CLEARVIEW WEALTH MANAGEMENT

Investing with Clarity and Vision

Clarion Newsletter May 2013

The Realities of Investing During Retirement

As retirees live longer, their portfolios need to be stronger

Decades ago, the "typical" retiree left work for good between age 60 and 65 and typically passed away at about 70 or 75. Retirement lasted 10 to 12 years for many Americans. Now the picture has changed: some of us will spend 30, 40, perhaps even 50 years in retirement. (Imagine retiring at 55 and living to be 105 … it is now possible.) We may live much longer than our parents, and if we do, we will need a lot more money.

A slight shift in outlook. Years ago, retirees were urged to invest conservatively – often, very conservatively. The idea was to build up your savings and net worth aggressively over two or three decades, and then adopt a risk-averse investment strategy for the "golden years." But the reality of a 20 or 30 year retirement has changed that mentality.

The new presumption is today's retirees should never retire from accumulating wealth. Most Americans will not walk away from their careers with assets equivalent to 20 or 30 years worth of income. If you have $3 million in assets today, you may think you'll have $100,000 a year to live on for 30 years. Sounds great, but that may not be enough. What will happen to your social security benefits over the next 20 to 30 years? Questions of liquidity and taxes aside, what about the runaway costs of healthcare and eldercare? What about the effect of inflation across 30 years – do you remember what a gallon of gas or milk cost 30 years ago? There are not too many of us that will never need a pay raise in retirement.

A new reality. Today, many people in their sixties have the kind of portfolios people used to have in their forties – fully invested portfolios in stocks, mutual funds, and alternative investments with appreciable risk. Sometimes they have to invest this way because they haven't accumulated sufficient wealth for retirement and they are struggling to grow their assets. Many baby boomers lost significant net worth during The Great Recession and are still rebuilding those lost assets. Sometimes, they are simply being pragmatic about their long-term need to sustain wealth and keep their retirement assets growing.

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Product Spotlight

Third Party Money Managers

If you do not want to manage your own investments in the market, we can help you select the investment platform, money managers and long-term strategy to match your investment style and risk tolerance Contact us to learn more.

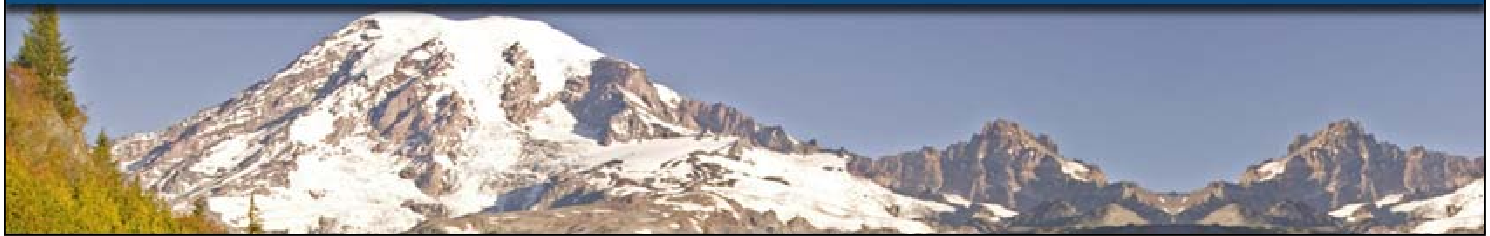
Portfolio Review

Call us today to make an in person or phone appointment to review your portfolio.

Contact Us
866-557-1031

371 NE Gilman Blvd Suite 310, Issaquah, WA 98027

www.cvwm.com



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What kinds of investments should you retire with? The answer to that question can only be determined after you carefully consider some variables, such as the age at which you retire, your net worth and investible assets, your risk tolerance, your desired annual income, the lifestyle you want to enjoy, family and health considerations, and how comfortable you are with certain types of investments. Even if you are ten or more years from retirement or plan to keep working into your seventies, it is NEVER too early to start the planning process. I am confident you will find the process informative and useful for planning your financial future. Most people underestimate their retirement income needs. We encourage you to contact us at (866) 557-1031 for a complimentary consultation and retirement planning analysis so we can project your potential annual income during retirement. We can then discuss how to re-position your assets to help you pursue your long-term financial goals. The reality of retirement today is that we never retire from investing to build and retain our wealth.

1031 Exchanges Offer Full Deferral of the New 3.8% Medicare Surtax and 20% Capital Gain Tax

Under the American Taxpayer Relief Act of 2012, the top capital gain tax rate has been permanently increased to 20% (up from 15%) for single filers with incomes above $400,000 and married couples filing jointly with incomes exceeding $450,000. In addition, the new IRC Section 1411 3.8% Medicare surtax on net investment income, which includes capital gains, results in an overall rate for higher-income taxpayers of 23.8% -- a 58% increase from 2012 tax rates!

