

THE Navigator

CLERMONT
WEALTH STRATEGIES



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Goals for the Soon-to-Retire Crowd

Financial planning is all about setting goals and having a plan for meeting them. When you reach one goal, another may take its place. Through it all, you're investing for one of your biggest goals: your retirement.

As retirement moves closer, your focus on that goal is likely to intensify. Here are a few things you may want to think about during the transition to retirement.

Use Tax Deferral to Your Advantage

At this stage, you won't want to overlook opportunities to maximize your retirement savings. You can begin making extra "catch-up" contributions to your individual retirement account each year once you reach age 50. Certain employer-sponsored plans (e.g., 401(k) plans) also may permit catch-up contributions. If you own a small business or have self-employment income, explore your retirement plan options. You may find one that would allow you to save more in a tax-advantaged manner.

Free Up Assets

Expenses — both anticipated and unanticipated — are a fact of life after

retirement, just as they are before it.

Consider keeping some assets in accounts that are highly liquid and easily accessible to minimize the possibility of having to sell stocks or other investments when the market is down.

Consider Location

One of the most important planning decisions you may make is where you'll spend your retirement. Your choice can have a significant impact on your taxes as well as how much money you'll need to cover your living expenses and leisure activities.

Think About Work

"Downsizing" to a job that allows you to work from home — no matter where home is — may be your career goal as you near retirement. Planning early for such a move is essential.

Take Care with Roth Conversions

Income restrictions on Roth individual retirement account (IRA) conversions have been eliminated. If you're considering converting a traditional IRA to a Roth IRA, avoid these conversion "pitfalls."

Neglecting your RMD. If you're age 70½ or older in 2010 and plan to convert all your IRAs, you must take your required minimum distribution (RMD) before converting.

Paying tax with IRA funds. Even if you're younger than age 59½, you won't owe the 10% early withdrawal penalty on the conversion. However, any withdrawn funds used to pay the conversion tax could be subject to the penalty in addition to ordinary income taxes. Paying the tax with non-IRA funds avoids this trap.

Converting can be especially complex if you've made non-deductible contributions. See your tax advisor.

Keeping Peace — and Your Property — in the Family

If you own a vacation home, you and your family probably have shared countless good times there over the years. So it may be difficult to imagine that your joy-filled vacation home could become a source of family friction after your death. But disagreements over scheduling, expenses, use, and a host of other issues can cause ill feelings and even estrangement when family members become co-owners under traditional forms of ownership.

Prevent Disputes with an LLC

Creating a limited liability company (LLC) to own your vacation home could help avoid problems in the future. The LLC's operating

agreement can outline rules for the use and transfer of the property. It can create an annual budget process and address decision making regarding maintenance and improvements. The agreement can also give family members a right of first refusal before an interest can be transferred to someone outside the family.

It's Up to You

Typically, the original owners establish the LLC with input from family members on the operating agreement terms. Your tax advisor can discuss the estate- and gift-tax advantages of various transfer methods.



When the “Homeowner” Is an LLC

Owning a vacation home through an LLC offers these advantages:

- Keeps the home in the family by preventing the unilateral sale of a family member's interest
- Limits the family's exposure to lawsuits by guests and creditors because the LLC owns the property
- Establishes rules for sharing property expenses, scheduling occupancy, and resolving disputes
- Creates an entity to hold operating funds and report the division of income and expenses among owners for tax purposes

The Mutual Fund Dilemma

When it comes to deciding between an actively managed mutual fund and an index fund, there's no right or wrong choice. As with any investment, the fund type you choose typically will depend on your risk tolerance, targeted allocation, and the role you expect the fund to play in your portfolio. Reviewing your objectives can help you make a decision.

In the Active Camp

If your long-term objective is to outperform the markets, actively managed funds may be for you. An active fund manager buys and sells investments with the goal of generating returns that beat a comparable benchmark index. Keep in mind that actively managed funds generally have higher trading costs than index funds, a factor to consider in assessing performance relative to a benchmark. These funds may be best held in

tax-advantaged accounts, since their trading activity can lead to capital gains distributions.

