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Greetings!

Summer is arriving, family vacations, BBQs, ballgames; a great time of the year. Remember to relax a bit and enjoy this time in one of the nicest areas in the USA.

Many questions from people regarding "taxmageddon". This is the 12/31/12 sunset provision in the tax code which will affect many Americans and increase our tax liabilities. I don't think it will be as bad as some of the worst case scenarios being written about. However, I do not expect any resolution prior to the November elections. It will most likely be December before these issues are addressed.

I managed to put a couple of new postings on the website addressing life events for people in their 20s and also 30s. Keep your ideas and suggestions rolling in, I do appreciate them.

Have a great month!

June 2012

Market-Moving Indicators for Monitoring Europe

If you've struggled to make sense of the ongoing European debt debacle, you're not alone. It's difficult even to keep track of all the pieces of this financial Rube Goldberg puzzle, let alone understand how they can influence one another.

Though new aspects of the situation seem to crop up every month, here are some of the most common factors that either reflect or affect sentiment about what's happening in Europe. Knowing about them might help you understand why markets react to a seemingly obscure headline. After all, one of the few things that almost everyone seems to agree on is that the situation isn't likely to be solved overnight.

Take an interest in interest rates

Interest rates on sovereign debt are perhaps the most closely watched indicator. When demand for a country's bonds is low because investors are concerned about the possibility that they might not be repaid in full and on time, that country must offer a higher interest rate in order to borrow money to finance its day-to-day operations.

Interest rates become particularly worrisome when they reach or exceed 7%. That's the level that prompted Greece, Ireland, and Portugal to seek bailouts from their European peers, and it's widely seen as unsustainable. When a country must pay that much simply to service its debt, investors become concerned that high borrowing costs will make a country's financial situation even worse.

Watch credit ratings

Troubled European countries are struggling to deal with a devilish Catch-22. In many cases, unsustainable debt burdens have led to stringent austerity measures; however, such measures also can hamper economic growth, which reduces tax revenue and can potentially increase deficits. Higher deficits can lead to a lower credit rating that in turn can mean higher borrowing costs, bringing on the problems discussed above and potentially launching a new downward economic cycle. Thus, a downgrade to a country's credit rating tends to raise concerns.

However, investor reaction also can be unpredictable. For example, Standard & Poor's January downgrade of nine sovereign nations and the European Financial Stability Fund was largely met with a shrug by investors. There's been so much pessimism about Europe for so long that in some cases, markets may already have priced in much of the bad news.

Monitor credit default swap costs

A credit default swap (CDS) is a form of insurance against the possibility that a bond issuer might default or fail to make a payment on its obligations. Bondholders buy a CDS from a financial institution or insurance company that promises to reimburse the bondholder for any losses sustained in the event of a default. The cost of that insurance is seen as a proxy for the perceived risk involved in investing in a particular country's bonds. The higher the cost of a CDS on, say, Italian sovereign debt, the greater the anxiety about whether the bond issuer will default and the CDS issuer will have to pay.

Follow the money

To prevent credit markets from seizing up, the European Central Bank late last year provided almost €500 billion in three-year loans to European banks, making it easier for them to refinance their debt. The level of borrowing at the ECB is seen as one indicator of how banks are being affected by their holdings of sovereign debt. The greater the need to borrow from the ECB, the greater the banks' perceived level of vulnerability.

Bailouts: Nein nein nein?

U.S. voters aren't the only ones who are sensitive about bailouts; so are Germans. As Europe's most powerful economy and the one with the best credit rating, Germany is the tentpole upon which European financial stability hangs. However, by the end of 2011, the German economy had begun to slow. Any indications that economic pressure could threaten Germany's ability and willingness to remain strong in its support of the eurozone can spook anxious investors.

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Four Things to Do in the Four Years Before College

Spiraling student debt

According to the New York Federal Reserve Bank, total outstanding student loan debt (from both federal and private sources) surpassed total outstanding credit card debt last year, and is on pace to surpass a trillion dollars this year. Unlike credit card debt, student loan debt generally cannot be discharged in bankruptcy.

