

the NFG Report



{Noble Financial Group}

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*Property & Casualty Insurance offered
through parent company, Tri-County
General Insurance Agency, Inc.

We are happy to announce that Tri-County General Insurance Agency, Inc. has merged Noble Financial Group (NFG) into its operations. NFG had previously been a separate insurance and investment-related firm that was established by Albert Noble in 1963. With Albert becoming the principal owner of Tri-County, at the departure of his former business partner, the decision to merge his two businesses was made. NFG will continue as before, with Albert and his business partners, son Tony Noble and daughter Samantha Maruzzelli at the helm. Tony is our local representative and can be found in our Pittsburgh office, our newest branch office located on Saltsburg Road. This merger has created added efficiency in our business operations and also allows us to provide to our customers a broader range of insurance and investment related financial services that complement what we do at Tri-County very well. Please visit us on the web at www.TCGinsurance.com and www.NobleFinancialGroup.net and give us a call toll free at 866-755-3205 at our Pittsburgh office or 866-836-2111 at our Tunkhannock office. We want to hear from you! We strive for Service that Sets Us Apart!!!

With the U.S. economy evolving so quickly, I continue looking for information that can help you focus on and understand the activities that may impact you financially. Below is a summary of key legislative items included in the new American Recovery and Reinvestment Act (aka- the Stimulus Bill) recently passed by the U.S. Government. I encourage you to review this information to become more familiar with how its benefits may apply to you. You can also find additional information about this new legislation online at: www.recovery.gov

THE AMERICAN RECOVERY AND REINVESTMENT ACT (AKA- THE STIMULUS BILL)

On Feb. 17, President Obama signed into law the American Recovery and Reinvestment Act of 2009. This new law is intended to jump-start the U.S. economy through direct spending and tax incentives. Most of the tax incentives are retroactive to Jan. 1, 2009.

The **individual incentives** included in the law are as follows:

1. Making Work Pay Credit

This allows a credit against income tax in an amount equal to the lesser of 6.2% of an individual's earned income or \$400. This credit applies in full for individuals whose modified adjusted gross income does not exceed \$150,000, married filing jointly, or \$75,000, filing single. This credit effectively offsets an individual's FICA payroll taxes.

2. \$250 economic-recovery payment

This is a one-time payment of \$250, for 2009 only, to individuals on fixed incomes; i.e., Social Security recipients, railroad retirees and disabled veterans.

3. AMT patch

The 2009 alternative minimum tax exemption amounts are \$70,950 for joint filers and surviving spouses and \$46,700 for singles and heads of household.

4. First-time homebuyer tax credit

The current credit is increased to \$8,000, from \$7,500, and extends the eligible use until Nov. 30, 2009. It also eliminates any required repayment to the Internal Revenue Service after 36 months in the home. This credit applies to purchases made after Dec. 31, 2008. The credit phases out at \$75,000 for single filers and \$150,000 for joint filers.

5. New-car deduction

This allows for an above-the-line deduction on purchases of new vehicles for state and local sales taxes or excise taxes paid on the purchase. There are two limits on the deduction:

1. Deductible sales or excise taxes cannot exceed the portion of the tax attributable to the first \$49,500 of the purchase price of any one vehicle; and
2. Any deduction will be phased out to the extent the purchaser has adjusted gross income exceeding \$125,000 for single filers and \$250,000 for joint filers.

This deduction is allowed only on purchases made after Feb. 17, 2009.

6. Education credit

The HOPE Education Credit has been renamed the American Opportunity Tax Credit. The credit has been increased from a maximum of \$1,800 to \$2,500 and also makes 40% of the credit refundable.

7. Child Tax Credit

The income threshold has been set at \$3,000, thus effectively increasing the refundable portion of the credit for 2009 and 2010.

8. Earned Income Tax Credit

This credit has been increased to 45% of the first \$12,570 of earned income for taxpayers with three or more qualifying children.

9. Unemployment compensation

For 2009, \$2,400 of unemployment compensation will be excluded from gross income.

10. Transit benefits parity

Currently, \$120 per month of qualified transportation fringe benefits are excluded from gross income. The new law increases that amount to \$230 per month.

11. Qualified tuition programs (Section 529 college savings plans)

Historically, under the qualified tuition program, beneficiaries of a 529 plan would be taxed on distributions that were not used to pay qualified education expenses. For 2009 and 2010, the new law allows beneficiaries tax-free distributions to pay for computers and computer technology, including Internet access.

*In the next month issue of
the NFG Report
we will talk about
the **Business Incentives***

LAYOFFS, 401(k) FREEZES & 401(k) ROLLOVERS

What do you do when you leave work or your company stops matching?

If you're laid off, what happens to your retirement money? Well, you have three basic choices with your 401(k). One gives you more freedom and control than the other two.

