



Quarterly Memo

April 2010

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What Health Care Reform Means to You



and health delivery systems. The bill is complex, has numerous future effective dates, and many provisions still subject to interpretation.

After a rancorous, highly partisan process, the President signed into law on March 30 the Health Care and Education Reconciliation Act of 2010 (H.R. 4872), completing a massive overhaul of the nation's health insurance

Insurance mandates. All individuals not under Medicare or Medicaid or otherwise exempt or covered by a qualifying employer plan must obtain coverage beginning in 2014. Low and moderate income individuals are eligible for tax credits or

vouchers to help pay for premiums. Dependent children get to stay on their parents' insurance policies until age 26. Caps on policy lifetime benefits will be eliminated.

Individuals and businesses currently with coverage may keep it under grandfather provisions. Starting in 2014, it will be illegal for any health insurance plan to use pre-existing conditions to exclude, limit

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The Recovery That Gets No Respect!

The US economy has seen growth over the past two quarters and is expected to grow by most mainstream economists at a rate of 3-5% in 2010. A majority of economic indicators point towards the recovery continuing for some time. While the economists' crystal balls are never perfectly clear and there is always the possibility of the unpredictable "black swan" event, the weight of evidence favors the case for modest economic growth. Nevertheless, this recovery, like the late

Rodney Dangerfield, seems to "get no respect!"

In a survey conducted by Citigroup in late March, 44% of Americans rated the economy as fair, 36% rated it as poor and 52% said their financial conditions are about the same as they were at this time last year. Thirty three percent of Americans say they are worse off financially, compared to 15% who say they are better off financially than they were a year ago.

More troubling is the fact

that consumers think there is still pain to come. Only 36% of Americans believe the economy has hit bottom, compared to 33% last September who believed it had hit bottom. Meanwhile, 59% believe the economy has a long

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What Health Care Reform Means to You (continued from page 1)

“Beginning in 2014, an individual will pay a monthly penalty for failing to maintain qualifying coverage.”

or set unrealistic rates on the coverage an individual or dependent can receive.

Individual penalties.

Beginning in 2014, an individual will pay a monthly penalty for failing to maintain qualifying coverage. The annual penalty is the greater of a flat dollar amount or percentage of income as follows:

- 2014 – \$95 or 1%
- 2015 - \$325 or 2%
- 2016 - \$695 or 2.5%

A family’s total penalty cannot exceed 3X the flat dollar penalty (i.e., \$2,085 in 2016). The flat dollar penalty for individuals under age 18 is 50% of the regular amount. There are numerous exceptions, including individuals who make less than the amount required to file an income tax return.

Individual tax credits.

Depending on family size and income, premium assistance tax credits will range from 2 to 9% of

income. A family of four with income of \$88,200 or less would begin to qualify for a premium assistance tax credit.

Medicaid eligibility. The bill expands Medicaid to cover those with income less than 133 percent of the Federal Poverty Level. This means a family of four with household income of less than \$29,300 will now qualify.

Business provisions.

There is no mandate for employee coverage. However, large (50 or more employees) employers will be faced with “play or pay” penalty taxes if they fail to offer qualifying coverage and have one or more full-time employees receiving the premium assistance tax credit. Even if qualifying coverage is offered, the penalty will apply if one or more employees enrolled in an insurance exchange receives a premium assistance tax credit or cost-sharing. “Full-time” is defined as working 30 or

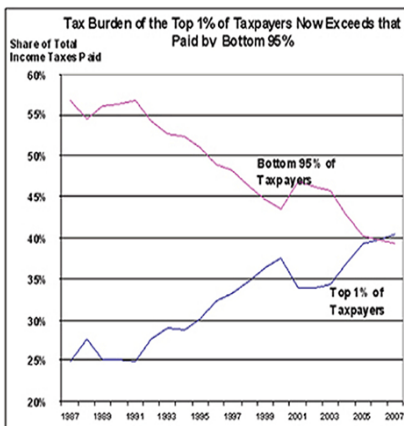
more hours weekly. The penalty tax amounts to \$167 per month per employee. However, the first 30 employees are exempt from the penalty tax. Employees who choose not to participate in the employer’s plan and meet income tests must be given “free choice vouchers.” New information returns must be filed with the IRS detailing the coverage and premiums provided for each employee.

(Very) small businesses.

