Five Hot Topics in 2011

Axial Financial Group
5 Burlington Woods Drive
Suite 102
Burlington, MA 01803
(Tel) 781-273-1400
(Fax) 781-273-1402
info@axialfg.com

Dear Clients:

It's hard to believe we are already through the first quarter of 2011. 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, you still have time until the tax filing deadline to contribute to your IRA, Roth IRA or other select retirement vehicles for 2010.

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

Axial Financial Group

April 2011-AFG

Five Hot Topics in 2011

Retirement Plan and IRA Limits for 2011

Are There Gaps in Your Insurance Coverage?

Understanding the math of recovering from losses

Roth conversions, mortgages, and health-care reform were a few of the most talked about topics in 2010. Here's a look at five topics you're bound to hear about in 2011.

Social Security: saving the system

How to strengthen Social Security has been a political hot potato for many years, but calls for reform are growing louder as the time when program costs will permanently exceed tax revenues draws closer. The most recent annual report from the Social Security Board of Trustees projects that this will occur in 2015 (one year earlier than last year's report predicted) and notes that trust funds will be exhausted in 2037. Social Security is the most common source of income for retirees, and debate over how to save it will rage in 2011.

Microlending: small loans count

Microlending--the practice of extending small loans to individuals and businesses who otherwise could not borrow money--has traditionally targeted entrepreneurs in developing countries. But as the credit crunch prevents many Americans from borrowing money through traditional channels, more are turning to microlending sites and companies to obtain funds. And more investors are offering to make microloans in return for the potential to earn somewhat higher returns than a savings account can offer. Until the economy improves, look for this trend to continue.

Microlending recently got a boost from the Small Business Jobs Act, passed in September, that expanded the Small Business Administration's microlending program. Funding for the program was increased, and business owners may now be able to borrow up to $50,000 (previously, the limit was $35,000) to use for working capital or other needs.

Education: expanding opportunities

Education-related debates will certainly heat up in 2011. The current administration is committed to reforming primary and secondary education and has drawn up a blueprint for overhauling the Elementary and Secondary Education Act. This Act (currently known as No Child Left Behind) is long overdue for reauthorization, and Congress will likely be debating it in 2011.

In addition, much attention is being focused on ways to make college more accessible and affordable. One initiative funded by the Bill and Melinda Gates Foundation awards grants to nonprofit and governmental institutions to develop effective online education opportunities. Currently the focus is on developing online courses and tools that can help more Americans attend college and prepare for careers, while saving students and schools money.

Energy: greener days ahead

"Going green" is a catchphrase that's likely to get even more press in 2011. One important green initiative currently pending in the Senate is the Homestar Act. This Act provides substantial rebates to homeowners who purchase and install energy-saving equipment or goods or who complete whole home retrofits.

Even the lowly lightbulb finally gets a makeover in 2011. The Federal Trade Commission is requiring that lightbulb packages carry labels that estimate yearly energy costs, the bulb's life span and light appearance, and brightness measured in lumens so that consumers can better compare new energy-efficient bulbs.

Wellness: saving lives and money

Look for employers to roll out, or expand, employee wellness programs this year in an effort to promote healthier living and curtail health insurance costs. The Health-Care Reform Act passed last year included funding for new wellness programs established by small employers, and makes it easier for all employers to offer substantial incentives to employees for participating. Also, new health insurance plans and many existing plans (including Medicare) must now fully cover preventive care services such as immunizations and screenings for certain health conditions.

Retirement Plan and IRA Limits for 2011

Many retirement plan and IRA limits are indexed for inflation each year. Most of the limits for 2011 are unchanged from 2010.

Many retirement plan and IRA limits are indexed for inflation each year. Some of the key numbers for 2011 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 2011, unchanged from 2010. If you're age 50 or older, you also can make a catch-up contribution of up to $5,500 to these plans in 2011 (also unchanged from 2010). (Special catch-up limits apply to certain participants in 403(b) and 457(b) plans.)

