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The Twenty Top Tax Breaks In The New 2010 Tax Act

The 2010 Tax Relief Act includes dozens of tax breaks for individuals and businesses. Here are 20 of the top provisions.

1. No increase in income tax rates. Rates in the top two income brackets had been scheduled to rise from 35% to 39% and from 33% to 36%. The new law also preserves relief from the "marriage penalty" for joint filers.

2. Status quo for capital gains and dividends. The maximum tax rate for long-term capital gains was supposed to jump to 20% (10% for low-income individuals), and dividends would have been taxed as ordinary income. Now, the existing 15% rate for long-term gains and dividends remains for most taxpayers through 2012.

3. Lower payroll taxes. For 2011 only, the law authorizes a two percentage point drop—to 4.2%—in employees' share of the Social Security tax, due on the first $106,800 of wages. You get the same break if you're self-employed.

4. Alternative minimum tax (AMT) relief. The new law slightly increases the exempt amounts on 2010 and 2011 returns for avoiding exposure to the AMT and its bigger tax bite. The amounts had been scheduled to revert to low, pre-2001 levels.

5. No phaseouts for itemized deductions and personal exemptions. Before 2010, itemized deductions and personal exemptions were phased out for high-income taxpayers. But those limits were repealed for 2010, and the new tax act extends that relief through 2012.

6. A bigger break for owning qualified small business stock (QSBS). The maximum 50% exclusion for investments in QSBS had been temporarily increased to 75%. Now, under the new tax act, there's a 100% exclusion for QSBS acquired before January 1, 2012.

7. An enhanced education credit. The American Opportunity Tax Credit (AOTC), which expanded the Hope credit for college expenses, was scheduled to expire after 2010. Now, the maximum $2,500 AOTC is extended through 2012, though it's still phased out for high-income taxpayers.

8. A bigger deduction for college savings. The maximum $2,000 deduction for contributions to Coverdell Education Savings Accounts, slated to drop to $500 after 2010, is extended through 2012.

9. A partial reprieve for Section 179 deductions. The maximum Section 179 deduction, which rose from $250,000 to $500,000 for qualified business property placed in service in 2010 and 2011, was then scheduled to drop to $25,000. The new law allows a maximum $125,000 deduction for 2012.

10. A bonus for bonus depreciation. The tax act retroactively reinstates this business perk, which had expired after 2009. A 100% bonus depreciation deduction is generally available for qualified property placed in service in 2011, and there's a 50% deduction for 2012.

11. Revived credit for going green. The credit for home energy-saving devices, scheduled to expire after 2010, is

(Continued on page 4)

Building Confidence, Expanding the Team

In an effort to maintain our top priority, SERVICE TO OUR CLIENTS, Partners Wealth Management would like to announce that we have expanded our team. Joining us is Ann Bonfiglio. Ann has assumed the position of Office Manager. Ann manages the day-to-day functions of the headquarters, along with providing support to our firm's financial advisors. Sue Montalto has also joined us in the capacity of Executive Assistant/Marketing Manager. Sue is assisting John Freiburger, the founder of Partners Wealth Management, along with managing our marketing division. Both Ann and Sue bring enthusiasm and experience to Partners Wealth Management. We would also like to congratulate Jason Mirabella on his transfer from our Portland office. Jason, after joining us a little over a year ago, became such a strong asset to the Partners Wealth Management team, we felt our clients would benefit by having Jason here at our headquarters in Naperville. Please know that as Partners Wealth Management continues to grow, CLIENT SATISFACTION IS OUR COMMITMENT TO YOU.

John

Planning Ahead Doesn't End In Retirement

After working for many decades, buying a home, raising a family, sending children to college, and paying for a wedding or two, retirement probably seems like a just reward. Yet now is no time to sit on your nest egg. Even if you've been retired for several years, you need to keep planning for the future, which could extend beyond your 80s. In 2010, the average life expectancy for a U.S. citizen was 77.8 years. And if you've made it to age 70, the average rises to 87. Since many retirees can now reasonably expect to live into their eighties or nineties, retirement planning never really ends.

