MOSAIC FINANCIAL PARTNERS, INC.
a Wealth Advisory firm

Effective Financial Strategies

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Is Your IRA Protected Against Creditors?

Until recently, the law was not clear as to whether your IRA was protected against creditors in a bankruptcy proceeding. Related Supreme Court decisions were vague, at best. Clarifying legislation was passed in 2005 giving much greater protection to IRAs and 403(b) accounts.

In 1992, the U.S. Supreme Court ruled in *Patterson v. Shumate* that employer sponsored pension, profit sharing and 401(k) plans (ERISA qualified plans), as well other qualified retirement plans, were protected in bankruptcy. IRAs were excluded.

In 2005 in *Rousey v. Jacoway*, the Supreme Court held that IRAs too would be protected in bankruptcy proceedings to the extent that the funds were reasonably necessary for support. However, the court's wording left uncertain the degree of protection IRAs would enjoy.

In 2005, the Bankruptcy Abuse Prevention and Consumer Protection Act (BAPCPA), created an exemption for IRAs and other tax-exempt retirement programs without requiring consideration of the owner's financial needs. If an IRA is contributory (whether regular or Roth), the exemption applies up to $1 million. If an IRA is a rollover from a plan that qualifies under ERISA, the exemption applies regardless of the amount of the IRA. If an IRA includes both contributory and rollover funds, the $1 million cap will apply only to the contributory funds and earnings attributable to those funds, not to the rollover funds or their earnings.

One important thing to note — pre-BAPCPA law will continue to apply to IRAs and other retirement plans if a creditor sues or otherwise makes a claim against your assets outside of bankruptcy.

Four Ways to Fund Long Term Care

As baby boomers age, there has been a greater focus on long term care (LTC), its need and how to finance it. Due to the complexity of the topic, there is no one right answer and no simple solution.

Long term care helps people of all ages and medical conditions meet health or personal needs. Most LTC assists people with support services in activities of daily living like dressing, bathing, and using the bathroom. It can be provided at home, in the community, in assisted living facilities or nursing homes.

This year, nearly nine million men and women over the age of 65 will need LTC. By 2020, 12 million older Americans will require such care. A study by the U.S. Department of Health and Human Services says that people who reach age 65 will have a 40% chance of entering a nursing home at some point in their lives. While the average length of stay in a nursing facility is 2.5 years, nearly 10% stay for five years or more. In the U.S., the average cost of a nursing home is nearly $65,000 per year. This cost can rise to as much as $165,000 per year for a high end private facility in the San Francisco Bay area.

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What's Inside

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There are essentially four approaches to funding long term care needs.

Self fund. People choosing this path typically have enough assets to pay for LTC and they are willing to spend these assets for that purpose. *The benefits?* You avoid spending money on LTC insurance – a product that you might not ever use. *The downside?* You might have to bear substantial long term care costs that reduce the amount you are able to pass on to your heirs — or more importantly, threaten the ability of a surviving spouse to enjoy his or her remaining years. (Not only might this be a financial issue, but the demands on a care-giving spouse can be considerable. About 61% of informal caregivers report providing at least 20 hours or more a week of care, and 27% provide more than 50 hours a week).

Self fund plus life insurance. This approach still requires substantial assets, but avoids the problem of disinheriting your heirs. Those who purchase life insurance (most often some form of permanent life insurance) do so to provide some inheritance for their heirs should they exhaust their savings paying for LTC.

Self fund plus basic LTC insurance. This approach provides a basic level of coverage from insurance that is supplemented by existing savings. The usual strategy includes buying LTC insurance with a relatively long elimination period (i.e., 90 days) but with a waiver that eliminates the waiting for home care. This allows for people to stay in their home as long as possible. It also provides a degree of financial support to allow a caregiver (a spouse or family member) to bring in professional assistance sooner rather than later. This plan makes the burden of daily care giving much easier — both financially and emotionally. For example, if a 60 year old couple were to choose a basic $100 per day benefit for a 2-year period their total annual combined premium might be in the $2,000 per year range.

LTC Insurance to cover most or all LTC costs. This approach is best for those who want their LTC insurance to pay for as much care as possible and who are willing to pay the higher premiums involved. These people do not want to use their savings to pay for their LTC and they want to avoid causing family members worry over whether there will be money to pay for the cost of care. In this situation, the best choices typically include: a 30- to 90-day elimination period (the home waiver should be considered), a daily benefit based on top quality care in their home town (in the Bay Area, it averages $311 for a private room at a nursing facility), a compound 5% inflation option and a lifetime benefit period. The couple described above could pay about $13,000 per year for this package of benefits.

