



Bartholomew & Company

MANAGING WEALTH WITH WISDOM SINCE 1994

April 2011

Bartholomew & Company

Thomas J. Bartholomew
President
370 Main Street
Suite 1000
Worcester, MA 01608
508-753-8807
1-800-440-8807
tom@bartandco.com
www.bartandco.com

There's still time to make a regular IRA contribution for 2010! You have until your tax return due date (not including extensions) to contribute up to \$5,000 for 2010 (\$6,000 if you were age 50 by December 31, 2010). For most taxpayers, the contribution deadline for 2010 is April 18, 2011. Normally, your tax return must be filed by April 15. However, the IRS has extended the deadline to April 18 this year because the 15th is a holiday in Washington D.C. (Emancipation Day).

Checks must reach our office by Thursday, April 14th, in order to reach Commonwealth by Monday, April 18th.

If you have any questions, please call our office at 1-800-440-8807. Thank you.

In this issue:

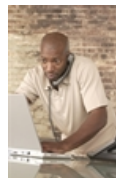
Changes Affecting Small Businesses

Rising Interest Rates: The Downside of Economic Recovery

Social Security Survivor's Benefits

What health-care changes become effective in 2011?

Changes Affecting Small Businesses



Recent legislation includes changes that will affect small businesses in 2011. Here are some of the changes worth noting.

Depreciation

If you're a business owner, you probably know that you're allowed to deduct the cost of capital assets that you purchase for your business. Typically, part of the cost is deducted each year based on the useful life of the property, according to a depreciation schedule. Special rules allowed an accelerated "bonus" 50% first-year depreciation deduction for qualifying property placed in service during 2008, 2009, and 2010. This accelerated depreciation deduction is allowed for purposes of the alternative minimum tax (AMT) calculation, as well as for calculating regular tax.

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 increased the bonus depreciation percentage allowed to 100% for qualifying property acquired and placed in service after September 8, 2010, and before January 1, 2012. This change enables business owners to significantly accelerate the deductions that result from new capital expenditures. (Note: one of the requirements for the accelerated depreciation deduction is that the "original use" of the property must commence in the specified time period--i.e., previously used property doesn't qualify.)

IRC Section 179 expensing

Internal Revenue Code (IRC) Section 179 allows you to elect to deduct (or "expense") the cost of depreciable tangible personal property that you acquired for use in your business in the year that you purchase it, rather than over time through depreciation deductions. As a result of legislation passed in September 2010, the maximum amount that can be expensed under IRC Section 179 for 2010 and 2011 increased to \$500,000 (reduced when the total cost of qualifying property placed in service during the year exceeds \$2 million). This

legislation also temporarily expands the definition of property that qualifies for a deduction under IRC Section 179 to include some real property, including certain improvements made to nonresidential buildings and retail property, as well as qualified restaurant property. However, the maximum Section 179 expense limit that applies to real property is \$250,000.

Other considerations

- Health care reform legislation passed in early 2010 established a tax credit for small businesses that offer health insurance coverage to their employees. For 2011, the maximum credit is 35% of employer premium expenses. To be eligible for the credit, you must have the equivalent of fewer than 25 full-time employees for the year; average annual wages must be less than \$50,000; and you must contribute at least 50% of the premium cost of the qualifying health plan you offer to employees. (Note: The full 35% credit is available only if you have 10 or fewer full-time employees with average annual wages of \$25,000 or less.)
- New "simple cafeteria plans," created by the 2010 health care reform legislation, can be established starting in 2011 by businesses that have employed an average of 100 or fewer employees during the prior two years. If you're eligible, such a plan can allow you to offer valuable benefits to employees (e.g., group term life insurance, dependent care assistance program) while automatically meeting nondiscrimination rules that normally apply to cafeteria plans.
- Beginning this year, many employers will begin reporting the cost of employer-provided health-care coverage on employees' W-2s for informational purposes only (this is optional in 2011, mandatory in 2012). While the amount reported is not included in employees' income, and will not affect their tax liability, you'll want to be prepared to answer employee questions.

Rising Interest Rates: The Downside of Economic Recovery

Over the last several years, investors have grown accustomed to historically low interest rates. Ever since the Federal Reserve Board's target fed funds rate--the rate at which banks lend to one another--hit a high above 19% in mid-1981, the long-term direction of rates has been downward. In the last decade, the Fed's data* shows the target rate has never been much higher than 6%. And since December 2008, the Fed has kept it at a previously unheard-of level between 0.25% and zero to try to ensure that credit would be available to promote economic recovery.

Because bond prices typically rise when interest rates fall, that decline in yields has produced a bull market in bonds over the last decade. But what happens when the trend reverses? Even if they continue to remain relatively stable for a while, ultra-low interest rates have nowhere to go but up. When the economic recovery begins to show signs of strength, at some point the Federal Reserve Board will begin to raise the target rate again. When that happens, bond prices also will begin to reverse their long-term direction.

Here are some factors to consider in anticipation of a future with rising interest rates.

