



Axial Financial Group

Centered on You.

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Dear Clients:

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

The last quarter of the year is always a good time to make sure you address certain items before the year ends. Here are three items you may want to consider.

1. Whether you have been contributing to your company's retirement plan or not, you still have three months to reach your maximum contribution or simply add to it before year end. 2. If you plan to do any gifting-make sure it is complete by year end. 3. IRA distributions - Required minimum distributions were not required in 2009, but they are required in 2010 if you are over 70 1/2 years old.

Please contact us if you have questions on the items above or 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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Year-End Tax Planning--Special Concerns for 2010



Year-end tax planning is as much about 2011 as it is about 2010. Often, there's a real opportunity for year-end tax savings when you can predict that you'll be paying taxes at a lower rate in one year than in the other. For example, under the right circumstances, deferring a year-end bonus or potentially accelerating deductions into the current year can pay off in a big way. Of course, to effectively plan, it helps to have a good idea of what next year's tax rates will be. Unfortunately, as 2010 draws to a close, 2011 brings some uncertainty in that regard.

Will there be higher tax rates in 2011?

Currently, there are six marginal federal income tax brackets: 10%, 15%, 25%, 28%, 33%, and 35%. These brackets--the result of 2001 tax legislation--expire at the end of 2010. As things stand now, in 2011 the 10% bracket disappears, and the remaining brackets return to their pre-2001 levels: 15%, 28%, 31%, 36%, and 39.6%. Though it would take action by Congress, the president has indicated that he would like to permanently extend the 2010 rates for individuals earning less than \$200,000 and married couples earning less than \$250,000 (these dollar benchmarks would be reduced by an amount that reflected the standard deduction and exemption amounts), but allow the two highest brackets to return to 36% and 39.6% for higher earners.

What about long-term capital gains?

Currently, long-term capital gain is generally taxed at a maximum rate of 15%. If you're in the 10% or 15% marginal income tax bracket in 2010, though, a special 0% rate applies (in other words, you owe no tax on any long-term capital gain). The same rates apply to qualified dividends received in 2010.

These rates also expire at the end of the year. The maximum rate on long-term capital gain in 2011 will generally increase to 20%, with a 10% rate applying to individuals in the lowest tax bracket (special rules would apply to qualifying

property held for five years or more). Qualifying dividends will be taxed as ordinary income. The president has proposed to permanently extend the 0% and 15% rates, with a new 20% rate applying to high-income individuals (those in the 36% and 39.6% tax brackets). Again, though, that all depends on what Congress does in the next few months.

Other considerations

- **2010 Roth IRA conversions:** A special rule applies to Roth IRA conversions in 2010 that allows you to postpone paying federal income tax on the income that results from the conversion. Instead of including the taxable income that results from the conversion on your 2010 federal income tax return (still an option if you so choose), you can report half the income on your 2011 return and half on your 2012 return. Whether a Roth conversion makes sense for you depends on your individual circumstances, including your marginal income tax rate in 2011 and 2012.
- **Alternative minimum tax (AMT):** In a now-familiar pattern, legislation that temporarily increased AMT exemption amounts, forestalling a dramatic increase in the number of individuals ensnared by the tax expired at the end of 2009. Congress is likely to act, but the specifics are uncertain.
- **Required minimum distributions (RMDs):** The requirement to take minimum distributions from IRAs and defined contribution plans was temporarily suspended for 2009; minimum distribution requirements are once again in effect for 2010.
- **Pending legislation:** Legislation is pending to extend some popular provisions that had expired, including the ability to deduct state and local sales tax in lieu of income tax on Schedule A, the additional standard deduction for state and local real property tax, and the above-the-line deduction for qualified tuition and related expenses. And additional legislation is likely, too, so stay up-to-date.

Ways to Trim College Costs



Here's a new twist on an old saying. There are three things in life that are certain: death, taxes, and college costs that go up every year, even during a recession. How can students and parents avoid the "extreme borrowing"

phenomenon that can lead to years of burdensome loan payments? They can start by looking for ways to trim college costs so they won't have to borrow and/or pay as much in the first place. Here are some ideas.

Pick a college with a lower sticker price

Pricey private colleges often like to point out that the majority of their students don't pay the full "sticker price." The problem is, you never quite know how much, exactly, their students are paying. Every student's aid package is different, and the presence of merit aid awards makes the picture even murkier. Private colleges with the biggest endowments can afford to be the most generous (replacing loans with grants in aid packages, for example, or guaranteeing merit aid for all four years), but not every private college can do this. Even if a college takes \$15,000 or \$20,000 off its sticker price, that may still leave \$30,000 or more to pay each year.

In the past few years, enrollment at public colleges has soared due to their lower sticker prices--public colleges are typically half the cost of private colleges and, for in-state residents, the savings can be even greater. Education experts often debate the benefits of spending more money to attend a well-known, more prestigious private college vs. a public college. But it's generally agreed that motivated, bright students can succeed anywhere, and that after a certain period of time, job experience matters more than where you went to college.

Consider taking a year off

The number of students taking time off between high school and college is growing in a measurable way. This period, commonly referred to as a "gap year," is typically spent volunteering, traveling, working, and/or interning. One of the main benefits of a gap year is the increased maturity and focus that comes from engaging in new experiences. These traits can help students get their money's worth in college by sharpening study habits and career goals. Another benefit is the potential to earn money to pay for college. For example, working full-time for 42 weeks (10 months) at the federal minimum wage of \$7.25 per hour equals about \$12,180 before taxes. Or, for the

volunteer-minded, the AmeriCorps program currently provides a modest living allowance and a stipend in 2010 of \$5,350 in exchange for service work (future stipends will be tied to the maximum federal Pell Grant). And more than 80 colleges now offer matching grants to students who earn an AmeriCorps stipend (see www.americorps.gov for more information).