There is no right or wrong answer to long term care insurance. The best choice depends on your personal circumstances and views about the need for insurance.

2007 Retirement Plan Contribution Limits

2007 Limits:

- 401(k) contributions $15,500
- Profit Sharing contributions $45,000
- Catch up (those over age 50) $5,000
- Roth IRA and Traditional IRA $4,000
- IRA Catch up $1,000
- Last IRA contribution date April 15, 2007

Maximizing your employer match:

Be aware! Some employers provide the full 401k match only to employees who contribute throughout the year. If you hit your limit early in the year, you might be missing out on some of the match.

Investment Highlight: PIMCo Developing Local Markets

One of the newest funds to join our "Alternative" asset class lineup is PIMCo Developing Local Markets Institutional (PLMIX). This new fund invests primarily in money market type instruments of emerging market countries. Since these are short term instruments, the "duration" of the investments is low, which means there is very little risk of loss if interest rates rise.

What is unique about this fund is that the securities are denominated in local currencies, not the US dollar. As a result, the fund is effectively investing in foreign currencies. If the dollar falls in value relative to other currencies (as it has recently), returns of this fund will benefit because the foreign holdings will be worth more in US dollars than they were when originally purchased. If the value of the US dollar stays about the same, the fund would be expected to earn the short term interest rates paid in the emerging market country (recently approximately 5.8%). Of course, if the dollar *appreciates* relative to other currencies, then we would expect the fund to under-perform US money market funds.

PIMCo believes that the long term trend will be for the US dollar to depreciate and the currencies of emerging market countries to appreciate as their economic development progresses. If this expectation holds true, the fund should perform well (as has been the case during the short history of this fund). For the year ending 12/31/06 the fund earned a return of 11.95%, far more than any other fixed income category.

The fund concentrates its investments in Asia, Africa, the Middle East, Latin America and the developing countries of Eastern Europe. PIMCo selects specific countries to invest in that in their view satisfy three criteria: 1) the country displays strong underlying credit fundamentals; 2) there is limited risk from the external environment and global economy; and 3) there is a lack of technical market risk.

In evaluating local currency exposures, PIMCo reviews factors such as a country's savings rate, investment flows, balance of payments and inflation outlook.

We use the institutional share class of this fund that is generally not available to retail investors. The fund charges an annual expense ratio of 0.86% which we consider quite reasonable for exposure to this relatively new asset class.

Because of its unique investment characteristics, our Investment Committee classifies this fund as "Alternative", and not "Short Term Bonds". We believe the returns from investing in currencies will not follow the same pattern of returns found in traditional fixed income investments. As such, this fund should help diversify the risk in a traditional portfolio of stocks and bonds, which is exactly why we use "alternatives" in the first place.

"If we are going to have a banking relationship, you are going to have to trust me more than this."

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AROUND THE OFFICE

Congratulations… We're very proud to congratulate **Norm Boone** for being selected as one of eight industry "Movers and Shakers" in the January 2007 issue of Financial Planning magazine. Norm's recognition is based on his many and ongoing contributions to the financial planning profession. Congratulations also to **Norm** and to **Linda Lubitz** for having their software IPS AdvisorPro™ named as "Best Software of 2006" by Morningstar's Technology Editor. Released in April 2006 to help advisors create Investment Policy Statements, IPS AdvisorPro™ was selected from among all software available to financial advisors. See www.IPSAdvisorPro.com. **Susan Morse** continues to serve on the Board of Directors of the Olympic Club and was recently elected its President for 2007. Congratulations to **Sabrina Lowell** for her election as the 2007 President of NexGen, a national organization for young financial planners.

Education A Continuing Affair… **Norm** and **Linda** spent two days in Miami Beach at the industry's Technology Conference, making sure we keep up-to-date on all the new means of obtaining operational efficiencies. Following that, they devoted another two days to meeting with their Capstone Study Group where they compared notes and ideas about improving our client services and businesses. In January, **Holly Kindel** attended her fifth life coaching course at the Coaches Training Institute (CTI). This final class marked the completion of over 115 hours of classroom training familiarizing her with CTI's collaborative coaching skills and techniques. In February, **Holly** traveled to Colorado to attend her third Nazrudin conference. At the conference, Holly led an hour long discussion in which she demonstrated how particular coaching skills can be used by financial planners to assist their clients.

