



Pathways

NOVEMBER 2009

IN THIS ISSUE:

Time to Consider Year-End Investment Moves.....1

Retiring Early? Don't Forget about Health Insurance2

2009 Year-End Tax Planning Considerations2

Ask the Experts4

Time to Consider Year-End Investment Moves

Taking time to make some strategic decisions before December 31 can help keep your portfolio on track and potentially minimize your April income tax bill.

Review and rebalance

A portfolio review can tell you whether it's time to adjust your holdings. If one type of investment has suffered, it might now be a lower share of your overall assets than you intended, and could represent a buying opportunity. The traditional way to rebalance is to sell investments in an asset class that has done relatively well and use the proceeds to buy others that will return your allocation to its intended balance. (Don't forget tax considerations before rebalancing.)

If you're uncomfortable selling assets that have performed well, you could direct any new investments into an asset class that now represents less of your portfolio than it should. Diversification and asset allocation don't guarantee a profit or protect against a possible loss, of course, but they're worth reviewing at least once a year. Your checkup also can help you decide whether it's better to do any rebalancing before or after December 31.

Consider harvesting losses

Examine the tax consequences of any capital gains or losses you've experienced this year. Though tax considerations shouldn't be the sole driver of your investing decisions, taking steps before year-end can help manage your taxes. If you have realized capital gains beyond any tax losses carried forward from previous years, you can sell losing positions – known as harvesting losses—to offset some or all of those gains. Any losses over and above the amount of your gains generally can be used to offset up to \$3,000 of ordinary income (\$1,500 for a married person filing separately) or carried forward to offset future gains.

Before selling an investment, consider how long you've owned it. Assets held a year or less generate short-term

capital gains and are taxed as ordinary income. That tax rate could be as high as 35%, not including estate taxes. Long-term capital gains on the sale of assets held for more than a year generally are taxed at lower rates: 15% for most investors, 0% for individuals in the 10% and 15% tax brackets (for 2009 and 2010).

Time trades carefully

If you're selling to harvest losses and intend to repurchase the same security, wait at least 31 days to buy it again. Otherwise, the trade is a "wash sale," and the tax loss will be disallowed. The wash sale rule also applies if you buy an option, sell a stock short, or buy it through your spouse within 30 days before or after a sale of the same security.

If you're considering purchasing a mutual fund outside of a tax-advantaged account, find out when the fund will distribute dividends or capital gains. Consider postponing action until after that date, which is often near year-end. If you buy just before the distribution, you'll face potential taxes on that money, even if your own shares haven't appreciated. If you plan to sell a fund, you may be able to minimize taxes by doing so before the distribution date.

Think about your cost basis

If you own a stock or fund and decide to unload some shares, your cost basis can affect your tax liability. You can use the average cost per share for a mutual fund. Or you could request that specific shares be sold – for example, those bought at a certain price. Which shares you choose depends on whether you want to book capital losses to offset gains, or keep gains to a minimum to reduce your tax bite. (This applies only to shares held in a taxable account.)



About New Wealth Advisors.

New Wealth Advisors is an independent, fee-only, SEC-registered investment advisor, operating as a multi-family investment office. We work with newly wealthy individuals and families to protect, grow and manage assets.

2009 Year-End Tax Planning Considerations

Here are some things to consider as you weigh potential moves between now and the end of the year.

Year-end moves and the AMT

Deferring income to next year – for example, by delaying a year-end bonus – is a common year-end tax planning strategy. Similarly, individuals often look for ways to accelerate deductions into the current year—for example, by paying deductible expenses in December rather than in January. If you're subject to the alternative minimum tax (AMT), however, these traditional year-end maneuvers may actually hurt you.



Essentially a separate federal income tax system with its own rates and rules, the AMT effectively disallows a number of itemized deductions, making it a significant consideration when it comes to year-end tax planning. For example, if you're subject to the AMT in 2009, prepaying 2010 state and local taxes won't help your 2009 tax situation, but could hurt your 2010 bottom line.

Legislation earlier this year forestalled a dramatic spike in the number of individuals subject to AMT by temporarily increasing AMT exemption amounts for 2009. If you're one of the millions of individuals still expected to be subject to AMT in 2009, however, that won't be much comfort. Taking the time to determine whether or not you may be subject to AMT before you make any year-end moves can save you from making a costly mistake. If you're not sure, talk to a tax professional.

RMDs suspended for 2009

When you reach age 70½, you're generally required to start taking required minimum distributions (RMDs) from any traditional IRAs or employer-sponsored retirement plans you own. Individuals are required to take these distributions each year, withdrawing the minimum amount by the end of the year (individuals who turn 70½ during the year generally get until April 1 of the following year to take their first RMD).

