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Dear Friends,

With the tax season upon us, now is a great time to rebalance your portfolio to ensure that your financial plan is aligned with your life plans. We have included an article that outlines the IRA limits for 2009. And in case you have ever wondered which of our states are tax-friendly for retirees, enclosed is an article that will tell you which ones they are.

As always, should you need assistance with funding IRAs or other financial matters, please feel free to contact our offices.

Sincerely,
Randhir S. Judge

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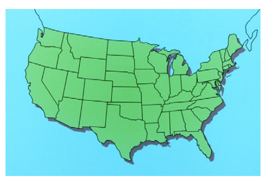
Allianz

Tax-Friendly States for Retirees

If you're retired, or about to retire, you may be thinking about relocating to a state that has low tax rates, or that provides special tax benefits to retirees. Here's a survey that may jump-start your search for a tax-friendly state in which to spend your golden years.

Income taxes generally



State income taxes typically account for a large percentage of the total taxes you pay. So, you may consider yourself lucky if you live in one of the seven no-income-tax states--Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming (New Hampshire and Tennessee impose income tax only on interest and dividends). If you're considering a state that does impose an income tax, you'll want to know how it treats Social Security and pensions in particular.

State income tax and Social Security

Social Security income is completely exempt from tax in 27 of the states with an income tax (as well as the District of Columbia): Alabama, Arizona, Arkansas, California, Delaware, Georgia, Hawaii, Idaho, Illinois, Indiana, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Mississippi, New Jersey, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Virginia, and Wisconsin. Missouri and Iowa partially tax benefits, but will fully exempt benefits beginning in 2012 and 2014, respectively.

Two states (Connecticut and Kansas) don't tax Social Security benefits if your other income is less than a specified dollar amount ($50,000 or $60,000 in CT, $50,000 in KS). Three states (Colorado, Utah, and West Virginia) provide a general retirement income exclusion that takes Social Security benefits into account. Most of the remaining states tax Social Security benefits to the same extent they're taxed for federal income tax purposes.

State income tax and pensions

Of the states with an income tax, 36 fully or partially exempt pension income--only California, Indiana, Nebraska, Rhode Island, and Vermont do not. But the exemptions vary considerably by state. Some states exempt public pensions from taxation but tax private pensions, or exempt public pensions earned in that state, but not public pensions earned in another state.

Some states exempt employer retirement benefits, but not IRA income. Some states exempt a specific dollar amount of retirement income, but only if you've reached a certain age or have income within certain limits. In some states, military pensions are partially or fully exempt, while in others they're fully taxable. Some states exempt defined benefit pension payments, but tax 401(k) benefits. Make sure you understand how your particular type of retirement income is treated.

Keep in mind that federal law prohibits states from taxing certain retirement income (chiefly pension income) unless you're a resident of, or domiciled in, that state. For example, if you receive a pension from your former California employer, but you now reside in Florida, California can't tax your retirement income.

Other considerations

Remember that states impose many other kinds of taxes (for example, sales, real estate, and gift and estate taxes). Some states offer tax breaks to seniors, like property tax reductions, or additional exemptions, standard deductions, or credits based on age.

For an accurate comparison among the states, you'll need to consider your total tax burden. A number of web sites dedicated to providing information to retirees can help you in this daunting task.

Retirement Plan and IRA Limits for 2009

An increasing number of retirement plan and IRA limits are indexed for inflation each year. Some of the key numbers for 2009 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 2009, up from $15,500 in 2008. If you're age 50 or older, you also can make a catch-up contribution of up to $5,500 to these plans in 2009, up from $5,000 in 2008.

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 2009 (up from $10,500 in 2008). If you're age 50 or older, the maximum catch-up contribution to a SIMPLE IRA or SIMPLE 401(k) plan in 2009 is $2,500, unchanged from 2008.