Giving Back to the Community … **David Lawrence** recently went through training for TaxAid, a nonprofit organization that provides free income tax preparation to low-income families throughout the Bay Area. He will be providing tax advice to families in San Rafael during this year's tax season. **Sabrina Lowell** has been busy helping organize two upcoming charitable events. She serves as the Business Manager for the San Francisco Junior League's Annual Gala Silent Auction benefiting K-12 education and is a Co-Chair for the San Francisco Spinsters Patron's Reception benefiting sports programs and mentoring for inner-city kids in Visitation Valley. Both fundraising events will take place in early spring.

Furthering the Profession … In January, **Kevin Gahagan** was appointed to the advisory board for the financial planning program at UC Berkeley . **Kevin** also continues his work as Chair for the Financial Planning Association's 2007 national conference. Kevin has been joined on the conference task force by **Sabrina** who will be organizing one of the conference's educational tracks. December marked the completion of the FPA Practicum at Golden Gate University. **Holly** served as both a facilitator and student mentor for this groundbreaking course that provides real-life opportunities to financial planning students and well needed plans for the working poor.

Family Matters… **Norm's** son Andrew graduated from the University of Southern California (USC) in December with a degree in Economics. He's looking for a management intern position or as a para-legal, to see if the practice of law would be of interest. His sister Nani is enjoying her junior year at UCLA.

Employee Spotlight – Tina Armstrong

We are happy to welcome our newest employee, Tina Armstrong, who joined us as Office Manager in November. Tina brings a strong management and customer service background to the firm. Prior to joining Mosaic, she owned her own successful retail business in Burlingame called Paper Panache.

Tina also has extensive prior experience as a consultant in the health care claims management field.

Tina manages the administrative team at Mosaic overseeing all of our operational services and our human resources and benefit programs.

In her free time, Tina enjoys travel, cooking, reading and gardening.

Home Improvement or Home Repair
Which One Helps You Lower Your Taxes?

When you sell a home, you are able to add to the "cost basis" (the cost of your home, for tax purposes) anything that can qualify as a home improvement. The higher your basis, the lower your taxable gain will be when you sell.

For example, if a husband and wife purchase a home for $250,000 and over the years they make $100,000 of qualified home improvements, their cost basis would be $350,000. If they now sell the house for $900,000, their taxable gain will be $550,000 (rather than the $650,000 it would have been had their home improvements not been factored into their basis).

After taking into account the $500,000 exemption the couple is eligible for on the sale of their primary residence (a single owner gets a $250,000 exemption), they would only have to pay tax on $50,000 in gains.

In comparison, if our couple had made $100,000 of "*repairs*" over the years, their basis would not have been affected. This would cause them to pay a higher level of taxes.

The trick in all of this is in figuring out what is a qualified "home improvement" versus just a "home repair". The cost of home repairs cannot be added to basis and thus will not lower your tax liability.

Home improvements add to the value of your home, prolong its useful life, or adapt it to new uses. You add the cost of home improvements to the tax basis of your property. Examples of home improvements include turning your unfinished basement into a recreation room, adding another bathroom or bedroom, putting up a fence, putting in new plumbing or wiring, installing a new roof, or paving your driveway.

Home repairs maintain your home in good condition. They do not add to its value or prolong its life, and you do not add the cost to the tax basis of your property. You are also not allowed to deduct home repairs on your tax return. Some examples of home repairs include repainting your house inside or outside, fixing your gutters or floors, repairing leaks or plastering and replacing broken window panes.

The entire job is considered a home improvement, however, if items that would otherwise be considered home repairs are done as part of extensive remodeling or restoration of your home.

The following chart lists some other examples of improvements.

Additions	Bedroom, bathroom, deck, garage, porch and patio
Heating & Air Conditioning	Heating system, central air conditioning, furnace, duct work, central humidifier, filtration system
Plumbing	Septic system, water heater, soft water system, filtration system
Lawn & Grounds	Landscaping, driveway, walkway, fence, retaining wall, sprinkler system, swimming pool
Miscellaneous	Storm windows, doors, new roof, central vacuum, wiring upgrades, satellite dish, security system

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Thoughts to Live By

"Any one may so arrange his affairs that his taxes shall be as low as possible; he is not bound to choose that pattern which will best pay the Treasury; there is not even a patriotic duty to increase one's taxes."-- **Judge Learned Hand**

"Every evening, write down the six most important things that you must do the next day. Then while you sleep your subconscious will work on the best ways for you to accomplish them. Your next day will go much more smoothly." -- **Tom Hopkins**

"If you would hit the mark, you must aim a little above it; every arrow that flies feels the attraction of earth." -- **Henry Wadsworth Longfellow**

Whenever an individual or a business decides that success has been attained, progress stops." — **Thomas Watson**