



Axial Financial Group

Centered on You.

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Dear Clients:

We hope you all had a wonderful summer and are enjoying the beginning of the Fall season.

On behalf of our firm, we would like to welcome and introduce Mark Ehgott and Noah French to our practice. Marc is coming in as Business Development Associate to work with our CPA's, Attorneys and other strategic partners. Noah will join us as Wealth Management Consultant and Insurance Specialist working with our existing clients. Join us in welcoming them the next time you call us or visit our office. Please also see the Insurance article submitted by Noah on the front of this newsletter.

Please let us know if we can assist you in any way. We look forward to talking to you or seeing you soon.

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Life Insurance: Do You Need It?

At some point in your life, you'll be faced with the question of whether or not you need life insurance. The answer will depend on your personal and financial circumstances.

You should probably consider reviewing your life insurance needs if any one of the following is true:

1) You are married and your spouse depends on your income:

To make sure either spouse could carry on financially after the death of the other, both of you should probably purchase a modest amount of life insurance.

2) You have children:

Single-income families are completely dependent on the income of the breadwinner. If he or she dies without life insurance, the consequences could be disastrous. The death of the stay-at-home spouse would necessitate costly day-care and housekeeping expenses.

Dual-income families need life insurance, too. If one spouse dies, it is unlikely that the surviving spouse will be able to keep up with the household expenses and pay for child care with the remaining income.

3) You have an aging parent or disabled relative who depends on you for support:

4) Your retirement savings and pension won't be enough for your spouse to live on or you have a large estate and expect to owe estate taxes:

It's possible that your need for life insurance will remain strong even after you retire. For example, the proceeds of a life insurance policy can be used to pay your final expenses or to replace any income lost to your spouse as a result of your death (e.g., from a pension or Social Security).

5) You own a business or you leave your employer:

It's important to review your life insurance coverage any time you leave an employer. Keep in mind that when you leave your job, your employer-sponsored group life insurance coverage will usually end, so find out if you will be eligible for group coverage through your new employer, or look into purchasing life insurance coverage on your own.

Article submitted by Noah C. French, CFS, CLTC

Please contact Noah with any questions regarding this article or your own insurance needs. You may contact him at our Axial Financial Group office at 781-273-1400.

Final Thoughts:

It is always important to review all of your options before you decide to purchase new coverage, exchange policies or cancel any existing coverage. There are many options that may be available to you, here are just a few:

- Converting existing term coverage to a permanent policy
- Reducing the face amount to have a paid up policy
- Moving the cash value to a better financial instrument
- Selling the policy
- Gifting the death benefit to charity for a current tax deduction

If you're still unsure about whether you should have life insurance, ask yourself this question: If I died today with no life insurance, would my family need to make substantial financial sacrifices?



2008 Year-End Tax Planning Tips

AMT triggers

You're more likely to be subject to the AMT if you claim a large number of personal exemptions, deductible medical expenses, state and local taxes, and miscellaneous itemized deductions. Other common triggers include home equity loan interest when proceeds aren't used to buy, build, or improve your home, and the exercise of incentive stock options.



Roth conversions

Individuals who would like to contribute to a Roth IRA but don't qualify because of income limitations might benefit from making nondeductible contributions to a traditional IRA today, and converting the funds to a Roth IRA in 2010, when the income limits no longer apply. Additionally, for Roth conversions in 2010 only, any resulting taxable income will be deferred until 2011 and 2012 (with 50% taxed in each year).

Despite passing three major pieces of tax legislation in the past year, Congress is still considering a host of expired and expiring provisions. While it's likely that several of these provisions will be renewed for the 2008 tax year, the uncertainty creates a challenging planning environment. With the window of opportunity for many tax-saving moves closing on December 31, it makes sense to focus on the basics, while staying ready to take advantage of any late-breaking legislative developments.

