TIME TO SAVE WITH CHRIS & DAVE

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Inside this issue:

"If nothing ever changed, there would be no butterflies."
~ Author Unknown

Happy New Year everybody! Before we put aside the memories of 2010 and embark on 2011, I wanted to take this opportunity to talk about my first topic of the New Year, namely change. No, I am not going to talk about the change in your purse or pocket per se. I am referring more to the change in the world around us.

If you stop and think for a moment, change is happening around us every day. Sometimes change is good, like when a caterpillar transforms into a beautiful butterfly or when an older building (Mellon Arena) is replaced by a shiny, new one (Consol Energy Center). On the opposite end of the spectrum, sometimes change can be hard to embrace, such as when we are introduced to new technology (Please don't even begin to ask me how to Twitter). Whatever the case, change happens and I think it is important that you be made aware of some of the changes that are happening in the financial and insurance world so that you can adapt your life to it and possibly save some money in the process as well.

One thing that I noticed right away about the forthcoming changes is that they are going to affect everyone. No matter whether you are young or old, whether you own a business or are an employee, the changes in the new healthcare reform laws and income and estate tax changes are going to affect you and your family's lives immediately. Being that you, your family, your friends, and coworkers may have personally experienced changes in your own lives over this past year is probably another good reason to review your financial plan this year.

The first change or challenge that we are going to face is the direct result of the enactment of the Patient Protection and Affordable Care Act, otherwise known as Healthcare Reform, in March of 2010. The changes in this law are slowly being phased in over the next seven years and will affect the delivery of every American's healthcare services. As such, I wanted to briefly mention some of the highlights of this new law that took effect on January 1, 2011.

FSA's, HRA's, and HSA's

The biggest change to occur is for those who have a Flexible Spending Account (FSA), Healthcare Reimbursement Arrangements (HRA), or a Health Savings Account (HSA) through their employer. These types of accounts are truly beneficial to all workers as they allow you to pay for healthcare expenses with earnings that you are not taxed on. So, if your employer offers one of these types of arrangements, you anticipate some type of

...continued on page 2

…continued from page 1

healthcare expense over the next twelve months, and you are not currently enrolled, you may want to consider enrolling in your company program if it is not too late. The one change that is happening to these types of plans is that you will no longer be able to use to purchase over the counter drugs without a prescription. All other expenses will still be available for reimbursement. (Please see charts below for more detail.) Please note that any company that has a two month grace period for filing a claim for an over the counter drug that you purchased in 2010, will still allow you to claim your medicine purchase in 2011.

Over the counter drugs that will now require a prescription for reimbursement		
Acid Controllers	Baby Rash Ointments	Hemorroid Treatments
Acne Medication	Cold Sore Treatments	Laxatives
Allergy and Sinus	Cold and Flue Medicine	Motion Sickness
Antibiotics	Digestive Aids	Pain Relievers
Anti-Diarrheals	Eye Drops	Respiratory Treatments
Anti-Gas	Feminine Anti-Fungal	Sleep Aids
Anti-Itch, Insect Bite	Stomach Remedies	

Items that can still be purchased without a prescription		
Bandages	Crutches	Insulin
Birth Control	Denture Cleaners/Adhesives	Ostomy Products
Braces and Supports	Diagnostic Tests and Monitors	Reading Glasses
Catheters	Elastic Bandages and Wraps	Walkers and Canes
Contact Lens Solutions	First Aid Supplies	Wheelchairs

The second change only applies to Health Savings Accounts (HSA). In the past, if you withdrew money from your HSA and used it for non-medical expenses before age 65, there was a 10% penalty. Starting this year, that penalty has now risen to 20%.

Medicare Part D

The next change that goes into effect in 2011 is for seniors who have Medicare Part D prescription drug coverage and spend more than $2,850 out-of-pocket on covered drugs. If you will recall, under Part D, the member pays a copayment or coinsurance and the drug plan pays the rest on the first $2,840 spent on covered drugs. Once you and your Part D drug coverage reached $2,840, you then entered what has been called the “Donut Hole”. In the “Donut Hole”, you had to pay for the full cost of prescription drugs. However, beginning in 2011, if you reach the “Donut Hole”, Medicare will automatically send you a tax free, one time $250 rebate check. Secondly, you will receive a 50% discount on covered brand-name drugs until your out-of-pocket cost reaches $4,550. Once you reach that amount, the “Donut Hole” ends and your drug plan pays most of the costs of your covered drugs, after a small copayment, for the remainder of the year.

Small Business Owners

The third change that the new healthcare reform law is for those who own small businesses. Included in the law were Wellness Grants and the Small Business Health Care Tax Credit. The Small Business Health Care Tax Credit was designed to encourage small employers to offer health, dental, and vision insurance coverage for the first time or to maintain their existing coverage.

