October 1st, 2012

Money Matter$

A Quarterly Newsletter from Sommers Financial Management

Ph. (503) 397-1545 www.sommersfinancial.com

Volume 10, Issue 4

Will Oregon's Death Tax Kick the Bucket?

by Joyce Pereira

In 2001, all 50 states had an estate tax. This is an additional tax separate from the federal estate tax; and also in addition to income, sales, and property taxes. Since 2001, 30 states have eliminated their estate tax or are in the process of doing so. Oregon is one of only three states west of the Mississippi still with a death tax, with our neighbor to the north being another; although Washington's tax-free exemption is twice Oregon's.

There is currently an initiative on the November ballot in Oregon to repeal Oregon's estate tax. This Death Tax Phase-Out Act (Measure 84) would reduce the existing tax each year until 2016, when it would reach zero. The tax currently applies to the amount of an estate over $1 million - which, coincidentally, is the minimum amount many financial experts say that baby boomers should possess in order to not outlive their assets.

Oregon estates may be exempt from the federal estate tax, but without proper planning your heirs will receive a fraction of the value of your estate after Oregon takes its bite.

Unfortunately, Oregon only has two large (Fortune 500) corporations: Nike and Precision Castparts. (The sad fact that Oregon is home to only two major corporations is another story for another time.) Hence, many of the jobs created in Oregon come from small, family-owned businesses which would be threatened in the event of a death. In many cases, the only way to pay the tax due upon death is to sell the family business, farm or ranch, since the property is often of far greater value than the income produced.

With an estate tax, after a person's money, property and possessions have already been taxed, they are re-taxed at the time of death. It's not surprising that the majority of states have seen how this tax has actually reduced state revenues instead of increasing them; Oregon's estate tax appears to punish those who build and keep businesses in Oregon, and incents business owners to move to a 'death-tax-free' state.

To see how your state compares to others, check out http://www.retirementliving.com/taxes-by-state. Or, you can read an article at Forbes.com: just search for "Where not to die in 2012".

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2012 3rd Quarter Returns

Dow Jones Industrial 30 Average: 4.3 %

S&P 500 Large Company Index: 5.6 %

NASDAQ Composite Index: 6.2 %

Russell 2000 Small Company Index: 4.9 %

SFM's 'MODEL 25' PORTFOLIO: 9.0 %

(see back page for current stock holdings in the Model Portfolio)

ETF Extra — SDPR International Real Estate ETF (RWX—39.72)

A new holding in client portfolios, this ETF is commission-free at TD Ameritrade. The SPDR® Dow Jones International Real Estate ETF before expenses, seeks to closely match the returns and characteristics of the total return performance of the Dow Jones Global ex-U.S. Select Real Estate Securities Index℠, an equity index based upon the global (ex-US) real estate market.

RWX's Notable Statistics

YTD Return (8/31/12):	22.8 %
3-Year Rate of Return (8/31/12):	10.4 %
Total Assets in the Fund:	$ 3.0 Bil.
Gross Expense Ratio:	0.59 %
Dividend Yield:	3.86 %

SFM's ORIGINAL "Model 25" STOCK Only Portfolio

Company Name	Value Grade	Cash Flow	Risk Grade	Market Cap
Apple, Inc.	C	A-	A-	Mega
Caterpillar	A-	B	C	Large
Chevron	C	B-	B	Mega
Corning	C	A-	B	Mid
Great Northern Iron Ore	A+	A+	C	Micro
Halliburton	A	C	B	Large
Interactive Brokers	A	A+	D	Small
IBM	C	C	A+	Mega
Intel	B	A-	A-	Large
JPMorgan Chase	B	A+	B	Mega
Methanex	A	B+	D	Small
Marathon Petroleum	A-	C	C	Large
Microsoft	C	C	A+	Mega
Newmont Mining	A	B	C	Large
Oracle	D	A-	A-	Large
Phillip Morris International	D	A-	A-	Large
Rio Tinto	A	B	C	Large
Southern Copper	C	A-	A-	Large
Companhia Siderurgeria	C	C	D	Mid
Seagate Technology	A-	A-	D	Mid
Total	A	D	B	Mega
Taiwan Semiconductor	C	A-	A-	Large
United Parcel Service	B	B-	A-	Large
Vale	D	A-	B	Large
ExxonMobil	A-	C	A-	Mega

SFM ORIGINAL Model "25" Portfolio

vs. A Relevant Benchmark

	SFM Model 25	S&P 500 Index
3 Month Return:	**9.0 %**	5.6 %
12 Month Return:	**27.3 %**	27.2 %
3 Year Average Annual:	**12.5 %**	12.0 %
5 Year Average Annual:	**1.6 %**	- 1.2 %
Since Inception (6/1/2003):	**17.0 %**	5.2 %

Commentary & Ramblings

by Adam Sommers

Joyce's front page article about the estate tax initiative here in Oregon prompted me to think about ways to earn and invest money responsibly, while still avoiding increasingly overburdening taxes. There does happen to be one place where the IRS allows you to deduct money that you contribute here on your income tax return, and doesn't then tax you upon withdrawal of those funds. This in effect gives you the anomaly of **truly tax-free money**: The one...the only...the Health Savings Account (HSA).

While investing in municipal bonds allows you to earn interest that is income-tax free, you usually must purchase them with after-tax dollars. If you purchase them in an IRA with pre-tax dollars, you will be taxed when you withdraw them. One Facebook friend declared that gold is also truly tax-free, if you extract it yourself instead of purchase it. Touché, but it's a risky proposition—I'd call panning or mining for precious metals speculation, not investment planning.

With a Health Savings Account, you are pretty much assured that your "investment" will "pan out". If you purchase a corresponding health insurance policy—one that meets IRS guidelines such as $1,000 minimum deductible, and $5,000 maximum out-of-pocket risk annually—the HSA becomes a very attractive option. I contend that **it is even more attractive than an IRA or 401(k), aside from those funds that are matched or contributed by an employer**.

The HSA can even be used as an IRA if/when you reach age 65 and don't want to reserve it for health expenses only. However, if you choose this option, your withdrawals will be taxed as ordinary income—similar to the IRA—according to current tax code.

You can open a Health Savings Account at most any bank. Checks, online banking, and debit cards are common, as are $2-$5 monthly fees. The best place (lowest fees) I've found for opening accounts is Blackhawk Bank in Beloit, WI. You can do nearly everything online or by phone. After you build a $5,000 balance in your HSA at Blackhawk Bank, they allow you to invest in Vanguard mutual funds—who I feel is the best in the mutual fund business.

My strategy has been to purchase my health insurance plan from Regence with a $7,000 family deductible and $10,000 out-of-pocket maximum. My entire family costs only $335/month! Next, I max out my contributions to my HSA each year, at $6,250 for a family. **That is a total family healthcare outlay of less than $900/month, and 60% of it I get to keep—tax-free—in my own account**. Then, once my HSA balance gets above the $10,000 annual out-of-pocket maximum, I will invest the difference in a Vanguard mutual fund to capture future growth, either for tax-free healthcare costs (Medicare supplement plan premiums count!), or for retirement income at age 65 and beyond. The best thing to come out of a Bush presidency? The HSA; without a doubt.