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MENTOR CAPITAL

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# Mentor Monthly Missive

## In this issue:

- Pensions – what you need to know
- 2010 taxes – there's still time to save

Mentor Capital Management Inc. would like to take this opportunity to wish everyone a safe and happy holiday season. We look forward to strengthening current relationships and welcoming new ones in the New Year. So, from John, Dan and Tammy: Merry Christmas, Happy Hanukkah, Happy Kwanza, and Happy New Year.

## The truth about pensions

What's all this noise in the news about pensions?

It seems you can't open a newspaper these days without reading about how pensions are in trouble. Here's why:

A pension is a promise to pay. The promise is made by an employer to an employee. The pension is a monthly payment, usually for life, that begins when the employee reaches a certain age or retires from employment.

The promise is funded by the employer, and, sometimes, by the employee, which contribute money to a fund to make good on the pension promise. The amount contributed is supposed to be based on what actuaries determine is necessary to keep the pension promises made. Frequently, those in charge haven't done what's necessary to keep the promises they've made.

Pensions most in the news right now are public pensions – those that provide retirement benefits to state and municipal employees. Why are public pensions in trouble?

- Public employers have no federal (IRS) requirement to contribute enough to keep their pension plans healthy – so they don't. Their attitude is, "It won't be a crisis until I'm out of office, so why should I care?"
- Employers have made – and lost – risky bets on pension-fund investments, such as hedge funds and real estate. They've taken these fat risks hoping that the investments will pay off, reducing requirements for future pension funding. Losing the risky bets only increases pension liabilities.
- Employers – in particular, school districts, cities and states – have rewarded certain employees by artificially boosting their pension benefits. These boosted benefits – in some cases in amounts exceeding tens of thousands of dollars a year – sap pension funds.
- Some pensions have promised employees generous insurance benefits in retirement. The cost of such benefits has been difficult to predict and has resulted in high levels of stress on some pension plans.

Corporate pensions tend generally to be healthier than their public cousins. Any unfunded corporate pension liability ends up on the corporation's balance sheet, scaring away potential investors. Public employers have no such disincentive to allow their liabilities balloon.

It is estimated that U.S. public employers' unfunded pension liabilities exceed $1 trillion. Our public officials should be ashamed that they've dug us – and our children and grandchildren – into such a hole. It's time real reform is enacted that will fix this broken system.

## Last-minute tax tips

There is still time save money on taxes before year-end:

- Buy a biomass stove. The personal energy property credit is available for certain home improvements placed in service before Dec. 31. Credit is equal to 30% of the cost of qualified energy-efficient property or improvements. Credit is up to $1,500 for 2009 and 2010 combined.
- Prepay college tuition. American opportunity credit is available for the tax year in which the payment is made, for an academic period that begins either in the same tax year or in the first three months of the following tax year.
- Prepay your mortgage. Payments due in January that are made before Dec. 31 will qualify for a mortgage-interest deduction for 2010.
- Get your root canal next week. If you're planning a major medical procedure and will qualify for a deduction, have the procedure now to get the deduction for 2010.
- Buy an alternative motor vehicle. For 2010, credits were still available for some makes and models, although most had phased out (Toyota and Honda, for instance) due to limits placed on number of vehicles sold.
- Realize investment capital losses to offset gains as well as up to $3,000 of ordinary income.

For more information on these and other tax-saving strategies, call to speak with Dan or John.