



# Axial Financial Group

Centered on You.

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Dear Clients:

It's hard to believe we are already through the first quarter of 2009. By the time you receive this newsletter we will have pushed our clocks ahead for Daylight Saving Time and seen the first day of Spring.

With Spring comes tax time. Hopefully your paperwork is organized and you have been in touch with your accountant or tax preparer. Remember that you still have until the tax filing deadline to contribute to your IRA, Roth IRA or other select retirement vehicles for 2008.

Lastly, the growth of our firm is greatly a result of the referrals we receive from all of you - our clients. If you know of anyone who may benefit from our services, we would be pleased to meet with them.

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## **Will the Estate Tax Stay Repealed for 2010?**

In 2001, a law was passed that gradually phased out the federal estate tax through 2009, and repealed it altogether in 2010. That law,



however, "sunssets" or expires in 2011 and reinstates pre-2001 tax law levels (with an exemption of \$1 million and a top tax rate of 55%). Since 2001, the economic and political climate in the United States has changed significantly. The federal budget deficit has ballooned, the financial markets have been in turmoil, and most importantly, power has shifted to the Democrats. So, the question is: just how likely is it that 2010 will be an estate tax-free year?

### **Chance of repeal?...virtually zero**

Of course, anything can happen, but President Obama has made it clear that he believes the estate tax should continue in some form or other. And in the Senate, Finance Committee Chairman Max Baucus has firmly stated "...repeal isn't going to happen." With increased Democratic majorities in both chambers of Congress, it seems highly likely that some action will be taken soon to head off the one-year sabbatical scheduled for 2010.

### **Future of the estate tax**

Several bills have been introduced in Congress in the intervening years since 2001, some calling for full repeal, others for reform. Reforms that have been proposed include:

- Raising the exemption and/or lowering the tax rates
- Making the exemption "portable" between spouses (allowing surviving spouses to use any unused portion of the deceased spouse's exemption)
- Replacing the estate tax with an inheritance tax (transferring the transfer tax burden to heirs)

- Replacing the step-up in basis rule with a carryover basis rule (also transferring the tax burden to heirs in the form of capital gains tax)

President Obama has endorsed the following reforms:

- Freezing the estate tax at 2009 levels (\$3.5 million exemption and 45% top rate)
- Indexing the exemption for inflation
- Disallowing or limiting valuation discounts

### **Planning for continued uncertainty**

All indications point to the estate tax remaining for the foreseeable future. While the uncertainty that continues to surround the exact components of the estate tax may tempt some individuals to do nothing or wait and see, it may be wiser to review your plans now to ensure that they can withstand the winds of change.

Creating a flexible estate plan is the key to avoiding the pitfalls of future tax law changes, as well as changes that may occur in your personal life. A flexible estate plan uses language and provisions in wills and trusts that maximize the ability to pass estate assets free of estate taxes. And other tools, such as disclaimers and powers of appointment, can allow heirs or trustees to respond to circumstances existing at the time of your death.

### **Beyond tax**

Remember that dealing with estate taxes, no matter what the future may hold, is just a piece of your estate plan. An experienced financial professional can help you identify strategies that may help you achieve your overall estate planning goals.



## Retirement Plan and IRA Limits for 2009

An increasing number of retirement plan and IRA limits are indexed for inflation each year. Some of the key numbers for 2009 are discussed below.

### Elective deferrals

If you're lucky enough to be eligible to participate in a 401(k), 403(b), 457(b), or SAR-SEP plan, you can make elective deferrals of up to \$16,500 in 2009, up from \$15,500 in 2008. If you're age 50 or older, you also can make a catch-up contribution of up to \$5,500 to these plans in 2009, up from \$5,000 in 2008.

If your 401(k) or 403(b) plan allows Roth contributions, your total elective contributions, pretax and Roth, can't exceed \$16,500 (\$22,000 with catch-up contributions). You can split your contribution any way you wish. For example, you can make \$9,500 of Roth contributions and \$7,000 of pretax 401(k) contributions. It's up to you.

