

Asset Strategies Monthly

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Investing in Green Technology



If you're considering investing in green technology hoping to make another kind of green--the folding kind--you'll need to deliberate carefully. Interest from governments, the public, and venture capital

enhances the attractiveness of green companies. Also, daydreaming about finding the equivalent of Microsoft, getting in early, and retiring on the proceeds is a popular pastime. But while technologies that can help clean up and preserve the planet may have enormous potential, potential isn't necessarily the same thing as profit.

What is green technology?

Generally, the concept (also known as "clean technology" or "cleantech") includes renewable energy (or technologies that can improve the environmental footprint of existing energy sources), clean water, and clean air, as well as technologies that can help reduce overall consumption, particularly of nonbiodegradable substances. Such a broad scope can make it difficult to choose among the myriad investment opportunities.

Individual stocks or funds?

One of the key questions for many investors is whether to invest broadly in the future of green technology as a whole, or focus on specific companies. If you have special knowledge of an industry, you may be able to rely on your understanding of the field, but don't let that blind you to fundamental considerations about a particular stock.

If you don't have expertise about a particular field, the time or energy to acquire that expertise, or the stomach for what can be a very bumpy road with an uncertain destination, an alternative strategy is to invest in larger companies that have made a significant commitment to green initiatives. Though behemoths typically don't have the rapid growth potential of their smaller cousins, they often have the resources to acquire green technologies, or manufacture and market them globally more efficiently than a smaller company might.

Some exchange-traded funds and mutual funds focus on green technology or specific segments of it, such as wind or solar energy. If you believe in the future of an industry but hesitate to commit to one company, a fund that concentrates on your area of interest might be the ticket. Be sure to investigate its investment objective, risks, fees, and expenses, which can be found in the prospectus available from the fund, and carefully consider them before investing.

Researching green

If you choose to focus on individual stocks, here are some considerations that are especially important for developing technologies:

What's the competitive landscape? An idea that seems promising can quickly be superseded by the latest innovation. While it's difficult to forecast technical turning points, it's helpful to know the major players in the field, their key development efforts, and roughly how they're positioned. Don't forget that cleantech is a global playing field; many other countries are making significant green investments, hoping for homegrown worldwide dominance of the industries of the future.

How dependent is a company on external support? Last year's American Recovery and Reinvestment Act (aka "the stimulus bill") authorized billions of dollars for tax credits, loan guarantees, and pilot programs related to green technology. However, political support for such initiatives can come and go, as can investor enthusiasm for specific technologies.

How capital-intensive is the technology? Many green technology companies may have little or no profits yet but a substantial need for capital from a cash flow standpoint and/or as a result of the technology itself. That could make a company vulnerable to a potential credit crunch, which could have a significant impact on its ability to develop and market even the most promising technology.

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They're Baaack: RMDs for 2010

Required minimum distributions, often referred to as RMDs, are amounts the federal government requires you to withdraw annually from traditional IRAs and employer-sponsored retirement plans after you reach age 70½ (or, in some cases, after you retire). RMDs are also required if you inherit an IRA (traditional or Roth) or employer plan account. You can always withdraw more than the minimum amount from your IRA or plan in any year, but if you withdraw less than the required minimum, you'll be subject to a federal penalty tax equal to 50% of the shortfall.



In response to deteriorating economic conditions in 2008, Congress (as part of the Worker, Retiree, and Employer Recovery Act of 2008, or "WRERA") waived RMDs from IRAs and defined contribution employer plans for the 2009 calendar year. This allowed individuals to avoid having to deplete retirement plan assets while the value of those assets was suddenly depressed. But RMDs are back for 2010. Here's how the rules apply.

IRA owners and employer plan participants

If you turned 70½ before 2009, your RMD for the 2009 calendar year, which was due by December 31, 2009, was waived. You must now resume taking RMDs. Your next RMD (based on your December 31, 2009, account balance) must be taken no later than December 31, 2010.

If you turned 70½ in 2009, your first RMD (for the 2009 calendar year) was due by April 1, 2010. This RMD was waived. You must now take your first RMD (for the 2010 calendar year, based on your account value as of December 31, 2009) no later than December 31, 2010. You'll need to take your second RMD from the account (for the 2011 calendar year) no later than December 31, 2011.

If you turned 70½ in 2010, your RMDs are not impacted by the 2009 waiver at all. Your first RMD (for the 2010 calendar year) is due by April 1, 2011, and is based on the value of your account on December 31, 2009. You'll need to take a second RMD from the account no later than December 31, 2011.

Inherited accounts

In general, if you inherit an IRA (traditional or Roth) or employer-plan account, you must begin taking RMDs over your life expectancy ("life expectancy" rule) starting with the year

following the year of the account owner's death. Alternatively, you may elect, or your plan may require, that you withdraw the entire account by December 31 of the calendar year containing the 5th anniversary of the account owner's death ("five-year" rule).

