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Boomerang Children Can Throw Parents a Curve

"Mom, I'm home..."

The term "boomerang children" is commonly used to refer to adult children who leave home but then at some point return to live with Mom and Dad. The trend is clearly on the rise, with job insecurity, a troubled economy, increasing college debt, and the cost of housing all driving the boomerang phenomenon. Also, sociologists blame a general prolonged adolescence, where children over rely on their parents for money and help with everyday life decisions.

A mixed blessing

Boomerang children can be a mixed blessing for their parents, both emotionally and financially. Just when parents may be looking forward to a life on their own, their kids are back at the dinner table. While the extra company might be nice, experts agree that the situation works best when expectations are clearly laid out. Here are some issues you may want to discuss with your child at the outset:

How long will your child live at home? The answer may depend on the reason your child moved back home. A child at home to save money for graduate school may only need to be there for a short time, while one who has lost a job and had to give up an apartment may take longer to get on his or her feet. Although most experts suggest establishing a time limit and sticking to it, the ability to do so may depend on the circumstances.

Will your child pay rent? Charging your child at least a nominal amount for rent is fair and appropriate. You may also consider charging for your child's portion of the phone bill, grocery bill, and car insurance bill if you add your child to your policy. This can serve as a wake-up call to real-world expenses.

What will the division of chores be? Some adult children may revert to childhood roles and expect their parents to do all the cooking, cleaning, and laundry. Establish clear guidelines about chore responsibilities and don't be

afraid to ask your child to pitch in.

Can your child come and go at will? Most children who have been on their own for a while expect the freedom to come and go as they please. If your child is responsible and contributing to household expenses and upkeep, it's probably reasonable to allow him or her this flexibility, though make sure to discuss any concerns you might have.



Don't neglect your own financial future

Helping your child in a time of need is admirable, but you shouldn't sacrifice your own financial goals and security. Decide how much you want to help, but don't make the mistake of providing more financial support than you can afford, especially if you are only a few years away from retirement.

Generally, it's unwise to get too entangled in your child's finances by co-signing loans or otherwise lending money, unless it's absolutely necessary. But this doesn't mean you can't be a good financial teacher. Help your child learn to track his or her monthly income and expenses, prepare a budget, pare down to one credit card (to be used only for emergencies), spend wisely, start a savings program, and restructure debts, if necessary. Remember, your child will become more financially responsible only when you're not there to bail him or her out at the first sign of trouble.

Sit back and (try to) enjoy the ride

Every family with a boomerang child handles its situation differently. But with clear expectations and rules, as well as lots of love and a sense of humor, the extra time spent with your child may just turn out to be an experience you'll all look back on fondly.

Income Annuities Can Help Fill the Retirement Income Gap



Annuity guarantees are subject to the claims-paying ability of the annuity issuer.

If you're like many retirees, you may find that your sources of fixed retirement income, such as employer or military pensions and Social Security, aren't enough to meet all of your retirement income needs. To make up the difference, you can draw from your savings and investments, but how much can you safely withdraw without running out of money? One option is to create a stream of income for the rest of your life by investing some of your savings in an income annuity.

Income annuities (also known as immediate annuities) are purchased from insurance companies. In exchange for a lump sum of money, the issuer promises to make payments to you for a fixed period of time or for the rest of your life, or for the rest of your life and that of your spouse.

You can use almost any type of savings or investments to create a stream of income that can last for your lifetime. For example, you can purchase an income annuity with money from your personal savings accounts, matured CDs, or investments such as stocks, bonds, and mutual funds. You can even convert a portion of your retirement plan, such as an IRA or 401(k), to a lifetime stream of income by purchasing an income annuity within the retirement plan. However, some of these transactions may have income tax implications, so consult your tax advisor before you proceed.

You have options

You generally can choose how long your income annuity payments will last. For example, you can choose to receive payments for the rest of your life. This option allows you to supplement lifetime income from other sources, such as Social Security. However, payments end at your death, providing no benefits to your surviving spouse or heirs.

To ensure that your spouse continues to receive income after your death, you can select a joint and survivor payment option. The annuity will make payments to you, then at your death, to your surviving spouse until his or her death. Payments end at the death of the surviving spouse, with no benefits payable to your heirs.

You also can choose to receive income payments for a fixed period of time, such as 5 or 10 years, by setting up an income annuity. If you die during the payment period, your

beneficiary will receive the remainder of the payments, either systematically or in a lump sum.