Legislation in late 2008, however, suspended RMDs for 2009. (This suspension of RMDs also applies to amounts required to be paid to beneficiaries after an IRA owner's or plan participant's death.) This presents an opportunity for those normally required to take RMDs to postpone the receipt of taxable income.

2010 Roth conversion rules

It's also worth looking ahead to the special rules that will apply in 2010 when a traditional IRA is converted to a Roth IRA. Current limitations based on income and filing status that prevent many individuals from converting to a Roth IRA will be eliminated. Additionally, if you convert in 2010, half the income that results from the conversion can be reported on your 2011 federal income tax return and half on your 2012 return.

This 2010 conversion opportunity might influence your 2009 year-end planning. For example, if you're currently working but aren't eligible to

contribute to a Roth IRA, you might consider making nondeductible contributions to a traditional IRA for 2009 in anticipation of making a conversion in 2010.

Also worth noting

- A tax credit up to \$8,000 is available in 2009 for qualified first-time homebuyers (only home purchases before December 1, 2009, qualify).
- The first \$2,400 of unemployment compensation received in 2009 is excluded from income for federal income tax purposes.
- If you itemize deductions, 2009 is the last year you'll have the option to deduct state and local sales tax in lieu of state and local income taxes.
- The temporary deduction for sales and excise tax relating to the purchase of a qualified new automobile, light truck, or motorcycle applies to vehicles purchased through December 31, 2009.
- The above-the-line deduction for qualified tuition and related expenses expires at the end of 2009.
- The provision allowing small businesses to take an additional 50% in first-year depreciation expires at the end of 2009; the expanded \$250,000 Section 179 expensing limit for small businesses also expires at the end of 2009.

AMT "triggers"

You're more likely to be subject to the AMT if you claim a large number of personal exemptions, deductible medical expenses, state and local taxes, and miscellaneous itemized deductions. Other common triggers include home equity loan interest when proceeds aren't used to buy, build, or improve your home, and the exercise of incentive stock options.

Stay informed

It's always possible that legislation late in the year could extend some of the provisions above, or add new wrinkles—so stay informed. A financial professional can help you evaluate your situation and determine which year-end moves make the most sense for you.

Retiring Early? Don't Forget about Health Insurance

Thinking about retiring early? As part of the decision, you've got to calculate whether you'll have enough retirement income to meet your needs. While adding up the costs of customary living expenses, utilities, and an occasional vacation, don't forget to include another important retirement expense: health insurance.

We're living longer and health-care costs are surging. Unless you qualify for Medicare (you must be at least 65 for coverage) or you're very wealthy, you probably can't afford to go without health insurance. And, unless you're lucky, you probably can't rely on your former employer for coverage, since few companies offer retiree healthcare benefits. Underestimating the impact of medical costs could significantly hamper your plans for a comfortable retirement.

What are some of your options?

Check out your working spouse's insurance to see if you can be added to his or her policy. But adding you as an insured likely will increase the premium cost to your spouse.





Ask your employer if it's possible to remain covered under its group plan. Usually, plans don't extend coverage beyond active employees and their dependents. But, it's sometimes possible to remain covered, though you'll probably have to reimburse your employer for the cost to keep you on the plan.

COBRA may be another option allowing you to remain covered under your employer's group health plan. If your retirement causes you to lose your health insurance, you can remain on your employer's plan for a maximum of 18 months (with some exceptions). You'll have to pay the entire premium amount, plus a possible 2% administrative fee. And keep in mind that employers with fewer than 20 employees don't have to offer COBRA, so it might not be available.

Shop for individual coverage

If you're going to buy an individual health insurance policy, you may find the premium cost to be quite steep, especially if you're also insuring your spouse and dependents. And there's no guarantee you'll even receive coverage. In most states, insurance companies can examine your health history and medical records (called underwriting) in order to determine whether you qualify for insurance and at what cost. However, a few states do not allow underwriting for health insurance plans.

Saving a few premium pennies

Here are a few suggestions that might help you lower the cost of individual health insurance. Group rates are usually less expensive, so look for health insurance plans offered by trade associations or churches. Be aware that while coverage might cost less, you may have to pay a membership or association fee to the group offering the coverage. Also, the plan may have high deductibles and copayments, and the benefits and options, including your choice of physicians and medical facilities, may be limited.

To lower premium costs, consider increasing your deductibles. By shouldering the cost of any treatment you might need, you'll decrease your premium expense.

Also, in states that allow underwriting, the cost of an individual policy of health insurance is based, in part, on your age and health. A preexisting medical condition could affect your premium or even cause you to be denied coverage. So before applying for new health insurance, consider getting in better shape, especially if you think you're a little overweight. Smoking is also a ticket to a higher premium, so quit if you can. Since the insurance company will examine your medical records, review them first with your doctor to remove any inaccuracies, and to clarify the reasons for examinations or treatments.

