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Hello Everyone-

As the holidays approach and our schedules get hectic, we'd like to give thanks to you, our valued clients. It's a pleasure to do business with you. May the coming months be filled with many blessings for a happy and healthy holiday season.

As always, please don't hesitate to contact us with any questions or concerns you may have.

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# INVESTING PERSPECTIVES

4th Quarter

## Social Security: What Does the Future Hold?

Each year, the Social Security and Medicare trustees issue a report on the financial health of these two programs. The news hasn't been good. According to this year's report, in 2016, Social Security will begin paying out more money than it takes in, and will be able to pay promised benefits only until 2037; afterwards, the trust fund reserves will be exhausted and payroll tax income will be enough to finance only 76% of scheduled benefits until 2083.

Social Security reform has been a political hot potato, but that may be about to change. The decline of the financial markets has led to renewed focus on the importance of Social Security income to retirees, and on the need to address the growing burden that Social Security is placing on the federal budget.

*You can find the annual trustees report on the Social Security Administration's website, [www.socialsecurity.gov](http://www.socialsecurity.gov).*

### Proposals to stabilize Social Security

Despite fears that Social Security will not be around for future generations, there have been no calls to eliminate Social Security, and the focus is on making the program sustainable. In fact, President Obama has repeatedly expressed his commitment to preserving Social Security. To help accomplish this, he favors a Social Security payroll tax on earnings above \$250,000 (currently no Social Security payroll tax is assessed on earnings above a certain maximum, \$106,800 in 2009). Many other potential solutions have also been suggested. For example, the Social Security Solvency Act of 2009, introduced in the Senate in February, proposes accelerating by five years the gradual increase in full retirement age to 67, and modifying the benefit calculation to reduce benefit growth. This year's trustees

report mentions immediately increasing the payroll tax or reducing benefits as additional options.

### The near future

The Congressional Budget Office (CBO) is projecting that for the first time since 1975, when cost-of-living adjustments (COLA) were first payable, Social Security beneficiaries will not receive an automatic increase next year (or for 2011), due to low inflation. According to the CBO, the absence of COLA will also affect the maximum earnings that are taxable for Social Security, because under the Social Security Act, the earnings maximum can only increase when COLA is payable. Therefore, the CBO is projecting that this year's earnings base of \$106,800 will remain the same for the next two years.

Medicare beneficiaries will be affected too. By law, for individuals who have their Medicare Part B premiums withheld from their Social Security checks, premiums cannot rise more than COLA increases for Social Security. Consequently, no annual COLA means that standard Medicare premiums will remain at their current level of \$96.40 per month for approximately 75% of Medicare beneficiaries. However, certain beneficiaries (those who do not have their premiums deducted directly from Social Security and those with higher incomes who pay higher income-related premiums) do not have this protection, and will see their premiums rise, perhaps substantially.

### Stay informed

Most Americans rely on Social Security for at least a portion of their retirement income, but to ensure that Social Security will be able to pay promised benefits for many years to come, it's clear that the program must change. It's a good idea to follow the news to learn about legislative developments and model various income scenarios when developing your own retirement plan.

*Regardless of your filing status or how much you earn, you'll be able to convert a traditional IRA to a Roth IRA starting in 2010.*

## Roth IRA Conversions in 2010: Goodbye, Income Limits!

With the lure of tax-free distributions, Roth IRAs have become popular retirement savings vehicles since their introduction in 1998. But if you're a high-income taxpayer, chances are you haven't been able to participate in the Roth revolution. Well, that's about to change.

### What are the current rules?

For 2009, if your modified adjusted gross income (MAGI) is greater than \$100,000, you can't convert a traditional IRA to a Roth IRA. This \$100,000 limit applies whether you're single or married filing jointly. And if you file your taxes as married filing separately, you can't make a conversion at all--regardless of your income level.

In addition, your ability to make annual contributions to a Roth IRA depends on your MAGI:

| If your federal filing status is:              | Your Roth IRA contribution is reduced for 2009 if your MAGI is: | You can't contribute to a Roth IRA in 2009 if your MAGI is: |
|--|---|---|
| Single or head of household                    | \$105,000 but less than \$120,000                               | \$120,000 or more   |
| Married filing jointly or qualifying widow(er) | \$166,000 but less than \$176,000                               | \$176,000 or more   |
| Married filing separately                      | More than \$0 but less than \$10,000                            | \$10,000 or more  |

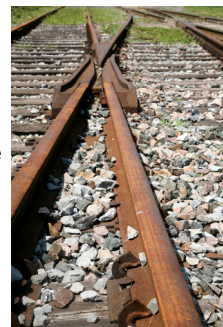
### What is--and isn't--changing

In 2006, the Tax Increase Prevention and Reconciliation Act (TIPRA) became law. TIPRA repeals the \$100,000 income limit for conversions, and allows conversions by taxpayers who are married filing separately, beginning in 2010. This means that regardless of your filing status or how much you earn, you'll be able to convert a traditional IRA to a Roth IRA starting in 2010.