Another choice combines lifetime payments with the fixed period option. Payments are made for life or for a fixed period of time, whichever is longer. This alternative makes certain that payments will last for a minimum number of years.

Other factors to consider

- Payments from income annuities funded with pretax dollars, such as 401(k)s and IRAs, may be subject to income tax. Income annuities purchased with after-tax funds are taxed only on the earnings part of each payment. The remaining portion is considered a return of your investment and is not subject to taxation.
- Usually, once you select a payment option, you can't change it. This means you may not have access to any of the funds you used to purchase the income annuity aside from the income payments you receive.
- Since some payment choices, such as the life or the joint and survivor life options, end at death, it's possible you won't live long enough to receive at least the return of your investment in the income annuity.
- Fixed income annuity payments don't change, even if your income requirements do. You may find that the income from the annuity isn't enough to meet increased income needs.
- Choose a financially strong company. Annuity guarantees are entirely dependent on the insurance company's financial ability to meet its obligations. Check the financial ratings of the company offering the income annuity before making your purchase.

Is an income annuity right for you?

Consider an income annuity if you want a guaranteed income to fill the gap between your retirement income needs and your fixed retirement income. Also be sure you can buy the income annuity and still have enough savings for other expenses.



Estate Planning Opportunities in a Down Market

A down market can mean tough times, but it can also present unique opportunities to minimize property transfer (gift and estate) taxes. While owning assets that are losing value might seem like a bad thing, it may actually be a great time to reduce your taxable estate by gifting those assets to beneficiaries. That's because current low asset values and interest rates enable you to make gifts at a lower gift tax cost. And, if and when the market rebounds, those assets will be growing in your beneficiary's estate and not in yours. Here are a few gift-giving techniques that take advantage of today's economic climate.

Note: *This article discusses federal tax rules only. Individual states impose their own property transfer taxes using rules that may be different from the federal rules.*

Basic gifting

Each year, you can make gifts of up to \$13,000 to anyone you want, to as many people as you want, tax free under the annual gift tax exclusion. You can give away twice that amount if both you and your spouse make the gifts together (this is called gift splitting). And, you can give away an unlimited amount if you pay tuition or medical bills on behalf of another person (just be sure to make these payments directly to the school or health-care provider).

Family loans

You can lend money to your children at the current IRS minimum interest rate (known as the AFR, which changes monthly), and then potentially forgive an amount equal to the gift tax exclusion each year. (The gift tax exclusion amount is adjusted for inflation; \$13,000 is the figure for 2009.)

Grantor retained annuity trust (GRAT)

A GRAT is an irrevocable trust with a specified term (e.g., 10 years) into which you gift assets that you expect will greatly increase in value in the future. You receive annuity payments during the trust term, and at the end, your beneficiaries receive any remaining property.

The transfer of assets to the GRAT is a taxable gift to the trust beneficiaries. The value of the gift for tax purposes is determined based on the current IRS rate (known as the 7520 rate, which also changes monthly).

Tax savings are achieved because the

annuity payments are calculated to result in a gift tax value of zero. It's anticipated, however, that the actual interest earned will be higher than the 7520 rate, leaving a substantial value in the GRAT at the end of the term. This remaining value is passed on to your beneficiaries tax free.

Intentionally defective grantor trust (IDGT)

An IDGT is an irrevocable trust that has a purposeful flaw (i.e., you retain some control over the trust) so that you, and not the trust entity, pays the income **taxes** on trust income (thus, an IDGT is ideal when you want to transfer income-producing assets). Even though you retain some control over the trust, IDGT assets will generally not be included in your taxable estate at your death.

You sell assets to the IDGT in return for an installment note, with interest calculated based on the current AFR. There is no gift tax because it is a "sale" (except for an initial gift that "seeds" the trust). However, because you and the trust entity are considered the same taxpayer, no gain is recognized on the sale, and interest you receive under the note is not considered taxable income.

Tax savings are achieved because, hopefully, the value leaving your estate via the sale will exceed the value returned to your estate via the note. You also reduce your estate by paying the income taxes on IDGT income.

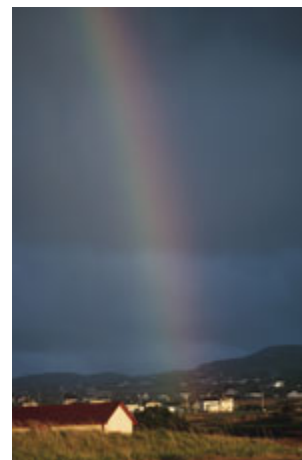
Charitable lead trust (CLT)

A CLT is an irrevocable trust with both charitable and noncharitable beneficiaries. It's called a lead trust because it is the charity that is entitled to the first or lead interest from the trust property. After the specified term, the remaining trust property passes to you or another named noncharitable beneficiary.

