

Domestic Partnerships

Same sex couples (and opposite sex couples where one partner is over the age of 62) can register as domestic partners in California, Oregon and Washington State (among others). However, any number of special planning issues can derail what many assume to be well established plans:

First, with **estate planning**, asset transfers during lifetime or at death *are subject to gift and estate tax limits, since there's no unlimited marital deduction*. Gift-tax free transfers are limited to \$13,000 per year, before a gift tax return must be filed and lifetime exemption amounts are reduced. Assets also don't get a full step-up in basis on both halves at the first death. Wealthy couples with unequal assets prior to registration need to be especially proactive.

Regarding beneficiary designations, domestic partners can't roll over a deceased partner's IRA directly into theirs (the most favorable option), but they can roll it into a newly created inherited IRA. This allows a minimum required distribution schedule which must begin in the year after death.

Much has been said about **income splitting**, where domestic partners in California, Nevada and Washington (community property states with registration rights) must now categorize income as "community property" (unless generated from separate property or when there is a standing prenuptial agreement). Partners typically file a joint state return and two individual federal returns, with community property income split 50%/50%. Deductions are typically split equally as well.

Asset titling can be particularly tricky, as domestic partners often title property as joint tenants. Married couples (with federal recognition) are presumed to be equal contributors to the property,

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Healthcare Tax Hikes

In the midst of this busy partisan season there are some major changes to individual tax law slated to take place: the implementation of mandated new taxes coming out of the *Health Care and Education Reconciliation Act* (aka "ObamaCare") and the end of Bush era tax cuts.

Health Care Tax Law Changes – who's going to get hit and by how much?

The bulk of those affected by the ObamaCare taxes will be the "wealthy" – those individuals who have an Adjusted Gross Income of more than \$200k per year or couples more than \$250k (this translates into the top 2% or about 2.5 mm households in the country). This top tier will pay two new taxes: (1) a 0.9% Medicare Tax on wages *above* the \$200k (individual)/\$250k (joint) AGI threshold limits and (2) an *additional* 3.8% tax on the *lesser* of their AGI over \$200k/\$250k or their net investment income (i.e., you do not have to pay this tax if you have an AGI of less than \$200k/\$250k, regardless of its source; if you earn more than these limits, then you will be subject to the 3.8% tax).

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while the surviving domestic partner must *prove* their contributions or run the risk of the full value being included in the first-to-die's estate. In a recent change, California state law does not force a reassessment of property tax valuation, if ownership is transferred at the first partner's death.

Pre-nuptial agreement: Many couples considering domestic partnerships should take some time to explore this option. The lack of clear legal precedence means having a prenuptial in place might provide for a smoother breakup. Many partners are often entering these relationships later in life, when they have greater and sometimes unequal levels of wealth.

Divorce or Dissolution: The legal landscape is still evolving here. In California a divorce or dissolution is processed through the superior court, that is, unless you and your partner have moved to a non-registration state. Then, the local court may refuse to hear your divorce or dissolution petition. Headaches abound: Spousal support payments aren't tax-deductible (as for married couples) and divorce-related division of assets become taxable events (like transfers of home ownership or split up of retirement accounts).

We'd be happy to speak further about specific questions you might have. Please contact your advisor.

Around The Office...

At the Podium:

Norm and Linda Boone spent some time in July in Chicago speaking to a number of advisors from the Cambridge group about how to use Investment Policy Statements to improve their client relationships.

Norm also was a speaker at the NorCal financial planning conference where he spoke on calculating a sustainable withdrawal amount in retirement.

Susan will be a panelist discussing Alternative Investments at the Institutional Investor RIA Conference in October

Exotic Travel:

Norm and Linda spent a week fly fishing in Big Sky Country as part of a charity event for "Montana Matters."

Although not particularly exotic since golf has existed there since the 1500s, **Susan** and her husband Frank travelled to St. Andrews to play the Old Course and the Jubilee Course and then Carnoustie. Since it was Scotland, it rained much of the time but it was great to play these fantastic courses. While on the journey, they also travelled to Oslo, World Heritage fjords, and Sweden, where the national holiday of Summer Solstice was celebrated in grand style with friends.

Geoff and his wife Lynn visited several locations in Central Europe in late May and early June, from Budapest to Prague with stops at numerous spots along the Danube River in between.

