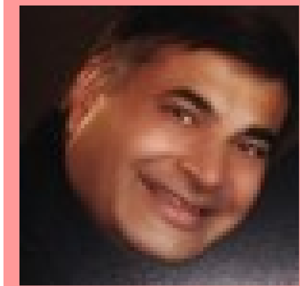

Randhir S.Judge F.L.I.A.,LUTCF

September 2010

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Dear Friends,

It has been predicted that the equity markets are going to be volatile for a while. With interest rates predicted to go up, bonds are not such a good investment either.

Please contact me if you would like to learn more about the guaranteed income for life and if you wish to include it as part of your investment portfolio.

Sincerely,

Randhir S. Judge

In this issue:

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.

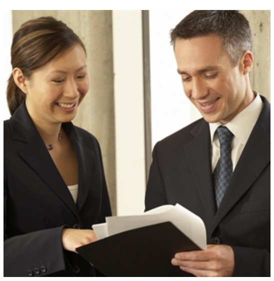
These rates also expire at the end of the year. The maximum rate on long-term capital gain in 2011 will generally increase to 20%, with a 10% rate applying to individuals in the lowest tax bracket (special rules would apply to qualifying property held for five years or more). Qualifying dividends will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

Health-Care Reform Creates Small Business Tax Credit

Self-employed individuals, including partners and sole proprietors, 2% shareholders of S corporations, and 5% owners of an employer, are not treated as employees for purposes of this credit. Sole proprietorships are not entitled to the credit by virtue of employing family members, and these individuals are not taken into account in determining the number of FTEs or average full-time equivalent wages.



By 2014, employers with fewer than 100 employees may be able to compare and purchase qualified employee health insurance plans at competitive prices through state-based Small Business Health Options Program (SHOP) Exchanges.

Beginning this year, if you're a small business employer, you may be able to take advantage of the small business tax credit provided by the new health-care reform legislation. To be eligible for the tax credit, you must be a qualified small business employer who contributes at least 50% of the premium cost of a qualifying health plan (health insurance coverage purchased from a licensed insurance company).

Qualified small business employer

To be a qualified small business employer, you must employ fewer than 25 full-time equivalent employees (FTEs) during the taxable year, and your employees must have annual full-time equivalent wages that average less than $50,000 (indexed to the Consumer Price Index for Urban Consumers beginning in 2014). The full amount of the credit is available only if you have 10 or fewer FTEs whose average annual full-time equivalent wages is not more than $25,000 (also indexed to the Consumer Price Index for Urban Consumers beginning in 2014).

Full-time equivalent employees

Calculate your FTEs by totaling all hours worked by all your employees during the tax year, and dividing the result by 2080. For purposes of the calculation, the maximum number of hours that can be attributed to an individual employee is 2080.

Average full-time equivalent wages

To determine annual full-time equivalent wages, divide the total wages paid for the year, divided by the number of FTEs, rounding the result down to the nearest $1,000. Hours and wages paid for seasonal employees aren't included unless they worked more than 120 days during the taxable year.

Maximum credit

The full credit for years 2010 through 2013 is equal to 35% of the lesser of (1) the amount of contributions you made on behalf of employees during the taxable year for qualifying health coverage, and (2) the amount of contributions that you would have made during the taxable year if each employee had enrolled in coverage with a small business benchmark premium.

The benchmark premium is the average total premium cost in the small group market for employer-sponsored coverage in your state. The premium and the benchmark premium vary based on the type of coverage provided to your employees.

Beginning in 2014, the maximum credit is equal to 50%, determined in the same manner as in years prior to 2014. However, the credit is only available if you purchase employee health insurance coverage through a state Exchange. The credit is available for a maximum coverage period of two consecutive years, beginning with the first year in which you offer one or more qualified plans to your employees through an exchange.

Sliding scale tax credit

The tax credit is reduced if you have more than 10 FTEs and/or if the average annual wages exceed $25,000.

If you have more than 10 FTEs, the credit reduction is determined by multiplying the amount of the maximum credit by the number of FTEs exceeding 10, then dividing this total by 15.

If your average annual wages exceeds $25,000, the credit reduction is calculated by multiplying the maximum credit amount by the average annual wages in excess of $25,000, then dividing this total by $25,000.

If you have more than 10 FTEs and average annual wages in excess of $25,000, the credit reduction is the sum of the total of the two reductions.

Example: *In 2011, you have 11 FTEs with average annual wages of $30,000, and your premium cost for the year is $100,000. To determine the reduced credit:*

1. *Maximum credit before reduction: (35% x $100,000) = $35,000*
2. *Credit reduction for FTEs exceeding 10: ($35,000 x 1/15) = $2,333*
3. *Wages exceeding $25,000: ($35,000 x $5,000/$25,000) = $7,000*
4. *Total credit reduction: ($2,333 + $7,000) = $9,333*
5. *Total credit in 2011: $25,667 ($35,000 - $9,333)*

Tax-exempt organizations

The tax credit is also available if you are a 501(c) organization exempt under IRC Section 501(a). However, the credit percentage for 2010, 2011, 2012, and 2013 is 25% (rather than 35%), and the credit percentage for taxable years beginning in years 2014 and later is 35% (rather than 50%). You can only apply the tax credit against your liability for payroll taxes.

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.

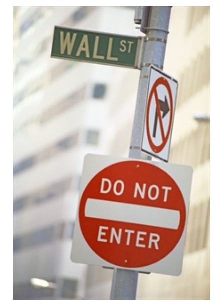
Consumer protection provisions

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.

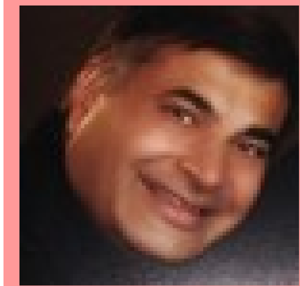
Increase in FDIC account protection

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.



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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.

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.