Businesses with less than 25 employees and annual payroll of less than \$50,000 are eligible for 35% to 50% tax credits for health insurance premiums paid.

New Medicare taxes. In 2013, single individuals with incomes more than \$200,000 and married couples with incomes more than \$250,000 will face higher and expanded Medicare taxes. An

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A Tax Inequity Milestone

If you are in the top 1% of taxpayers based on income, your group has hit a new high, though not one you’ll like. The top 1% of taxpayers now provide over 40% of Federal tax receipts, about the same share as the **bottom 95%** of taxpayers. We have also reached the point

where 47% of households pay no Federal income tax. (40% actually pay nothing and get refundable credits.) With the so-called Bush tax cuts likely to expire at year end, the portion of the tax burden allocated to high earners is only going to increase.

Taxing the wealthy without spending cuts to deal with the deficit just won’t work. According to the Tax Policy Center, the top two tax rates would have to rise to 77% and 72% to bring the deficit down to a tolerable 3% of GDP. The President must rethink his no tax increase pledge.

Why You're Better Informed than Clinton or Bush

A recent professional meeting for financial advisors featured former Presidents Clinton and George W. Bush as the big drawing card. On the stage simultaneously, the two were genial, seemed to like each other, and appealed for Haiti relief donations. During the Q&A, they were asked "Do you support a fiduciary standard for the financial services profession?"

President Bush replied, "Well, I think you'd better ask somebody who knows what the h--- they're talking about. I don't know much about it, but I will tell you this... I think, it's--

well..." Turning to President Clinton, he touched his shoulder and said, "Hey, I'm trying to buy you a little time over here, buddy." He obviously didn't have a clue.

Clinton did no better at answering. He managed to gracefully segue into a discussion about the need for health care reform.

The audience seemed stunned. If two former leaders of the free world have no idea of the definition of a fiduciary standard, then what about the "average" person seeking a financial advisor?

We trust that you are better informed. If you are ever asked how to seek out an excellent financial advisor, the first word that comes to mind should be "fiduciary" (then "Matrix"). A fiduciary is legally obligated to place interests of the client first and avoid, as much as possible, conflicts of interest.

A fiduciary standard for all financial advisors is not a part of the latest Senate financial services reform proposal. As a result of intense lobbying from brokers and insurance companies, the bill only calls for a GAO study of the idea.



Both clueless?

The Luckiest Man (Not) Alive

How would you like to take advantage of a temporary quirk in the Federal tax laws and save literally billions of dollars in taxes? How can you utilize the same strategy? Unfortunately, the tax in question is the estate tax.

Houston gas pipeline mogul Dan Duncan was the 74th richest person in the world when he died on March 28 from a cerebral hemorrhage. His estate is estimated to be worth \$9 billion, meaning the government probably won't collect around \$4 billion in estate taxes. Congress didn't plan on billionaires taking

advantage of the estate tax holiday, as the Joint Committee on Taxation had estimated only \$468 million in revenue would be lost in 2010.

His death may mean Congress is now less likely to pass a retroactive estate tax reinstatement for 2010. With so much at stake, a high-powered court challenge to a retroactive fix would be all but guaranteed.

The government should not fret too much. First, based on his generous lifetime giving to the M.D. Anderson Cancer Center, Texas Heart Institute, Boy

Scouts of America, Houston Zoo and Baylor College of Medicine, it's likely that Duncan made substantial charitable bequests, which would reduce his taxable estate. Secondly, in 2010, only a very limited amount of property receives a stepped-up basis in an estate. So Duncan's heirs may be faced with substantial capital gains taxes if they later sell appreciated assets.

The estate tax returns in 2011 with only a \$1 million exemption. To take advantage of the current estate tax holiday, you'll need to act fast!



Dan L. Duncan
1933-2010

What Health Care Reform Means to You (continued from page 2)

“This additional tax will require even more attention to be paid to tax planning for investment portfolios.”

additional tax of .9% will apply to *earned* income over the limits stated above. Furthermore, a new tax of 3.8% on the lesser of (1) net investment income, or (2) the excess of modified adjusted gross income over the threshold amount. Investment income is defined as interest, dividends, royalties, rents, annuity distributions, gains from disposing of property from a passive activity, and income earned from a trade or business that is a passive activity. Trusts and estates will also be subject to the tax.