At the time assets are placed into the CLT, you receive a current gift tax deduction equal to the present value of the income stream that will be going to the charity. The interest rate used is based on the current 7520 rate. The lower the interest rate, the higher the deduction. As with a GRAT or IDGT, it is hoped that the CLT assets will appreciate beyond the 7520 rate, allowing the excess to pass tax free.

Conclusion

These gifting strategies, and others, can turn this economic downturn into a mixed blessing.

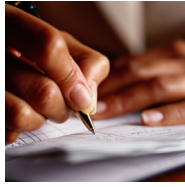


A down market can mean tough times, but it can also present unique opportunities to minimize property transfer (gift and estate) taxes. While owning assets that are losing value might seem like a bad thing, it may actually be a great time to reduce your taxable estate by gifting those assets to beneficiaries.

Estate planning tools that are generally less attractive when interest rates are low:

- Qualified personal residence trust (QPRT)
- Charitable remainder annuity trust (CRAT)

Ask the Experts



What tax credits are available for making homes more energy efficient?

To encourage energy savings, the American Recovery and Reinvestment Act of 2009 expanded the tax credits related to energy-efficient home improvements.

For 2009 and 2010, you may be able to claim a tax credit equal to 30% of the cost of energy-efficient property that you install in your principal residence. Qualified products can include new windows, doors (exterior and storm), insulation, roofing, HVAC systems, nonsolar water heaters, and biomass stoves (e.g., those that use plant-derived fuels, including wood and wood pellets) for your existing principal residence. (Note that installation costs are covered for HVAC, biomass stoves, and nonsolar water heaters, but not for the other products listed here.) A total combined credit cap of \$1,500 applies to all 2009 and 2010 improvements.

For property placed in service in 2009 through 2016, you may be able to claim a separate tax credit for 30% of the cost of buying and

installing qualified geothermal heat pumps, solar panels, solar water heaters (pool or hot tub heaters do not qualify), small wind energy systems, and fuel cell power systems (limited to \$500 per 0.5kW of power capacity); generally, no cap applies to these improvements. This tax credit is available for products installed in both new and existing homes. With the exception of fuel cell systems (which, to qualify, must be used in a home that is or will be your principal residence), these products may be used in a second or vacation home as well.

Only products that meet very high energy-efficiency standards qualify, so you'll need to carefully check the manufacturer's certification. It will tell you whether or not the product qualifies for a tax credit. Keep a copy of the statement, and receipts, for your tax records. A tax professional can give you more information about these tax credits. You can also visit the Energy Star website, www.energystar.gov, to find out more about energy-efficiency standards and products.

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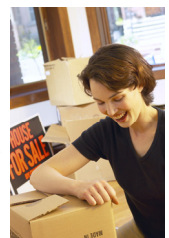
I'm buying my first home, but I already own an investment property. Will I qualify for the first-time homebuyer's tax credit?

Even though you already own an investment property, you may be able to qualify for the first-time homebuyer's credit that was included in the American Recovery and Reinvestment Act of 2009. For the purposes of qualifying for the credit, a first-time homebuyer is defined as someone who has not owned a principal residence during the three-year period prior to the home's purchase. Your investment property is not considered to be your principal residence, so you may still be eligible for the first-time homebuyer's credit, assuming you meet other requirements.

One requirement is that you must purchase a home on or after January 1 and before December 1, 2009. You must also meet certain income limits. To qualify for the full credit, which is equal to 10% of the home's purchase price (up to a maximum credit of \$8,000), your modified adjusted gross income must be no greater than \$75,000 if you're single, or \$150,000 if you're married. The credit is

reduced if your income exceeds these amounts, and is eliminated if your modified adjusted gross income exceeds \$95,000 (\$170,000 if you're married filing jointly).

If you're married, and your spouse has owned a principal residence within the past three years even if you have not, neither of you will qualify for the credit. But if you're single, and are buying a home with someone else who has owned a principal residence within the last three years, you may still qualify, even though the other buyer will not.



Note that if the home you're buying ceases to be the principal residence of you and your spouse within 36 months of the purchase date, you'll have to pay back the credit. For more details, visit the IRS website, www.irs.gov.

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