IRA limits remain the same for 2009

The amount you can contribute to a traditional or Roth IRA remains at $5,000 for 2009, 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: 2009 tax year*
(2008 limits in parentheses)

Plan type	Annual dollar limit	Catch-up limit
401(k), 403(b), and 457(b) plans**	$16,500 ($15,500)	$5,500 ($5,000)
SIMPLE plans	$11,500 ($10,500)	$2,500 ($2,500)
Traditional and Roth IRAs	$5,000 ($5,000)	$1,000 ($1,000)

*Contributions can't exceed 100% of your pay. If you participate in a 403(b) or 457(b) plan, special rules may allow an even greater catch-up contribution.
**$5,500 catch-up applies only to governmental 457(b) plans.

Some other key numbers for 2009

For 2009, the maximum amount of compensation your employer can take into account when calculating SEP and qualified plan contributions and benefits is $245,000 (up from $230,000 in 2008).

The maximum annual benefit you can receive from a defined benefit pension plan is limited to $195,000 in 2009 (up from $185,000 in 2008).

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 2009 is $49,000 (up from $46,000 in 2008), 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 2009	
1. Covered by an employer plan	
Single/Head of household	$55,000 - $65,000 ($53,000 - $63,000 in 2008)
Married filing jointly	$89,000 - $109,000 ($85,000 - $105,000 in 2008)
Married filing separately	$0 - $10,000 (same for 2008)
2. Not covered by an employer plan, but filing joint return with a spouse who is covered	$166,000 - $176,000 ($159,000 - $169,000 in 2008)
Income phaseout range for determining ability to fund Roth IRA in 2009	
Single/Head of household	$105,000 - $120,000 ($101,000 - $116,000 in 2008)
Married filing jointly	$166,000 - $176,000 ($159,000 - $169,000 in 2008)
Married filing separately	$0 - $10,000 (same in 2008)

College Costs: Increases and Trends

Many of the developments we saw last year in the world of higher education will continue to play out in 2009, as the largest high school class in American history heads off to college.

Costs, costs, costs

For the 2008/09 school year, the total average cost (tuition and fees, room and board, books and supplies, transportation, and other miscellaneous expenses) for an in-state public college student is $18,326; for an out-of-state public college student, $29,193; and for a private college student, a whopping $37,390 (Source: The College Board's Trends in Student Pricing 2008 Report). According to the College Board, over the past decade, college costs have increased an average of 5% to 6% a year.

This year, the ever-increasing cost of college comes at a time when many parents may be grappling with reduced college savings due to the ailing economy. With less savings, lower home equity against which to borrow, and possibly stagnating incomes or a recent job loss, parents may be less able to contribute to their children's ever-growing college financial need.

Borrowing

Enter student loans. The amount of borrowing for college has increased tremendously over the past decade, especially in the area of private student loans. Last year, private loans comprised 23% of total education loan dollars, compared to 5% ten years ago (Source: The College Board and The Project on Student Debt). The reason for the increase? The borrowing limits on federal student loans haven't kept pace with the rise in college costs.

However, the ongoing credit crunch has altered the marketplace this year. Many private lenders have dropped out of the student lending business completely, and those still in it are charging higher interest rates and requiring more stringent credit checks.

A study conducted last August by educational lender Sallie Mae concluded that 70% of families didn't even consider their child's likely post-graduation income when deciding how much to borrow for college, and 40% said they paid no attention to cost when searching for a college. But there's evidence this pattern may be changing. Around the country, college administrators report an increased focus on price at college fairs, and a majority of families say in online surveys that they are seeking less prestigious schools for money reasons.

Public college trends

But just as public colleges find themselves more in demand than ever by cash-strapped students and employees looking to gain a leg up in the workforce, state budget deficits are forcing many states to reduce their public higher education expenditures, resulting in markedly higher tuition and fees. So far, at least 20 states have made cuts to their public university budgets or are planning large tuition increases. And more states are expected to be in financial peril in 2009, jeopardizing future public higher education expenditures (Source: The Wall Street Journal, October 17, 2008, "State Budget Cuts Push Tuition Higher").