TAX INCREASE #1 - 20 PERCENT CAPITAL GAIN TAX IN 2013

The Tax Relief, Unemployment Insurance Reauthorization and Jobs Creation Act of 2010 extended the Bush-era tax cuts until the end of 2012. Beginning January 1, 2013, the tax rate reverted from 15 percent rate back to the former 20 percent capital gain tax rate that was in effect prior to 2003.

TAX INCREASE #2 - 3.8 PERCENT MEDICARE TAX IN 2013

Beginning in 2013, the national health care reform legislation that became law in March, 2010, imposed a new 3.8 percent tax on certain investment income. The new tax applies to single filers with incomes over $200,000 and married taxpayers with incomes over $250,000. Under the law, the investment tax provisions in Chapter 2A of the Internal Revenue Code are placed under the heading "Unearned Income Medicare Contribution." In general, this new Medicare tax will apply to investment income that is subject to income tax, which includes capital gains. Pursuant to IRC Section 1402 (C)(1)(A)(iii), the investment income to which this new tax applies includes "net gain" (to the extent taken into account in computing taxable income) attributed to the disposition of property that qualifies as a capital asset under Section 121 (capital gains), as well as gains on other property that are considered part of ordinary income. Also of relevance for rental

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property owners, this new tax applies to a real estate investor's rental income if they have income above the $200,000/$250,000 income thresholds.

The net effect of both capital gain tax increases is a new 23.8 percent tax rate for higher earners—the highest rate for long-term capital gains since 1997. The Joint Committee on Taxation estimates the new Medicare tax on investments will cost taxpayers over $30 billion annually. Additionally, the modified adjusted gross income threshold at which this Medicare tax will apply will not be indexed for inflation, which means an increasing number of taxpayers will be snared by this tax provision.

Four Steps Involved in Determining Capital Gain Taxation

Absent the tax deferral benefits of a 1031 exchange, below is a summary of the four ways investors will be taxed on the sale of an investment property:

1. **Depreciation Recapture**: Taxpayers will be taxed at a rate of 25% on all depreciation recapture.
2. **Federal Capital Gain Taxes**: Investors owe Federal capital gain taxes on the remaining economic gain depending upon their taxable income. Since a new higher capital gain tax rate of 20% has been added to the tax code, investors exceeding the $400,000 taxable income threshold for single filers and married couples filing jointly with over $450,000 in taxable income will be subject to the new higher tax rate. The previous Federal capital gain tax rate of 15% remains for investors below these threshold income amounts.
3. **New Medicare Surtax Pursuant to IRC Section 1411**: The Health Care and Education Reconciliation Act of 2010 added a new 3.8% Medicare Surtax on "net investment income." This 3.8% Medicare surtax applies to taxpayers with "net investment income" who exceed threshold income amounts of $200,000 for single filers and $250,000 for married couples filing jointly. Pursuant to IRC Section 1411, "net investment income" includes interest, dividends, capital gains, retirement income and income from partnerships (as well as other forms of "unearned income").
4. **State Taxes**: Taxpayers must also take into account the applicable state tax, if any, to determine their total tax owed. Some states have no state taxes at all, while other states, like California, have a 13.3% top tax rate.

Please call us to discuss the 1031/DST Exchange Solution if you are an accredited investor[1] seeking to defer all taxes due upon the sale of your investment property. We have successfully assisted several dozen clients who tired of the trash, tenants and toilets complete 1031 Exchanges into securitized real estate properties since 2003. Call us today to discuss the 1031/DST Exchange Solution to determine if it is suitable for you.

[1]*Accredited investor: those with a net worth of $1,000,000, excluding the value of the primary residence, or income exceeding $200,000 in each of the two most recent years or joint income with a spouse exceeding $300,000 for those years and a reasonable expectation of the same income level in the current year*

We do not provide tax or legal advice at ClearView and encourage all clients to consult with a CPA and attorney to determine exactly how these tax law changes may affect you and the sale of your property.

Investor Education

§1031 exchange

Internal Revenue Code, Section §1031 states that neither gain nor loss is recognized if property held for investment or for productive use in a trade or business is exchanged for property held for investment, trade or business. There are several kinds of §1031 exchange methods used today, including delayed exchanges, simultaneous exchanges, and reverse exchanges.

Adjusted basis

The basis of a property adjusted for any capital improvements or depreciation. To calculate the adjusted basis, add the basis (the cost of the property), to the cost of any capital improvements made to the property during the taxpayer's ownership, and subtract the depreciation taken on the property during that specific time period. Once the adjusted basis is known, the gain or loss can be computed.

Boot

In an exchange of real property, any consideration received other than real property is "boot." The amount of gain recognized is always limited to the gain realized or boot, whichever is the smaller amount. For a transaction to result in no recognized gain, the taxpayer must receive property with an equal or greater market value and debt than the property relinquished, and receive no boot. Boot is a tax assessed by a city, county or state on the transfer of property that may be based on equity or value. The use of direct deeding in an exchange avoids additional transfer tax.

Thought for the Day

If your ship doesn't come in, swim out to meet it -- *Jonathan Winters*