Bond maturities: when short is sweet

When interest rates rise, longer-term bonds typically feel the impact the most. In an extended period of rising interest rates, bond buyers become reluctant to tie up their money for longer periods because they foresee higher yields in the future; the later the bond's maturity date, the greater the risk that its yield will eventually be superseded by that of newer bonds. As demand drops and yields increase to attract purchasers, prices fall.

There are various ways to manage that impact. If you own individual bonds, you always have the option of holding them to maturity; in that case, you would suffer no loss of principal unless the borrower defaults. Bond investments also can be laddered. This involves buying a portfolio of bonds with varying maturities; for example, a five-bond portfolio might be structured so that one of the five matures each year for the next five years. As each bond matures, it can be reinvested in an instrument that carries a higher yield. Laddering also can be used with certificates of deposit (CDs).

If you own a bond fund, you can check the average maturity of the fund's holdings, or the fund's average duration, which takes into account the value of interest payments and will generally be shorter than the average maturity.

The longer a fund's duration, the more sensitive it may be to interest rate changes.

Rising rates and other assets

Higher interest rates often are an attempt to prevent rising prices. When prices go up, purchasing power goes down, including the purchasing power of a bond's fixed interest payments. That can make bonds less attractive to buyers. However, not all investments are hurt by higher prices. For example, commodities such as oil and wheat typically do well in inflationary periods; in fact, increases in commodity prices are often what trigger a bout of inflation. If you're primarily interested in the overall value of your portfolio rather than a regular income stream, your financial professional can help you explore whether you should consider diversifying into asset classes that tend to benefit from inflation and that might help counteract the potential impact of falling bond prices.

Though bonds are affected most directly, equities aren't necessarily immune to rate increases. Though many companies borrowed money in recent years to take advantage of low rates and postpone the need to issue bonds for some time, those that haven't may see their borrowing costs increase, which could affect their bottom lines. Even those that squirreled away cash could be hit when they return to the bond markets eventually. Also, if interest rates rise to a level that's competitive with the return on stocks, that could reduce investor demand for equities.

Higher rates aren't all bad news

For those who've been diligent about saving, or who have kept a substantial portion of their investments in cash, higher rates could be a boon. Savings accounts, CDs, and money market funds are all likely to do better at providing income than they have in recent years. The downside, of course, is that if higher rates are accompanied by inflation, such cash alternatives might not keep pace with rising prices. And bear in mind that a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the fund seeks to preserve the value of your investment at \$1 per share, it is possible to lose money investing in a money market fund.

**Source: Federal Reserve Statistical Release Historical Data for Fed funds rate weekly since 1954.*



Bonds don't respond uniformly to interest rate changes. The differences, or spreads, between the yields of various types of debt, such as corporate, government, emerging market, and municipal debt, can mean that some bonds are under- or overvalued compared to others. Don't forget that the total return on bonds is a combination of yield and price return. Financial professionals have many ways to adjust a bond portfolio to help you cope with rising rates.

Social Security Survivor's Benefits

You might think Social Security is a program that only provides you with a monthly income after you retire. But what you might not realize is that Social Security may also provide monthly payments in the form of survivor's benefits, based on your work record, to certain members of your family after your death.

Earning survivor's benefits

In order to be able to provide Social Security survivor's benefits to your family, you have to earn those benefits. Generally, to be eligible for survivor's benefits, you must pay Social Security taxes and you have to work long enough to earn sufficient credits to be fully insured. The length of time you need to work and pay Social Security taxes depends on your age--the younger you are, the fewer years you need to work. But in any case, if you've worked at least 10 years (the equivalent of 40 credits) you'll be fully insured for any Social Security benefits, including survivor's benefits.

Even if you haven't worked long enough to be fully insured, if you've worked at least 1½ years out of the 3 years immediately before your death, survivor's benefits will be available to your dependent children and to your spouse if he or she is caring for your children.

Who can receive survivor's benefits?

Your spouse is eligible to receive full survivor's benefits at your spouse's full retirement age. Full retirement age is 66 for people born between 1945 and 1956, and gradually increases until reaching age 67 for people born in 1962 or later. Your spouse can receive reduced survivor's benefits as early as age 60. If your spouse is disabled, he or she can begin receiving survivor's benefits as early as age 50. And your spouse can receive survivor's benefits at any age if he or she is caring for your child who is receiving Social Security benefits and is under age 16 or disabled.

Your former spouse, if you've been divorced, may receive survivor's benefits if your marriage lasted at least 10 years, and your former spouse does not remarry before age 60 (remarriage after age 60 will not affect your former spouse's eligibility for benefits based on your work record). If your former spouse is caring for his or her child who is under age 16 or who is disabled and entitled to benefits based on your work record, your former spouse may receive benefits at any age. In that case, your former spouse need not meet either the age or length-of-marriage requirements.

Your unmarried children may receive survivor's benefits if they are younger than age 18 or age 19 if they're attending elementary or secondary school full-time. If your child was disabled before reaching age 22, and remains disabled, he or she is eligible for benefits at any age. Also, your stepchildren, grandchildren, stepgrandchildren, or adopted children may be eligible for benefits under certain conditions.