Distributions from qualified retirement plans, including pensions and certain retirement accounts, would be exempt from paying the additional tax. For example, income from IRAs, SEPs, 401(k), 403(b), and 457(b) plans would be exempt.

This additional tax will require even more attention to be paid to tax planning for investment portfolios. Municipal bond interest would continue to be tax exempt, increasing the relative attractiveness of tax-exempt bonds. The tax will be a further incentive to maximize the use of IRAs and qualified retirement plans while it will be a disincentive for the use of variable annuities. Current owners of variable annuities should consider whether cashing out would be

advantageous before the tax comes into effect.

Tax on high cost insurance. Beginning in 2018, the new law will impose a 40 percent nondeductible excise tax on insurance companies or plan administrators for any health insurance plan with an annual premium in excess of an inflation adjusted \$10,200 for individuals and an inflation adjusted \$27,500 for families. Non-Medicare retirees age 55 and older are eligible for higher thresholds. The “Cadillac plans” tax was opposed by labor unions, who managed to have the effective date deferred.

Market sector “fees”. The law imposes annual nondeductible fees on pharmaceutical companies and health insurers. The annual fees would be allocated across industry sectors according to market share. The annual fee for the pharmaceutical industry is \$2.5 billion for 2011; \$3 billion for 2012 to 2016; \$4 billion for 2017; \$4.1 billion for 2018; \$2.8 billion for 2019 and subsequent years. The annual fee for the health care provider industry is \$8 billion for 2014; \$11.5 billion for 2015 and 2016; \$13.5 billion for 2017; \$14.3 billion for 2018 and subsequent years.

Get your tan now. The new law imposes excise taxes on medical device

manufacturers (excluding hearing aids and eyeglasses) and on tanning services.

HSA and FSA changes. The law changes the definition of qualified medical expenses for health FSAs and HSAs to be the same as the definition used for the medical expense itemized deduction (that excludes over-the-counter medicines unless prescribed by a health care professional) beginning in 2011. It also caps health FSA contributions at \$2,500 per year after 2012, which is indexed annually for inflation after 2013.

Medical expense itemized deduction threshold. The new law raises the threshold for the medical expense itemized deduction from 7.5% of adjusted gross income (AGI) to 10% of AGI for regular income tax purposes effective in 2013. However, individuals age 65 and older (and their spouses) would be temporarily exempt from the increase through 2016.

Fiscal implications. The Congressional Budget Office estimates the law decreased the federal deficit by \$138 billion over the 2010–2019 period. However, Douglas Holtz-Eakin, a former CBO director, says the law actually increases the deficit by \$562 billion.

The Recovery That Gets No Respect! (continued from page 1)

way to go before hitting bottom. Last September, 63% felt the economy still had a long way to go. "The data reveals that the public still believes the end of the downturn is some distance off," Citi said.

The case for recovery.

The most watched measure of future economic activity is the Index of Leading Economic Indicators (LEI) published by the Conference Board. This is a composite of ten economic indicators that have a very good track record of predicting the level of future economic activity, namely the interest rate spread, real money supply, index of supplier deliveries (vendor performance), manufacturers' new orders for consumer goods and materials, average weekly manufacturing hours, stock prices, the index of consumer expectations, building permits, manufacturers' new orders for nondefense capital goods, and average weekly initial claims for unemployment insurance. The LEI has risen for eleven months and is the single strongest factor indicating continued economic growth.

While the unemployment rate remains high and is likely to decline slowly, the number of initial unemployment claims has shown a marked

decrease, with latest four week moving average measure at 447,000, down from almost 650,000 last year. According to the Bureau of Labor Statistics, the economy added 162,000 jobs last month – fewer than we need to bring down the unemployment rate, but the highest number since 2007. Only 48,000 of the new jobs related to the 2010 census. The hiring of temporary workers has also seen a marked increase, which tends to foreshadow the hiring of permanent workers later.

The corporate sector could deliver upside surprises to support GDP growth. Relative to this point in the economic recovery, corporate profit margins, cash flows and productivity are near record levels, as companies quickly cut costs – including labor costs – in the downturn. In addition, corporations entered the recession with more healthy balance sheets than consumers and consequently are in relatively better financial condition to capitalize on the recovery.

The housing market will prove to be a positive contributor to growth this year. Granted, this is largely due to the very depressed level of new home construction. The contribution to GDP growth will be less than prior recoveries, but it will be a positive. The housing stock will need to be replenished faster than current

construction based on normal replacements and immigration.