Education - A Continuing Affair:

Along with about 20 financial advisors and estate planning attorneys from around the country, **Susan** travelled to Israel in late May to visit the Weizmann Institute, a multi-disciplinary, international center of basic scientific research and graduate study. Susan and the group were updated on some of the current basic research for which the Weizmann is famous, including groundbreaking medical and technical applications, innumerable patents and a Nobel Prize.

Liz Revenko has taken her last CFP class and has finished up her continuing education program through UC Berkeley Extension with a 4.0!

Geoff and **Sabrina Lowell** will be attending the Financial Planning Association's National Conference in San Antonio in late September.

Giving Back to the Community:

After nearly 10 years, **Norm** attended his last board meeting in May for the San Francisco Estate Planning Council.

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The new law defines “unearned income” as being sourced from: interest, dividends, capital gains, rental income, income from annuities and royalties. Neither tax exempt interest (i.e., municipal bonds) nor distributions from retirement accounts (IRAs, 401(k)s, etc.) will be counted.

A few other changes stemming from the health care law that will impact taxpayers:

- It will be harder to take medical deductions. The floor on medical deductions will go up from 7.5% of AGI to 10%, which means that taxpayers will have to have incurred a higher level of medical expenses before any deductions can be claimed. For example, if you had an AGI of \$100,000, you could start to deduct any qualified medical expenses over \$7,500; with the new law you will not be able to do this until your medical expenses exceed \$10,000. Of course, this hits those who have less economic means but are saddled by large medical bills.
- The penalty for non-qualified distributions from a health savings plan will be doubled from 10% to 20%.
- The amount that employees can contribute to health care flexible spending accounts (i.e., FSAs) will be limited to \$2,500 a year; this was previously left to the employer's discretion up to \$5,000.
- Those who have “Cadillac” health care plans (defined as those who have premiums of more than

\$10,200 per individual or \$27,500 per family, will also pay a 40% excise tax.

The End of Bush Era Tax Cuts? Maybe?

Unless Congress agrees to the extension of Bush era tax cuts either before the election (high unlikely) or after (theoretically possible...), we are to revert to tax limits last seen in 2001. These are the big ones:

- **Capital gains and Qualified Dividends** will revert from a current maximum level of 15% to 20%.
- **Estate and Gift Taxes** will revert from the current exclusion of \$5,120,000 per estate to \$1,000,000. Plus, any amount in excess of these limits will be taxed at 55% (up from the current maximum rate of 35%).
- **Income Tax Rates** will increase across the board. There are 6 tiers to the current marginal income tax rate schedule. Currently they are 10%, 15%, 25%, 28%, 33%, & 35%. Beginning in 2013 they will collapse into a 5 tier system of 15%, 28%, 31%, 36%, & 39.6%.

This is just a simple summary of the changes that are mandated for 2013 – whether or not they will come to pass is a matter for much politicking and partisan scrambling. As the year goes on and the outcome of the election becomes clear we will likely know more. At the very least you should keep an eye out for all of this and consider your strategies. Please call us if we can help

Mosaic Team Photo



Investing: Business Development Companies

What is a Business Development Company?

A Business Development Company (BDC) is a kind of publicly traded equity that invests in small, upcoming businesses. BDCs make investments in companies similar to those that venture capital and private equity funds make. However, they are set up more like closed-end investment funds and are publicly listed on US exchanges, whereas the aforementioned usually are not.

Benefits of BDCs

BDCs allow the general public to indirectly invest in startup or developing companies. Normally, investors looking to invest in these types of companies must do so through venture capital or private equity funds which have high investment minimums and long capital lock-up periods. On the other hand, BDCs are highly liquid, exchange traded securities that have low minimums and efficient tax structures.

More on Tax Efficiencies

Like Real Estate Investment Trusts (REITs), as long

as BDCs meet certain income, diversity, and distribution requirements, the company pays little or no corporate income tax. This pass through structure dictates that BDCs must distribute at least 90% of taxable income as dividends to investors. However, it is common for BDCs to distribute closer to 98% of their taxable income in order to avoid all corporate taxation. Accordingly, ordinary income distributions from BDCs are taxable at investor's ordinary income rates, while capital gains distributions are taxable at investor's capital gains rates. Because of this tax structure, BDCs are generally much higher yielding securities compared to the average yield of securities in the S&P 500.