Of course, everyone's situation is different, but here are several areas that could have a major impact on your plans.

Investment portfolio. Most retirees tend to invest rather conservatively, and for good reason. When you're living on a fixed income, you need to make sure you have enough coming in to cover your basic expenses, and you may not have time to recover from steep market losses. Still, keeping too much of your portfolio in bonds and other comparatively safe investments may backfire over a long life span, especially if higher inflation returns. Allocating a judicious percentage of your assets to stocks may enable you to maintain your standard of living when expenses rise.

Insurance policies. Your coverage needs change with age, and a review during retirement of all of your policies can not only make sure you have enough insurance but also that you're not continuing to pay for coverage you may no longer need. Term life insurance may be an unnecessary luxury now, while long-term care insurance, to pay for extended care in a nursing home or in your residence could be a necessity. And while Medicare covers most doctor and hospital fees, you might need to buy additional supplemental coverage at a time that many employers are scaling back health insurance for retirees.

Wills and trusts. Estate planning, too, tends to be a work in progress, and wills and trusts created several years ago will likely need to be updated to reflect your evolving circumstances as well as changes in estate tax rules. During the course of your retirement, for example, your children may become so successful that they no longer need to inherit as much of your wealth, while bequests or trust payments to grandchildren could help them buy a home or launch a business.

Weighing all of these factors and making sure that your retirement continues to unfold according to plan is a daunting proposition. But you don't have to go it alone. We are here to work with you and other advisors to help keep you on track regardless of where you are in your post-work life. Please call for an appointment to review your progress. ●

7 Reasons To Update Your Financial Plan

Have you developed a comprehensive financial plan? Even if you have, it may need additional attention. Consider these seven reasons to revisit your plan.

1. Keep on track for meeting goals. While having a plan is an important first step, success will depend on staying focused on what's needed to meet the plan's objectives. A review shows how you're progressing and what your next action items need to be.

2. Reflect major "life events." If something significant has happened—you've gotten married or divorced or changed jobs, for example, or you have a new child or grandchild—you may want to consider changes to your financial plan. You'll also need to think about revising beneficiary designations for retirement plans, IRAs, and insurance policies. A review of your estate planning documents and reassessment of insurance needs is also in order.

3. Take the latest tax legislation into account. State and federal tax laws are in constant flux, and it's crucial that your plan reflect recent changes—such as the new estate tax law that provides a larger individual exemption and could require adjustments in the language of your will or any trusts you may have.

4. Re-think your risk tolerance. The stock market continues to be volatile, and a mix of investments that seemed comfortable before may not fit your current needs and risk tolerance. Be sure your portfolio reflects your current risk tolerance.

5. Tighten your budget due to a job loss or reduction in compensation. Not having your normal (or prior) income will throw any plan out of whack. You'll likely need to reexamine your priorities and look for ways to cut back on spending, particularly for major purchases that you had planned to make. Unexpected

Seeking Income In A Rising Yield Market

The good news for bond investors is that yields may slowly rise from the rock bottom levels of recent years. The bad news is that increase will push down prices, and your total return—the combination of interest payments and price changes—could go down. That's a particular problem if you invest in bond funds, whose returns may suffer. Choosing a structured portfolio of individual bonds may give you more flexibility, though the process is complicated and requires larger investments.

Bond yields have been very low because, with the economic environment uncertain and stock prices volatile, many investors have flocked to bonds, which seem to offer more reliable returns. That surge in demand has forced bond prices higher, while yields have fallen, because bond issuers haven't had to offer attractive interest rates. Now, as the economy slowly rebounds, inflation and interest rates are likely to move higher, and bond issuers will need to lure investors with rising yields. That will make existing bonds, with lower yields, less popular and force down their prices.

