



Compositions

Changes Ahead: Overview From Washington

Health Care Reform:

Two new pieces of legislation, the *Patient Protection and Affordable Care Act* and the *Health Care and Educational Reconciliation Act of 2010*, mark the most significant reforms for health care since Medicare. Estimations from the Congressional Budget Office approximates 32 million Americans who are currently uninsured will have coverage by 2019, with an estimated cost of \$940 billion.

Regardless of the ongoing debates and disagreements on the implementation of the new legislation and its impact (whether positive or negative) on the US Economy, individuals and businesses need to be aware of how these changes may have a *personal* impact.

If you are an Employer:

Business owners who employ 50 or more individuals and do not currently offer health insurance coverage may be facing a tax liability (premium tax) of up to \$2000 per full-time employee. For larger employers with more than 200 workers, the employees must be automatically enrolled in a health insurance plan of which they can request to *opt out* should they not want the coverage.

As an Individual:

For summary purposes, here are the main points -

- By 2014, all US citizens and legal residents must have health insurance (there are some exceptions), or face the potential of a 2.5% tax penalty on taxable income.
- For those with existing plans provided by their employer, dependent coverage for qualifying children will be extended to age 26.
- Other points on employer plans speak to the elimination of lifetime limits (and eventually annual limits), a cap on waiting periods to 90 days, and decisions to raise premiums or deny coverage based on health status and gender will no longer be allowed.
- Another important change is in regards to the various medical savings accounts. Beginning in 2011, contributions to health flexible spending accounts will be limited to \$2500 annually, and the use of the funds for over-the-counter drugs will be restricted, plus tax-free reimbursements from HSAs and Archer MSAs for over-the-counter drugs will not be allowed. Taxes on HSAs and Archer MSAs will increase for distributions not used for qualified medical expenses.

Medicare Part D (drug coverage) beneficiaries will have access to a \$250 rebate if they reach the gap (sometimes called the donut hole) in their coverage. The act also states that the coinsurance rate for costs within the donut hole will be gradually reduced to 25%.

There are also changes for low-income and Medicaid beneficiaries. Eligibility for Medicaid will be expanded for the inclusion of individuals under the age of 65 whose annual income is less than 133% of the publicized Federal Poverty Level.

New tax credits and subsidies will be available for families with incomes up to 400% of the Federal Poverty Level, allowing them to purchase health insurance through state-run exchanges, and/or offset medical costs incurred by the families.

Adults with pre-existing conditions will have a source for coverage through temporary high-risk pools until 2014. By that time, coverage cannot be denied for pre-existing conditions.

The information herein should not be deemed as tax or legal advice. Please consult your accountant, tax attorney and/or financial consultant prior to making any decisions.

Inside this issue:

Information addressing some of the changes from recent legislation, and how it may impact you.



Other Changes....

...And yes, there's more!

Included in the two Acts summarized on page one there are some changes in the area of taxes:

- If you itemize your deductions for qualified medical expenses, the threshold has increased from 7.5% of AGI to 10% of AGI, yet you may qualify for a temporary exception if you are 65 or older.
- Medicare Part A (hospitalization coverage) has also been amended. The tax has increased 0.9% for individuals with earnings exceeding \$200,000, and for couples with joint earnings exceeding \$250,000.
- Another impact for high-income taxpayers, you may be subject to a surtax of 3.8% on unearned income (capital gains, dividends, annuities and/or rental income).
- Some of these provisions will have an immediate impact, but others will begin over time. It is important to discuss your personal situation with a professional financial and/or tax advisor.

Home Affordable Modification Program (HAMP): On March 26, 2010, enhancements to the use of funds available through the Troubled Asset Relief Program (TARP) were initiated to help provide additional resources for homeowners. Here are the highlights:

- Temporary assistance to unemployed homeowners searching for new employment
- Requirement of home-loan servicers to consider principal write-down
- Foreclosure delay until qualification for HAMP assistance has been identified
- Relocation assistance payments to borrowers who successfully find alternatives to foreclosure.

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Did you know about the provisions for college payments?



If you have children entering college soon, take note of the provisions in the new legislation. Private lenders have been a source for students in acquiring the funds necessary to pay for the costs of a higher education. However, under the new legislation, the Federal Family Education Loan (FFEL) program will be eliminated, and private lenders will no longer receive any government subsidies for their loan programs. Starting July 1 of this year, all federal student loans will be made directly to the government under the Direct Loan program. Student borrowers may find this simpler, and shouldn't notice any significant change.

For parents familiar with the federal PLUS Loan, the interest rate is capped at the Direct Loan rate of 7.9%, less than the former FFEL loan program.

Pell Grants: Beginning in 2013, automatic annual inflation-adjusted increases will occur. Currently, the maximum Pell Grant for academic year 2009/2010 is \$5350. This will increase to \$5550 for 2010/2011 through the next two years. With the auto-increase beginning in 2013, it should reach \$5900 in 2019/2020.

IBR program enhancement: Borrowers who take out new federal student loans after July 1, 2014 will pay 10% of their discretionary income to student loan payments, with any remaining debt forgiven after 20 years.

Hiring Incentives to Restore Employment (HIRE): This Act gives employers a temporary payroll tax exemption for qualifying new hires, plus a tax credit for retaining new employees. There are also provisions for an exemption from paying Social Security portions of FICA. For more information on the potential financial impact of the new legislation, contact your financial professional.