Keeping an Eye Out

Here at Mosaic, we are constantly looking for new investment opportunities to reduce volatility without sacrificing return. Currently, we are at the beginning stages of researching BDCs as a possible future addition to our already expansive alternatives mix.

Annual Medicare Open Enrollment

Annual open enrollment for Part D: October 15 – December 7. Current participants do not have to, but are able to, make changes during this period. If you are making new elections or changes to your existing elections, sign up early to ensure your request is processed in a timely manner. During open enrollment you can switch from traditional Medicare to a Medicare Advantage plan or vice versa. You can also add, change, or drop a Medicare D plan.

Medicare D (Prescription Drug Coverage): Provides prescription drug coverage. While it varies by region, the state of California offers 32 Part D Drug Plans (as of 2012), which allows participants to choose a plan that best meets their individual needs. Plans can choose to cover different drugs, or classes of drugs, at various co-pays, or choose not to cover some drugs at all. Medicare has made available an interactive online tool called the Prescription Drug Plan Finder (<https://www.medicare.gov/find-a-plan/questions/home.aspx>) that allows for comparison of drug availability and

costs for all plans in a geographic area. The Prescription Drug Plan Finder can be used to perform a general or personalized search (requiring your red, white, and blue Medicare Card) for plans; in either case, the tool allows one to enter a list of medications along with pharmacy preferences. The Plan Finder output includes the beneficiary's total annual costs for each plan, along with a detailed breakdown of the plans' monthly premiums, deductibles, and prices for each drug during each phase of the benefit design (initial coverage period, coverage gap, and catastrophic-coverage period). Plans are required to update this site with current prices and formulary information every other week throughout the year. Premiums for Part D average up to \$40+/month.

A plan may change their specific drug coverage from year to year, so reviewing plan coverage annually during open enrollment is always recommended.

Umbrella Insurance

What is it? It's an inexpensive but powerful insurance policy that super-sizes your existing auto and homeowners (or renters) liability insurance. We believe very firmly in the need for umbrella insurance for almost everybody.

Why should you care? Expensive accidents happen and that's precisely why you have insurance. You don't want your life savings to disappear if something unexpected happens in the blink of an eye, such as:

- You get in a multi-car accident on a busy freeway and get sued.
- Your neighbor slips and falls on your property and sues you.

Your auto and homeowner's policy will protect you in such events. But only up to your policy limits, which is usually limited to a half a million dollars, at the most. What if you get sued for more? If the award exceeded your policy limits, then your own wealth would be threatened, but the higher the umbrella limits, the less likely that becomes.

How does Umbrella Insurance work? Umbrella insurance is bought in million dollar increments and is

sold in conjunction with your underlying homeowner's and auto policies. For instance, if your auto policies and homeowner's insurance have coverage up to \$300,000, a \$1 million umbrella policy will kick in at \$300,001 and cover you up to \$1,300,000.

Which brings us to some important tips:

1. If possible, have your umbrella, homeowners, and auto insurance with the same insurer to take advantage of discounts.
2. Make sure the top limit of your underlying homeowners and auto coverage matches the bottom limit of your umbrella coverage policy. You don't want a gap.
3. Many umbrella policies now have under-insured and un-insured liability coverage that supplements your auto insurance. It is imperative that you add this coverage if your carrier now offers it. For some policies, there is no additional cost! And, make sure your uninsured/underinsured limits also synch with your umbrella policy, so there are no gaps in coverage.

Welcome New Employee: *Eve Lazard*



Our newest staff member, Eve Lazard, joined the Mosaic team in May 2012 as our Office Manager and Executive Assistant to Norm Boone. Eve is responsible for planning and overseeing all administrative support and office services for Mosaic. Although Eve has lived throughout the Bay Area, she still considers herself a proud San Francisco native.

Prior to joining Mosaic, Eve was as an Office Manager at a boutique real estate investment advisory firm for 7 years while moon lighting as a real estate salesperson. Her early work experience has included Bookkeeper, Human Resources Coordinator, Executive Assistant, Personal Organizer and Life Coaching. Presently, Eve is striving towards finishing her college courses to obtain her BA in Business Administration.

Eve currently lives in the East Bay with her husband and four children. She enjoys entertaining, reading, traveling, hiking, cooking and spending time with her family and dog.