The Passive Approach

Index funds may be the right choice if tracking overall market returns is your

objective and you don't have the time or the interest to research and monitor actively managed funds. Since index funds change investment holdings relatively infrequently, they generally have relatively low expenses and a smaller tax bite.

What To Consider

Before you buy an actively managed fund, evaluate it by vetting its managers.

Long-term performance. Research the manager's performance in a variety of markets. While there are no guarantees for the future, above-average long-term performance is a sign of the manager's skill and success.

Strategy. The manager should have a clear and well-defined strategy for buying and selling investments. Check the fund's prospectus to make sure you understand and agree with the approach.

Team effort. The fund's prospectus will tell you the names of the portfolio managers and how long they've been with a fund. Longer is generally better.

Preserve Your Land with a Conservation Easement

If you have the desire to restrict future development on property you own, you may want to consider granting a conservation easement. A conservation easement allows you to preserve scenic, environmentally sensitive, or historic property typically by donating it to a nonprofit land trust, which monitors the easement restrictions. Conservation easements are used to protect many types of land, including wetlands, wildlife areas, forests, coastlines, farm or ranch land, trails, streams and rivers, and so on.

Still Yours but with Conditions

With a conservation easement, you voluntarily donate a *perpetual* restriction on the use of your land for conservation purposes. You and your family and heirs retain ownership of your land and substantial rights to its use, including limited development rights. Your donation agreement with a qualified conservation organization defines the specific rights you retain, such as the right to farming or ranching. You and your heirs remain free to sell, lease, or mortgage the restricted property to any party. However, future buyers will also be bound by the easement.

Estate- and Income-tax Advantages

When you grant a perpetual easement benefiting a qualified conservation organization and meet all tax law requirements, part of the restricted property's value becomes excludable from the value of your gross estate. In addition, the change in the property's market value resulting from the restricted use becomes deductible from income as a charitable contribution — within tax law limitations. You may donate a qualified conservation easement during your lifetime or through your will.

Your financial and tax advisors can help you determine whether granting a conservation easement would be a worthwhile strategy for you.



