CHITTENDEN GROUP
INSURING YOUR EVOLVING FINANCIAL NEEDS™

INSURANCE INSIGHTS

LIFE ◆ HEALTH ◆ BENEFITS ◆ INVESTMENTS

VOLUME 1 ISSUE 1

WHAT'S INSIDE...

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Finding Money Safe Havens in the Present Economic Environment

There is an unbendable and unbreakable law of economics that states that wealth is created in one of only two ways: people working or money working. Many have attempted to break this law, and usually the results have violated both civil and criminal laws. These days, everyone is anxious to put their money in a safe place. This "safe place" would also preferably have low risk, high returns and tax advantages as well as be ready and waiting for them when they retire.

Does such a "safe place" exist? A respected commentator in the sports world says, "Let's take a look." It was not too long ago that investors were looking for returns in the 5 - 12% range. Today, those return expectations are greatly diminished, even if the willingness to take on risk has begun to come back.

As of this article, the current interest rate on a ten-year United States Treasury bond is 3.24%. High-quality ten-year municipal bonds are only paying 2.99%. Ten-year corporate bonds at the highest rating level are paying 3.60%. Keep in mind that these variables can change on a daily basis as investors vote their bond holdings up or down in response to political and economic developments, both foreign and domestic.

Meanwhile, certificates of deposit, which were once considered to be the safest of all investments among the older generations, have now sunk considerably in terms of interest payouts. One-year CDs these days are paying roughly 1.50% and five-year CDs maybe 3%. Previously CD investors could expect to see interest rates as high as 4-6% or even higher. What's more, even to get the highest rates, investors need to park their money for a long time, as one can see in the case of the five-year CD.

So, the basic concerns have really not changed. They are, in no particular order:

- Principal safety
- Return rate
- Liquidity, or access to funds on short notice
- Flexible term, which depends on when the investor wants the money
- Tax-free
- Reliability and trustworthiness

Taking all of these factors into account, is there an investment that can satisfy all of them?

Surprisingly, the answer is yes. It is an instrument known as a fixed annuity. An annuity can guarantee the safety of both the payments and the principal

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WELCOME TO THE CHITTENDEN GROUP Newsletter!

It is with great satisfaction that we bring this newsletter to you. In this issue and in coming months, we will discuss pertinent risk management topics which may affect your organization. We sincerely hope that you will find this newsletter informative and please do not hesitate to contact us should you have any questions or needs.

A Look at Healthcare Reform's Impact on Employers

On March 23, 2010, President Obama signed into law the Patient Protection and Affordable Care Act. Along with the Health Care and Education Reconciliation Act of 2010, this legislation will make significant changes to our current health care system.

The Act adds new responsibilities for employers and insurance carriers. While most of the provisions will start in 2014 or later, some provisions are effective right away or within a short period of time after enactment.

Effective 2010

- Small-Business Tax Credit. A tax credit of up to 35 percent of the employer's health care contribution is available for qualified small employers (any employer with no more than 25 full-time employees and average wages of less than $50,000). This tax credit will increase to 50% starting in 2014 once exchanges are operational.
- Early Retirees. A temporary reinsurance program is provided to employers that offer coverage to early retirees between the ages of 55 and 64.
- Health Plan Changes. 1) Plans must offer unlimited lifetime benefits and annual benefit limits will be restricted. 2) Pre-ex conditions will be prohibited for children under 19. 3) Recissions are prohibited except in the case of fraud. 4) Plans must cover certain preventive health services at no cost to the insured. 5) Dependent coverage age limit extended to 26.
- Federal High Risk Pool. Temporary establishment of a high risk health insurance pool for individuals unable to find insurance elsewhere.