You could just leave your 401(k) alone. The money will remain invested, and the financial firm handling your 401(k) will keep mailing you quarterly statements telling you how it is doing. Any future growth will be tax-deferred.

But this passive choice comes with an opportunity cost. If you just leave the 401(k) assets in the plan, you're giving up control and flexibility. Your investment choices may be limited, the plan fees may be high, and you may not be able to quickly access your money or do what you want with it. If you have a trail of old 401(k)s left with a bunch of former employers, things can get really complicated when you retire - especially when you have to take Required Minimum Distributions (RMDs). Leaving the money in the plan may not be the wisest choice.

You could withdraw the money. This is a terrible choice - a last resort. It comes with a severe financial penalty. You will not get all the money you have invested back - far from it. You will lose 20% of your 401(k) assets to withholding taxes, and if you are under 55, the IRS will levy an additional 10% penalty for early withdrawal of the assets. By the way, distributions from a 401(k) are considered taxable income - so expect a big tax bill in the year you cash out.¹ The federal government does not want to see you wipe out your retirement savings. Neither does your financial advisor.

If you really need money, you could consider borrowing from your 401(k). The problem here is that most companies want the loan balance paid off when you leave - whether you leave work by choice or not. You could roll it over into an IRA. This is the choice that usually makes the most sense. You can move the money into an IRA through a rollover or trustee-to-trustee transfer. Or, you could direct the money into a so-called "conduit IRA," a traditional IRA created to hold your old 401(k) assets until you move the money into another qualified retirement plan. (You can't contribute to a conduit IRA.)

There's no tax penalty when you do an IRA rollover or trustee-to-trustee transfer. After you do it, you have total control of the money, continued tax-deferred growth, expanded investment choices, and possibly lower account management fees.

Rolling over the money into a Roth IRA might be a great move, provided you can meet two conditions. First, your adjusted gross income has to be less than \$100,000 for the year in which you make the rollover. Second, you'll have to pay taxes on the assets you convert. The upside is considerable: you get tax-free compounding, tax-free withdrawals if you are older than age 59½ and have owned your account for at least five years, and the potential to make contributions to your IRA after age 70½ without having to take RMDs. Contributions to a Roth IRA are not tax-deductible, but there are fewer restrictions on withdrawals.

In 2009, you can fund a Roth IRA with after-tax contributions to a 401(k), 403(b) or 457 retirement savings plan - you can take those contributions and convert them to a Roth IRA tax-free, provided your AGI is \$100,000 or lower. There is no limit on the conversion amount. Incidentally, in 2010, anyone can convert a traditional IRA to a Roth IRA - the AGI restriction on such conversions disappears.

What if you have to shiver through a 401(k) freeze? A "freeze" is when your employer reduces or suspends matching contributions to your retirement plan. FedEx, General Motors and Motorola have all recently chosen to do this.⁶ The answer: don't let up on your personal contributions. If you can manage it, adjust your 401(k) contribution to a level where you effectively replace what your employer contributed. Saving for retirement should remain one of your highest priorities.

How is your money positioned? How are you invested today? Are you doing things designed to preserve and enhance your retirement money? A chat with a financial consultant you trust may give you more confidence and direction for the future.

It's Time to Get Real

During times of market volatility, it can be easy for investors to lose sight of two seemingly immovable obstacles standing in the way of their long-term investment goals: taxes and inflation.

The tax bite of investment returns is most obvious around April 15. The immediate effect of taxes takes anywhere from 10% to 35% of your investment returns in one fell swoop. The effect of inflation on investments can be harder to spot, but it may be just as threatening to your long-term return. Although inflation does not immediately affect your return in the same way that taxes do, it decreases the purchasing power of what's left. In fact, in spite of deflation worries in October 2008, when the consumer price index experienced the biggest one-month drop in its 61-year history, inflation was still 3.7% higher than 12 months earlier.¹

To see the way in which taxes and inflation work in concert to reduce overall investment returns, an investor can determine the investment's real rate of return. As you can see in the hypothetical example below, an investor in the 25% tax bracket would need more than a 5% gross rate of return just to break even. (This example does not consider any state income taxes.) You can use the worksheet to estimate the effect that taxes and inflation might have on one of your own investments and to determine the investment's real rate of return.

1) U.S. Bureau of Labor Statistics, 2008
This material was written and prepared by
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Real Rate of Return Worksheet

	Example	You
Investment return	5.00%	___%
Subtract income tax (return x tax rate ÷ 100) (example assumes a 25% tax rate)	- 1.25%	___%
Subtract inflation (30-year average annual rate) [•]	- 3.89%	___%
Real rate of return	-0.14%	___%

This hypothetical example and the investment rate of return are used for illustrative purposes only and do not represent any specific product. Actual results will vary.

[•]Thompson Reuters, 2009 (consumer price index for the period 12/31/1978 to 12/31/2008)



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