



Axial Financial Group

Centered on You.

October 2009

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Dear Clients:

We hope you all 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 are not required for 2009, but you may still take a distribution, without penalty, if you are at least 59 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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Social Security: What Does the Future Hold?

Each year, the Social Security and Medicare trustees issue a report on the financial health of these two programs. The news hasn't been good. According to this year's report, in 2016, Social Security will begin paying out more money than it takes in, and will be able to pay promised benefits only until 2037; afterwards, the trust fund reserves will be exhausted and payroll tax income will be enough to finance only 76% of scheduled benefits until 2083.



Social Security reform has been a political hot potato, but that may be about to change. The decline of the financial markets has led to renewed focus on the importance of Social Security income to retirees, and on the need to address the growing burden that Social Security is placing on the federal budget.

You can find the annual trustees report on the Social Security Administration's website, www.socialsecurity.gov.

Proposals to stabilize Social Security

Despite fears that Social Security will not be around for future generations, there have been no calls to eliminate Social Security, and the focus is on making the program sustainable. In fact, President Obama has repeatedly expressed his commitment to preserving Social Security. To help accomplish this, he favors a Social Security payroll tax on earnings above \$250,000 (currently no Social Security payroll tax is assessed on earnings above a certain maximum, \$106,800 in 2009). Many other potential solutions have also been suggested. For example, the Social Security Solvency Act of 2009, introduced in the Senate in February, proposes accelerating by five years the gradual increase in full retirement age to 67, and modifying the benefit calculation to reduce benefit growth. This year's trustees

report mentions immediately increasing the payroll tax or reducing benefits as additional options.

The near future

The Congressional Budget Office (CBO) is projecting that for the first time since 1975, when cost-of-living adjustments (COLA) were first payable, Social Security beneficiaries will not receive an automatic increase next year (or for 2011), due to low inflation. According to the CBO, the absence of COLA will also affect the maximum earnings that are taxable for Social Security, because under the Social Security Act, the earnings maximum can only increase when COLA is payable. Therefore, the CBO is projecting that this year's earnings base of \$106,800 will remain the same for the next two years.

Medicare beneficiaries will be affected too. By law, for individuals who have their Medicare Part B premiums withheld from their Social Security checks, premiums cannot rise more than COLA increases for Social Security. Consequently, no annual COLA means that standard Medicare premiums will remain at their current level of \$96.40 per month for approximately 75% of Medicare beneficiaries. However, certain beneficiaries (those who do not have their premiums deducted directly from Social Security and those with higher incomes who pay higher income-related premiums) do not have this protection, and will see their premiums rise, perhaps substantially.

Stay informed

Most Americans rely on Social Security for at least a portion of their retirement income, but to ensure that Social Security will be able to pay promised benefits for many years to come, it's clear that the program must change. It's a good idea to follow the news to learn about legislative developments and model various income scenarios when developing your own retirement plan.



Regardless of your filing status or how much you earn, you'll be able to convert a traditional IRA to a Roth IRA starting in 2010.

Roth IRA Conversions in 2010: Goodbye, Income Limits!

With the lure of tax-free distributions, Roth IRAs have become popular retirement savings vehicles since their introduction in 1998. But if you're a high-income taxpayer, chances are you haven't been able to participate in the Roth revolution. Well, that's about to change.

What are the current rules?

For 2009, if your modified adjusted gross income (MAGI) is greater than \$100,000, you can't convert a traditional IRA to a Roth IRA. This \$100,000 limit applies whether you're single or married filing jointly. And if you file your taxes as married filing separately, you can't make a conversion at all--regardless of your income level.

