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September, 2009

The Post-9/11 GI Bill

The Post-9/11 GI bill, a new education benefit for servicemembers and veterans, went into effect on August 1. Here's a look at some of the eligibility requirements and benefits of the bill that the Department of Veterans Affairs has described as "the most comprehensive education benefit package since the original GI Bill was signed into law in 1944."

Benefits and eligibility

You may be eligible for Post-9/11 GI Bill benefits if you are a servicemember or a veteran who has served on active duty after September 10, 2001 for at least 90 aggregate days (or 30 continuous days if honorably discharged for a service-connected disability). If eligible, the cost of your tuition and fees will be covered (if you're not on active duty, the amount paid is limited to the highest amount of full-time, in-state undergraduate tuition and fees charged by a public college or university in the state in which your school is located). Eligible veterans and members of the National Guard or Selected Reserve (but not active duty servicemembers) may also receive a monthly housing allowance equal to the basic allowance for housing of an E-5 with dependents and an annual stipend for books and supplies of up to \$1,000.

However, benefit payments are based on length of service. If you've served at least 36 months on active duty after September 10, 2001, or at least 30 days of continuous active duty service if disabled, you may be entitled to the maximum amounts listed above. If you've served on active duty for a shorter period, you may be entitled to a percentage of the maximum benefit, ranging from 40% for a service period of at least 90 days but less than 6 months, to 90% for a service period of at least 30 months but less than 36 months.

Up to 36 months of full-time education benefits are generally payable (i.e., enough for a four-year degree based on a nine-month school year), and benefit eligibility lasts for 15 years after your last period of active duty of at

least 90 consecutive days (or a period of at least 30 continuous days if you were released for a service-connected disability).

Transferring benefits to family members

One noteworthy provision of the Post-9/11 GI



Bill gives servicemembers the opportunity to transfer unused education benefits to spouses and children. Benefits may be split among eligible family members, and servicemembers can modify or revoke their decision to transfer benefits at any time.

To be eligible, you must be on active duty or in the Selected Reserves on or after August 1, 2009. You must have served at least six years, and generally commit to serving four additional years (although some exceptions to this added service requirement exist, including a temporary exception for servicemembers at or nearing retirement).

The Yellow Ribbon Program

If you want to attend school at a college or university where the cost is higher than what's covered by the new GI Bill, you may benefit from a bill provision called the Yellow Ribbon Program. Participating schools have entered into agreements with the VA to fund tuition expenses above the highest in-state undergraduate tuition rate. The institution may waive up to 50% of additional tuition and fee expenses, and the VA will match that amount. However, this program is only open to individuals entitled to the maximum benefit rate, and not all schools will participate. Those that do can choose the amount of tuition and fees that will be waived, and may limit the number of students who can participate.

You can find a list of participating schools and more details about the Post-9/11 GI Bill at the Department of Veterans Affairs website, www.gibill.va.gov, or you can call (888) GI-BILL-1 to speak to a benefits counselor.

Roth IRA Conversions in 2010: Goodbye, Income Limits!

Regardless of your filing status or how much you earn, you'll be able to convert a traditional IRA to a Roth IRA starting in 2010.

With the lure of tax-free distributions, Roth IRAs have become popular retirement savings vehicles since their introduction in 1998. But if you're a high-income taxpayer, chances are you haven't been able to participate in the Roth revolution. Well, that's about to change.

What are the current rules?

For 2009, if your modified adjusted gross income (MAGI) is greater than \$100,000, you can't convert a traditional IRA to a Roth IRA. This \$100,000 limit applies whether you're single or married filing jointly. And if you file your taxes as married filing separately, you can't make a conversion at all--regardless of your income level.

In addition, your ability to make annual contributions to a Roth IRA depends on your MAGI:

| If your federal filing status is: | Your Roth IRA contribution is reduced for 2009 if your MAGI is: | You can't contribute to a Roth IRA in 2009 if your MAGI is: |
|--|---|---|
| Single or head of household | \$105,000 but less than \$120,000 | \$120,000 or more |
| Married filing jointly or qualifying widow(er) | \$166,000 but less than \$176,000 | \$176,000 or more |
| Married filing separately | More than \$0 but less than \$10,000 | \$10,000 or more |

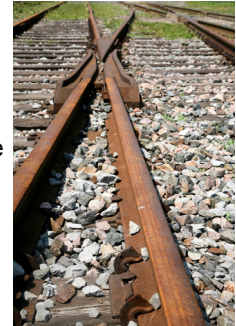
What is--and isn't--changing

In 2006, the Tax Increase Prevention and Reconciliation Act (TIPRA) became law. TIPRA repeals the \$100,000 income limit for conversions, and allows conversions by taxpayers who are married filing separately, beginning in 2010. This means that regardless of your filing status or how much you earn, you'll be able to convert a traditional IRA to a Roth IRA starting in 2010.