If you participate in a SIMPLE IRA or SIMPLE 401(k) plan, you can contribute up to \$11,500 in 2009 (up from \$10,500 in 2008). If you're age 50 or older, the maximum catch-up contribution to a SIMPLE IRA or SIMPLE 401(k) plan in 2009 is \$2,500, unchanged from 2008.

### IRA limits remain the same for 2009

The amount you can contribute to a traditional or Roth IRA remains at \$5,000 for 2009, and the maximum catch-up contribution for those age 50 or older remains at \$1,000. You can contribute to an IRA in addition to an employer-sponsored retirement plan. But if you (or your spouse) participate in an employer-sponsored plan, your ability to deduct traditional IRA contributions may be limited, depending on your income. Roth contributions are also subject to income limits.



Contribution limits: 2009 tax year* (2008 limits in parentheses)		
Plan type	Annual dollar limit	Catch-up limit
401(k), 403(b), and 457(b)** plans	\$16,500 (\$15,500)	\$5,500 (\$5,000)
SIMPLE plans	\$11,500 (\$10,500)	\$2,500 (\$2,500)
Traditional and Roth IRAs	\$5,000 (\$5,000)	\$1,000 (\$1,000)

\*Contributions can't exceed 100% of your pay. If you participate in a 403(b) or 457(b) plan, special rules may allow an even greater catch-up contribution.

\*\*\$5,500 catch-up applies only to governmental 457(b) plans.

### Some other key numbers for 2009

For 2009, the maximum amount of compensation your employer can take into account when calculating SEP and qualified plan contributions and benefits is \$245,000 (up from \$230,000 in 2008).

The maximum annual benefit you can receive from a defined benefit pension plan is limited to \$195,000 in 2009 (up from \$185,000 in 2008).

And the maximum amount that can be allocated to your account in a defined contribution plan (for example, a 401(k) plan or profit sharing plan) in 2009 is \$49,000 (up from \$46,000 in 2008), plus age-50 catch-up contributions. (This includes both your contributions and your employer's contributions. Special rules apply if your employer sponsors more than one retirement plan.)

Income phaseout range for determining deductibility of traditional IRA contributions in 2009	
<b>1. Covered by an employer plan</b>	
Single/Head of household	\$55,000 - \$65,000 (\$53,000 - \$63,000 in 2008)
Married filing jointly	\$89,000 - \$109,000 (\$85,000 - \$105,000 in 2008)
Married filing separately	\$0 - \$10,000 (same for 2008)
<b>2. Not covered by an employer plan, but filing joint return with a spouse who is covered</b>	\$166,000 - \$176,000 (\$159,000 - \$169,000 in 2008)
Income phaseout range for determining ability to fund Roth IRA in 2009	
Single/Head of household	\$105,000 - \$120,000 (\$101,000 - \$116,000 in 2008)
Married filing jointly	\$166,000 - \$176,000 (\$159,000 - \$169,000 in 2008)
Married filing separately	\$0 - \$10,000 (same in 2008)

## What You Don't Know Can Hurt You

You've probably heard the saying, "what you don't know can't hurt you," but when it comes to your finances, ignorance is not necessarily bliss. It's easy to make bad financial decisions when you lack sufficient information or you are misinformed. By the time you realize your mistake, it's usually too late to correct it. Here are several common mistakes that can be avoided with just a little bit of forethought.

### Naming the wrong insurance beneficiary

Life insurance has many benefits. Among them is the fact that death benefits are generally paid directly to the beneficiary you name in the policy without passing through probate. But what happens if the beneficiary you name is unable to accept the death benefit, because he or she is a minor, deceased, or incompetent? In these circumstances, unless you've named an alternate beneficiary, the life insurance proceeds will be subject to all of the expenses and delays associated with settling an estate through probate.

What can you do before it's too late? Review your life insurance beneficiary designations at least annually to be sure the proceeds will pass to the proper beneficiary without the involvement of probate. Also, consider adding at least one contingent or alternate beneficiary in case the primary beneficiary is unable to receive the proceeds.

