

# WEALTH Management

FIRST QUARTER 2010

## “Aging in Place”



**T**he percentage of Americans over 85 is growing steadily, and with it a new conundrum: Where will the elderly live? For a growing number of folks who are still healthy, the answer is “right at home.” According to the federal Consumer Expenditure Survey, from 1987 to 2003 the percentage of persons over age 85 living in single-family, detached homes surged from 45.7% to 62.6%, and the best guesstimate is that the figure is now about 70%.

Current conditions in the housing market may well accelerate the trend. The tradition of selling the family home for a large profit, moving to smaller quarters and keeping the savings to augment the retirement nest egg is difficult to impossible to implement in a falling real estate market.

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### Estate planning strategies

## A Year Without Federal Estate Tax?

Estate planners were stunned in December when Congress failed to act on fixing the federal estate tax. As of January 1, 2010, both the federal estate tax and the federal generation-skipping transfer tax have disappeared. What’s more, the federal gift

tax rate, imposed upon lifetime gifts in excess of \$1 million, has fallen from 45% to 35%.

It’s not all good news for wealthy families, however. The absence of the federal estate tax also means the loss of basis step-ups for inherited assets. They could owe substantial capital gains taxes when those assets are sold. Still, capital

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**First National  
Wealth Management**  
A Division of First National Bank of Chester County

## A New Decade



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**T**his is not just the end of 2009, but the end of the decade. Hard to imagine that only ten years ago we were concerned about Y2K and whether the lights would still be on January 1, 2000! Looking back at the major events of the last ten years—September 11, flooding in New Orleans, the tsunami in Southeast Asia, and the financial meltdown—Y2K fears were overblown. The difference is that we knew Y2K was coming and could be proactive, whereas the other events were shocks, forcing us to be reactive.

As we enter the new decade of the “teens,” anyone who has parented a teenager knows it is not all smooth sailing, and we expect that the financial markets will take some time to “mature” as they learn to live with the reality of slower economic growth, tougher credit standards and an aging population.

The outlook going forward is mixed. Economists and strategists can find reasons to be optimistic as well as concerned. The

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## Aging . . . CONTINUED

The idea of not moving out of one's lifelong home has been dubbed "aging in place" by sociologists. The new trend has spurred a new industry of books, videos, Web sites and consultants to help make that hope a reality. Financial independence is one core element. Adapting the home for an older resident is another. The housing and living needs of someone over 85 are markedly different from those of younger persons. Some homes may need renovations if they are to remain livable for an elderly person. A variety of changes, minor to major, can have an impact on senior life.

### Basic steps

Four areas typically need to be addressed to improve a home's livability for an older person.

*Access and mobility.* The biggest concern for the elderly is avoiding falls. Accordingly, the house should be inspected for slippery floors or areas where rugs or carpets can bunch up, creating a tripping hazard. Additional handrails for stairs are a good idea.

Looking ahead, the house may need a wheelchair ramp or a lift to get to the second floor.

*Bathrooms.* Grab bars are recommended, and toilet modifications may be appropriate. Placing a chair in the bathroom may make grooming easier. Bathtubs and showers can be modified for easier and safer access.

*Kitchen.* Cabinets that were once easily accessible may no longer be convenient when they involve bending or reaching. Stepstools are not a good answer. A kitchen make-over for cabinets and appliances may be needed, putting the priority on ease of use.

*Lighting.* A common problem facing seniors is deteriorating vision. Poor lighting can affect safety as well as the quality of everyday life. Illumination should be even, free of

glare, and automated whenever possible.

If there will be a full- or part-time caregiver for the elderly person, attention will need to be paid to create privacy zones and separate living quarters.

### Don't be afraid to say "no"

Not every home is suitable to be renovated for senior life. Renovations can be too costly in some cases. Sometimes it is better to admit that a house is really designed for younger families and move to another, more appropriate house. "Aging in place" doesn't necessarily mean "aging in the same place."

### Additional resources

To learn more about resources for the elderly, visit the National Aging in Place Council at [www.naicpc.org](http://www.naicpc.org) and the Aging in Place Initiative at [www.aginginplaceinitiative.org](http://www.aginginplaceinitiative.org).