Unfortunately, TIPRA does not repeal the income limits for annual Roth contributions. However, depending on your circumstances, beginning in 2010 you may be able to make your annual IRA contribution to a traditional IRA, and then convert that IRA to a Roth. Your financial professional can help you determine if this works for you.

Convert now, pay later

Normally, when you convert a traditional IRA to a Roth IRA, you're required to include the amount converted--minus any nondeductible contributions you've made--in your gross income in the year you make the conversion.



However, to ease the pain of a potentially large tax hit in 2010, TIPRA includes a special rule for 2010 conversions only: if you convert your traditional IRA to a Roth IRA in 2010, you can report half the income from the conversion in 2011, and the other half in 2012.

For example, assume that in 2010 your sole traditional IRA is worth \$200,000, and you've made \$50,000 of nondeductible contributions. If you convert the entire IRA to a Roth in 2010, \$150,000 will be subject to federal income taxes. If you use the special rule, you can report half of the taxable amount (\$75,000) as income in 2011, and the other half as income in 2012. Alternatively, you can report the entire \$150,000 as income in 2010. (Note: state tax rules may differ.)

(Note that a SEP IRA can also be converted to a Roth IRA, and a SIMPLE IRA can be converted two years after you begin participating in your employer's SIMPLE IRA plan.)

Is a Roth conversion right for you?

The answer is complicated, and depends on many factors, including your income tax rate, the length of time you can invest the funds without withdrawals, your state's tax laws, and how you'll pay the income taxes due on the conversion.

Even if you decide to convert, whether it makes sense to use the special 2010 deferral rule depends on your individual situation. It may also depend on where you think income tax rates are headed. If you expect rates to be lower in 2010 than in 2011 and/or 2012, deferring the tax hit may not be a good idea. Your financial professional can help you run projections to determine if the special rule is appropriate in your particular case.

Understanding Principal-Protected Notes and CDs

Let's say you're beginning to think stocks are looking attractive again, but you're still wincing from the beating that equities took last year. What if someone told you that you might be able to earn returns similar to those of a stock index with an investment that protects your initial investment, regardless of what happens with the market?



The good news: investments that offer protection of principal and the potential for higher returns do exist. However, they require careful consideration before you invest to make sure you understand exactly what you're investing in, what the limitations of a specific investment are, and what could potentially go wrong.

Principal-protected notes and CDs

Principal-protected notes (PPNs) are debt instruments that are typically created by an investment bank. They are one example of a type of investment known as structured products. As the name implies, a PPN is designed to return the initial investment, plus a return based on some other asset, index, or market data.

To do that, PPNs generally combine various types of investments. For example, a PPN might pair a zero-coupon bond to cover the principal with a derivative based on stock futures that determines your rate of return--if any--on that principal.

Principal-protected certificates of deposit (CDs) function much like PPNs, except that repayment of principal may be funded by a security that's covered by the same Federal Deposit Insurance Corporation (FDIC) insurance that governs other CDs.

In addition to the protection of principal, what makes PPNs so attractive to investors is that they frequently offer a coupon rate that's substantially higher than prevailing market rates. However, don't let that enticing figure be your sole consideration when evaluating a PPN.

For example, the creditworthiness of the issuer is key. A principal-protected note is essentially an unsecured debt owed by the investment bank that issued it (which may not be the financial institution from which you purchase it). If the issuer goes under, investors are treated just as other unsecured creditors

are, as holders of Lehman Brothers PPNs learned to their sorrow when that company filed for bankruptcy.

Test-driving a hybrid: questions to ask

What is the investment's term? Because there's no guarantee a principal-protected note or CD will be marketable if you try to sell it before its maturity date, it's best to invest in one that matches a predictable time horizon.

What underlying assets does it involve (i.e., options, futures, or other derivatives) and what risks do they involve? The derivative component of a principal-protected note or CD may be linked to interest rates, stock or bond indexes, an individual commodity or commodity index, or a currency or basket of currencies. Those investments and derivatives themselves involve risks that are quite different from those of a typical fixed-income security, and therefore may not be appropriate for all investors.