For your child, high school means football games, a driver's license, SATs, and the prom. For you, it means college is right around the corner. Before your child starts touring college campuses, here are four things you can do to get ready.

1. Take stock of your savings

A few years before you need to start paying tuition bills is a good time to take stock of your college savings. How much have you saved? Are you making monthly contributions, and is there any room to increase them? Now is the time to make sure your investments aren't weighed too heavily towards equities, because any losses suffered at this point could be difficult to make up. Consider shifting your investments to less risky ones as college approaches. In addition, estimate how much savings you'll have--factoring in your current balance, monthly contributions, and estimated rate of return--when your child graduates from high school. Finally, you might ask grandparents if they plan to help with costs.

2. Get familiar with financial aid

For your child to be eligible for federal student loans, grants, and/or work-study, you must complete the federal government's aid application, the FAFSA. The FAFSA looks at your family's income, assets, and other information (e.g., the number of college-age children in the family, the age of the older parent when the child starts college) to arrive at a figure called the expected family contribution (EFC). This is the amount the government deems you can afford to pay each year. This figure stays the same no matter what college your child applies to. The difference between the cost of attendance at a certain college (a variable) and your EFC (a constant) equals your child's financial need.

To get an estimate of your EFC ahead of time, try filling out the government's FAFSA4caster tool at www.fafsa.ed.gov. Though you'll still have to fill out the real FAFSA later, the FAFSA4caster will give you a ballpark EFC figure and an idea of what family financial data is required in the financial aid process. Plus, the FAFSA4caster will automatically import your data into the FAFSA later on.

The two main federal education loans are the student Stafford Loan and the parent PLUS Loan. There are two types of Stafford Loans: subsidized, for which the government pays (subsidizes) the interest while your child is in school and six months after school (the grace period), and unsubsidized, for which the government does not pay the interest during these periods. The maximum borrowing limits for Stafford Loans are currently: 1st year, $5,500 ($3,500 subsidized); 2nd year, $6,500 ($4,500 subsidized); 3rd-5th years, $7,500 ($5,500). The current interest rate is 6.8% fixed for unsubsidized loans and 3.4% fixed for subsidized loans disbursed between July 1, 2011, and July 1, 2012 (this rate is scheduled to increase to 6.8% after July 1, 2012).

A PLUS Loan is available to parents with good credit histories; parents can borrow up to the full cost of their child's education. Currently, the PLUS Loan has a fixed interest rate of 7.9%. The unsubsidized Stafford and PLUS Loans are available without regard to financial need.

In addition to loans, your child should spend time in high school researching scholarships. There are several free scholarship websites that let your child tailor his or her search by interests and abilities. Obviously, scholarships are the preferred method of college funding because they don't need to be repaid.

3. Talk to your child about college costs

At some point during junior or senior year, it's important to have a frank conversation with your child about college costs. Tell your child how much you expect to have saved, and how much you will be able to contribute each year during college. If costs exceed what you can pay, explain that the rest will need to be borrowed by either you or your child, or covered by a scholarship, grant, or work-study job.

When talking about loans, show your child exactly how much a certain amount will cost to repay each month over a 10-year period. For example, a $27,000 loan (the current max in federal Stafford Loans that can be borrowed over four years) at 6.8% interest will cost $311 each month. The idea is to take an abstract loan amount and break it down into a figure--and monthly obligation--your child can understand. Ultimately, as the parent, it's up to you to make sure your child does not go into too much debt to pay for college.

4. Research colleges wisely

In addition to thinking about the qualities of his or her ideal college (e.g., geographic region, setting, size), your child should develop a list of colleges that are a good match for his or her academic abilities, interests, and talents. To maximize the chances of receiving a favorable aid package, consider your child's academic profile--by looking at GPA, class rank, and SAT/ACT scores--and encourage your child to apply to at least a few colleges where his or her academic credentials are better than those of the average admitted student.

Of Taxes Past, Present, and Future

With the 2011 tax filing season behind us, much attention is being paid to the expiring "Bush tax cuts"--the reduced federal income tax rates, and benefits, that will expire at the end of 2012 unless additional legislation is passed. In fact, though, several important federal income tax provisions already expired at the end of 2011. Here's a quick rundown of where things stand today.

