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## Exceptions to the Early Distribution Penalty

Generally, taxable amounts you withdraw from an IRA, 403(b), or qualified retirement plan before



age 59½ are subject to a federal 10% penalty tax (and possibly a state penalty tax, too) in addition to any federal (and possibly state) income tax due. SIMPLE IRAs are subject to a 25% penalty for premature distributions made during the first two years of participation. Fortunately, Section 72(t) of the Internal Revenue Code lists several exceptions to this premature distribution penalty tax.

### Exceptions applicable to all plans

A qualified transfer or rollover from one retirement plan to another generally isn't subject to the penalty tax. Also, distributions made to your beneficiary or your estate after your death aren't subject to the early withdrawal penalty. Other exceptions include:

- Distributions not exceeding the amount of your tax-deductible unreimbursed medical expenses.
- Distributions made because of a qualifying disability.
- Amounts levied by the IRS directly from your qualified retirement plan. This exception doesn't apply if you withdraw funds from a plan to pay the IRS.
- Qualified reservist distributions pursuant to the Pension Protection Act of 2006.

### Exceptions applicable only to IRAs

The 10% penalty doesn't apply if the distribution is made for you, your spouse, or your child or grandchild to pay qualified postsecondary education expenses, such as tuition, and room and board. If you're a first-time

homebuyer, you can take pre-59½ IRA withdrawals if they're used to pay the costs of acquiring, constructing, or reconstructing your principal residence up to a \$10,000 lifetime limit. You also can take penalty-free IRA distributions up to the cost of health insurance premiums you pay during a qualifying period of unemployment.

### Exceptions for non-IRA retirement plans

Distributions made pursuant to a qualified domestic relations order (QDRO) are not subject to the penalty. Also, you can take penalty-free withdrawals from a qualified plan after separating from service with the employer maintaining the plan if your employment ends during or after the year you reach age 55. You may also be able to take qualifying distributions of dividends from your employer's employee stock option plan without penalty.

### Substantially equal payments exception

An important exception that applies to all IRA and qualified retirement plans is the substantially equal periodic payments exception. To comply with this exception, you must withdraw funds from your retirement plan at least annually based on an IRS-approved distribution method. For qualified plans (but not IRAs), you also must have separated from service with the employer maintaining the plan.

There are three IRS-approved methods for calculating payments, but regardless of the method you choose, you generally can't change or alter the payments for five years or until you reach age 59½, whichever occurs later (although the IRS has held that owners can make a limited one-time switch between certain methods without incurring the penalty tax). Otherwise, if you modify the payments (e.g., by taking amounts smaller or larger than required distributions or none at all), you will be subject to the 10% premature distribution tax on the taxable portion of all pre-59½ distributions (unless another exception applies).



### **Protect your credit and your identity**

- *Maintain effective debt management by communicating your circumstances to your creditors*
- *If you need to negotiate with creditors, consider seeking assistance from a consumer credit counseling service*
- *Only give out your Social Security number to verified agencies*
- *Monitor your bank account and credit report for unauthorized activity*

## **Don't Let a Natural Disaster Demolish Your Finances**

It seems as though there's always a hurricane, tornado, earthquake, flood, fire, ice storm, or mudslide happening somewhere in the United States. While a storm or other natural disaster could destroy your home, business, or workplace and put you in financial straits, there are things you can do both before and after the event to help you recover quickly.

### **Pre-Disaster**

#### **Create a financial emergency kit**

Put together a kit that contains some cash and checks, a list of important contacts (e.g., your insurance agent), and copies of important documents, including identification cards, birth and marriage certificates, insurance policies and inventories, wills, trusts, and deeds. Make sure your kit is stored in a safe, secure place in your home, is easy to reach and carry, and is water and fire proof. You'll want to stash enough cash (or a credit card) to pay for immediate expenses such as gas, food, and lodging.

