



RL Wells & Associates, Inc.

Dedicated to Service, Honesty and Integrity

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RL Wells & Associates, Inc.

Rick Wells
9722 Kent Street
Suite C
Elk Grove, CA 95624
(916) 686-4500
(800) 568-4500
rlwells99@frontiernet.net
www.rlwellsinc.com

How Will the Health-Care Bill Help You This Year?

The health-care bill that became law in March won't be fully implemented for several years. However, by the end of this year, six important measures (detailed below) will take effect.



Your health insurer can't drop you for making a mistake

In some cases, people have filed claims, only to be told that after reviewing their policy, the insurance company has rescinded their coverage because

of inconsistencies in the original application. The new law will require insurers to demonstrate fraud or intentional misrepresentation of a material fact--for example, deliberately concealing an existing illness--in order to rescind coverage after a claim is filed.

A child can stay on your health plan longer

If there's a recent high school or college grad in your family who's struggling to land that first job, you can choose to continue your child's dependent coverage under your plan until his or her 26th birthday. This applies to both individual and group policies (for existing workplace plans, it applies only if your child doesn't have his or her own employer's health plan).

If you or your child has a pre-existing condition, you'll be able to get health insurance

Under the health-care bill, children with pre-existing health conditions may not be denied health insurance coverage. Adults won't have that protection until 2014, but if you have a pre-existing condition, you may be able to obtain coverage beginning this summer through a temporary national high-risk insurance pool. However, only individuals with pre-existing conditions who have been uninsured for at least six months before applying for coverage through this insurance pool will be eligible.

Your total coverage will have no cap

In the past, some people were very happy with their health-care coverage--until they got really, expensively sick. Severe illness or an accident sometimes meant medical bills that exceeded the total amount of coverage their policy provided (so-called "lifetime limits" on coverage). The new law prohibits insurers from establishing lifetime limits on the total dollar value of health benefits that can be paid to any one insured individual.

You may get a rebate for some Medicare drug costs

The health-care bill gradually closes the Medicare prescription drug coverage gap known as the "donut hole." If you're covered by Medicare, you fall into this donut hole once your total prescription drug costs exceed \$2,830 a year; until you've spent an additional \$3,610 out of pocket, Medicare won't cover any of your prescription costs (figures are for 2010). If you're affected by this coverage gap this year, you can look forward to a \$250 rebate check from the federal government to defray at least part of your drug expenses. Next year's benefit could be even bigger; once you fall into the donut hole, you will receive a 50% discount on certain brand-name prescription drugs.

If you're a small business owner, you may receive a tax credit

If you're a qualifying employer who pays at least 50% of the cost of your employees' health insurance premiums, you may receive a tax credit to offset up to 35% of your premium contribution when you file your 2010 federal taxes. The credit is generally available to employers with fewer than 25 full-time workers with an average annual wage of less than \$50,000.

In this issue:

How Will the Health Care Bill Help You This Year?

Social Security:
File-and-Suspend for Higher Benefits

How Much Life Insurance is Enough?

My child got a scholarship for college. Is it taxable?

Although many people think of Social Security as only a retirement program, Social Security also provides survivor's benefits that can provide substantial income to your spouse after your death.



For more information, contact the Social Security Administration at 800-772-1213 or visit www.socialsecurity.gov.

Social Security: File-and-Suspend for Higher Benefits

If you're married and looking for opportunities to increase retirement income, you may want to look closely at your Social Security benefits. One opportunity for maximizing Social Security income, called "file-and-suspend," may enable a married couple to boost both their retirement and survivor's benefits.

What is file-and-suspend?

Generally, a husband or wife is entitled to receive a Social Security retirement benefit based either on his or her own earnings record (a worker's benefit), or on his or her spouse's earnings record (a spousal benefit), whichever is higher. But under Social Security rules, a husband or wife who is eligible to file for retirement benefits based on his or her spouse's record cannot do so until his or her spouse begins receiving benefits. However, there is one exception--someone who has reached full retirement age may choose to file for retirement benefits, then immediately request to have those benefits suspended, so that his or her eligible spouse can file for spousal benefits.

File-and-suspend is a strategy that may be used in a variety of situations, but is commonly used when one spouse has much lower lifetime earnings, and thus will receive a higher retirement benefit based on his or her spouse's earnings record. (A husband or wife's spousal benefit may be as much as 50% of what his or her spouse is entitled to receive at full retirement age.) Using this strategy not only allows the eligible spouse with lower earnings to immediately claim a higher (spousal) retirement benefit, but can also increase the amount of available survivor protection. The spouse with higher earnings who has suspended his or her benefits can accrue delayed retirement credits at a rate of 8% per year (the rate for anyone born in 1943 or later) up until age 70. Because a surviving spouse will generally receive a benefit equal to 100% of the retirement benefit the other spouse was receiving (or was entitled to receive) at the time of his or her death, suspending a benefit to accrue delayed retirement credits may substantially increase the survivor's benefit.