Nobody ever said that growing old was going to be easy. ■

## Estate tax . . . CONTINUED

gain tax rates are far below estate tax rates. What's more, every estate will be entitled to \$1.3 million in basis adjustments, with another \$3 million in adjustments for property passing to a surviving spouse. Basis adjustments will be handled by the estate's executor—just one more reason for giving this important job to an experienced professional, such as us.

At the 2009 estate tax exemption of \$3.5 million, an estimated 5,500 estates owed federal estate tax. Press reports indicate that, even with the basis adjustments in place, more than ten times that number of families, perhaps 70,000, could be affected by the new capital gains taxes on assets inherited in 2010.

What's next? As in 2009, either Congress will act, or it won't. If Congress does nothing, the federal estate tax strikes back in 2011 with a \$1 million exemption and a top marginal tax rate of 60% on some estates. If Congress acts, the 2009 rules may simply be extended, or additional reform measures may be included.

Should wealthy families try to take advantage of the year without federal estate taxes? Some will do so, if only because we cannot know the date of our death. But some Congressional leaders have stated that they will try to make any Congressional action on the estate tax retroactive to January 1. Retroactive taxes raise constitutional questions, but retroactive increases in estate tax rates were allowed by the courts during the Clinton administration. If the estate tax reforms are made retroactive, court challenges almost certainly will follow ■.



# Affluent Retirees Face Higher Medicare Premiums

For most retirees, Medicare Part A, hospital insurance, is not an issue. Retirees and spouses who have at least 40 quarters of covered employment do not pay for this coverage. (Those who are not eligible for premium-free coverage will pay \$461.00 per month in 2010.)

Medicare Part B, medical insurance, was overhauled by the Medicare Modernization Act of 2003, with new rules that began taking effect in 2007. Although Medicare benefits are not means-tested, under the new rules higher-income seniors must pay higher Part B monthly premiums. The amount of the increase goes up over time as medical costs rise.

In 2009 the base Part B monthly premium was \$96.40. About three-quarters of Medicare beneficiaries will continue to pay that amount in 2010. That's because increases in Part B premiums are not passed along if there is no cost-of-living increase in Social Security benefits, and those payments are unchanged for 2010.

That protection does not apply to those who enter the Medicare program in 2010. Their base Part B premium will be \$110.50. Nor does the protection extend to the additional premium payments required of higher-income seniors. Total Part B premiums for various income levels are shown in the table below:

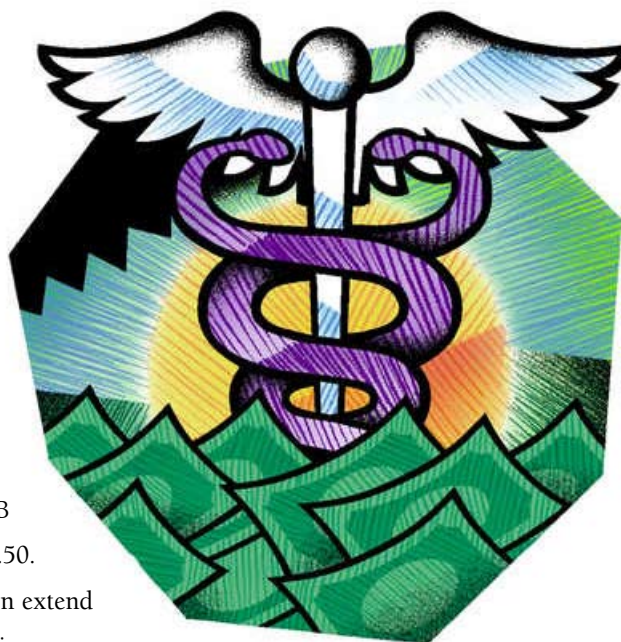
## Hardship

Retirees don't project their 2010 income to calculate their 2010 Part B premium. Instead, taxable income reported to the IRS in 2008 is used (with certain adjustments). What if a retiree's income fell drastically in 2009?