What's already expired?

A series of temporary legislative "patches" over the last several years has prevented a dramatic increase in the number of individuals subject to the alternative minimum tax (AMT)--essentially a parallel federal income tax system with its own rates and rules. The last such patch expired at the end of 2011. Unless new legislation is passed, your odds of being caught in the AMT net greatly increase in 2012, because AMT exemption amounts will be significantly lower, and you won't be able to offset the AMT with most nonrefundable personal tax credits.

Other provisions that have already expired:

- *Bonus depreciation and IRC Section 179 expense limits*-- If you're a small business owner or self-employed individual, you were allowed a first-year depreciation deduction of 100% of the cost of qualifying property acquired and placed in service during 2011; this "bonus" depreciation drops to 50% for property acquired and placed in service during 2012, and disappears altogether in 2013. For 2011, the maximum amount that you could expense under IRC Section 179 was $500,000; in 2012, the maximum is $139,000; and in 2013, the maximum will be $25,000.
- *State and local sales tax*-- If you itemize your deductions, 2011 was the last tax year for which you could elect to deduct state and local general sales tax in lieu of state and local income tax.
- *Education deductions*-- The above-the-line deduction (maximum $4,000 deduction) for qualified higher education expenses, and the above-the-line deduction for up to $250 of out-of-pocket classroom expenses paid by education professionals both expired at the end of 2011.

What's expiring at the end of 2012?

After December 31, 2012, we're scheduled to go from six federal tax brackets (10%, 15%, 25%, 28%, 33%, and 35%) to five (15%, 28%, 31%, 36%, and 39.6%). The rates that apply to long-term capital gains and dividends will change as well. Currently, long-term capital gains are generally taxed at a maximum rate of 15%. And, if you're in the 10% or 15% marginal income tax bracket, a special 0% rate generally applies. Starting in 2013, however, the maximum rate on long-term capital gains will generally increase to 20%, with a 10% rate applying to those in the lowest (15%) tax bracket (though slightly lower rates might apply to qualifying property held for five or more years). And while the current lower long-term capital gain rates now apply to qualifying dividends, starting in 2013, dividends will be taxed at ordinary income tax rates.

Other provisions expiring at the end of the year:

- *2% payroll tax reduction*-- The recently extended 2% reduction in the Social Security portion of the Federal Insurance Contributions Act (FICA) payroll tax expires at the end of 2012.
- *Itemized deductions and personal exemptions*-- Beginning in 2013, itemized deductions and personal and dependency exemptions will once again be phased out for individuals with high adjusted gross incomes (AGIs).
- *Tax credits and deductions*-- The earned income tax credit, the child tax credit, and the American Opportunity (Hope) tax credit revert to old, lower limits and (less generous) rules of application. Also gone in 2013 is the ability to deduct interest on student loans after the first 60 months of repayment.

New Medicare taxes in 2013

New Medicare taxes created by the health-care reform legislation passed in 2010 take effect in just a few short months. Beginning in 2013, the hospital insurance (HI) portion of the payroll tax--commonly referred to as the Medicare portion--increases by 0.9% for high-wage individuals. Also beginning in 2013, a new 3.8% Medicare contribution tax is imposed on the unearned income of high-income individuals.

Who is affected? The 0.9% payroll tax increase affects those with wages exceeding $200,000 ($250,000 for married couples filing a joint federal income tax return, and $125,000 for married individuals filing separately). The 3.8% contribution tax on unearned income generally applies to the net investment income of individuals with modified adjusted gross income that exceeds $200,000 ($250,000 for married couples filing a joint federal income tax return, and $125,000 for married individuals filing separately).

Qualified charitable distributions

A popular provision allowing individuals age 70½ or older to make qualified charitable distributions of up to $100,000 from an IRA directly to a qualified charity expired at the end of 2011. These charitable distributions were excluded from income, and counted towards satisfying any required minimum distributions that you would have had to take from your IRA for the year.

Return of the "marriage penalty"?