- Per the WRERA, if you inherited an IRA or employer account, and you were using the life expectancy payout rule, then your RMD for the 2009 calendar year was waived. You must take an RMD for the 2010 calendar year no later than December 31, 2010.
- If you inherited an IRA or employer account, and you were using the five-year rule for RMDs, you ignore 2009 when determining when your five-year period ends. So, for example, if your original five-year deadline was December 31, 2009, you ignore 2009 and you now have until December 31, 2010, to complete withdrawals from the account. Similarly, if your original five-year deadline was December 31, 2013, your new deadline, ignoring 2009, is December 31, 2014.
- If you inherited an employer plan account, you may have been given the right to elect whether to use the five-year rule or the lifetime expectancy payout rule for taking RMDs. This election is generally required no later than December 31 of the year following the year of the account owner's death. Per IRS Notice 2009-82, if your deadline for making the election was December 31, 2009, you now have until December 31, 2010, to make that election.
- If you inherited an employer account from someone other than your spouse, and the five-year rule applies to your benefit, you generally have until December 31 of the year following the year of the account owner's death to make a direct rollover of the account to an inherited IRA, and use the lifetime expectancy payout rule for distributions from the IRA. If the account owner died in 2008, you generally would have needed to complete your rollover by December 31, 2009. Per Notice 2009-82, you have until December 31, 2010, to complete the rollover.

As you can see, the 2009 waiver significantly complicates the RMD landscape for 2010. If you're taking RMDs from an IRA or employer-sponsored retirement plan, you may want to consider reviewing your situation with your financial professional.

As you can see, the 2009 waiver significantly complicates the RMD landscape for 2010. If you're taking RMDs from an IRA or employer-sponsored retirement plan, you may want to consider reviewing your situation with your financial professional.

Year-End Investment Planning Is More Challenging in 2010

If you don't normally review your investments at the end of each year, 2010 might be a good time to start. And if year-end investment planning is already part of your routine, you might want to pay special attention this year. Why? Because significant changes in the tax code that are scheduled to go into effect in 2011 could substantially alter the taxation of your portfolio next year. That could in turn affect your investment strategy. And since many expect additional changes that will affect next year's tax landscape, it's even more important than usual to think about whether your portfolio needs fine-tuning.

Begin planning before December 31

If you plan to sell a profitable investment at some point, you'll want to assess whether you should sell before the end of the year. That's especially true if you're in a low tax bracket or you have investments that have appreciated substantially. Investors in the 10% and 15% tax brackets currently owe no capital gains taxes on long-term capital gains. That is scheduled to change in 2011, when the long-term capital gains rate at this level is scheduled to increase from 0 to 10%. If you're in the 25% bracket or higher this year, you'll also need to think about this issue, though the scheduled increase from the current 15% to 20% isn't quite as dramatic as the leap from 0 to 10% that those in the lower income brackets will face. (Special, slightly lower rates for investments held for more than five years will apply beginning in 2011.)

Also, the tax brackets themselves are scheduled to change next year (see sidebar). If you plan to harvest a tax loss and think you may be in a higher tax bracket next year, it might make sense to first determine whether the loss would be more valuable later. Though tax considerations shouldn't be the sole factor in a decision to buy or sell, they shouldn't be ignored, either--especially this year.

Complicating your decisions, of course, is the uncertainty about whether the scheduled changes will undergo further revision before the end of the year. One possibility is to have a game plan based on the current scenario, and adjust it as warranted. It may seem like a burden, but for those in higher tax brackets, the extra effort could pay off come tax time.

Think about your overall tax burden

If you converted an IRA to a Roth IRA this year or are thinking about doing so before the end of the year, you may need to take that into account when deciding whether to book capital

gains in 2010. That's because you're able to report the taxable ordinary income from the conversion on either your 2010 return or in the 2011 and 2012 tax years (half of the income in each year). Your decision about when you will account for the taxable income that results from a Roth conversion may affect your decision about the timing of investment sales, or vice versa. If you choose to report the income resulting from your Roth conversion on your 2010 return, consider whether it makes sense to realize sizable capital gains this year. If you feel it's to your advantage to sell assets and pay the capital gains tax in 2010, you may want to consider opting to postpone payment of the taxes owed on the Roth conversion until 2011 and 2012. That would mean the total taxes owed would be spread over three years rather than one (though as noted above, your future tax bracket also should be factored into the calculation).

Consider the tax status of dividends

Qualifying dividends are scheduled once again to be taxed next year as ordinary income, as they were before 2003, rather than at long-term capital gains rates, which are typically lower. If you'll be in the 15% tax bracket, that represents an increase of 15%. And if you'll be in the 28% tax bracket or higher next year, the change in the tax status of dividend payments could also have an impact; the higher your tax bracket in 2011, the greater the impact.