Unfortunately, TIPRA does not repeal the income limits for annual Roth contributions. However, depending on your circumstances, beginning in 2010 you may be able to make your annual IRA contribution to a traditional IRA, and then convert that IRA to a Roth. Your financial professional can help you determine if this works for you.

### Convert now, pay later

Normally, when you convert a traditional IRA to a Roth IRA, you're required to include the amount converted--minus any nondeductible contributions you've made--in your gross income in the year you make the conversion.



However, to ease the pain of a potentially large tax hit in 2010, TIPRA includes a special rule for 2010 conversions only: if you convert your traditional IRA to a Roth IRA in 2010, you can report half the income from the conversion in 2011, and the other half in 2012.

For example, assume that in 2010 your sole traditional IRA is worth \$200,000, and you've made \$50,000 of nondeductible contributions. If you convert the entire IRA to a Roth in 2010, \$150,000 will be subject to federal income taxes. If you use the special rule, you can report half of the taxable amount (\$75,000) as income in 2011, and the other half as income in 2012. Alternatively, you can report the entire \$150,000 as income in 2010. (Note: state tax rules may differ.)

(Note that a SEP IRA can also be converted to a Roth IRA, and a SIMPLE IRA can be converted two years after you begin participating in your employer's SIMPLE IRA plan.)

### Is a Roth conversion right for you?

The answer is complicated, and depends on many factors, including your income tax rate, the length of time you can invest the funds without withdrawals, your state's tax laws, and how you'll pay the income taxes due on the conversion.

Even if you decide to convert, whether it makes sense to use the special 2010 deferral rule depends on your individual situation. It may also depend on where you think income tax rates are headed. If you expect rates to be lower in 2010 than in 2011 and/or 2012, deferring the tax hit may not be a good idea. Your financial professional can help you run projections to determine if the special rule is appropriate in your particular case.

## Is It a Good Time to Buy a New Car?

If you recently purchased a new vehicle or intend to purchase one by the end of the year, you may benefit from a variety of federal tax incentives.

### Temporary new deduction

There's a temporary new tax deduction created by the American Recovery and Reinvestment Act, which was signed into law in February.

Specifically, if you purchase a new passenger automobile, light truck, or motorcycle (vehicles must have a gross weight rating of no more than 8,500 pounds) on or after February 17, 2009, and before January 1, 2010, you'll generally be able to deduct any state or local sales and excise tax you pay on the purchase on your 2009 federal income tax return. New motor home purchases can qualify as well.

Individuals who itemize deductions on Form 1040, Schedule A, can include state or local sales and excise tax as part of their deduction for taxes paid. If you don't itemize deductions, you can deduct the qualifying sales and excise tax as part of your standard deduction.

The deduction is also allowed for purposes of calculating alternative minimum tax (AMT).

There are, however, a couple of limitations:

- The amount of sales and excise tax that you can deduct is capped at the amount that would be paid on a vehicle with a purchase price of \$49,500. So, if you purchase a \$100,000 motor home, only the sales and excise tax attributable to the first \$49,500 of your purchase price is deductible.
- You're not entitled to a deduction if your modified adjusted gross income (MAGI) is greater than \$135,000 (\$260,000 if you are married and file a joint return). And you're only entitled to a partial deduction if your MAGI is between \$125,000 and \$135,000 (between \$250,000 and \$260,000 if you are married and file a joint return).

**Note:** For 2009, you already had the option to deduct general state and local sales tax in lieu of state and local income taxes--the new rules allow you to deduct the state or local sales and excise tax attributable to a new vehicle purchase in addition to state and local income tax.

The new rules are also more generous in cases where your state imposes sales tax on a new vehicle purchase at a rate that's higher than the general sales tax rate: the temporary deduction rules allow you to deduct the actual tax paid (subject to the limits noted above) instead of limiting you to the tax that would have been paid under the general sales tax rate.