The percentage of homeowners who are delinquent on mortgage payments fell slightly last quarter, the first decline since 2006. The percentage who are more than 30 days behind on payments fell to 6.57% from 6.60%, a negligible drop. Nevertheless, this may indicate that we are at the peak of the mortgage foreclosure crisis. By comparison, the rate five years ago was 2.68%. Tighter lending standards, mortgage modifications, and fewer job losses may be contributing to the improvement. Foreclosures will be an issue for years to come as many borrowers choose to willingly default on mortgages where the home is far underwater, i.e. the mortgage balance greatly exceeds the home's value.

U.S. retail sales surged 1.6% in March from a month earlier, normally a sign that consumers are growing more confident the economy is improving. Robust car sales drove much of the increase in retail sales. Yet excluding the automotive sector, other retailers were strong as well, rising 0.6%.

The jump in retail sales came amid subdued inflation. Consumer prices rose 2.3% compared with a

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"...the public still believes the end of the downturn is some distance off."

Identity Theft – Next Generation Prevention

“...as many as 10 million Americans have their identities stolen each year.”

Identity theft occurs when someone uses your personal information, like your name and Social Security number or credit card number without your permission, to commit fraud or other crimes. The Federal Trade Commission (FTC) estimates as many as 10 million Americans have their identities stolen each year. Consumers spent over \$1 billion as a result of identity theft from 2007 to 2008.

Thieves are more creative and skilled than ever obtaining personal information, ranging from the standard pick pocket to posing as legitimate companies through email, in a practice known as “phishing.” They rummage through mailboxes for account statements and call on the phone to entice people into providing their personal information. These crooks use personal information to open bank accounts or credit cards, produce counterfeit checks, to open utility accounts, obtain a license or government issued ID, or even get a job.

What can you do to prevent identity theft?

The Basics.

- a) Do not carry your Social Security card in your wallet. Instead, store it in a safe place.
- b) Shred all discarded documents that contain personal information.

- c) Do not write down or give out your PIN number for personal accounts.
- d) Use firewalls, anti-spy ware, and anti-virus software to protect your home computer; keep them up-to-date.
- e) Invest in a home safe or lockbox for safekeeping personal information at home, especially if you employ outside help or are having work done in your house.

Next level anti-identity theft measures.

- a) Check your financial transactions online at least weekly. Call the institution immediately if you see a suspicious transaction.
- b) Eliminate unwanted credit solicitations by calling 888-567-8688.
- c) Contact the DMA Opt-Out Preference Service to limit direct marketing efforts at www.dmachoice.org.
- d) Ask your credit card companies to stop sending convenience checks.
- e) Check your credit record with the three main credit reporting agencies - Equifax, Experian and TransUnion – on a rotating basis every four months. The web site is: www.annualcreditreport.com
- f) Women, never hang your purse on the back of a chair in a public place. Men, a simple rubber band around your wallet is a pick pocket deterrent - the friction makes it more difficult to pull from a pocket.
- g) Never click on links sent in unsolicited emails; instead, go directly to the company’s web site. If you are still unsure if it is a legitimate email, call the company directly to respond or inquire further.
- h) Do not store personal information on your laptop. Computers can be stolen and information on a hard drive is less secure than you think. Use a secure flash drive (such as IronKey) instead.
- i) If you have a home wireless network, make sure you set up network encryption.
- j) Use strong passwords, containing a mixture of eight or more upper and lower case letters, numbers, and special characters.
- k) Think twice about the information you disclose on Facebook, LinkedIn, Twitter, etc.
- l) Use ATMs only at established banks. Some independent ATMs you see in convenience stores and restaurants are owned by individuals. There are documented cases where personal data was sold by unscrupulous ATM owners for illegal uses.
- m) Watch your cell phone at all times. An Internet- and address book-equipped cell phone is a potential gold mine — they’ll not only get your information, but they’ll be able to reach all your contacts as well.

Identity theft services.

There are several identity theft services available to monitor your credit activity ranging in price from \$8 to \$20 per month, including Life Lock, ID Watchdog and Identity Guard.

Should you subscribe to one? It depends. Are you at higher risk (e.g., you never check your credit report)? What is the cost of the service? If identity theft was to occur, do you have the time (potentially weeks of work) to devote yourself to resolve it? Which features and benefits do you consider most valuable?