Tax changes that were originally made to address a perceived "marriage penalty" expire at the end of 2012. If you're married and file a joint return with your spouse, you'll see the effect in the form of a reduced 2013 standard deduction amount, as well as in lower 2013 tax bracket thresholds in the tax rate tables (i.e., couples move into higher rate brackets at lower levels of income).

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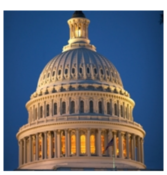
What happens to my retirement benefits if my employer goes out of business?

If your employer goes out of business, any retirement plan your employer sponsored will be terminated. If the plan is a 401(k) or other defined contribution plan, your benefits are held in trust, apart from your employer's assets, and you'll generally be entitled to receive your full account balance in a lump sum. (You can take the cash, or roll your payout into an IRA or another employer's plan.)

But if your employer sponsors a defined benefit plan, it gets a little more complicated. A defined benefit plan promises to pay you a specific monthly benefit at retirement. While defined benefit plan assets are also held in trust (or insurance contracts), apart from your employer's assets, whether a particular plan has enough cash to pay promised benefits depends on your employer's contributions and the plan's investment earnings and actuarial experience.

When a defined benefit plan is about to terminate, the Pension Benefit Guaranty Corporation (PBGC), a federal agency created specifically to protect employees covered by these plans, is notified. If the plan has enough money to cover all benefits that participants have accrued up to the plan termination date, then the PBGC will permit a "standard termination," and your employer will either purchase an annuity from an insurance company (which will provide lifetime benefits when you retire) or, if your plan permits, let you choose a lump-sum equivalent.

However, if the plan doesn't have enough money to pay all promised benefits earned up until plan termination (that is, the plan is "underfunded"), the PBGC will take over the plan as trustee in a "distress termination," and assume the obligation to pay basic plan benefits up to legal limits. For plans ending in 2012, the maximum annual benefit (payable as a single life annuity) is $55,840 for a worker who retires at age 65. If you begin receiving payments before age 65, or if your pension includes benefits for a survivor or other beneficiary, or if your plan was adopted (or amended to increase benefits) within five years of the termination, the maximum amount is lower. According to the PBGC, only 16% of retirees in recent years have seen their benefit reduced because of the annual dollar limits.



What is the Pension Benefit Guaranty Corporation?

The Pension Benefit Guaranty Corporation (PBGC) is a federal agency created by the Employee Retirement Income Security Act of 1974 (ERISA) to help protect pension plan benefits. When a pension plan ends (a "plan termination") without enough money to pay all benefits owed to participants, the PBGC takes over and assumes the obligation to pay those benefits.

The PBGC only protects defined benefit plans--that is, qualified employer pension plans that promise to pay a specific monthly benefit at retirement, based on your pay and years of service with your employer. The PBGC doesn't protect 401(k) or other defined contribution plans, plans not covered by ERISA (for example, governmental plans and certain church plans), or plans offered by professional service employers (such as doctors and lawyers) with fewer than 26 employees.

The PBGC guarantees that you'll receive basic pension benefits up to a specified dollar amount. Basic benefits include normal and early retirement benefits, survivor annuities, and disability benefits. The maximum pension benefit is set by law and adjusted yearly. For plans ending in 2012, the maximum annual amount (based on a single life annuity) is $55,840.92 (or $4,653.41 per month) for a worker who retires at age 65. According to the PBGC, most people receive the full benefit they had earned before the plan terminated. However, this amount may be lower than the benefit you had counted on from your plan at retirement.

The PBGC maintains two insurance programs: the single-employer program protects about 33.6 million workers and retirees in about 27,600 pension plans, and the multiemployer program protects 10.4 million workers and retirees in about 1,500 pension plans. (Multiemployer plans are set up by collectively bargained agreements involving more than one unrelated employer, generally in one industry, such as trucking or construction.)

The PBGC isn't funded by general tax revenues. Rather, the PBGC collects insurance premiums from employers that sponsor insured pension plans, receives funds from the pension plans it takes over, and earns money on its investments. Employers are required by ERISA to pay insurance premiums to the PBGC.

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