### Hybrid gas-electric and alternative fuel vehicles

Individuals and businesses who buy or lease a new hybrid gas-electric car or light truck are eligible for an income tax credit for vehicles placed in service by December 31, 2010. The amount of the credit depends on the fuel economy and the weight of the vehicle. Hybrid vehicles that use less gasoline than the average vehicle of similar weight and that meet an emissions standard qualify for the credit.

**Note:** This tax credit is phased out for each manufacturer once that company has sold 60,000 eligible vehicles. At that point, the maximum tax credit for each company's vehicles is reduced over the course of 15 months. See the IRS Summary of the Credit for Qualified Hybrid Vehicles at [www.IRS.gov](http://www.IRS.gov) for information on the status of specific vehicle eligibility.

Alternative-fuel vehicles, diesel vehicles with advanced lean-burn technologies, and fuel-cell vehicles are also eligible for tax credits. See the IRS summary of credits available for alternative motor vehicles.

### Plug-in electric vehicles

Plug-in electric vehicles will qualify for a tax credit for purchases made after December 31, 2009. The credit ranges from \$2,500 to \$7,500. There's also a special tax credit for certain low-speed electric vehicles and two- or three-wheeled vehicles of 10% of the cost of the vehicle, capped at \$2,500, for purchases made after February 17, 2009, and before January 1, 2012 (subject to certain limitations).

### Plug-in electric drive conversion kits

Additionally, there's a tax credit of 10% of the cost of converting a vehicle to a qualified plug-in electric drive motor vehicle, capped at \$4,000, for conversions made after February 17, 2009, and before January 1, 2012.

Happy motoring!



### Where can you find information on state tax incentives?

The U.S. Department of Energy's Alternative Fuels Data Center ([www.energy.gov](http://www.energy.gov)) maintains a list of state and federal incentives and laws for hybrid, diesel, alternative fuel, and electric vehicles.





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## Ask the Experts



### What health insurance options do college students have?

There are basically two ways to insure your child's health while at college: through your family health plan or a health plan provided by the school.

Most family health plans allow a child to continue to be covered by the family plan if the child is your dependent (check the policy for specific age limits and requirements) and is a full-time college student. But be sure to check whether coverage is available for doctors and medical services provided on or near campus. Some plans, such as health maintenance organizations (HMOs), may offer full coverage only if provided by doctors or at facilities within the HMO network. Full benefits may not be available for care provided by doctors or at facilities outside the particular HMO network. However, other types of plans may offer full coverage for almost any type of care provided by most doctors or at nearly all hospitals.

If your child isn't covered by your family health plan because he or she has reached the

maximum age stated in the policy to be covered as a dependent, or is not a full-time student, the Consolidated Omnibus Budget Reconciliation Act (COBRA) may allow your child to continue to be covered by your plan on an individual basis. The benefits of your health insurance plan are available to your child for up to 36 months, but often at an additional cost.

Your child may also obtain health insurance through the school. Many colleges offer low-cost health plans for students that may even be less expensive than continuing coverage through your family plan. These plans are usually not as comprehensive as family plans, but provide benefits for most urgent or serious injuries or illnesses. Plans differ from one college to the next. Also, check the applicable laws of the state where the college is located. Those laws may impact the level of coverage available and the cost of coverage.

### Can a student's health insurance be cancelled during a medically necessary leave of absence?

Generally, no. In 2008, President Bush signed into law H.R. 2851, known as "Michelle's Law." It ensures that a child covered under a health insurance plan as a dependent and full-time college student will continue to be covered during a medically necessary leave of absence from school due to a serious medical condition.

The law is named in memory of Michelle Morse who, while a full-time college student, was diagnosed with cancer. Against her doctor's wishes, she opted to continue her studies on a full-time basis while undergoing treatment so she could remain covered under her health insurance plan.

While Michelle's Law does not require health insurance plans to provide coverage to dependents, it does mandate that plans offering such coverage allow students like Michelle Morse to take a medically necessary leave of absence from college without losing their dependent status under their health insurance plan. The determination of a "medically

necessary" leave of absence is made by the student's treating doctor.

Under the law, the coverage must be extended for the earlier of one year from the date of the student's medically necessary leave of absence or the date the coverage would have otherwise ended based on specific policy provisions. The law applies not only to public and private two- and four-year colleges, but also to many occupational education and postsecondary vocational schools.

The law becomes effective for insured and self-insured health plans on the first day of their plan year beginning on or after October 9, 2009. For calendar year plans, this means the effective date is January 1, 2010.

Michelle's Law applies to individual health insurance plans in the same manner as it applies to group health plans. And if a parent or employer changes medical plans, any new plan must continue the dependent student's coverage under the new plan.