The services widely vary by company. The best services offer a current evaluation of your personal data, fraud detection by monitoring your data on a regular basis, and, if an issue is detected, determining a resolution and fixing it. Some services have the capability to check databases not easily accessible to consumers to detect if their information is for sale in “underground” Web sites, chat rooms, and other places on the Internet where stolen personal information is traded.

Other features and benefits to consider are the level of assistance offered if you are a victim, financial guarantees or insurance if the service’s data is ever compromised, service hours (24/7 or just

business hours), family member coverage, and stolen wallet services, to name a few. A web site that compares these services is <http://identity-theft-protection-services-review.toptenreviews.com>.

Insurance coverage.

Identity theft insurance coverage can be obtained through a homeowners or renters policy. First, check your existing coverage - it may already be included in your policy. However, if not included, with most insurance companies it can be added to your existing policy for an additional premium. These policy riders help pay for the costs associated with restoring your credit, within coverage limits (i.e. \$10,000 or \$20,000). Expenses that the policy may cover include mailing statements to credit agencies, obtaining credit reports and reimbursement for reasonable attorney fees. In addition, some policies may reimburse lost wages for time taken off from work to deal with an incident, e.g., time spent going to the Social Security Office, capped at a certain amount (i.e. \$500 per week). Each policy varies, so be sure to discuss the coverage thoroughly with your property and casualty insurance agent.

Proponents of identity theft insurance argue that it’s prudent to be covered as thoroughly as possible

given the statistical likelihood that everyone will be a victim of identity theft at some point in their lifetime – with many being victimized more than once.

The critics of identity theft insurance believe the overwhelming majority of identity theft victims will never suffer financial losses severe enough to warrant insurance. Almost all credit card companies, banks and other financial institutions will reimburse customers for amounts stolen by financial fraud. The National Association of Insurance Commissioners cautions consumers that insurance “cannot protect you from becoming a victim of identity theft and does not cover direct monetary losses incurred as a result of identity theft.” The coverage is limited to expenses you will incur to deal with the problem.

More information. The Identity Theft Resource Center, Consumers Union, Call for Action, and the Federal Trade Commission web sites are all sources of information on identity theft.

If it happens to you.

Contact the Planning Team at Matrix immediately. We’ll provide you with information and guidance on the steps you need to take.

by Janice A. McGunnigle,
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“If identity theft was to occur, do you have the time (potentially weeks of work) to devote yourself to resolve it?”

The Recovery That Gets No Respect! (continued from page 5)

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year ago, while prices excluding volatile food and energy were 1.1% higher on the year, which was the smallest annual increase since January 2004.

Storm clouds on the horizon. Federal debt levels seem headed towards 100% of GDP, far higher than anyone believes prudent, with no end in sight to massive annual deficits. Under the CBO's baseline budget projection, debt will equal 270% of GDP in 2045 and 716% in 2080. Even more discouraging is the lack of political will to seriously address the issue. Only Rep. Paul Ryan, ranking Republican on the House

Budget Committee, has put forth a concrete plan that would curtail entitlements and some tax breaks. The CBO says that his plan would cause the debt to peak at 100% of GDP in 2045 and thereafter decline. Yet the Ryan Plan is considered "politically ludicrous" and will go nowhere because it would cut benefits for too many voters.

The direction of interest rates is another large unknowable. The Federal Reserve will be raising interest rates at some point. Will the rate hike be too soon? Not soon enough? Too fast? Too slow? Will the Fed wait for inflation to appear or

move preemptively?

While the longer term looks very problematic, even difficult, it appears that a real recovery is well underway. Unemployment will decline slowly and the mortgage mess will continue to get lots of press. Yet the recovery could surprise economists and most of the population with its strength. It is all too easy to soak up the popular pessimism and allow it to cloud your thinking. Pay attention to the overall story from the hard numbers and ignore speculation and inordinate focus on one negative statistic. For the next few quarters, the recovery is real.

About Matrix Wealth Advisors, Inc.

Planning is the process of allocating limited resources among unlimited alternatives according to a system of values to achieve life goals.

Founded in 1990, Matrix uses a very personalized, principle-centered wealth management process to offer comprehensive financial planning and investment advisory

services that help clients take action to achieve their goals. Matrix is a fee-only, fiduciary firm and is compensated solely by our clients.



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