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 2011 (unchanged from 2010). If you're age 50 or older, the maximum catch-up contribution to a SIMPLE IRA or SIMPLE 401(k) plan in 2011 is $2,500 (unchanged from 2010).

IRA limits remain the same for 2011

The amount you can contribute to a traditional or Roth IRA remains at $5,000 (or 100% of your earned income, if less) for 2011, 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: 2011 tax year*		
Plan type	Annual dollar limit	Catch-up limit
401(k), 403(b), govt. 457(b) plans	$16,500	$5,500
SIMPLE plans	$11,500	$2,500
Traditional and Roth IRAs	$5,000	$1,000

*Contributions can't exceed 100% of your income. Special catch-up rules apply to 403(b) and governmental 457(b) plans.

Some other key numbers for 2011

For 2011, the maximum amount of compensation your employer can take into account when calculating contributions and benefits in qualified plans (and certain other plans) is $245,000 (unchanged from 2010).

The maximum annual benefit you can receive from a defined benefit pension plan is limited to $195,000 in 2011 (unchanged from 2010).

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 2011 is $49,000 (also unchanged from 2010), 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 2011	
1. Covered by an employer plan	
Single/head of household	$56,000-$66,000 (same for 2010)
Married filing jointly	$90,000-$110,000 ($89,000-$109,000 for 2010)
Married filing separately	$0-$10,000
2. Not covered by an employer plan, but filing joint return with a spouse who is covered	$169,000-$179,000 ($167,000-$177,000 for 2010)
Income phaseout range for determining ability to fund Roth IRA in 2011	
Single/head of household	$107,000-$122,000 ($105,000-$120,000 for 2010)
Married filing jointly	$169,000-$179,000 ($167,000-$177,000 for 2010)
Married filing separately	$0-$10,000

Are There Gaps in Your Insurance Coverage?

If you own a condo, your association's property insurance may leave gaps in coverage. For example, most association insurance doesn't cover your furniture, wall coverings, electronics (e.g., televisions, radios), interior walls, and structural improvements made to the interior of your unit. Review your condo documents, particularly the master deed, which may describe those parts of your unit the association insurance covers, and which parts you may need to insure.

Buying insurance is about sharing risk. For example, health insurance will cover some of the cost of getting and staying healthy. Homeowners insurance will assume the risk of loss in case your home is damaged or destroyed. But oftentimes, we think we're covered for losses by insurance when, in fact, we're not. Here are some common coverage gaps to remember when reviewing your own insurance coverage.

Life insurance

In general, when coupled with savings and income, you want to have enough insurance that will allow your family to continue to live the lifestyle to which they're accustomed. But changing circumstances may leave a gap in your life insurance coverage.

For example, if you have life insurance through your employer, changing jobs could affect your insurance coverage. You may not have the same amount of insurance, or the policy provisions may differ. Your coverage may have decreased, or the type of insurance may have changed. Where your prior employer may have provided permanent life insurance, now you may have term insurance that will expire on a predetermined date. Review your income, savings, and expenses annually and compare them to your insurance coverage. Changing circumstances may require more insurance. Your financial professional can help you determine if you have enough coverage to meet your family's future income needs.

Homeowners insurance

Homeowners insurance can be tricky as to what perils are covered and how much damage will be paid for. Clearly, it's important to know what your homeowners policy covers and, more importantly, what it doesn't cover.

You might think your insurer would pay the full cost to replace your home if it were destroyed by a covered occurrence. But many policies place a cap on replacement cost up to the face amount stated on the policy. You may want to check with a building contractor to get an idea of the replacement cost for your home, then compare it to your policy to be sure you have enough coverage.

Even if your policy states that "all perils" are covered, most policies carve out many exceptions or exclusions to this general provision. For example, damage caused by floods, earthquakes, and hurricanes may be covered only by special addendums to your policy, or in some cases, separate insurance altogether. Also, your insurer may not cover the extra cost of rebuilding attributable to more stringent building codes, or your policy may limit how much and for how long it will pay for temporary housing while repairs are made.