In this environment, buying individual bonds offers several advantages over investing in bond funds, though you'll need substantial assets to invest in enough individual bonds to diversify the fixed-income portion of your portfolio. The potential benefits of choosing individual bonds include:

- Lower costs. If you buy individual bonds, you will pay an average initial transaction fee of 50 basis points (0.5%) to a broker/dealer, and your expenses end there. With a bond fund, you will pay an average 65 basis points (0.65%) every year you own the fund. If your returns are 3% a year, you're losing nearly a quarter of your return to expenses.
- Solid ground. If you buy a bond fund, it will fluctuate in value, and your ultimate return will depend in part on the fund's price when you sell. With individual bonds, you know exactly what return you'll get if you hold a bond to maturity.
- Custom picks. By purchasing individual bonds, you can choose your own diversification strategy by designing a mix among industries that makes sense to you in terms of market and industry trends.

There are also risks, of course, in opting for individual bonds. Again, if you don't buy an adequate number of bonds, you won't sufficiently diversify your credit risk—that is, the possibility that a bond issuer could default on its obligations. In addition, if you need to raise cash by selling individual bonds before maturity, you may not get full value, because bonds are sold on secondary markets and aren't as liquid as stocks.

Finally, because bond investing is complicated—requiring you to choose from among many kinds of bonds and the hundreds of thousands of issues on the market—there's a risk you'll make a wrong move. Institutional money managers, sovereign funds, and bond funds are scooping up the best new inventory, leaving individual investors to purchase what's left over in the secondary market.

With individual bonds, there's also the question of maturities—should you buy short-term bonds, long-term bonds, or a mix? Particularly in today's environment, when yields are low but may rise soon, a strategy called bond laddering could be the best option. With a bond ladder, rather than buying one bond with, say, a 10-year maturity, you invest in several, with a variety of maturity dates—typically one-year, two-years, three-years, and so on—ranging over 10 years.

The idea is simple. Bonds with the shortest-term maturities tend to have the lowest yields, because they don't tie up investors' money for long periods during which interest rates may fluctuate. Longer-term bonds, in contrast, have to offer higher yields, because they do lock in an interest rate for an extended period. With a bond ladder, you diversify your portfolio with a range of maturities, and when a short-term bond matures, you can use the proceeds to buy another. If yields are rising—as they may be during the next few years—the new, longer-term bond you choose should provide more income than the bond that matured.

If you're particularly concerned that bond yields will rise and prices fall, you could choose to create a short ladder, covering three years or so, with bonds maturing every six months. But this strategy, like others involving individual bonds, is complex. We have the fixed-income expertise and experience to help you construct a bond portfolio that not only makes sense in this economic environment but also, most importantly, fits the needs of your particular financial situation. ●

medical expenses could also require belt-tightening.

6. Utilize new sources of income. On the other hand, if you've landed a high-paying job, sold a business, or come into an inheritance, you may be able to save more for retirement or your children's education or set aside cash for a memorable vacation.

7. Review options as retirement nears. If you're retiring soon, it's a good idea to review your financial plan and make sure you're on track for a secure retirement. We can project your annual retirement income and adjust your portfolio risk as you enter your golden years.

How often should you review your plan? While your investment portfolio should be reviewed at least once a year, your financial plan can be reviewed every two to three years to keep it on track. If you're nearing retirement or facing major life events, an annual review is best. If your plan is out of date or if it's been a while since your last review, please give us a call. ●

The New Economics Of Marriage

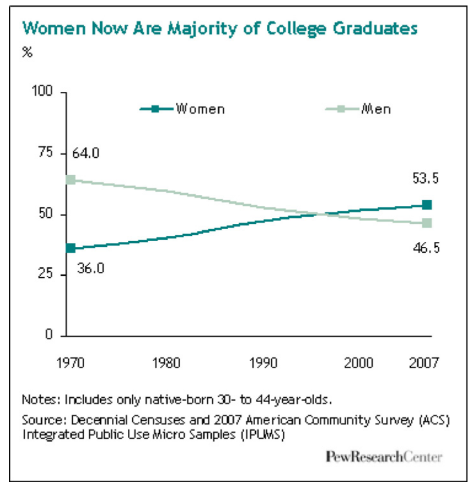
Marriages in the 21st century aren't like your grandparent's marriage, your parent's, or even your own if you've been married for at least a couple of decades. The continuing trend toward two-earner households and educational and professional gains for women have changed the economics of marriage and families. Whereas husbands have traditionally been better educated than their wives and have provided most family financial support, women now play a much more crucial role.