…continued on page 3

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The credit is specifically targeted to help small businesses and tax-exempt organizations that primarily employ moderate to low income workers. For tax years 2010 to 2013, small business employers can take a maximum credit of 35% of premiums paid (25% of premiums paid is a tax-exempt organization), as long as the employer contributes at least 50% of the cost towards the employee's health insurance premium and business employs fewer than 10 full-time or full-time equivalent (FTE) employees who make an annual average wage of $25,000 or less. The credit is completely phased out for employers that have more than 25 FTE's or pay an average wage of $50,000 per year or more. Because the eligibility rules are based in part on the number of FTE's, not the number of employees, businesses that use part-time help may qualify even if they employ more than 25 individuals. IRS Notice 2010-44 provides all the detailed guidelines and illustrates more than a dozen examples to help small business employers determine whether or not they qualify for and to estimate the amount of credit. (Please see the "Website of the Quarter" section in this newsletter for more information.) If you currently work for an employer that does not offer health, dental, or vision insurance coverage do to the high cost, you may want to alert your human resources or office manager to this valuable credit.

Another change that should help small businesses is Wellness Grants. Wellness Programs are an employee benefit that helps employees better manage their nutrition, physical fitness, stress management, and to stop smoking. Employees that enroll in their employers wellness program typically receive a cash stipend. Basically, for those companies with fewer than 100 employees that did not have this type of program in place prior to March 23, 2010, they can qualify for $200 million in grants over a five year period if they start a wellness program for their employees. It is the hope that people who better manage their own health will keep future health care premium costs down. I think that is something we can all appreciate.

The last thing in the healthcare reform law will not affect you directly per se, but in 2011, health insurance companies will now be required to spend 85% of large-group and 80% of small-group and individual plan premiums (with certain adjustments) on health care services or to improve healthcare quality. If they do not, they are required to return the difference to the customer as a rebate. This means that only 15-20% of your health insurance premiums will go towards insurance company administration and salaries.

Income Taxes

Now that we have discussed some of the healthcare changes, I would now like to focus on some of the income tax changes for 2011. Thankfully, on December 17, 2010, President Obama and Congress agreed to extend the Bush era tax cuts for another two years. This should help many people as we continue to battle uncertainty over jobs and economy. To begin with, federal income tax rates that were lowered under the Bush presidency will remain in place through 2012. The Social Security tax, which has historically been 6.20% of your pay, will reduce to just 4.20% for this year on wages up to $106,800. In addition, the $1,000 per child tax credit will remain through 2012 as long as you make less than $75,000 as a single person or $110,000 if married. The tax credit of $3,000 for dependent care for children under 13 stays and the $2,500 American Opportunity Credit for children in the first four years of college, will remain in effect too. Also, some of the credits to make energy efficient home improvements have been extended or expanded.

Estate Taxes

Secondly, the estate tax, which was previously zero for the 2010 calendar year, will now set the threshold to $5 million dollars in 2011. One point I would like make here is that I'm sure many of you may not consider yourselves millionaires. However, when you add the values of your home, business, other assets, and life insurance policy death benefit proceeds, you may, in fact, reach the dollar amount that requires you to pay estate taxes at your death. I've always said, "the more money you have, the more complicated your life becomes." If you want to pass on your hard earned savings to your heirs and not to the government, you may want to visit with your financial planner and/or estate planning lawyer to make sure you are under the $5 million dollar threshold. If not, we can look at some strategies to plan around this.

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There are many more income tax changes that were a part of the new law that I did not have time to talk about today. If you want to know any more about them, please be sure to speak with your accountant as they would be more than aware of what specific law changes will affect you personally.

Finally, before I end on this topic of change, I would like for you to take a moment and reflect upon your own personal life in this past year to see if any changes have taken place. For example, did you or someone you know get married or have a baby? Did someone you know pass away or get divorced? Did you or someone you know move, buy a new home, or change jobs? And finally, did you or someone you know become diagnosed with a serious medical condition? All of these are instances where that person should seriously consider meeting with a financial advisor as their needs and responsibilities in life have changed. As a result, their financial plan should be revised and updated to reflect these new challenges. The truth though is that Chris and I are oftentimes not aware of the changes that happen in your lives and lean on you to contact us when one of them occurs. With the enactment of the new laws that I discussed above, this should provide even more incentive to meet with us.

In conclusion, Chris and I realize that we all have important daily obligations that may take precedence over financial planning. That is something we completely understand. But, Chris and I view each New Year as a fresh beginning that should be looked at with hope and excitement. Likewise, we hope that excitement leads you to begin to think and believe that focusing a little bit of your time and effort on preparing and planning for life's expected and unexpected turns can go a very long way towards saving you money and living a happier life. If we have piqued your interest about how the healthcare reform or tax rate changes might be affecting you personally, please give us a call to set up an appointment so that we can talk in more detail. We would be more than happy to help so that you can spend the remainder of the year on the tasks that you truly enjoy, like watching that little caterpillar turn into a beautiful butterfly.