Effective 2011

- W-2 Reporting. Employers must report value of health care benefits provided on employee w-2s, but not as taxable income.
- Higher Penalty Tax on Non-Qualified Health Savings Account (HSA) Withdrawals. Non-qualified withdrawals will be taxed at 20% versus the current 10% penalty.
- Cafeteria Plans. A new Simple Cafeteria Plan is created through which small employers (less than 100 employees) can easily provide tax-free benefits to their employees without the administrative burden of sponsoring a cafeteria plan.
- Standardized Definition of Qualified Medical Expenses. Costs for over-the-counter medications obtained without a prescription will no longer be considered a qualified medical expense.

Effective 2013

- Flexible Spending Account Limits. Annual contribution limits are reduced to $2,500 per year, with CPI increases available in future years.
- Itemized Deduction for Medical Expenses. The Act increases the income threshold for claiming the itemized deduction for medical expenses from 7.5 percent to 10 percent. Individuals over age 65 would be able to claim the itemized deduction for medical expenses at 7.5 percent of adjusted gross income through 2016.
- Higher Payroll Taxes for High Income Earners. The hospital insurance tax rate will be increased 0.9 percentage points for wages over $200,000 for individuals and $250,000 for those filing jointly.

Effective 2014

- Employer Coverage Mandates. Employers with 50 or more employees who do not offer employee health coverage will pay $2,000 annually for each full-time employee, excluding the first 30 full-time employees. The penalty is increased to $3,000 for any full-time employee receiving a federal tax credit for coverage, because his or her employer health coverage is considered "unaffordable." Coverage is considered "unaffordable" where the employee contributes more than 9.8 percent of his or her income, or the employer contributes less than 60 percent of the actuarial value of the plan.
- Insurance Exchanges. Exchanges are created at the state level starting in 2014, where individuals and small employers can shop for health coverage. Initially, the exchanges would be available to individuals and small groups (less than 100 employees), unless the state opts to cover only groups with up to 50 employees. Starting in 2017, states could open the exchanges to larger groups.
- Wellness Programs. Employers can offer larger rewards, up to 30% of the cost of coverage, to employees for participation in a wellness program or for meeting certain health-related goals.
- Individual Tax Credits. Credits are available for people with incomes up to 400 percent of the poverty level for insurance purchased through an exchange.
- Health Plan Changes. 1) Insurers cannot refuse to issue coverage on any individual due to pre-existing conditions. 2) Higher rates cannot be charged to any individual based on health status, gender or other demographic factors. 3) Coverage cannot be non-renewed or dropped because an individual participates in a clinical trial.

Effective 2018

- High Value Plan Excise Tax. A nondeductible excise tax of 40 percent is imposed on any health insurance plan with combined annual employer/employee premiums exceeding $10,200 for individual coverage and $27,500 for family coverage. The tax would only apply to premiums in excess of the threshold.

Ten Reasons You Need Life Insurance

We hear the stories every day. People dying suddenly from heart attacks or freak car accidents. That makes us think, what if that happened to me? Consider these 10 reasons for owning life insurance:

1. **Debts -** What happens to your debts if you die right now? Existing bills, medical and funeral costs. It's a debtor Mount Everest on which you strand your family without life insurance. Who covers the expenses you have amassed already and those you leave behind?
2. **Your family may lose their home -** Will they face foreclosure? Be forced to sell? They've just lost you now they may lose their home, too. Who will be there to pay the mortgage when you can't be?
3. **Family lifestyle -** Most couples in this day and age must both work to sustain their families. Think of the vacations and Christmas mornings your income provides.
4. **Income for necessities -** What about school for your children? Do you envision them going on to college? Who will pay when you're gone?
5. **Your spouse's sleepless nights -** They already have to deal with an empty bed. How many sleepless nights will there be for him/her? Life insurance assures peace of mind
6. **The legalities -** There may well be taxes and legal and probate costs to cover. Life insurance can leave tax-free money to your beneficiary to cover such expenses.
7. **Quality care for your kids -** What about the expenses that health insurance doesn't cover? Will they go to the better doctors? Does your son depend upon asthma medication? Does your daughter need braces? Will they one day? If so, who pays for that without you?
8. **Your extended family -** With uncertain times, with retirement benefits vanishing, who will care for your parents as they are too old to care for themselves? Will you be there for them as they were there for you?
9. **The Unexpected -** A young mother killed in a car crash. Six months later, her husband dies of a heart attack. They left five minor children. You may think "my spouse will take care of them" but what if he/she can't?
10. **Pride -** How do you want to be remembered? As someone who thought of his family enough to provide for them in your absence?