In addition, your ability to make annual contributions to a Roth IRA depends on your MAGI:

If your federal filing status is:	Your Roth IRA contribution is reduced for 2009 if your MAGI is:	You can't contribute to a Roth IRA in 2009 if your MAGI is:
Single or head of household	\$105,000 but less than \$120,000	\$120,000 or more
Married filing jointly or qualifying widow(er)	\$166,000 but less than \$176,000	\$176,000 or more
Married filing separately	More than \$0 but less than \$10,000	\$10,000 or more

What is--and isn't--changing

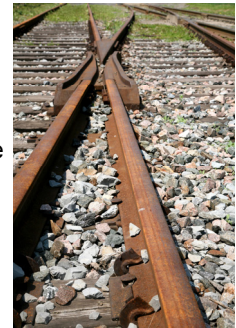
In 2006, the Tax Increase Prevention and Reconciliation Act (TIPRA) became law. TIPRA repeals the \$100,000 income limit for conversions, and allows conversions by taxpayers who are married filing separately, beginning in 2010. This means that regardless of your filing status or how much you earn, you'll be able to convert a traditional IRA to a Roth IRA starting in 2010.

Unfortunately, TIPRA does not repeal the income limits for annual Roth contributions. However, depending on your circumstances, beginning in 2010 you may be able to make your annual IRA contribution to a traditional IRA, and then convert that IRA to a Roth. Your financial professional can help you determine if this works for you.

Convert now, pay later

Normally, when you convert a traditional IRA to a Roth IRA, you're required to include the amount converted--minus any nondeductible contributions you've made--in your gross income in the year you make the conversion.

However, to ease the pain of a potentially large tax hit in 2010, TIPRA includes a special rule for 2010 conversions only: if you convert your traditional IRA to a Roth IRA in 2010, you can report half the income from the conversion in 2011, and the other half in 2012.



For example, assume that in 2010 your sole traditional IRA is worth \$200,000, and you've made \$50,000 of nondeductible contributions. If you convert the entire IRA to a Roth in 2010, \$150,000 will be subject to federal income taxes. If you use the special rule, you can report half of the taxable amount (\$75,000) as income in 2011, and the other half as income in 2012. Alternatively, you can report the entire \$150,000 as income in 2010. (Note: state tax rules may differ.)

(Note that a SEP IRA can also be converted to a Roth IRA, and a SIMPLE IRA can be converted two years after you begin participating in your employer's SIMPLE IRA plan.)

Is a Roth conversion right for you?

The answer is complicated, and depends on many factors, including your income tax rate, the length of time you can invest the funds without withdrawals, your state's tax laws, and how you'll pay the income taxes due on the conversion.

Even if you decide to convert, whether it makes sense to use the special 2010 deferral rule depends on your individual situation. It may also depend on where you think income tax rates are headed. If you expect rates to be lower in 2010 than in 2011 and/or 2012, deferring the tax hit may not be a good idea. Your financial professional can help you run projections to determine if the special rule is appropriate in your particular case.

Estate Planning Opportunities in a Down Market

A down market can mean tough times, but it can also present unique opportunities to minimize property transfer (gift and estate) taxes. While owning assets that are losing value might seem like a bad thing, it may actually be a great time to reduce your taxable estate by gifting those assets to beneficiaries. That's because current low asset values and interest rates enable you to make gifts at a lower gift tax cost. And, if and when the market rebounds, those assets will be growing in your beneficiary's estate and not in yours. Here are a few gift-giving techniques that take advantage of today's economic climate.

Note: *This article discusses federal tax rules only. Individual states impose their own property transfer taxes using rules that may be different from the federal rules.*

Basic gifting

Each year, you can make gifts of up to \$13,000 to anyone you want, to as many people as you want, tax free under the annual gift tax exclusion. You can give away twice that amount if both you and your spouse make the gifts together (this is called gift splitting). And, you can give away an unlimited amount if you pay tuition or medical bills on behalf of another person (just be sure to make these payments directly to the school or health-care provider).

Family loans

You can lend money to your children at the current IRS minimum interest rate (known as the AFR, which changes monthly), and then potentially forgive an amount equal to the gift tax exclusion each year. (The gift tax exclusion amount is adjusted for inflation; \$13,000 is the figure for 2009.)

Grantor retained annuity trust (GRAT)

A GRAT is an irrevocable trust with a specified term (e.g., 10 years) into which you gift assets that you expect will greatly increase in value in the future. You receive annuity payments during the trust term, and at the end, your beneficiaries receive any remaining property.

The transfer of assets to the GRAT is a taxable gift to the trust beneficiaries. The value of the gift for tax purposes is determined based on the current IRS rate (known as the 7520 rate, which also changes monthly).