**Tip:** *While you're at it, you might also keep your most precious items in the kit, such as your photo albums and family heirlooms.*

#### **Protect your assets**

Take some commonsense precautions to safeguard your home, business, car, boat, and similar assets against damage from wind, water, fire, or other damage. For example, install an emergency generator and paperless drywall, keep loose objects (e.g., grills and patio furniture) secure, cut down overhanging tree limbs, park your car in the garage, and invest in storm windows, doors, and shutters.

#### **Take inventory**

Create and maintain an inventory of your valuables, including appliances, electronics, furniture, clothing, jewelry, and artwork. Record models and serial numbers, and take pictures or a video of the items. This will help when it comes time to file insurance claims and purchase replacements.

#### **Check your insurance**

Make sure your insurance policies (e.g., homeowners, auto) include all the coverage you need, and understand that damage caused by natural disasters may not be covered under these general types of policies. You may need to consider buying separate

coverage for hurricanes, floods, earthquakes, or other disasters. Consult your insurance agent to determine whether you have adequate coverage given the likelihood of such events occurring in your area.

### **Post-Disaster**

#### **File insurance claims immediately**

Contact your insurance agent and file claims as soon as possible. The quicker you do so, the sooner you can get back on your feet.

#### **Protect your income**

If you end up out of work, take advantage of any employee assistance programs that your employer may offer. Seek unemployment compensation from your state and ask about special job considerations for disaster victims. Find out if special unemployment benefits are available through the Department of Labor.

#### **Get help from emergency sources ...**

If you need immediate financial help, disaster relief funds and special programs (for example, housing assistance) may be available through the Federal Emergency Management Agency (FEMA) or your state and local governments, as well as the American Red Cross, United Way, Salvation Army, social services, and local churches.

#### **... and from the federal government ...**

Tax law allows taxpayers to deduct certain unreimbursed casualty losses in the year in which they are incurred, subject to certain limitations. In certain Presidentially declared disaster areas, individuals can claim the loss (again, subject to certain limitations) in the prior tax year by filing an amended return. Moreover, special relief (for example, bonus depreciation for business property) has been granted in the case of specific disaster events. Be sure to consult your tax professional about any tax relief that may be available to you.

#### **... and get legal help, if necessary**

If you experience legal difficulties, you may want to consider hiring an attorney who specializes in the complex area of natural disaster law.

## As 2009 Dawns, Is There Hope on the Horizon?

There's little doubt that 2008 will be remembered as a tumultuous year. Rising food and fuel prices, turmoil in the credit and housing markets, inflation pressures, and the volatility of the stock market all contributed to economic pressures. But buried within the negative headlines was some good news you may have missed--here's a recap.

### Financial help for homeowners

If you're a homeowner, you may benefit from a new income tax deduction. When you're filing your 2008 federal income tax return in 2009, you may be able to take a deduction for property taxes you've paid--even if you don't itemize. Taxpayers who claim the standard deduction may be able to claim an additional deduction of up to \$1,000 if married or \$500 if single.

If you're a first-time homebuyer, you may be able to take a refundable tax credit of 10% (up to a maximum of \$7,500 or \$3,750 for married persons filing separate returns) of the purchase price of a home you've purchased after April 8, 2008, and before July 1, 2009. However, this credit is phased out for individuals with adjusted gross incomes ranging from \$75,000 to \$95,000 (\$150,000 to \$170,000 if married filing jointly). And keep in mind that this tax credit functions more like a loan--you'll need to repay the credit over 15 years in equal installments on your annual tax return (possibly sooner if you sell your home or don't use it as your main residence).

