ClearView Wealth Management

Investing with Clarity and Vision

Clarion Newsletter July 2013

Liquidity and Why Cash is King

We work hard all of our lives, scrimping and saving for the proverbial "rainy day" and the "golden years" of retirement. We scrimp and save to buy homes and cars, put food on the table, pay for the kids' education, take vacations and provide the "good life" for our families. It is the American way; bootstrap yourself to success in life through a good education, a life time of hard work and sound decision-making.

This process eventually builds our net worth, pays for our lifestyle, funds our retirement and creates an estate for our heirs and beneficiaries. This is the formula for the American success story – be good, do good, work hard and have a great life. The paths we follow to this end are amazingly similar for all of us. We find our own way there, but somehow most of us seem to end up at about the same place at about the same time, with very similar needs; preserve our wealth, generate monthly income and insure our health and welfare.

Once we get to retirement everything changes. We no longer work hard to earn money; we must learn to make our money work hard for us. We no longer save and build for the future; the future is now, so we spend down much of our life's savings to enjoy those golden years. We change our financial picture from working, earning and saving, to retirement, traveling and spending.

For most of our lives the majority of us never had a lot of liquidity (readily available cash) because we did not need it. Next week or next month we knew we would get another paycheck to buy food, pay the bills and to save a little money in our retirement plan at work. Most of us never built or maintained substantial cash reserves because we always needed the money to buy more stuff – TVs, cell phones, shoes, laptops, cars and trucks, rental properties, boats, you name it! Unfortunately, very few of us ever maintained a substantial amount of liquidity during our working years.

Now comes retirement and everything changes. No more kids to pay for (theoretically!) and fewer cars, boats and other stuff to buy. The fact is we

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Upcoming Seminars

Wednesday, August 14
Tuesday, September 17
Thursday, October 17
Wednesday, November 13
Tuesday, December 10

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

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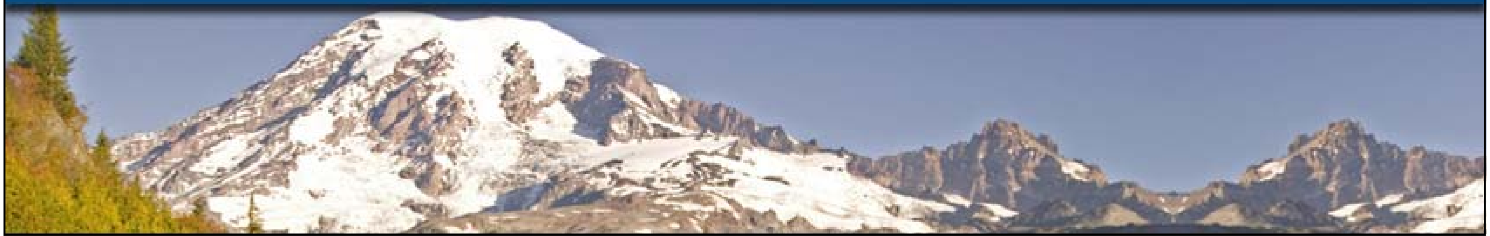

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already have 2 or 3 of most everything we really need to have a great life in retirement. We just have to ensure we don't run out of money by carefully planning for the future.

So, why do we advise our clients to build and maintain substantial liquidity throughout life but especially in retirement? Because Cash is King. Because having cash to pay for life's expenses keeps us out of debt. Because the only income we have in retirement comes from social security, a pension (for the lucky few) and our life savings.

The first leg of our Three-Legged Stool of Financial Stability is "liquidity and growth." For most of our clients that means maintaining about $50,000 at the bank in savings, checking, CDs and money market accounts. More importantly, it means maintaining substantial liquidity of at least $250,000 conservatively invested. Certain clients may require more than $50,000 at the bank and much more than $250,000 invested due to their net worth, life style, travel/vacation plans, family requirements, philanthropic/charitable interests, estate planning (see "Gifting and Estate Planning" article in this issue of The Clarion), catastrophic illness, emergency fund, etc.

Liquidity is an integral part of our clients' long-term strategic financial plan. Maintaining substantial liquidity is always important throughout life, but it is critical in retirement. We provide our clients with a number of liquid investment options designed to provide income without spending down the principle. Let us help you create, build and maintain the degree of liquidity necessary to support your wonderful life before and after retirement. Remember, Cash is King because when you need the money – you got it!

The views and opinions expressed herein are those of ClearView Wealth Management and are not necessarily those of Centaurus Financial, Inc.

YOU CAN'T HAVE TOO MUCH MONEY
So, give it away!

The old adage "there is no escaping death and taxes" has never been more evident than it is today. We all know about the inevitability of death. There is not much we can do about that. But we can work awfully hard to ensure we do not pay any more than our fair share of taxes under the law. In fact, the law currently provides tax payers a number of alternatives to reduce, defer and, in certain cases using appropriate estate planning techniques, eliminate taxes altogether. One such valuable estate planning technique is gifting.