A retiree who has experienced a "life-changing event" may request that 2009 income be used instead of 2008 income for the premium determination. Although many investors might consider

the stock market performance in 2009 to be a life-changing event, that's not on the list. Marriage, divorce, death of a spouse, reduction in pension benefits, loss of employment and involuntary loss of income from income-producing property do qualify.

The version of health-care insurance reform passed by the House of Representatives would have kept Part B premiums at 2009 levels for all beneficiaries, not just those at the lower end of the income scale. Major changes could still be in the works, so retirees need to keep abreast of these developments. ■



Individuals with income	Joint filers with income	Total monthly Medicare Part B premium amount
Less than or equal to \$85,000	Less than or equal to \$170,000	\$110.50
Greater than \$85,000 and less than or equal to \$107,000	Greater than \$170,000 and less than or equal to \$214,000	\$154.70
Greater than \$107,000 and less than or equal to \$160,000	Greater than \$214,000 and less than or equal to \$320,000	\$221.00
Greater than \$160,000 and less than or equal to \$214,000	Greater than \$320,000 and less than or equal to \$428,000	\$287.30
Greater than \$214,000	Greater than \$428,000	\$353.60

Source: [www.cms.hhs.gov](http://www.cms.hhs.gov)

## A new decade . . . CONTINUED

good news is that the economy appears to be recovering; the job market and housing are stabilizing; households are saving more and deleveraging; and extended tax credits have helped. The recovery is weak, but expected to improve through 2010. The concerns are that we still have 15.6 million homeowners who are underwater relative to their mortgages, and municipal deficits are growing as their revenues fall and pension liabilities increase. It will take time to regain the more than 8 million jobs lost over the last two years.

There has been much written about U. S. Treasuries having the worst year in history and others talking about the “lost decade” in equity investments. Below is a table of returns for the last two decades. What’s striking is not the fact that government bonds outperformed stocks for the last decade, but the dramatic outperformance from emerging economies relative to the U. S. and other developed countries.

Concerns regarding inflation and budget deficits make it highly unlikely that bonds will continue to outperform equities. Government spending is growing faster than the economy, and increased taxes could slow growth further. Issuing debt to fund this spending may lead to total interest costs so high that the government borrows just to pay the interest.

We find ourselves questioning whether the easy money has been made in both the stock and bond markets. U. S. Treasury yields have moved higher recently, but are still historically low, and while corporate bonds still offer a reasonable yield, they are not as attractive as they were last year. The run-up in stocks has surprised many, and there are mixed views as to whether

## COLLECTORS CORNER

### Elaborate Peony Lamp (1913-1920) from Tiffany Studios.

In 1979 Christie’s in New York held the landmark sale “Magnificent Tiffany: Featuring The Gluck Collection.” This was the first major Tiffany offering at auction. At that sale a piece known as the “Cob Web Lamp” sold for a then remarkable \$150,000. More than 30 years later, Christie’s held another “Magnificent Tiffany” auction, including ten additional pieces from the legendary Gluck Collection. One of these pieces, the “Elaborate Peony Lamp” shown here, sold for \$1,538,500.

Louis Comfort Tiffany (1848-1933), scion of the Tiffany jewelry family, is the American artist most closely associated with the Arts and Crafts and Art Nouveau movements. Tiffany broke with traditional methods to create a unique style of stained glass.



Image courtesy of Christie's Images

we will continue to move higher, or whether the market will have a pullback.

As you are aware, we have made tactical moves in clients’ portfolios over the last three years that have produced good returns relative to the portfolio bench-

marks. We expect moderate returns in both equities and bonds over the next few years, and your investment team will continue to be proactive as market conditions change and opportunities present themselves. ■

### TOTAL RETURNS (NOT ANNUALIZED)

	12/31/89-12/31/99	12/31/99-12/31/09	12/31/89-12/31/09
Government Bond Market	105.3%	81.8%	273.3%
S&P 500	432.0%	-10.0%	374.4%
MSCI Developed Markets	141.2%	-25.4%	79.8%
MSCI Emerging Markets	2,408.6%	102.4%	4,977.6%

Source: Bloomberg

Please e-mail Lynn your questions or comments:

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Or call 484-881-4080 if you’d like to schedule an appointment to discuss your investments.



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