According to a new study by the Pew Research Center, a larger share of men now marry women who are better educated and have higher incomes compared with how things were in 1970. The report, based primarily on U.S. Census Bureau data, compares marriages in 1970 to marriages in 2007. In 2007, the median household incomes of both married men and married women were about 60% higher than they were in 1970. Unmarried women have made comparable gains, but the increase for unmarried men was only 16%. (Household incomes are adjusted for size and inflation.)

Education has played an essential role. Marriage rates have declined since 1970, especially for the least educated men and women. Because additional years of schooling tend to lead to higher incomes—and because people who marry generally are better educated than are those who remain single—both men and women who are married have benefited from the trend. But women usually weren't breadwinners 40 years ago, and adding their income to the household now gives married men a distinct financial edge over unmarried men.

The Pew study examines how these factors have affected couples between the ages of 30 and 44. By age 30, most people have completed their educations, found jobs, and gotten married. For the first time in U.S. history, women in this age group are more likely to be married than are men. Furthermore, 28% of the women age 30 to age 44 in 1970 had husbands who were better educated than they were, while just 20% of the men had less education than their wives. By 2007, the pattern had essentially reversed. Only 19% of women in the group had better-educated husbands, while 28% of the men had wives with more education than they had. And whereas in 1970, only 4% of the men in this age group had wives who earned more than they did, in 2007, 22% of the wives in this age group drew larger salaries than their husbands did.

These shifts in marital economics reflect a changing workplace. Among individuals in the 30-to-44 age group, more women now have college degrees than men, and the earnings of the female population increased by 44% from 1970 to 2007, compared with only a 6% gain for men. Though men still earn more than women, on average, the gap is narrowing, that's resulting in big changes for U.S. households. ●



Top Tax Breaks

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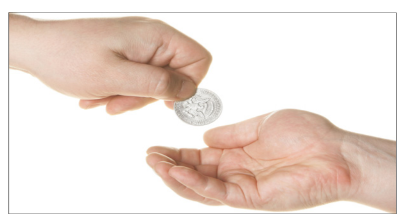
extended through 2011, but the credit is limited to 10% of the cost of improvements (it had been 30%) and a maximum of $500.

12. Offspring benefit. The child tax credit of $1,000 per child was going to lapse after 2010; now it will be in force through 2012.

13. Help with adoption costs. The new law extends the credit for adoption expenses—now a maximum of $12,170, down from $13,170 in 2010—through 2012.

14. Money for hiring. The Work Opportunity Tax Credit, available to businesses for employing workers from "target" groups, now won't expire as planned on August 31, 2011, but will stay in force through 2012.

15. Reward for taking the bus. The maximum monthly $230 tax-free benefit for transit passes, scheduled to decrease to $120 after 2010, is extended through 2011.



16. A renewed deduction for corporate largesse. Enhanced deductions for companies' contributions of food inventory, books and computer equipment, which expired after 2009, are retroactively extended through 2011.

17. Option to deduct sales tax. The chance to write off sales tax, rather than state and local income taxes, ended after 2009 but now is back for 2010 and 2011.

18. Deduction for IRA transfers to charity. The ability to direct an annual maximum of required IRA distributions to charitable organizations, which had expired after 2009, is retroactively extended through 2011.

19. Generous estate tax rules. Following the temporary repeal of the tax for 2010, it's reinstated but with a $5 million exemption and a top tax rate of only 35% and the reunification of estate and gift taxes through 2012. And heirs will again benefit from a step-up in basis on inherited assets.

20. A break on generation-skipping tax (GST). The new law coordinates the GST with the estate tax rules through 2012, with the same maximum exemption of $5 million. ●