



YOUR FINANCIAL FUTURE

Your Guide to Life Planning

September 2010

This newsletter contains general information that is not suitable for everyone. The information contained herein should not be construed as personalized investment advice. Past performance is no guarantee of future results. There is no guarantee that the views and opinions expressed in this newsletter will come to pass. Investing in the stock market involves gains and losses and may not be suitable for all investors. Information presented herein is subject to change without notice and should not be considered as a solicitation to buy or sell any security.

Joe Ridenour
FORUM Private Client Group
Vice President
11313 USA Parkway
Fishers, IN 46037

317-558-6321
joe.ridenour@forumpcg.com

In This Issue

What Health Care Reform Could Mean for You

The Patient Protection and Affordable Care Act of 2010 represents the most sweeping legislative action since Medicare became law in 1965. Some of the law's more important changes are highlighted here.

Nearing Retirement? Prepare for the Next Financial Phase

Before putting in your retirement papers, you need to address a few financial matters. Decisions made now could make the difference between your money outlasting you or vice versa.



What Health Care Reform Could Mean for You

The Patient Protection and Affordable Care Act of 2010 represents the most sweeping legislative action since Medicare became law in 1965. At a minimum, it promises to provide health care coverage for some 32 million uninsured Americans, to prohibit insurance companies from cancelling or denying coverage to individuals with pre-existing conditions, and to require all individuals to maintain some form of coverage or face a tax penalty.

Below are some of the important changes that will take effect this year.

- **For small businesses:** A tax credit for employers with 25 or fewer employees and average annual wages of \$50,000. This year and through 2013, qualifying employers may receive a credit of up to 35% of their contributions to employee health insurance premiums.¹
- **For minor children:** Insurance companies will be prohibited from denying coverage to children with pre-existing medical conditions.
- **For adult children:** Dependent coverage will be extended for young adults (through age 26) via their parents' insurance plan.
- **For Medicare recipients:** A \$250 rebate for those who are affected by the Medicare Part D prescription drug "donut hole," an expensive gap in coverage that affects millions. Starting in 2011, those affected will receive a 50% discount on prescription drugs. By 2020, the donut hole is expected to be eliminated.²
- **For the insured:** A ban on lifetime limits on coverage imposed by insurance companies and on denying coverage or cancelling policies if the policyholder becomes ill.
- **For the uninsured:** The establishment of high-risk pools for individuals who have been uninsurable due to pre-existing medical conditions.

The law also includes changes scheduled to phase in between now and 2014. Some of these key provisions include:

- **Mandatory insurance coverage --** Most Americans not already eligible for Medicaid or Medicare will be required to maintain "minimal essential coverage." Those who fail to do so will be liable for a penalty.
- **Expanded Medicaid and federal subsidies --** Additional federal subsidies will help to make coverage more affordable for lower-to-middle-income families (individuals earning less than \$43,000 annually or \$88,000 for a family of four). Subsidies will also increase to help more small businesses afford coverage for their employees.³
- **State-run insurance exchanges --** These marketplaces are intended to provide a more competitive, consumer-friendly way for individuals without employer coverage as well as small businesses to shop for health care coverage.

Takeaways for Consumers and Investors

Health care reform is the most hotly debated initiative in decades. With the continued controversy in mind, here are some potential next steps to consider.

- **Plan for new tax rules.** One way the government plans to pay the \$940 billion tab for health care is to raise payroll taxes on households earning more than \$250,000 starting in 2013. Another will be a 3.8% tax on unearned income on investment interest and dividends. A third will be a 40% excise tax on high-cost insurance plans, which are those valued at more than \$10,000 for individual coverage and \$27,500 for family coverage.¹
- **Prepare for changes to FSA, HSA, and HRA limits.** The new law will also limit the amount individuals can contribute each year to flexible spending accounts for medical uses and modify the definition of "qualified medical expenses" as it pertains to flexible spending accounts, health savings accounts, and health reimbursement accounts. In addition the law raises the threshold for the itemized medical expense deduction to 10% of adjusted gross income (AGI) from 7.5%.