Timing is everything

Year-end tax planning is as much about the 2009 tax year as it is about the 2008 tax year. There's a real opportunity for tax savings when you can predict that you'll be paying taxes at a lower rate (for example, if your income will be significantly different) in one year than in the other. If that's the case, some simple year-end moves can pay off in a big way.

For example, you may be able to defer a year-end bonus, or delay the collection of business debts, rents, and payments for services. Similarly, you may be able to accelerate deductions into 2008 by paying some deductible expenses in December rather than in January.

Alternative minimum tax (AMT) facts

If you're subject to the AMT, traditional year-end maneuvers, like deferring income and accelerating deductions, can actually hurt you. The AMT--essentially a separate federal income tax system with its own rates and rules--effectively disallows a number of itemized deductions, making it a significant consideration when it comes to year-end moves. For example, if you're subject to the AMT in 2008, prepaying 2009 state and local taxes won't help your 2008 tax situation, but could hurt your 2009 bottom line.

Legislation signed into law in December 2007 brought the most recent in a long series of temporary "fixes" for the AMT, but this temporary fix (in the form of increased AMT exemption amounts) expired at the end of 2007. If Congress doesn't act, the number of taxpayers subject to AMT could reach 25.7 million in 2008 (Source: Joint Committee on Taxation, JCX-38-07, June 25, 2007). Congress is likely to take some action, but the specifics are uncertain, making it important to stay up-to-date on any new developments.

Don't overlook IRA and retirement plan opportunities

Traditional IRAs (assuming you qualify to make deductible contributions) and employer-sponsored retirement plans, such as 401(k) plans, allow you to contribute funds pretax, reducing your 2008 income. Contributions you make to a Roth IRA or Roth 401(k) aren't deductible, so there's no benefit for 2008, but qualified Roth distributions are completely free from federal income tax--making these retirement savings vehicles very appealing.

For 2008, the maximum amount you can contribute to an IRA has increased to \$5,000, and you can contribute up to \$15,500 to a 401(k) plan. If you're age 50 or older, you can contribute up to \$6,000 to an IRA, and up to \$20,500 to a 401(k). The window to make 2008 contributions to your 401(k) closes at the end of the year, while you can generally make 2008 contributions to your IRA until April 15, 2009.

If you qualify, consider whether it makes sense to convert some or all of your traditional IRA assets to a Roth IRA. Funds that you convert, to the extent the funds represent investment earnings and deductible contributions, are considered taxable income. Nevertheless, the potential future tax benefit could outweigh the current tax bill.

Expired provisions likely to be renewed

In addition to AMT relief, watch for action on other provisions that expired at the end of 2007, but are likely to be renewed, including:

- Election to take an itemized deduction for state and local sales tax in lieu of state and local income tax
- Above-the-line deduction for qualified tuition and related expenses
- Above-the-line deduction for certain expenses of elementary and secondary school teachers
- Tax-free distributions from IRAs for charitable purposes of up to \$100,000 per person, per year

It's always difficult, at best, to anticipate what Congress will do. In an election year, it's even more unpredictable. If the last few years are any indication, though, it's not unreasonable to assume that we might see some legislation late in the year, so stay alert.

Annuity Maximization: A Strategy to Leave More to Your Heirs

What if you're living comfortably in retirement and find that you don't need a deferred annuity you bought years ago? Instead, you want to leave it to your heirs at your death. What you may not know is that transferring your deferred annuity at death may subject it to both estate and income taxes. A strategy that can minimize the impact of these taxes is called annuity maximization using permanent life insurance.



Some background

When you die, the portion of the annuity death benefit received by your beneficiaries (either in a lump sum or as periodic payments) that exceeds your investment in the annuity is includible as taxable income to your beneficiaries.

In addition, the full accumulation value of your deferred annuity is includible in your gross estate at your death. If your estate is large enough to owe federal and/or state estate taxes, your deferred annuity will be subject to those taxes as well.