Tax savings are achieved because the

annuity payments are calculated to result in a gift tax value of zero. It's anticipated, however, that the actual interest earned will be higher than the 7520 rate, leaving a substantial value in the GRAT at the end of the term. This remaining value is passed on to your beneficiaries tax free.

Intentionally defective grantor trust (IDGT)

An IDGT is an irrevocable trust that has a purposeful flaw (i.e., you retain some control over the trust) so that you, and not the trust entity, pays the income taxes on trust income (thus, an IDGT is ideal when you want to transfer income-producing assets). Even though you retain some control over the trust, IDGT assets will generally not be included in your taxable estate at your death.

You sell assets to the IDGT in return for an installment note, with interest calculated based on the current AFR. There is no gift tax because it is a "sale" (except for an initial gift that "seeds" the trust). However, because you and the trust entity are considered the same taxpayer, no gain is recognized on the sale, and interest you receive under the note is not considered taxable income.

Tax savings are achieved because, hopefully, the value leaving your estate via the sale will exceed the value returned to your estate via the note. You also reduce your estate by paying the income taxes on IDGT income.

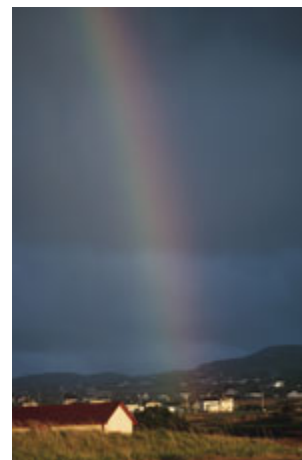
Charitable lead trust (CLT)

A CLT is an irrevocable trust with both charitable and noncharitable beneficiaries. It's called a lead trust because it is the charity that is entitled to the first or lead interest from the trust property. After the specified term, the remaining trust property passes to you or another named noncharitable beneficiary.

At the time assets are placed into the CLT, you receive a current gift tax deduction equal to the present value of the income stream that will be going to the charity. The interest rate used is based on the current 7520 rate. The lower the interest rate, the higher the deduction. As with a GRAT or IDGT, it is hoped that the CLT assets will appreciate beyond the 7520 rate, allowing the excess to pass tax free.

Conclusion

These gifting strategies, and others, can turn this economic downturn into a mixed blessing.



A down market can mean tough times, but it can also present unique opportunities to minimize property transfer (gift and estate) taxes. While owning assets that are losing value might seem like a bad thing, it may actually be a great time to reduce your taxable estate by gifting those assets to beneficiaries.

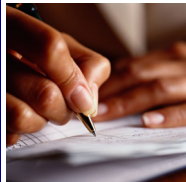
Estate planning tools that are generally less attractive when interest rates are low:

- *Qualified personal residence trust (QPRT)*
- *Charitable remainder annuity trust (CRAT)*



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Ask the Experts



What health insurance options do college students have?

There are basically two ways to insure your child's health while at college: through your family health plan or a health plan provided by the school.

Most family health plans allow a child to continue to be covered by the family plan if the child is your dependent (check the policy for specific age limits and requirements) and is a full-time college student. But be sure to check whether coverage is available for doctors and medical services provided on or near campus. Some plans, such as health maintenance organizations (HMOs), may offer full coverage only if provided by doctors or at facilities within the HMO network. Full benefits may not be available for care provided by doctors or at facilities outside the particular HMO network. However, other types of plans may offer full coverage for almost any type of care provided by most doctors or at nearly all hospitals.

If your child isn't covered by your family health plan because he or she has reached the maximum age stated in the policy to be covered as a dependent, or is not a full-time student, the Consolidated Omnibus Budget Reconciliation Act (COBRA) may allow your child to continue to be covered by your plan on an individual basis. The benefits of your health insurance plan are available to your child for up to 36 months, but often at an additional cost.

Your child may also obtain health insurance through the school. Many colleges offer low-cost health plans for students that may even be less expensive than continuing coverage through your family plan. These plans are usually not as comprehensive as family plans, but provide benefits for most urgent or serious injuries or illnesses. Plans differ from one college to the next. Also, check the applicable laws of the state where the college is located. Those laws may impact the level of coverage available and the cost of coverage.