What interest rate does it pay? In general, the higher the interest rate, the more likely it is to be associated with volatile underlying assets, and the greater the uncertainty about your return--and indeed, whether your investment will earn anything at all.

Who issued it, and what underlies any guarantee of return or the safety of the principal? As mentioned previously, a PPN's guarantee is subject to the claims-paying ability of the issuer. If that institution is unable to repay its debt, the guarantee may be worthless.

Is there a limit on the return that a note offers? If your return is based on an index, find out if that return will be capped at a certain maximum if the index moves beyond a given level.

How is the derivative-based return calculated? For example, the return might be based on either the value of an index at maturity or on an average of prices over the term of the note.

Can the promised results be duplicated cost-effectively in a different way? Costs can be difficult to compare. Weigh them against the convenience of investing in a single note or CD rather than in separate bonds and/or derivatives.

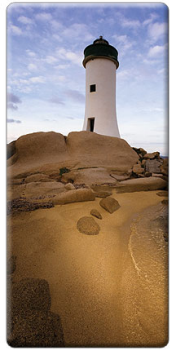
Maturity matters

A guarantee that you will get your principal back in full applies only when a principal-protected note or CD matures. If you try to sell it before then, you could still suffer a loss. Also, don't assume a note or CD will make periodic payments of income; many pay all returns at maturity.



Additional factors to consider

- Your liquid net worth
- Your tax status
- Your risk profile
- Your age
- Your investment experience
- How the note or CD would fit into your existing portfolio



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Ask the Experts



What health insurance options do college students have?

There are basically two ways to insure your child's health while at college: through your family health plan or a health plan provided by the school.

Most family health plans allow a child to continue to be covered by the family plan if the child is your dependent (check the policy for specific age limits and requirements) and is a full-time college student. But be sure to check whether coverage is available for doctors and medical services provided on or near campus. Some plans, such as health maintenance organizations (HMOs), may offer full coverage only if provided by doctors or at facilities within the HMO network. Full benefits may not be available for care provided by doctors or at facilities outside the particular HMO network. However, other types of plans may offer full coverage for almost any type of care provided by most doctors or at nearly all hospitals.

If your child isn't covered by your family health plan because he or she has reached the

maximum age stated in the policy to be covered as a dependent, or is not a full-time student, the Consolidated Omnibus Budget Reconciliation Act (COBRA) may allow your child to continue to be covered by your plan on an individual basis. The benefits of your health insurance plan are available to your child for up to 36 months, but often at an additional cost.

Your child may also obtain health insurance through the school. Many colleges offer low-cost health plans for students that may even be less expensive than continuing coverage through your family plan. These plans are usually not as comprehensive as family plans, but provide benefits for most urgent or serious injuries or illnesses. Plans differ from one college to the next. Also, check the applicable laws of the state where the college is located. Those laws may impact the level of coverage available and the cost of coverage.

Can a student's health insurance be cancelled during a medically necessary leave of absence?

Generally, no. In 2008, President Bush signed into law H.R. 2851, known as "Michelle's Law." It ensures that a child covered under a health insurance plan as a dependent and full-time college student will continue to be covered during a medically necessary leave of absence from school due to a serious medical condition.

The law is named in memory of Michelle Morse who, while a full-time college student, was diagnosed with cancer. Against her doctor's wishes, she opted to continue her studies on a full-time basis while undergoing treatment so she could remain covered under her health insurance plan.

While Michelle's Law does not require health insurance plans to provide coverage to dependents, it does mandate that plans offering such coverage allow students like Michelle Morse to take a medically necessary leave of absence from college without losing their dependent status under their health insurance plan. The determination of a "medically

necessary" leave of absence is made by the student's treating doctor.

Under the law, the coverage must be extended for the earlier of one year from the date of the student's medically necessary leave of absence or the date the coverage would have otherwise ended based on specific policy provisions. The law applies not only to public and private two- and four-year colleges, but also to many occupational education and postsecondary vocational schools.

The law becomes effective for insured and self-insured health plans on the first day of their plan year beginning on or after October 9, 2009. For calendar year plans, this means the effective date is January 1, 2010.

Michelle's Law applies to individual health insurance plans in the same manner as it applies to group health plans. And if a parent or employer changes medical plans, any new plan must continue the dependent student's coverage under the new plan.