KID'S CORNER

At the suggestion of one of my close friends, I decided to devote a section of the newsletter towards younger children as a way to teach them some of the basics of personal finance. Here is the first installment of many that plays on the topics of this quarter's newsletter. I hope this will make finance a little more fun and interesting for our younger readers.

a	h	o	g	y	f	r	f	l	l	d	b	k
y	e	r	a	c	h	t	l	a	e	h	l	c
y	l	f	r	e	t	t	u	b	e	e	h	i
e	s	t	t	t	c	l	l	f	t	a	e	s
n	a	t	s	i	e	l	k	a	n	y	r	r
o	v	b	e	k	u	l	e	g	e	r	m	s
m	e	d	i	c	i	n	e	f	f	h	i	e

Find These Words

Healthy
Sick
Flu
Germs
Money
Medicine
Healthcare
Save
Butterfly
Change

Website of the Quarter

As mentioned in the beginning of the newsletter, small businesses may be eligible for a tax credit for implementing or maintaining health insurance coverage for their workers. To see how much in savings your small business may be eligible for, please visit the Small Business Tax Savings Calculator on the website below:

http://www.makinghealthcarereformwork.com/healthcarereform/healthcare.html

Likewise, if you should decide to implement or change your current group health, dental, or vision coverage, please don't hesitate to give us a call. Currently, Chris is licensed to do business with Highmark, UPMC, Aetna, Health Assurance, and several other carriers.

Product Update

As a result of the market crash in 2008, many Americans are slowly rebuilding their net worth. In fact, as of August 31, 2010, the national personal savings rate grew from 1.7% to 5.8% in just 3 years. Where are Americans saving this extra money? In reaction to the market decline, many investors pulled their money out of the stock market and moved it into safer money market account. In fact, money market funds now account for $3.3 billion dollars of savings. I think it is great that people are saving again, except money market yields and CD rates have practically dropped to zero. In fact, The Federal Reserve has admitted that "it will keep rates at exceptionally low levels for an extended period." As a result, investors may be prolonging their goals by not having their money work for them. If you currently have a large amount of money allocated to cash, there may be other opportunities to increase your potential return in exchange for a moderate increase in risk. These opportunities will still provide you with the liquidity you need should an emergency arise and are provided by companies that are high quality in nature. If you are interested in learning about some of these investments, please don't hesitate to give Chris or me a call.

Source: Investment Company Institute

Have You Considered Refinancing Your Mortgage?

In 2010 it was reported that thirty year mortgage rates had dropped to 4.58%, the lowest on record since 1971. Fifteen year rates went to 4.04%, their lowest too. While Chris and I are by no means mortgage experts and we may not know exactly where each of you stand on your current mortgage, the rule of thumb is, if the interest rate on a new mortgage is 1.00% or more below your current rate, you should seriously consider refinancing. Obviously, it only makes sense to refinance if you are planning to stay in your home for a long time as there may be additional closing costs to consider.

Another consideration is possibly changing from your current 30 year mortgage to a 15 year mortgage. This may be a way to shave years and interest in payments. Of course, this may result in a slightly higher monthly payment too. Just so you know, we have mortgage refinance calculators available to us in our office if you are looking to get an idea of the cost savings before you visit a lending institution. Likewise, Chris and I have some connections with local banks and mortgage companies that we provide as a free, value added service to our clients to save them money over the long term. Although rates have risen slightly off their lows, if buying a house or refinancing is something that is on your radar for 2011, please don't hesitate to give us a call as we would be more than happy to help.

Source: MarketWatch, July 1, 2010

Tax Tip

By mid February 2011, 1099-DIV and 1099-R tax forms will mailed to your attention in order to complete your 2010 taxes. In addition, for anyone who has a joint or individual account, you will need to provide your accountant with the with the cost basis of any sales in your account last year. In order to be of better service to you, if you would like us to forward your tax information directly to your accountant when it becomes available, please complete the authorization slip below with your accountant's information and return it to our attention. We will then be more than happy to send it to them on your behalf.

Your Name: ______________________________

Accountant's Name: ______________________________

Accountant's Address: ______________________________

Accountant's Fax Number: ______________________________

Accountant's Email Address: ______________________________

I give permission for The Advisors Group of Pittsburgh to forward
my tax information to my accountant listed above.

Signature: ______________________________

** A Final Word From Dave **

As you can see, there are a long list of changes in store for 2011. If you are wondering how these issues may affect you or your family personally, please don't hesitate to give Chris or myself a call to set up an appointment to review your financial plan. In next quarter's issue, I'm going to talk about some of the costs of investing and look at a few ways to better manage them. Stay tuned....in the meantime, I want to wish every one of you the very best in 2011!

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