Private college trends

The highest tier private colleges--the Ivies and a few select institutions--have enjoyed record endowment growth over the past few years (not counting the economic downturn) and have translated those gains into increased merit aid awards (which aren't based on financial need) for the best students. Many of these institutions have even gone so far as to offer a free education to students whose families earn up to $150,000 or $200,000 per year.

But go one or two levels below, and many colleges in the second and third tiers aren't in a position to meet all of their students' financial need. These colleges continue to hand out merit aid, but are more selective (and less generous) in their awards. So students at these schools could end up paying more out-of-pocket.

Federal legislation

Against this backdrop, the federal government passed the Higher Education Opportunity Act last year. Among other things, the Act will make it easier for students to apply for federal student loans and to research college costs on a new website, www.college.gov.

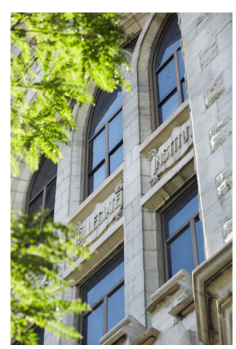
And in 2009, it will be interesting to see what ideas and policies President Obama, who just finished paying off his own student loans in 2004, brings to the college table.

A look at student debt

According to the College Board, almost two-thirds of college students graduated with student loans last year, with an average debt load of $22,700.

One unfortunate trend of widespread student borrowing has been an increase in the number of heavily leveraged young college graduates. In fact, many families are considering private bailouts for their children who took on too much college debt.

(Source: The Wall Street Journal, October 8, 2008, "The Next Bailout: Your Adult Children?")



Ask the Experts

How can I insure an engagement ring?

A diamond may be forever, but if it's lost, stolen, or damaged, you may not have it forever. That's why it's important to have adequate insurance protection.

If you have homeowners or renters insurance, you already have some coverage for your ring, but it may not be enough. A typical homeowners or renters policy will offer protection against theft for jewelry (up to a specified dollar amount, generally $1,000 to $2,000). If the value of your ring exceeds your coverage limits, or if you want protection against accidental loss or damage, you can purchase a floater or endorsement that will provide you with expanded coverage. Such floaters are often relatively inexpensive.

Depending on the value of your ring, you may want to consider purchasing an insurance policy that's specifically designed to protect jewelry and other valuables. If you're interested in such a stand-alone policy, here are some questions to ask your insurance agent or representative:

- Is an appraisal necessary for full coverage?
- Is there a deductible? Will increasing the deductible lower the premium?
- What are the covered risks? Are there any exclusions?
- Am I covered if carelessness or negligence is involved?
- Do I have a choice of a cash payment or a replacement if there is a loss?
- Are there any geographical limitations to the coverage?
- Are security precautions (such as a home safe) required? If not, would having such precautions in place lower the premium?

If an engagement is called off, who keeps the ring?

A couple who calls off their engagement can often come to a polite agreement over who keeps the ring. But in certain cases, especially one involving an expensive ring or an acrimonious breakup, the issue may be decided by a judge.

Although courts generally treat engagement rings as gifts, the person who gets to keep the ring isn't always clear cut. The outcome will depend on state law, so there's not always an easy answer.

Courts have frequently ruled that an engagement ring is a "conditional gift" and must be returned to the person who gave the ring (the "donor") regardless of the circumstances. The gift is conditional because the donor has given the gift on the condition that a marriage will take place. If the engagement is called off, then the condition has not been met, and the recipient (the "donee") is obligated to return the ring to the donor.

But this isn't always the case. In some states, courts have ruled that an engagement ring is a simple gift and belongs to the donee, no matter what. Other courts have taken fault into consideration, and awarded the ring to the wronged party. Some courts have considered the exchange of a ring to be a contract, and have ruled that when the engagement is broken, the contract has been breached and the ring must be returned to the person who first possessed it.

Before pursuing any legal action, you'll want to consult an attorney who is familiar with the laws in your state, and can counsel you as to the likely outcome of your case. Consider, too, whether it's even worth going to court, especially if the cost of taking legal action is higher than the value of the engagement ring.

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