### Selecting the wrong pension option

If you're lucky enough to have an employer-sponsored pension for your retirement, the distribution choices you make usually can't be changed, regardless of whether your circumstances change. Before making your choice, get all of your plan's options from the plan administrator and review them with a financial professional who can help you crunch the numbers. Estimate your retirement income needs, then determine what the best strategy is for you and your family.

What can you do before it's too late? If you're married you're required to take a joint and survivor option, unless your spouse waives his or her rights to your pension. If you elect the single life option, your payments will be larger, but at the expense of a future spousal benefit. If you choose the single life option, make sure

you have plenty of other income or life insurance to replace the pension for your surviving spouse.

### Owning assets jointly

Owning assets jointly often can be a good strategy to avoid probate or minimize estate taxes. However, this form of asset ownership also has disadvantages. The joint owner has equal rights to the jointly owned asset, meaning he or she can withdraw from a joint bank or brokerage account or sell his or her interest in the asset without your consent. In addition,

adding someone's name to an asset may be considered a gift, subject to possible gift taxes. And, owning assets jointly exposes those assets to the creditors of your joint owner. Finally, with respect to long-term care planning and Medicaid qualification, adding a joint owner can negatively

affect your Medicaid eligibility.

What can you do before it's too late? Consider the ramifications of joint ownership carefully before implementing this strategy. If your intent is to leave the asset to the joint owner, alternatives such as payable on death accounts, trust designations, or life estates may accomplish your goal and protect your interest in the asset at the same time.

### Underinsured homes

Imagine this scenario: you just suffered through a terrible fire that destroyed your home and most of its contents. You get an estimate on the cost to rebuild your home and file a claim with your homeowners insurance carrier. To your shock, you find that they are not going to cover the entire cost to rebuild. You thought your policy covered the full replacement cost of your home. However, the policy actually provides extended replacement cost, which offers up to 120% of the policy's face amount--not enough to cover all of the costs to rebuild your home.

What can you do before it's too late? Review your policy at least annually and make sure the face amount is enough to cover the cost to rebuild your home should the unthinkable occur. That means you need to know the approximate cost to rebuild, including any additions and improvements you made to the home. Also, take into consideration increasing costs of materials and labor.



**You could make financial decisions that turn out to be wrong because you lack sufficient information or you were misinformed altogether.**

### Other common mistakes

- *Failing to provide for financial loss due to a non-work related disability*
- *Miscalculating how much life insurance you need*
- *Owning too much company stock in your employer-sponsored retirement plan*
- *Underestimating how long your retirement may last*
- *Overestimating the annual rate of return you'll earn on your investments*
- *Trying to save for your children's college education at the expense of saving for your retirement*



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## Ask the Experts



### How much of your company's stock should you hold?

No matter how good a company you work for, you should think carefully about how much you should have invested in it. Yes, there are companies whose employees have become wealthy from company stock that was part of their compensation. But there also are stories about employees of companies such as Enron, Bear Sterns, and Lehman Bros.--people who believed in their employers but learned the hard way that allowing one company--especially a current employer--to dominate their investment or retirement portfolio can have devastating consequences.

According to the most recent Employee Benefit Research Institute statistics (Issue Brief No. 308, August 2007), company stock represents an average of 11% of 401(k) plan participants' assets (though that percentage is less than in previous years). However, few mutual fund managers would allow a single stock--any stock--to represent that much of a fund's portfolio. And a corporate pension plan is actually

prohibited from investing more than 10% of its holdings in the company's own stock.

Ironically, the better your company's stock has performed, the greater the chance that it may have grown to dominate your portfolio. However, even if your company is a good one, working at a company means you've invested your "human capital"--your earning ability--in that firm. If you also have a large portion of your investment capital there, your financial well-being is even more dependent on a single company. If a company's stock is suffering, it might react by cutting jobs company-wide. If yours were one of them, both your human and investment capital would be hit.

And don't forget to consider whether an equity mutual fund you hold also may have invested in your company's stock. You can find out a fund's holdings by checking its annual and semiannual reports. You can use the information to estimate your total exposure to your employer's stock.