in encaustic, in which pigment and collage elements such as newspaper are mixed with hot wax and applied to a surface.

Image courtesy of CHRISTIE'S IMAGES LTD. 2010

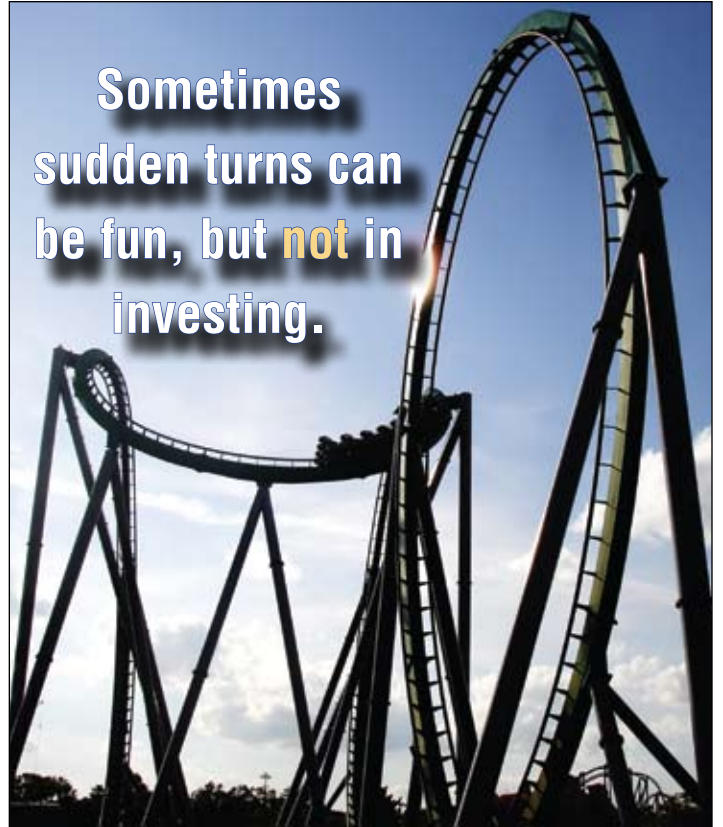
The back story

Under the terms of his will, Crichton's estate poured into his fully funded living trust, the terms of which have not been made public. However, the will did not include a clause covering the inheritance of children that might be born after it was drafted. As it happened, Crichton's fifth wife, Sherri, was pregnant at the time of his death.

After the baby was born, Sherri brought a lawsuit to have him declared an heir under California laws that govern the inheritance of children not mentioned in the will. In October 2009, a probate court held that the infant was entitled to one-third of his father's estate. Crichton's intricate estate plan needed reworking with the addition of this beneficiary. The probate court approved a new plan earlier this year.

The sale of the art is necessary to provide liquid assets for the estate. In 2008, when Crichton died, the exemption from the federal estate tax was only \$2 million, and the tax rate was 45%. A hefty estate tax is likely due, and the IRS accepts only cash in payment. Apparently, cash is also needed for other bequests and to provide for the beneficiaries. □

Sometimes
sudden turns can
be fun, but **not** in
investing.



Has your personal portfolio management turned into a roller-coaster ride? If it hasn't, are you afraid that it might?

We offer unbiased, fee-based investment management advice. We may be able to develop a plan that will take some of the jitters and twists out of your financial life.

Call on us today!

Call our trust professionals for an appointment.

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