Finally, if you're denied coverage because of poor health, don't despair; you may still be able to get insurance if your state sponsors a high risk pool. If your state does, you can't be denied coverage, so long as you can show you aren't able to get insurance elsewhere. Be aware, however, that coverage might not be as comprehensive as other options, you may have a six-month or longer waiting period, and not all states offer this type of health insurance.

ASK THE EXPERTS

What is a Build America Bond (BAB)?

Investors have a new way to invest in municipal bonds. The American Recovery and Reinvestment Act of 2009 authorized a subsidy for local and state governments that issue what are known as Build America Bonds (BABs) before January 1, 2011.

Unlike most municipal bonds, the interest payments you receive on a BAB are taxable on your federal income tax return. However, the federal government subsidizes 35% of those interest payments. That subsidy is made in one of two ways:

1. As a direct payment to the governmental body that issued the BAB, or
2. Via a 35% federal income tax credit on the net coupon interest to the bondholder

The governmental body that issues a BAB determines in advance which type of subsidy it prefers; so far, most governmental bodies that have issued BABs have chosen to do so using the direct payment method rather than offering the tax credit.

If you're interested in tax credit bonds, don't assume the credit automatically makes them more valuable than a fully taxable bond. Because both the bond's interest payments and the value of the tax credit will be included in your gross taxable income, the calculation depends not only on the coupon rate but also on your tax bracket. It's best to check with your financial professional to compare a BAB to both taxable and tax-free municipal bonds to determine which is the better choice for you. Any unused portion of a BAB's tax credit may be carried forward to successive years.

Before investing, make sure you know if a given BAB offers the 35% tax credit, and what it would mean given your tax bracket. Also, remember that even though the federal subsidy is designed to help lower local governments' cost of financing projects, it does not mean that the bond is guaranteed by the U.S. government, as Treasury securities are.

What is a refunded municipal bond?

In a time of falling interest rates, homeowners often try to refinance their mortgages to reduce their monthly interest payments. Issuers of municipal bonds often do something similar, issuing new bonds to pay off older debt.

The proceeds of the new bond or bonds can be used to replace a specific revenue source that was pledged to repay the interest and principal of older bonds (for example, a tax collected by the issuer or the revenues of a bond-funded project). The money received from issuing the newer bond is generally put into escrow and paid out over time as the older bond's obligations come due. Because the older bond no longer relies on its original funding source, but on the escrowed proceeds of the newer bond, the older bond is then considered a refunded bond.



ASK THE EXPERTS (CONTINUED)

Bonds that are refunded through their maturity dates are said to be "escrowed to maturity." The escrowed money is typically invested in or collateralized by U.S. Treasury securities timed to mature as the refunded bond's interest and principal payments are due. If a refunded bond's original documents include a call provision that allows the issuer to pay off the bond before its maturity date, the bond is referred to as a pre-refunded bond. Because refunding typically occurs after interest rates have fallen, refunded bonds generally offer a higher coupon rate than equivalent newer issues, and often sell at a premium to their par value. Also, because they are backed by escrowed money that is typically invested in or collateralized by U.S. Treasury securities, they are generally considered high quality bonds, much as Treasuries are.

However, even though it may be backed by Treasuries, a refunded bond itself is not guaranteed by the full faith and credit of the U.S. Treasury. Also, municipal bonds are subject to the risks associated with any fixed income security, including interest rate risk, credit risk, and reinvestment risk. Reinvestment risk is even greater if a bond is callable, meaning it could be redeemed prior to the maturity date.

For more information or to discuss the content of this newsletter, please contact:

Jeffrey R. Arsenault, CPA/PFS, MST, CFP®, RLP®
Partner and Senior Wealth Advisor
(978) 557-5395
jarsenault@newwealthadvisors.net

New Wealth Advisors, LLC
1 Highwood Office Park
Tewksbury, MA 01876
www.newwealthadvisors.net

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.

New Wealth Advisors, LLC ("New Wealth Advisors") is an SEC registered investment adviser with its principal place of business in the State of Massachusetts. New Wealth Advisors and its representatives are in compliance with the current notice filing requirements imposed upon registered investment advisers by those states in which New Wealth Advisors maintains clients. New Wealth Advisors may only transact business in those states in which it is notice filed or qualifies for an exemption or exclusion from notice filing requirements. Any subsequent, direct communication by New Wealth Advisors with a prospective client shall be conducted by a representative that is either registered or qualifies for an exemption or exclusion from registration in the state where the prospective client resides.



Photo by John Nelson Ferrara

