Randhir S.Judge F.L.I.A.,LUTCF

December 2008

Judge For Yourself Inc.
Randhir Judge, F.L.I.A., LUTCF
368 Fairview Way
Milpitas, CA 95035
888.229.9080 8114
info@jfyfinancial.com
www.jfyfinancial.com

Dear Friends,
With the financial crisis looming over our heads and markets sliding like there is no bottom, every investor is thinking the same thing: when will it end? Is there hope on the horizon?
People are often concerned with the return of their principal rather than "return on their principal". I am positive that our clients that invested in our "safe" annuities are happy that their investments were not adversely affected by the downturn of the market.
Should you need information about "safe" money investment options, please contact our offices.
Sincerely,
Randhir S. Judge

In this issue:

Allianz

Exceptions to the Early Distribution Penalty

Generally, taxable amounts you withdraw from an IRA, 403(b), or qualified retirement plan before age 59½ are subject to a federal 10% penalty tax (and possibly a state penalty tax, too) in addition to any federal (and possibly state) income tax due. SIMPLE IRAs are subject to a 25% penalty for premature distributions made during the first two years of participation. Fortunately, Section 72(t) of the Internal Revenue Code lists several exceptions to this premature distribution penalty tax.

Exceptions applicable to all plans

A qualified transfer or rollover from one retirement plan to another generally isn't subject to the penalty tax. Also, distributions made to your beneficiary or your estate after your death aren't subject to the early withdrawal penalty. Other exceptions include:

- Distributions not exceeding the amount of your tax-deductible unreimbursed medical expenses.
- Distributions made because of a qualifying disability.
- Amounts levied by the IRS directly from your qualified retirement plan. This exception doesn't apply if you withdraw funds from a plan to pay the IRS.
- Qualified reservist distributions pursuant to the Pension Protection Act of 2006.

Exceptions applicable only to IRAs

The 10% penalty doesn't apply if the distribution is made for you, your spouse, or your child or grandchild to pay qualified postsecondary education expenses, such as tuition, and room and board. If you're a first-time homebuyer, you can take pre-59½ IRA withdrawals if they're used to pay the costs of acquiring, constructing, or reconstructing your principal residence up to a $10,000 lifetime limit. You also can take penalty-free IRA distributions up to the cost of health insurance premiums you pay during a qualifying period of unemployment.

Exceptions for non-IRA retirement plans

Distributions made pursuant to a qualified domestic relations order (QDRO) are not subject to the penalty. Also, you can take penalty-free withdrawals from a qualified plan after separating from service with the employer maintaining the plan if your employment ends during or after the year you reach age 55. You may also be able to take qualifying distributions of dividends from your employer's employee stock option plan without penalty.

Substantially equal payments exception

An important exception that applies to all IRA and qualified retirement plans is the substantially equal periodic payments exception. To comply with this exception, you must withdraw funds from your retirement plan at least annually based on an IRS-approved distribution method. For qualified plans (but not IRAs), you also must have separated from service with the employer maintaining the plan.

There are three IRS-approved methods for calculating payments, but regardless of the method you choose, you generally can't change or alter the payments for five years or until you reach age 59½, whichever occurs later (although the IRS has held that owners can make a limited one-time switch between certain methods without incurring the penalty tax). Otherwise, if you modify the payments (e.g., by taking amounts smaller or larger than required distributions or none at all), you will be subject to the 10% premature distribution tax on the taxable portion of all pre-59½ distributions (unless another exception applies).

Immediate Annuities Offer a Source of Lifetime Income

The good news is we're living longer. But the prospect of a longer life expectancy means we risk outliving our retirement savings. If the thought of receiving a steady stream of income that lasts for the rest of your life appeals to you, a single premium immediate annuity (SPIA) might be worth considering.

How does it work?

Unlike a deferred annuity, which is designed for long-term savings, a SPIA begins to make payments to you immediately. In exchange for a lump sum of money you pay to an insurance company, you'll receive an income that can last for the rest of your life. The amount of income you receive is based on a number of factors, including your age at the time payments begin, your gender, whether payments will be made to only you or jointly to you and another person, and whether payments will be made for a fixed period of time or for the rest of your life or joint lives.