### New ways to manage college costs

Student loans staged a disappearing act in 2008, as the credit crisis drove some lenders out of the student loan market and forced others to become more selective. But the Higher Education Opportunity Act, which became law in August, contains several provisions that will help families and students better manage the high cost of college. These will be phased in during 2009 and in future years. Some highlights:

- Individuals who have worked for at least ten years in certain public service occupations (e.g., teachers, nurses, law enforcement officers, firefighters) may qualify to have their federal student loan debt forgiven (up to \$10,000)
- Colleges will be encouraged to control price increases, and textbook publishers will be required to provide complete retail price information and sell unbundled

versions of textbooks to help control costs

- The maximum Pell Grant will increase from \$5,800 to \$9,000 per academic year, and will be available year-round
- The federal student aid application (FAFSA) will be streamlined, making it easier to apply for financial aid

### Expanded education benefits for the military

August 1, 2009, marks the debut of a new GI bill, which has been hailed as the first major expansion of education benefits for the military since World War II. Active duty service-members (including members of the Guard and Reserve) may be eligible for the new program. Education benefits will be payable for up to 36 months, and will cover tuition costs and fees. Eligible veterans may also receive a monthly stipend for books and supplies, and a monthly housing allowance. In some cases, benefits may even be transferable to spouses and dependent children. You can find more information on the Department of Veterans Affairs' website, [www.gibill.va.gov](http://www.gibill.va.gov).

### New "green" vehicles

Gas-saving vehicles have been rolling off assembly lines for several years. Up until now, most have been passenger cars, and smaller SUVs and trucks. But these are now sharing the road with larger and sportier models, including a hybrid version of an infamous gas guzzler--the Cadillac Escalade. Admittedly, the 2009 Escalade's estimated 20 mpg city isn't going to break any fuel conservation records, but its emergence is a sign that Detroit is focused on developing even more fuel efficient vehicles in 2009 and beyond, due to growing demand.

As in previous years, when you purchase a qualified hybrid or other alternative fuel vehicle, you may be entitled to claim a tax credit when you file your federal income tax return. This credit will reduce your tax bill dollar-for-dollar. You can find a list of qualified vehicles on the IRS website, [www.irs.gov](http://www.irs.gov).

### The road to recovery is paved with good intentions--and probably new legislation

Will an economic recovery take place in the first half of 2009, the second half of the year, or even later? No one knows for sure. But economic woes will likely result in new initiatives and relief measures, so keep your eyes open for developments on the road ahead.

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### Good news for Medicare beneficiaries

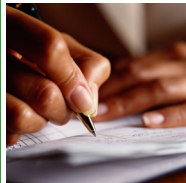
*For the first time since 2000, the monthly standard premium for Medicare Part B won't be rising. In 2009, individuals enrolled in Medicare Part B will pay \$96.40 per month--the same premium they paid in 2008.*

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## Ask the Experts



### Is my brokerage account protected?

Most brokerage accounts are protected by the Securities Investor Protection Corporation (SIPC). Unlike the Federal Deposit Insurance Corporation (FDIC), which protects bank deposit accounts, the SIPC is not a government agency. Though created by Congress, it is a nonprofit corporation funded by its membership of broker-dealers registered with the Securities and Exchange Commission (SEC).

The SIPC helps return customer property, including securities and cash in brokerage accounts, should a broker-dealer or clearing firm experience bankruptcy, insolvency, or unauthorized trading in a customer's account. Should a SIPC member become insolvent, SIPC would ask a court to appoint a trustee to oversee transfer of customer securities to another firm, or act as the trustee itself.

#### SEC regulations also apply

The SEC also has provisions that can help protect investor assets. For example, the SEC

requires brokerage and clearing firms to segregate money and securities in customer accounts from their own proprietary assets and funds. This helps protect customers from being harmed by a firm's own trading activity. Also, firms are required to maintain a certain level of capital reserves to enable the firm to return customers' securities and cash in case of a financial failure. Finally, the SEC specifies that customer claims take precedence over other claims on a firm's assets.

#### What if a firm is liquidated instead of sold?

Securities registered in a customer's name (as opposed to being held in "street name," the most common method today) are returned to customers first. Assets held in street name make up what's known as the "fund of customer property." That fund is divided on a pro rata basis; assets are shared in proportion to the size of claims. Only if securities are still missing after the pro rata distribution would SIPC coverage be applied to make up the difference, up to the statutory coverage limit.