Example

Let's look at one hypothetical example of how filing for, then suspending, Social Security benefits might help a married couple increase their retirement income and survivor's benefits.

Henry is about to reach his full retirement age of 66, but he wants to postpone filing for Social Security benefits. At full retirement age his monthly benefit will be \$2,000, but if he waits until age 70 to file, his benefit will be \$2,640 (32% more) due to delayed retirement credits. However, his wife Julia, who has had substantially lower lifetime earnings than Henry, wants to retire in a few months at her full retirement age (also 66). Based on her own earnings record, Julia will be eligible for a monthly benefit of \$700, but based on Henry's earnings record she will be eligible for a monthly spousal benefit of \$1,000 (50% of Henry's entitlement).

So that Julia can receive the higher spousal benefit as soon as she retires, Henry files an application for benefits, but immediately suspends it. That way, he can also continue to earn delayed retirement credits, which will result in a higher monthly retirement benefit for him later.

Using the file-and-suspend strategy not only increases Julia and Henry's retirement income, but it also offers increased survivor protection. Upon Henry's death, Julia will be entitled to receive 100% of what Henry was receiving (or was entitled to receive) at the time of his death. So by suspending his own retirement benefit in order to increase it through delayed retirement credits, Henry has ensured that Julia will receive a survivor's benefit that is up to 32% higher for the rest of her life should he die first. (Note, though, that this hypothetical example is for illustrative purposes only and does not account for cost-of-living adjustments or taxes.)

Points to consider

- Deciding when to begin receiving Social Security benefits is a complicated decision. You'll need to consider a number of scenarios, and take into account factors such as both spouses' ages, estimated benefit entitlements, and life expectancies. A Social Security representative can help explain your options.
- Ask a tax professional to help you weigh the tax consequences of delaying Social Security income.
- Using the file-and-suspend strategy may not be advantageous when one spouse is in poor health or when Social Security income is needed as soon as possible.
- The spousal benefit will be reduced if the spouse claiming it is under full retirement age.

How Much Life Insurance Is Enough?

Your life insurance needs often depend on a number of factors, including whether you're married, the size of your family, the nature of your financial obligations, your career stage, and your goals.

There are a number of approaches you can use to figure out how much insurance you should have. One method, called the "family needs approach," focuses on the amount of life insurance it would take to allow your family to meet its various financial obligations and expenses in the event of your death.

Family needs approach

With the family needs approach, you divide your family's financial needs into three main categories:

- Immediate needs at death, such as cash needed for estate taxes and settlement costs, credit card and other debts including mortgages (unless you choose to include mortgage payments as part of ongoing family needs), an emergency fund for unexpected costs, and college education expenses.
- Ongoing income needs for expenses related to food, clothing, shelter, and transportation, among other things. These income needs will vary in amount and duration, depending on a number of factors, such as your spouse's age, your children's ages, your surviving spouse's capacity to earn income, your debt (including mortgages), and whether you'll provide funds for your surviving spouse's retirement.
- Special funding needs, such as college funding, charitable bequests, funding a buy/sell agreement, or business succession planning.

Once you determine the total amount of your family's financial needs, you subtract from this total the available assets that your family could use to defray some or all of their expenses. The difference, if any, represents an amount that life insurance proceeds, and the income from future investment of those proceeds, can cover.

Example: John and his wife, Wendy, are estimating the appropriate amount of life insurance to buy on John's life. They first estimate their immediate needs as follows:

- Final medical expenses: \$5,000
- Estate settlement costs including funeral and burial expenses: \$37,500

- Debts, including credit cards and mortgages: \$317,000

- Emergency fund: \$100,000

Subtotal: \$459,500

Next, they estimate ongoing income needs, such as:

- Providing for their dependent children's needs for a period of time: \$500,000

- Wendy's income needs until her retirement: \$450,000

- Wendy's retirement income needs: \$380,000

Subtotal: \$1,330,000

Adding the sub totals together, John and Wendy estimate that, should John die, their family would need \$1,789,500. They then determine that assets available to offset their needs include:

- Bank savings: \$40,000

- Investments: \$220,000

- Retirement assets: \$250,000

- Existing life insurance on John's life: \$300,000

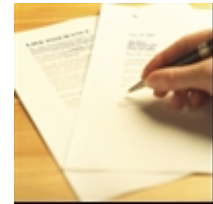
Subtotal: \$810,000

The difference between their family needs (\$1,789,500) and their available assets (\$810,000) equals their life insurance need (\$979,500).