You have options

Most immediate annuities include a number of payment options. The more common payment options are:

- *Life only.* Payments continue during your lifetime, but stop at your death.
- *Period certain.* Payments are made for a fixed period of time (e.g., 5, 10, 15, 20 years). If you die prior to the end of the chosen period, your beneficiary will continue to receive payments for the remainder of the fixed period.
- *Life with a period certain.* Payments are made for the rest of your life or a minimum period of time. If you die prior to the end of the minimum payment period, the beneficiary you name in the annuity will receive the payments for the remainder of the period certain, but no longer. If you outlive the period certain, payments will end at your death.
- *Joint and survivor.* Payments are based on the lives of two people, typically you and your spouse. When either of you dies, payments continue to be made to the survivor. This option can also be combined with a period certain option, in which case payments will continue until both of you have died or for the minimum period of time you select, whichever is longer.
- *Installment refund/cash refund*. If you die prior to receiving at least the return of your investment in the immediate annuity, your beneficiary will receive an amount equal to the difference between what you invested and what you received. Your beneficiary will receive this amount in either a lump sum (cash refund) or periodic payments (installment refund).

The amount of each SPIA payment you get can be affected by the payment option you select. For example, a 60-year-old man who invests $100,000 in an immediate annuity may receive annual payments of $7,260 for the life only option, $6,696 for life with a period certain of 20 years, or $7,920 for a fixed period of 20 years. (This example is for illustration purposes only and does not reflect actual insurance products or performance, nor is it intended to promote a specific company or product.)

Are there taxes to pay?

Generally, you pay income taxes on that portion of each payment that represents earnings or interest credited to the immediate annuity. The remaining portion of each payment is considered a return of your investment and is tax free.

Other factors to consider

While a SPIA can offer a measure of relief from retirement income concerns, as with most investments, there are other factors to consider. Generally, once you invest in a SPIA, your payments are "locked in" with little flexibility, although there may be some exceptions. Normally, you don't have access to the principal unless the annuity provides for it, so be sure the payment option you select will meet your income needs. Also, consider whether there are other investment choices available that may better suit your retirement income goals. Your financial professional may be able to present different options, including a SPIA, for you to consider when deciding how to best meet your retirement income needs.

Guarantees associated with annuities are based on the claims-paying ability of the annuity issuer.

As 2009 Dawns, Is There Hope on the Horizon?

There's little doubt that 2008 will be remembered as a tumultuous year. Rising food and fuel prices, turmoil in the credit and housing markets, inflation pressures, and the volatility of the stock market all contributed to economic pressures. But buried within the negative headlines was some good news you may have missed--here's a recap.

Financial help for homeowners

If you're a homeowner, you may benefit from a new income tax deduction. When you're filing your 2008 federal income tax return in 2009, you may be able to take a deduction for property taxes you've paid--even if you don't itemize. Taxpayers who claim the standard deduction may be able to claim an additional deduction of up to $1,000 if married or $500 if single.

If you're a first-time homebuyer, you may be able to take a refundable tax credit of 10% (up to a maximum of $7,500 or $3,750 for married persons filing separate returns) of the purchase price of a home you've purchased after April 8, 2008, and before July 1, 2009. However, this credit is phased out for individuals with adjusted gross incomes ranging from $75,000 to $95,000 ($150,000 to $170,000 if married filing jointly). And keep in mind that this tax credit functions more like a loan--you'll need to repay the credit over 15 years in equal installments on your annual tax return (possibly sooner if you sell your home or don't use it as your main residence).

New ways to manage college costs

Student loans staged a disappearing act in 2008, as the credit crisis drove some lenders out of the student loan market and forced others to become more selective. But the Higher Education Opportunity Act, which became law in August, contains several provisions that will help families and students better manage the high cost of college. These will be phased in during 2009 and in future years. Some highlights:

- Individuals who have worked for at least ten years in certain public service occupations (e.g., teachers, nurses, law enforcement officers, firefighters) may qualify to have their federal student loan debt forgiven (up to $10,000)
- Colleges will be encouraged to control price increases, and textbook publishers will be required to provide complete retail price information and sell unbundled versions of textbooks to help control costs
- The maximum Pell Grant will increase from $5,800 to $9,000 per academic year, and will be available year-round
- The federal student aid application (FAFSA) will be streamlined, making it easier to apply for financial aid

Expanded education benefits for the military

August 1, 2009, marks the debut of a new GI bill, which has been hailed as the first major expansion of education benefits for the military since World War II. Active duty servicemembers (including members of the Guard and Reserve) may be eligible for the new program. Education benefits will be payable for up to 36 months, and will cover tuition costs and fees. Eligible veterans may also receive a monthly stipend for books and supplies, and a monthly housing allowance. In some cases, benefits may even be transferable to spouses and dependent children. You can find more information on the Department of Veterans Affair's website, www.gibill.va.gov.