The combination of estate and income taxes can erode a significant portion of your annuity's value. The result is that your beneficiaries may receive an annuity worth much less than you anticipate.

How annuity maximization works

Here's the basic way this strategy works: you exchange your deferred annuity for a single premium immediate annuity (SPIA) that provides an income stream to you for the rest of your life. You then obtain permanent life insurance with you as the insured, and use the SPIA distributions to pay the insurance premiums. At your death, the SPIA payments stop and the insurance proceeds are paid to your beneficiaries.

Alternatively, if you prefer to retain the deferred annuity instead of converting it to an SPIA, you may be able to take penalty-free withdrawals from your deferred annuity, which also can be used to pay the insurance premiums. However, annuities vary as to penalty-free withdrawal availability, so for complete

details, be sure to check with the annuity issuer, or review your annuity contract or prospectus.

Caution: *Annuity distributions before age 59½ may be subject to a 10% federal tax penalty. Annuity guarantees are based on the claims-paying ability of the annuity issuer.*

The annuity maximization strategy may pose some income tax issues for you. SPIA payments and annuity withdrawals may be taxable to you. A portion of each SPIA payment you receive is subject to income taxes and a portion is considered a nontaxable return of premium. Conversely, withdrawals from your deferred annuity (for annuities issued after 1982) are taxed as income first, meaning the entire withdrawal is includible as income until all of the annuity's earnings are withdrawn, after which withdrawals of principal are not includible as income.

Why annuity maximization works

Instead of getting the deferred annuity at your death, your beneficiaries receive the life insurance proceeds, income tax free. And you can effectively remove the value of the deferred annuity from your estate by converting it to a SPIA. Since the SPIA payments cease at your death, the SPIA is not included as an asset of your estate.

In addition, the life insurance can escape estate taxes if the policy is not part of your estate at death. To achieve this goal, you can't own the policy; it must be owned by another (e.g., your child or an irrevocable life insurance trust). You then make gifts to the policy owner equal to the annual insurance premium. However, gifts may be subject to both federal and state gift taxes, so you should consult your tax professional before making such gifts.

The bottom line

If you own an annuity that you want to transfer to your heirs at your death, a significant portion of its value may be lost to estate and income taxes. Annuity maximization is a strategy that lets you replace part or all of a taxable asset (your deferred annuity) with an asset (permanent life insurance) that may be subject to neither income nor estate taxes at your death. This approach may effectively allow you to increase the amount you pass on to your beneficiaries.

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Ask the Experts



Will the current credit crunch impact my child's ability to get a student loan for college?

It's hard to say whether the credit crunch will prevent students from obtaining the financing they need to pay for college. According to the College Board, last year students and their families borrowed nearly \$60 billion in federal loans and \$17 billion in private loans for college. In order to understand the current student lending market, some background is helpful.

Federal student loans. Under the Federal Family Education Loan Program (FFELP), private lenders receive subsidies from the federal government to issue federal student loans at reduced interest rates. But last year, Congress slashed subsidies to FFELP lenders. This, coupled with tightening credit and near paralysis in the secondary debt markets, created the perfect storm—a student lending market in potential turmoil due to the unwillingness and/or inability of some private lenders (to date more than 50) to make, package, and sell federal student loans.

The problem was big enough to attract the attention of the federal government—legislation passed in May allows the Department of Education to buy billions of dollars in federal student loans from private lenders to keep money flowing into the widely used FFELP. The consensus is that there will be enough federal student loan money—Stafford, Perkins, and PLUS Loans—in the FFELP to go around for the 2008/09 academic year.

Private student loans. Over the past decade, the use of private student loans to finance college has soared as federal student loans fail to keep up with rising costs. This year, college students in need of private loans are expected to face higher interest rates and more stringent credit checks. Unfortunately, this means that some students who qualified for a loan last year may not this year, or they may have to pay a higher interest rate. The federal government has not proposed buying private student loans, so lenders will be on their own to raise the necessary capital.