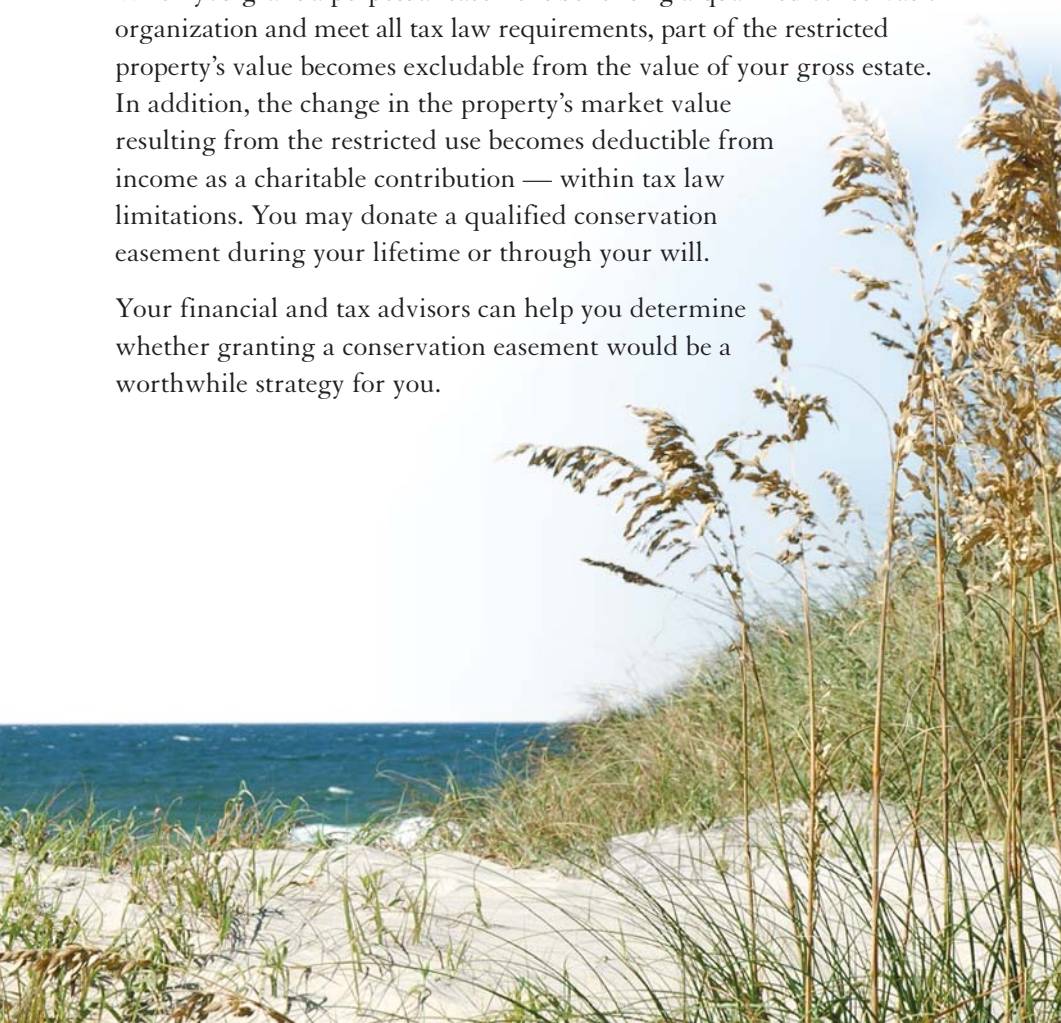
Health Care Reform and Higher Taxes

Higher earning taxpayers — single individuals earning over \$200,000, married couples filing jointly earning over \$250,000, and married separate filers earning more than \$125,000 — will see an increase in their taxes as a result of the recent health care reform law.

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Tax on earnings. In 2013, the Medicare tax rate for higher earners increases from its current 1.45% to 2.35% on wages over the threshold amount for a taxpayer's filing status. Self-employed individuals will also pay an additional tax of .9% on self-employment income exceeding the applicable threshold amount. The additional tax is not deductible.

Investment income surtax. In addition, higher income individuals, estates, and trusts will pay a Medicare surtax on investment income, including interest, dividends, net capital gain, rents, etc. For individuals, the tax is equal to 3.8% of the *lesser* of (1) net investment income or (2) the excess of modified adjusted gross income over the applicable threshold amount. Distributions from qualified retirement plans and individual retirement accounts are not considered investment income for surtax purposes.



Income Investing — Navigating the Territory

Putting money into investments that pay interest income while offering relative stability of principal can be an appealing strategy for investors who want to preserve their principal and minimize risk. But safety often comes with a price: generally lower returns than more risky securities may provide.

Still, income investing can have a place in your investment strategy.

The Interest Rate Dilemma

Rising interest rates typically result in falling bond prices — and vice versa. Although interest rates have remained low for some time now, they won't stay low forever. When rates begin to rise, the bonds you're holding today may be worth less than new bonds offering higher yields. Take a look at the average maturity of the bond investments in your fixed income funds to assess the fund's sensitivity to rising interest rates.

Fight Inflation but . . .

Adding inflation protection to your portfolio can help temper the effects of



rising consumer prices down the road. Investments such as Treasury Inflation-Protected Securities (TIPS) adjust their principal values to movements in the Consumer Price Index. However, be mindful of the benefits of diversification when you are allocating the fixed income portion of your portfolio.

Cash Has a Place

Cash investments, such as money market accounts and certificates of deposit, aren't paying a lot of interest these days. So you may want to consider carefully how much you should leave in cash accounts. You may want to hold emergency fund money or, if

you're retired, living expenses for at least two or three years in cash equivalent investments. As with any investment, the higher the expected yield, the higher the risk, so take that into consideration when you're choosing a "safe" place for your cash.

A Word on Expenses

Expenses can make or break your bond fund returns. Consider management costs and expense ratios before you choose a fund.

This publication involves sophisticated tax and financial planning concepts. Before applying anything you read to your situation, you should consult with your professional advisor.

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