New "green" vehicles

Gas-saving vehicles have been rolling off assembly lines for several years. Up until now, most have been passenger cars, and smaller SUVs and trucks. But these are now sharing the road with larger and sportier models, including a hybrid version of an infamous gas guzzler--the Cadillac Escalade. Admittedly, the 2009 Escalade's estimated 20 mpg city isn't going to break any fuel conservation records, but its emergence is a sign that Detroit is focused on developing even more fuel efficient vehicles in 2009 and beyond, due to growing demand.

As in previous years, when you purchase a qualified hybrid or other alternative fuel vehicle, you may be entitled to claim a tax credit when you file your federal income tax return. This credit will reduce your tax bill dollar-for-dollar. You can find a list of qualified vehicles on the IRS website, www.irs.gov.

The road to recovery is paved with good intentions--and probably new legislation

Will an economic recovery take place in the first half of 2009, the second half of the year, or even later? No one knows for sure. But economic woes will likely result in new initiatives and relief measures, so keep your eyes open for developments on the road ahead.

Economic woes will likely result in new initiatives and relief measures, so keep your eyes open for developments on the road ahead.

Good news for Medicare beneficiaries

For the first time since 2000, the monthly standard premium for Medicare Part B won't be rising. In 2009, individuals enrolled in Medicare Part B will pay $96.40 per month--the same premium they paid in 2008.

Ask the Experts

Can I get an estimate of my child's financial aid eligibility before we officially apply for aid?

Yes. Last year, the U.S. Department of Education launched an online financial aid tool to help families better prepare for the cost of college. Called the FAFSA4caster, it's modeled on the government's official aid application, the FAFSA (Free Application for Federal Student Aid). The tool examines a family's financial data and estimates how much aid a student might expect to get. To use the tool, visit www.fafsa4caster.ed.gov.

To complete the FAFSA4caster, gather the following information for you and your child:

- Social Security numbers
- Federal tax information or tax returns, including W-2 information
- Information on savings, investments, and business and farm assets
- Records of any untaxed income (such as Social Security or welfare benefits)

To get as accurate an estimate as possible, you should answer all the questions on the tool, even if you have to estimate or guess.

Using the FAFSA4caster isn't exactly a quick process, but when you're ready to apply officially for federal aid, the FAFSA4caster will automatically transfer all of your data (that's password protected and saved securely) to your online FAFSA application, saving you the hassle of keying in all your information again. And, if your financial circumstances change, you'll get the opportunity to update any answers on the FAFSA that you originally submitted on the FAFSA4caster.

By providing an advance estimate of federal aid eligibility, the FAFSA4caster can help you forecast how much money you and/or your child may need to come up with to meet college costs--information that can also come in handy in the college selection process. By having an idea of the numbers ahead of time, you can help minimize unwelcome surprises.

When does my child need to submit financial aid applications?

The FAFSA is the federal government's financial aid application. It should be submitted as soon as possible after January 1 of your child's senior year in high school (and after every January 1 in any year your child is seeking aid). Several financial aid programs operate on a first-come, first-served basis, so getting your child's application in early increases his or her chances of securing aid.

Your FAFSA relies on the previous year's tax information. For example, a FAFSA filed in early 2009 would rely on information from your 2008 tax return. Because most parents have not yet completed their federal income tax return in January, one option is to complete an estimated tax return, which can then be used to complete the FAFSA, a practice the federal government considers acceptable.

You can fill out the FAFSA on paper or online at www.fafsa.ed.gov. A paper version takes about four to six weeks to process; the online version takes only one week. The better route is the online application. Not only is the processing faster, but the form notifies you of inputting errors and does the math as you go along. Plus, if you've previously filled out the FAFSA4caster, the government's online financial aid tool, the online FAFSA will be automatically populated with your data.

Along with the FAFSA, some colleges require you to submit one or more additional financial aid forms to determine your child's eligibility for the college's own grants, loans, and scholarships. These colleges may have their own forms, or, more commonly, they require you to complete the College Board's PROFILE application. The PROFILE application can be submitted in the fall, before the FAFSA, but it's a good idea to check with individual colleges regarding their submission rules. Go to profileonline.collegeboard.com to file the PROFILE online.

Judge For Yourself Inc.
Randhir Judge, F.L.I.A., LUTCF
368 Fairview Way
Milpitas, CA 95035
888.229.9080 8114
info@jfyfinancial.com
www.jfyfinancial.com