Legislation this complex and comprehensive will no doubt evolve over time. Be sure to stay on top of the provisions that pertain directly to you.

¹Source: CCH Tax Briefing, "Special Report: Health Care Reform Act," March 30, 2010.

²Source: *The New York Times*, "For Consumers, Clarity on Health Care Changes," March 21, 2010.

³Source: *The Wall Street Journal*, "Steps You Can Take Ahead of Changes in Coverage, Taxes," March 22, 2010.

One way the government plans to pay the \$940 billion tab for health care is to raise payroll taxes on households earning more than \$250,000 starting in 2013.

Nearing Retirement? Prepare for the Next Financial Phase

If you plan to retire sometime soon, congratulations! But before kicking back, you'll need to address a few financial matters. Decisions made now could make the difference between your money outlasting you or vice versa.

Calculating Your Retirement Needs

When retirement was years away, calculating how much income you may need may have involved a lot of estimates. Now you can be more accurate. Consider the following factors:

- **The length of your retirement.** The average 65-year-old man can expect to live about 17 more years; the average 65-year-old woman, 20 more years, according to the National Center for Health Statistics. Have you accounted for a retirement of 20 years or more?
- **Earned income.** Working during retirement, even on a part-time basis, can reduce your need to tap retirement assets for ongoing living expenses.
- **Your retirement lifestyle.** Your lifestyle will help determine how much income you'll need to support yourself. A typical guideline is 60% to 80% of your final working year's salary, but if you want to take luxury cruises or start a business, you may need 100% or more.
- **Health care costs and insurance.** Most Americans are not eligible for Medicare until age 65, and even then, Medicare doesn't cover everything. You can purchase Medigap supplemental insurance to cover some of the extras, but even Medigap does not pay for long-term custodial care, eyeglasses, hearing aids, and other ongoing essentials. For more on Medicare and health insurance, visit www.medicare.gov.
- **Inflation.** Because the rate of inflation can vary over time, it's a good idea to tack on an additional 4% each year to help compensate for increases in the cost of living.

Running the Numbers

The next step is to identify potential income sources, including Social Security, pensions, and personal investments. Also review your asset allocation -- namely, how you divide your portfolio among stocks, bonds, and cash.¹ Are you tempted to convert all of your assets to low-risk securities? Such a move may place your assets at risk of losing purchasing power due to inflation. You may live in retirement for a long time, so try to keep your portfolio working for you both now and in the future.

A New Phase of Planning

Once you've assessed your needs and income sources, it's time to look at tapping your nest egg. First, determine a prudent withdrawal rate. A common approach is to liquidate a maximum of 5% of your principal each year in retirement; however, your income needs may differ.

Next, you'll need to decide when and how much to withdraw from your tax-deferred and taxable investments. Investors are required to take annual withdrawals from employer-sponsored retirement plans and traditional IRAs after age 70 1/2. Be aware that these withdrawals are subject to federal income tax.²

The advantage of maintaining tax-deferred investments for as long as possible is their ability to compound on a pre-tax basis and thus offer greater earning potential than their taxable counterparts. In contrast, long-term capital gains from the sale of taxable investments are currently taxed at a maximum of 15%.

Your financial professional can help you determine a strategy that may help maximize your annual income while minimizing the impact to your overall portfolio.

¹Asset allocation does not assure a profit or protect against a loss in a declining market.

²Withdrawals from tax-deferred accounts made prior to age 59 1/2 may be subject to an additional 10% penalty. In the case of employer-sponsored plans, there are special rules that apply to plan participants aged 55 and older who separate from service.

The advantage of maintaining tax-deferred investments for as long as possible is their ability to compound on a pre-tax basis and thus offer greater earning potential than their taxable counterparts.