To avoid these gaps in coverage, review your policy annually with your agent. A face-to-face meeting is always best with the policy right there in front of both of you. Also, take heed of notices you may receive. While it looks like boilerplate language, it could actually be changing your coverage significantly. Don't rely on your interpretations--seek an explanation from your insurer or agent.

Auto insurance

Which drivers and what vehicles are covered by your auto insurance? Most policies provide coverage for you and family members residing with you. So your child who is living in a college dorm is probably covered, but living in an off-campus apartment might exclude your child from coverage. If you and your spouse divorce, which policy insures your children who are living with each parent at different times during the year? Notify your insurer about any change in living arrangements to avoid a gap in coverage.

Other gaps include no coverage for damaged batteries, tires, and shocks. And you might not be covered for stolen or damaged cell phones or other electronic devices (e.g., MP3 players). Your policy may also limit the amount paid for a rental while your vehicle is being repaired.

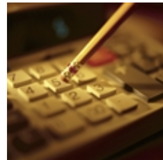
In fact, insurance coverage for rental cars also poses many gaps in coverage. For instance, your own collision coverage may apply to the rental car you're driving, but it may not cover all of the damages alleged by the rental company, such as loss of use charges. If you're leasing a car long-term, your policy may only cover the replacement cost if the car is a total loss or is stolen. But that amount may not cover the outstanding balance of your lease. Gap insurance can cover any difference between what your insurer pays and the balance of your lease.

Policy terms and conditions aren't always well defined, and you may not understand what's covered until it's time to file a claim. So review your insurance coverages with your financial professional to be sure you've filled all the gaps in your coverage.

Axial Financial Group
5 Burlington Woods Drive
Suite 102
Burlington, MA 01803

The accompanying pages have been developed by an independent third party. Commonwealth Financial Network is not responsible for their content and does not guarantee their accuracy or completeness, and they should not be relied upon as such. These materials are general in nature and do not address your specific situation. For your specific investment needs, please discuss your individual circumstances with your representative. Commonwealth does not provide tax or legal advice, and nothing in the accompanying pages should be construed as specific tax or legal advice. Securities and Advisory Services offered through Commonwealth Financial Network, Member FINRA/SIPC, a Registered Investment Adviser.

Ask the Experts



Understanding the math of recovering from losses

Everyone knows the stock market has its ups and downs, but just what's involved in recovering from a serious down? If you lose 10% one year but your portfolio returns 10% the next year, are you even again?

The short answer: no. The math of recovering from a loss isn't quite that symmetrical. You have to gain more than you lost to recoup all your losses. To understand why, let's look at a hypothetical example. Say you have a $50,000 portfolio. In Year 1, you suffer a 10% loss and are down $5,000. That leaves your portfolio worth only $45,000.

In Year 2, the market rebounds and your portfolio rises by 10%. However, that 10% increase is based on a $45,000 portfolio, not $50,000. That means the 10% return adds only $4,500 to your portfolio, not $5,000, leaving you still $500 down from where you started. You would actually have to earn a return of a little over 11% to get back to your original $50,000.

The bigger the loss, the bigger that rebound needs to be to get you even. For example, if that $50,000 portfolio had taken a 40% hit, as many did in 2008, you'd need almost a 67% increase to offset that $20,000 loss and get back to the original $50,000. That could take several years even if stocks perform well.

The challenge is compounded by investor psychology. Adjusting your asset allocation to aim for a higher return is one way to try to recoup losses faster. However, many investors find it difficult to take on additional risk after having watched their investments take a hit. And there's no guarantee that more risk will necessarily produce the desired result--at least not within the desired time frame.

The lopsided nature of recovery from market losses underscores why risk management is such a key component of successful portfolio management. Being realistic about the level of risk your portfolio involves and how much time you have to come back from potential downturns may help increase both your emotional and financial resilience.

Prepared by Broadridge Investor Communication Solutions, Inc. Copyright 2011