Your dependent parents can get survivor's benefits if they're at least age 62 and you provide at least one-half of their support.

How much will the benefits be?

The easiest way to find out how much your family may receive in survivor's benefits is by checking your Social Security statement, which is sent to you each year beginning at age 25. Generally, survivor's benefits are based on your basic benefit amount, which can be increased by delayed retirement credits, or reduced if you claimed retirement benefits before reaching full retirement age. The amount your survivors receive is based on a percentage of your basic benefit, and the percentage, in turn, is based on the survivor's age and relationship to you.

For example, at full retirement age, your surviving spouse can receive 100% of your retirement benefit. However, if your spouse claims survivor's benefits between age 60 and under full retirement age, then the benefit will be reduced to between 71% and 99%, depending on his or her age. An eligible child and a surviving spouse caring for a child under age 16 would receive 75% of your benefit amount. At your death, there is also a one-time death benefit of \$255 paid to your surviving spouse or child under certain circumstances.

Limits on benefits

Depending on the circumstances, the total amount of monthly benefits your family can receive is capped at between 150% and 180% of your retirement benefit amount. Your survivor's benefits may be reduced if you're receiving a pension from an employer that didn't contribute to Social Security, like federal civil service, or if you're under your full retirement age but still working, and your earnings exceed certain limits.

Social Security survivor's benefits are an important means of providing for the continued support of your family members after your death. For more information, go to the Social Security website, www.ssa.gov.



Of the total new benefits awarded by Social Security in 2009, 16% was paid to survivors of deceased workers. Source: Social Security Administration





Bartholomew & Company
Thomas J. Bartholomew
President
370 Main Street
Suite 1000
Worcester, MA 01608
508-753-8807
1-800-440-8807
tom@bartandco.com
www.bartandco.com

Securities and Advisory Services
offered through Commonwealth
Financial Network®, Member
FINRA/SIPC, a Registered
Investment Adviser.

Prepared by Forefield Inc,
Copyright 2011



Ask the Experts



What health-care changes become effective in 2011?

The Patient Protection and Affordable Care Act (PPACA), signed into law in 2010, makes significant changes to our health-care delivery system. Here are

some of the most important changes scheduled to take effect in 2011.

The cost of over-the-counter drugs not prescribed by a doctor can no longer be reimbursed through a health reimbursement account or a health flexible spending account, nor can these costs be reimbursed on a tax-free basis through a health savings account (HSA) or Archer medical savings account. Also, the tax on distributions from HSAs and Archer MSAs that are not used for qualified medical expenses increases to 20% (up from 10% and 15% for HSAs and Archer MSAs respectively).

Medicare Part D participants will receive a 50% discount on brand-name prescriptions filled in the coverage gap (i.e., the "donut hole") from pharmaceutical manufacturers, and federal subsidies for generic prescriptions filled in the coverage gap will start to be phased in.

Also, certain preventive services covered by Medicare are no longer subject to cost-sharing (co-payments), the deductible is waived for Medicare-covered colorectal cancer screening tests, and Medicare now covers personalized prevention plans including a comprehensive health risk assessment.

Medicare Advantage (MA) plans can no longer impose higher cost-sharing for some Medicare-covered benefits than would be imposed by traditional Medicare insurance. Also, MA plans cannot exceed a mandatory maximum out-of-pocket amount for most Medicare services. The maximum amount in 2011 is \$6,700, but MA plans can voluntarily offer lower out-of-pocket amounts. Also, the annual enrollment period for MA plans is changed to October 15 through December 7.

The requirement that employers report the total value of employer-sponsored health benefits on employees' W-2s was to begin in 2011. However, the IRS has deferred this requirement until 2012.



Are some preventive care services free?

Generally yes. Under the Patient Protection and Affordable Care Act (PPACA), qualifying health insurance plans must offer certain preventive care

services to you and your family at no cost.

If your health insurance plan is subject to these new requirements, you and your family may be able to receive important preventive health-care services without having a co-payment, deductible, or co-insurance. Many of the covered services are based on your gender, health status, and age. Some of these services include:

- Blood pressure, diabetes, and cholesterol screenings
- Mammograms, colonoscopies, and many other cancer screenings
- Routine vaccinations against diseases such as measles, polio, and meningitis, as well as flu and pneumonia shots
- Wellness counseling for such issues as quitting smoking and losing weight

- Screenings for depression and alcohol abuse

A current list of preventive care services can be found on the government website: www.healthcare.gov.

To be eligible, you must be enrolled in a health plan through your employer or have individual health insurance put in place after March 23, 2010. The preventive care services will then be effective on the next policy anniversary occurring on or after September 23, 2010, or as of January 1, 2011, for calendar-year plans. If your health plan is "grandfathered" (in place on or before March 23, 2010, and has not been materially changed), these benefits may not be available to you.

Free preventive services may only be available for in-network providers (you may have to pay for preventive services received from an out-of-network provider). Also, if your doctor provides preventive services, such as cholesterol screening, and other diagnostic or therapeutic services during the same office visit, you may have to pay for part of the office visit and the other services given by your doctor, but not the preventive services.