In closing, are you even eligible for life insurance? At rates you can afford? As we age, our health issues become paramount. Tomorrow you will be older than you are today. Tomorrow is promised to no one. The time to think of life insurance is today.

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by contract to the policyholder, in addition to guaranteeing that the owner will not outlive his money if he chooses to annuitize the contract. Annuities, in this respect, are unique as financial instruments.

Currently, credited interest paid on an annuity is not taxable until distributed. Unlike CDs, this allows the capital to grow through compound interest without any interference.

There are many annuity programs, such as equity-index annuities, that provide even more benefits like interest rates that are double-tiered, which means that the owner has a guaranteed minimum rate while also being allowed to participate in the stock market's returns, if any. In the final analysis, annuities can offer investors a better return than most instruments today.

While annuities have always been attractive vehicles since their introduction, in an economic climate such as this, they are even more attractive.

(Interest data from the WSJ 6/18/2010)*

Liquidated earnings are subject to ordinary income tax, may be subject to surrender charges and, if taken prior to age 59 1/2, may be subject to a 10% federal income tax penalty.

Guarantees and payment of lifetime income are contingent on the claims paying ability of the issuing insurance company.

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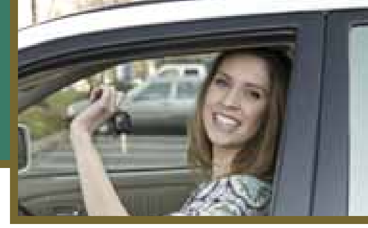
tistical research reveals that the average retired couple exhausts their savings in a matter of months when paying for care themselves. Even wealthy retirees find their money severely shrunk, which lives little for their children or grandchildren.

Long-term care insurance from a reputable and trustworthy insurance company can help retirees receive the care they need at a price they can afford both now and twenty or thirty years from now. Buyers must exercise the virtue of prudence when choosing a policy; each one comes with a set of circumstances and options to consider. After taking care of these, they are then free to enjoy the peace of mind that results from an effective long-term care policy.

Should I Be Thinking About Long-Term Care Insurance?



Chances are, you are like the majority of individuals who have reached middle age. The primary concerns in your life are paying your monthly bills, making sure your children receive a good education, as well as the all-important goal of saving some money every month for retirement. At this point, it seems a long way off, but do not be deceived; it will be here sooner than you think. You may have heard about long-term care insurance, but you probably dismissed it with questions such as "What is it?" or "Who needs it?".

The answer is that you do, and so does everyone else. You may reply that you already have health insurance. If you do, congratulations; it is hard to get in today's political climate. The problem with most health insurance is that it does not cover what are known as custodial expenses. These expenses arise from custodial care, which is defined as the care needed as a result of the inability to carry out tasks relating to the following daily activities: bathing, dressing, eating, continence, toileting and transferring.

As people age, many of them find these basic tasks harder and harder to do without some form of help. The need for this type of care necessitates having long-term care insurance, which can provide the monies necessary in order to hire and maintain the proper care needed. This is made even more necessary by the fact that people are living much longer, sometimes twenty or thirty years longer past retirement. Oddly, the fondest wish of these people is to remain independent. Fortunately, they can do so if they obtain long-term care insurance.

The best time to do this is when someone is in their mid-forties, because that time of life is when insurance companies offer the lowest rates and premiums for their policies. Children can also purchase it for their aging parents. If they do not, there are two options left if something goes wrong, both of which are very unattractive. They either have to pay for the cost of their own income, or their parents have to pay for it out of their assets.

When you take into consideration the fact that this care routinely costs $75,000 and up annually, this is a tremendous burden to take on for either the children or the parents. Sta-

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