Don't forget the usual suspects

In addition to staying on top of the tax issues that complicate this year's investment planning efforts, there are some tasks that are useful every year. A portfolio review can tell you whether it's time to adjust your holdings to maintain an appropriate asset allocation. Also, if you have losses, you may be able to harvest those losing positions to offset some or all of any capital gains. Be sure to consider how long you've owned the asset; assets held a year or less generate short-term capital gains and are taxed as ordinary income.

If you're selling an investment but intend to repurchase it later, be careful not to buy within 30 days before or after a sale of the same security. Doing so would constitute a violation of the "wash sale" rule, and the tax loss would be disallowed. Finally, if you're considering the purchase of a mutual fund outside of a tax-advantaged account, find out when the fund will distribute dividends or capital gains, and consider postponing action until after that date to avoid owing tax on that distribution.



Federal tax brackets for ordinary income are scheduled to change in 2011 as follows:

10% becomes 15%

15% remains 15%

25% becomes 28%

28% becomes 31%

33% becomes 36%

35% becomes 39.6%

Ask the Experts



Will the new health-care law affect my Medicare drug plan?

Yes, it might. Many Medicare Part D beneficiaries have had to pay for prescriptions

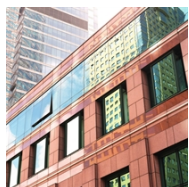
out-of-pocket after reaching a gap in their annual coverage, referred to as the "donut hole." Currently, if you're a Medicare Part D beneficiary, you may pay up to an additional \$3,610, out-of-pocket, for medicines after reaching an initial threshold of \$2,830 in total prescription drug costs (including Part D payments, beneficiary co-pays, and deductibles). But, in 2010, if you fall in the coverage gap, you will receive a \$250 rebate.

Starting in 2011, you will receive a 50% discount on the cost of brand-name drugs in the coverage gap. Additionally, a reduction in coinsurance for generic drugs in the coverage gap will be phased in, starting in 2011, and a similar reduction in coinsurance for brand-name drugs begins in 2013. By 2020, a combination of federal subsidies and a reduction in co-payments will reduce your total out-of-pocket costs for medications in the donut hole to 25%.

Another change affecting Medicare Part D beneficiaries relates to full-benefit dual-eligible beneficiaries (individuals eligible for both Medicaid and Medicare). Dual-eligible beneficiaries receiving institutional care, such as in a nursing home facility, do not owe any co-payments for prescriptions covered by Part D. However, dual-eligible beneficiaries receiving long-term care services at home or in a day-care community setting are subject to such co-payments. Beginning in 2012, the new legislation removes this imbalance; individuals receiving services at home or in a community setting will no longer be subject to co-payments.

Also, beginning in 2011, the time period during which Part D and Medicare Advantage beneficiaries can make changes to their coverage is extended and runs from October 15 through December 7. This extension should provide more time for beneficiaries to consider their options while ensuring that any benefit changes are properly incorporated into the plan for the following year.

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Does the new health-care reform law affect health spending accounts?

Yes. The new health-care reform legislation impacts flexible spending arrangements (FSAs), health reimbursement arrangements (HRAs), health savings accounts (HSAs), and Archer medical savings accounts (MSAs).

Over-the-counter medications. Beginning in 2011, FSAs and HRAs will not be able to make reimbursements for the cost of over-the-counter medications, and HSA and Archer MSA distributions used to pay for the cost of over-the-counter medications will not be made on a tax-free basis. However, insulin and over-the-counter medications prescribed by a physician will still be reimbursable on a tax-favored basis by these plans. You may want to stock up on your over-the-counter drugs to take advantage of the available reimbursement before the end of this year.

Tax increase on nonqualified distributions. Generally, distributions from HSAs and Archer MSAs for qualified medical expenses are received income-tax free. Plan distributions

for other than qualified medical expenses are subject to ordinary income tax plus a penalty tax. In the case of HSAs, the penalty is 10%, and for Archer MSAs the penalty is 15%. However, the health-care reform legislation increases the tax penalty for both of these plans to 20%, beginning in 2011.

FSA contribution limit. If you participate in an FSA as part of a cafeteria plan, beginning in 2013, the annual amount available for reimbursement for qualified medical expenses is limited to \$2,500 (this figure will be adjusted for inflation in subsequent years). This reduction does not apply to health FSAs that aren't part of a cafeteria plan.

If these changes will affect you, and you or a family member needs substantial dental work such as orthodontia, or corrective vision surgery, you might want to plan for and address these needs prior to 2013. And remember, FSAs are subject to the "use it or lose it" rule, meaning that any pretax money in your plan that is not used by the end of the plan year is forfeited.

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