Tweak the typical four-year experience

If your child doesn't mind forgoing the typical four-year college experience, here are some ways to trim costs:

- Attend a community college for one or two years, then transfer to a four-year institution
- Take AP high school courses to earn college credit and reduce the time in college
- Look at colleges that offer three-year accelerated degree programs
- Consider living at home and commuting to school to save on room-and-board costs
- Research online education options (check out www.distance-education.org)

Research scholarships

After your child fills out the federal government's financial aid application (the FAFSA) and the college's financial aid application (the standard PROFILE application or the college's own form), he or she should set aside as much time as possible to research and apply for scholarships. With online searches, students can easily input their talents and background and get a filtered list of relevant scholarships (try www.fastweb.com or www.collegeboard.com). Also, don't forget to check with your employer and the local chamber of commerce for scholarships.

Budget well during college

Encourage your child to look for deals on mandatory items like books, supplies, and other personal dorm room items. For discretionary items, establish guidelines for a reasonable amount of monthly spending money, but build in flexibility. If you do co-sign a credit card application with your child (a co-signer is now required in most cases for applicants under 21), make sure your child doesn't succumb to the temptation of easy money. According to a study last year by Sallie Mae, the average college student has \$3,200 in credit card debt. Discuss your expectations of credit card usage and make sure your child understands how interest accumulates on unpaid monthly balances.

Does cost affect the choice of college?

According to an online survey by The Project on Student Debt, 64% of students said college affordability was a "big consideration" when selecting a college, and 19% said it was a "moderate consideration."



How Will Financial Reform Affect You?

In response to an outcry for reform, on July 21, 2010, President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act into law. Much of the legislation centers on new regulations affecting how Wall Street functions, including the infusion of new powers in the Federal Reserve, and new government authority to shut down large financial companies on the brink of failure.

Nevertheless, while the bulk of the legislation is aimed at Wall Street, most consumers want to know how the law will affect them. Here are some of the provisions that may directly affect consumers like you.

Revised mortgage lending practices

The legislation institutes new mortgage lending rules intended to provide more borrower protection. For instance, lenders will have to follow defined standards to verify whether, based on income, credit history, and other data, a borrower has a reasonable ability to repay a loan including associated taxes and insurance. And if the lender doesn't adhere to this "ability to repay" standard, or if the mortgage has excessive fees or abusive terms, the borrower may raise those factors as a defense to foreclosure without regard to any statute of limitations.

Lenders also must retain at least a 5% interest in loans they make that don't meet certain standards, so that a lender will be less inclined to make a loan to a borrower who can't afford it; the law is also designed to prevent a lender from selling the loan and passing all of the risk of default onto the secondary mortgage buyer.

While these rules may limit the size of the mortgage you qualify for, they're intended to prevent you from being steered into a loan that's not suitable for you. Lenders can no longer provide mortgage originators and loan officers with financial incentives such as higher commissions for directing potential borrowers to mortgages with higher interest rates. And lenders can't coerce or encourage an appraiser to make a faulty appraisal of a property's value so the borrower may obtain a loan more easily.

Making the entire process of obtaining a loan more transparent is a key goal of financial reform. For instance, loan originators of residential mortgages must disclose any conflicts of interest and compare costs

and benefits of a mortgage offered to a potential borrower. Prepayment penalties on balloon loans and adjustable-rate mortgages (ARMS) are banned and must be disclosed on other loans. If you have a hybrid ARM, the lender must give you at least six months notice in advance of any change in the interest rate. And if you're unable to make your mortgage payments as a result of losing your job or because of a medical condition, you may now qualify for up to \$50,000 in assistance loaned through HUD's existing Emergency Mortgage Assistance Fund.

Lenders are prohibited from refinancing an existing mortgage unless the new mortgage offers a net benefit to the borrower, and borrowers are entitled to a copy of the lender's appraisal of the property no later than three days prior to the closing.

Consumer protection provisions

The law provides for regulation of consumer financial products under the auspices of a single agency: the Consumer Financial Protection Bureau. This government entity will serve as a consumer protection watchdog, able to write rules for consumer protections governing all financial institutions--banks and other institutions offering consumer financial services or products. This agency will also regulate the private student loan industry while giving students access to information about private student loans.

Increase in FDIC account protection

During the financial crisis, the Federal Deposit Insurance Corporation (FDIC) temporarily increased the amount it will insure on deposit accounts in FDIC-insured banks from \$100,000 to \$250,000. The law makes the \$250,000 limit permanent. For example, you and your spouse can each have separate deposit accounts as well as a single joint account and qualify for up to \$1 million worth of total FDIC protection.

Another change is your ability to get your credit score for free if you were turned down for credit, housing, or a job based, in part, on your credit score. You can also get your credit score if your credit card company changes your credit terms based on a negative credit score. The free look at your credit score isn't available if you don't have a negative credit experience, however.



The new law offers a reward to whistle-blowers with information that leads to monetary sanctions of more than \$1 million. Whistle-blowers will receive 10% to 30% of the amount collected from the offender.

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.

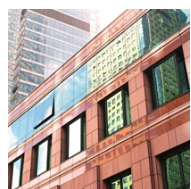
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Does the new health-care reform law affect health spending accounts?



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.