NEWS

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Making Sense of the Financial Impact of Healthcare Reform

Financial Professional Identifies Five Key Areas to Consider

SAN DIEGO, CA (May 20, 2010) — Now that the Healthcare and Education Reconciliation Act of 2010 has passed, the question most people are left asking is, "What's in it for me?"

"While the end result of the legislative process is necessarily health care related, the tax law plays a major role in its implementation," explains John Jenkins, an independent financial professional. "From the tax credits and subsidies used to expand health coverage, to the many penalties, fees and surtaxes designed to pay for it, the Tax Code is front and center."

There are significant changes for individuals with an annual income over $200,000 or couples making over $250,000. "Starting in 2013, the Medicare tax rate for upper income individuals and families will increase from 1.45 percent to 2.35 percent," says Jenkins. "In addition, a new 3.8 percent Medicare tax will be introduced for the same group on investment income. Currently, the tax rate on dividends and long-term capital gains is 15 percent. In 2011, those rates are expected to rise to 20 percent for households earning over $250,000, and with the new Medicare tax, these rates will rise to 23.8 percent for the same group."

Jenkins offers five tips to help prepare for the coming changes that the new Act may impose.

Accelerate Income in 2010

"Because the 3.8 percent surtax does not apply to distributions from IRAs and other qualified retirement

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plans, you may wish to increase your contributions to IRAs and 401(k), 403(b) and 457 plans, or Roth IRA," says Jenkins. In addition, because income from tax exempt and tax deferred vehicles like municipal bonds, tax deferred non-qualified annuities, life insurance, and non-qualified deferred compensation are not included in investment income, investments in these vehicles could become more favorable relative to investments producing income subject to the tax, he says.

Review Estate Planning and Wealth Transfer Vehicles

Charitable remainder trusts could become more appealing because they permit deferred income over a period of time and stay under the threshold amount. "It may also be beneficial to shift investment income to a charitable lead trust which will be offset by the 'above the line' charitable deduction," Jenkins says.

Consider the New Long Term Care Provision

"Most people have been so focused on the increased taxes that will result from the passage of the Act, that they have ignored other provisions in it," says Jenkins. For example, he says the Act requires the Department of Health and Human Services to set up a new, voluntary long-term care insurance program, scheduled to take effect in January 2011. The Community Living Assistance Services and Supports (CLASS) will not be limited to the elderly; anyone who opts for the payroll deduction can enroll. After five years of enrollment, the policyholder will be eligible for benefits. The program is not intended to pay for the entire cost of nursing home care, but rather it will pay cash benefits of $50 per day or more, depending on the degree of disability. Additionally, the program permits benefits to be spent on needs other than nursing home care, such as paying a home health aide to help with bathing and other chores.

Review the Changes to Health Savings Accounts

Beginning in 2011, the cost of non-prescribed, over-the-counter drugs will generally no longer be reimbursable through health reimbursement accounts or health flexible spending accounts, nor will the cost of these drugs be eligible for tax-free reimbursement from Health Savings Accounts or Archer MSAs. In addition, non-qualified distributions from Health Savings Accounts and Archer MSAs will be subject to an increased penalty tax of 20 percent. "It will be important to take these changes into account when projecting the amount of money you set aside in next year's flexible spending account along with placing a $2,500 annual cap on expenses covered under health FSAs," says Jenkins.

Help is on the Way for Students

Included in a rider to the Act is the Student Aid and Fiscal Responsibility Act of 2009 (SAFRA) which expands federal Pell Grants to a maximum of $5,500 in 2010 and ties increases in Pell Grant maximum values to annual increases in the Consumer Price Index plus 1 percent. "This will be a great help to students as more Pell Grants means less loans they will have to take out to finance their education," says Jenkins.

Business owners also have changes to contend with under the new legislation. "Employers with less than 10 low-wage employees are entitled to up to a 35 percent tax credit on the cost of providing health insurance," explains Jenkins. "Companies with 25 or fewer employees with an average wage of $50,000 or less can qualify for a smaller tax credit."

Starting in 2014, employers with 50 or more employees generally will be required to provide a minimum level of health insurance for their employees or pay a penalty per employee however they won't get any tax credits. For those companies who provide their employees with "Cadillac" health insurance, a 40 percent excise tax will be imposed which may mean higher premiums for both employers and employees.

About John Jenkins and Asset Preservation Strategies, Inc.

John Jenkins is president and founder of San Diego-based Asset Preservation Strategies, Inc., which provides a team of financial professionals collaborating to address all of the elements of successful wealth management. He has conducted numerous financial planning workshops during his career and has been a guest on the PBS show "The Money Makers" and its successor, "The Financial Advisors," as well as the syndicated news magazine show "Heartbeat of the City." Jenkins has also authored and co-authored several financial planning books and publications. He is frequently quoted in the financial press, including Financial Planning News, The San Diego Union-Tribune, the La Jolla Light and the San Diego Business Journal. He has been named for three years in a row as a 5 Star, Best in Client Satisfaction Wealth Manager by San Diego Magazine based on surveys of more than 30,000 clients of wealth mangers and data from more than 4,000 financial service professionals. Learn more at www.asset-preservation.com

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NOTE:

When you need a knowledgeable professional to speak on complicated financial topics in an easy-to-understand and engaging manner, please call John Jenkins at Asset Preservation Strategies, Inc.

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Written by John Jenkins, Securities America, Inc. Registered Representative, in conjunction with Impact Communications.

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