If you die with too much money the government could easily end up with the lion's share of your wealth, unless you take the proper steps to protect the value of your estate. A large number of our clients will continue to build their net worth while in retirement, eventually creating an estate subject to both state and federal estate taxation. For deaths in 2013, everyone has a lifetime federal gift and estate tax exemption of $5.25 million, which means you can leave or give away up to $5.25 million without owing any federal tax.

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Couples can, together, leave up to $10.5 million. Many states also impose estate tax above certain limits including Washington ($2,000,000), Oregon ($1,000,000), and Illinois ($4,000,000). Interestingly California does not currently impose estate tax. The top rate for both federal estate and gift tax is currently 40%. The top estate tax rates for Washington, Oregon, and Illinois are 19%, 16% and 16% respectively. With growing national political pressure to lower the exemption limits and increase taxes, it is prudent to plan ahead and take advantage of opportunities to reduce potential taxation.

One way to avoid or reduce the tax bill is to give away property during your life. Lifetime gifts are generally more effective than testamentary gifts when transferring wealth. In addition, you also get to see the recipients enjoy your gifts while you are alive. Plus, you also have a chance to evaluate your heirs to see how they handle the wealth given to them. Under the current "annual exclusion" rule, an individual can give up to $14,000 each to any number of persons in a single year without incurring a taxable gift ($28,000 for spouses "splitting" gifts). The exclusion amount is indexed for inflation, rising in $1,000 increments as the cost of living goes up. The recipient of the gift usually pays no tax and does not have to report the gift on their tax return, unless the gift came from a foreign source.

There are many gifting strategies to consider. To make the most out of your annual exemption, keep in mind it is based on a calendar year. If you miss a year, you can't go back and claim that year's exemption amount. But if you spread gifts out over two or more calendar years, you may avoid gift tax complications. For example, if you as a single taxpayer give your son $20,000 in December 2013, $6,000 of it is taxable. You'll have to file a gift tax return, and you'll use up $6,000 of the total amount you can give away or leave free from estate tax. But if you give him $10,000 in December and $10,000 in January, both gifts are tax free.

Most people gift cash spread out over several years. You can also give away some stocks now, some in years to come. You can do the same with real estate; it can be given in pieces – physical pieces, if possible, or pieces (percentages) of ownership. Let's say you and your spouse want to gift your beach condo to your daughter. The condo's current fair market value is $100,000, and your equity is $50,000. In December 2013, you and your spouse sign a deed transferring the condo to your spouse and your daughter as joint tenants, meaning your spouse and daughter each own a one-half interest in the property. You gave your daughter your $25,000 share of the equity in the condo. Your daughter's gift from her parents is tax-free because together you can give her up to $28,000 tax-free each calendar year. In February 2014, your spouse gives her $25,000 share to your daughter, also tax free. Even though only your spouse makes the gift, under current tax laws the IRS considers it to have come from both spouses.

Substantial amounts of wealth can be given away over time without exceeding your annual exclusion. Clients with four married children and eight grandchildren under lifetime gifting can give each child, in-law and grandchild $28,000 a year, $14,000 from each or all from one parent with gift-splitting. So every year, these clients can take $448,000 from their combined estate, potentially saving tens of thousands of tax dollars that otherwise would have gone to the government instead of their family.

There is one big pitfall to avoid; a unified credit applies to both the gift tax and estate tax, so the total amount of credit used against your gift tax during your lifetime reduces the credit available to use against your estate tax. However, surviving spouses may additionally claim any unused exemption for the deceased

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spouse. If you give away $3.25 million (over and above the $14,000 per person annual exclusion) during your lifetime, after you die, $2 million of your estate is still exempted from the estate tax. Or if your spouse gives away $4 million and you gave away $1 million (over and above the $14,000 per person annual exclusion) during your lifetimes, when the first spouse passes away, the surviving spouse will have a $5.5 million estate tax exemption ($1.25 million of unused exemption from your spouse and $4.25 million of your unused exemption).

One reason planned gift-giving has gained in popularity is that people live so much longer than they used to. If you wait until you die to transfer your wealth, the recipients – for most people, their children – may be nearing old age themselves. Your financial help may be more useful when they are younger. Lifetime giving can be a great strategy, as long as you leave yourself enough to live on. For the gift to count it must be irrevocable. An ambitious program of gift-giving is not for everyone. Don't do it if parting with your assets makes you feel vulnerable or fearful you will someday be without money you need.

IRS rules also allow you to gift an unlimited amount to another person for payments made directly to medical and education providers on behalf of loved ones outside your annual exclusion and still preserve your lifetime exemption. Most advanced wealth-transfer strategies minimize gift taxes by taking advantage of the annual exclusion, the lifetime exemption and valuation discounts available under the law. A valuation discount means the gift is worth less than its apparent value for gift tax purposes. For example, giving 25 acres of highly appreciable commercial land valued at $100,000 today that sells to a developer for $1.5 million in ten years has dramatically reduced your taxable estate.

As you can see, you can't have too much money or the government will take it away. So instead, give it away!

Information is obtained from sources believed to be reliable but are not guaranteed.

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Centaurus Financial, Inc. does not provide tax or legal advice.

Thought for the Day

The mathematics of accumulation are different than the mathematics of distribution.
It is important to plan ahead.