Review your coverage

Trying to figure out how much life insurance is enough isn't always easy, and that amount will likely change with your changing circumstances. By examining your family's anticipated expenses during various periods after your death, you get a more realistic estimate of your life insurance needs.

Unfortunately, many people underestimate their insurance needs and are underinsured. Often, the purchase of life insurance is based on cost instead of what's needed. By the same token, it's possible to have more insurance than you need. You may have purchased a large policy during a particular point in your life, and then didn't adjust your coverage when your insurance need was reduced. Both of these circumstances are reasons to review your insurance coverage periodically with your financial professional. Doing so can reveal opportunities to change your levels of coverage to match your current and projected life insurance needs.



An insurance coverage review is a periodic reassessment of your insurance needs. The main objectives are to confirm that the level of insurance coverage you have is still adequate, to alert you to shortages in coverage that can occur due to changes in your life, and to ensure that any cash value policies are performing as expected.





Rick Wells - President
California Insurance License # 0617611

RL Wells & Associates, Inc.
Rick Wells
9722 Kent Street
Suite C
Elk Grove, CA 95624
(916) 686-4500
(800) 568-4500
rlwells99@frontiernet.net
www.rlwellsinc.com

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**RLWELLS
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Ask the Experts



My child got a scholarship for college. Is it taxable?

In certain situations, yes. If a scholarship is used to pay for college tuition, fees, books, or required equipment, it's not taxable.

But if the scholarship is used to cover room and board, travel costs, or optional equipment, or if it's awarded as payment for teaching, research, or some other required service, then it is taxable.

With most scholarships, the recipient can decide how to apply the money. Your first instinct may be to have your child apply it to tuition, fees, or books (making it tax free). But be aware that this may impact your ability to claim the Lifetime Learning or the American Opportunity (formerly the Hope) tax credits. That's because these credits are based on the amount of tuition and fees you pay, and any tuition and fees paid with a tax-free scholarship can't be counted when calculating your credit.

This rule has the most impact on your ability to claim the Lifetime Learning credit, worth up to \$2,000. Why? This credit is calculated as 20% of the first \$10,000 of tuition and fees, so a hefty scholarship applied to these expenses

may leave you with less than \$10,000 in eligible tuition and fees to count toward the credit. The American Opportunity credit, worth up to \$2,500, is calculated differently--100% of the first \$2,000 of tuition and fees, plus 25% of the next \$2,000 of such expenses. (You can only take one of these credits in a given year for the same student.)

If the scholarship has no restrictions on how it can be applied (and assuming you meet the income limits to take the credits--each credit has different income limits), consider running some numbers to determine your best option: (1) apply the scholarship to tuition and enjoy its tax-free status, but reduce the amount of eligible tuition that can be used to calculate the tax credits, or (2) apply the scholarship to room and board and pay income tax on the scholarship, but allow all tuition to be counted when calculating the credits. When running the numbers, keep in mind that generally a tax credit is more valuable than a tax deduction because it reduces your taxes dollar for dollar.

For more information, see IRS Publication 970, *Tax Benefits for Education*.



How will a college scholarship affect my child's 529 plan?

If your son or daughter gets a college scholarship, federal rules governing 529 plans allow you to withdraw from the account an amount equal to your child's scholarship. You won't owe the 10% penalty that typically applies to the earnings portion of any withdrawal not used to pay the beneficiary's qualified education expenses. However, you'll still owe income tax on the earnings portion of the withdrawal.

If you want to make a scholarship-related withdrawal from your 529 account, you must provide written notice to the plan manager, along with proof of your child's scholarship.

But withdrawing money from your 529 account isn't your only option. Another course of action is to simply leave the money in the account for your child's future use--most 529 plans allow funds to be used for graduate school. Or, you can change the beneficiary of the account to another child or qualified family member with no income tax or penalty implications. Either way, the full sum can be left to grow tax deferred

in the account, and you'll enjoy the convenience of keeping the same plan.

If, though, you're unhappy with your current plan (e.g., high fees, limited investment options, poor customer service), then this may be the perfect time to roll over your funds to a different 529 plan. Under federal rules, you're entitled to roll over the funds in your 529 plan once per calendar year to a different 529 plan. You can keep the same beneficiary or name a new one. In the latter case, as long as the new beneficiary is a qualified family member, no income taxes or penalty will be due.

Note: *Investors should consider the investment objectives, risks, charges, and expenses associated with 529 plans before investing. More information about 529 plans is available in each issuer's official statement, which should be read carefully before investing. Also, before investing, consider whether your state offers a 529 plan that provides residents with favorable state tax benefits.*