

IN THIS ISSUE

Economic Outlook

Talking to Your Elderly
Parents About Finances

Asset Allocation

2

3

4

Commerce Concepts

Market Updates, Asset Allocation and Investment Education for Plan Participants and Individuals

Health Care Reform: Tax Changes for Individuals

The health care reform legislation that was recently signed into law contains a number of tax changes. Some of these changes take effect immediately; others won't have an impact for a few years. Here's a breakdown of some of the changes worth taking note of.

Changes taking place in 2010

Bad news if you frequent tanning salons - after July 1, 2010, there will be a new 10% tax assessed on amounts paid for indoor tanning services.

Good news for adoptive parents - both the maximum tax credit for qualified adoption expenses and the maximum amount of employer-provided adoption assistance that can be excluded from income increase from \$12,170 to \$13,170. The tax credit is also made refundable. These changes are effective for 2010 and 2011, with an adjustment for inflation in 2011.

Existing employer-sponsored health insurance plans will be allowed to remain essentially the same except for the following: plans will be required to extend dependent coverage to qualifying children through age 26; lifetime limits (and eventually, annual dollar limits) on coverage must be eliminated; waiting periods for coverage cannot extend beyond 90 days; and insurers will not be able to deny coverage or charge higher premiums to people based on their health status or gender.

2011 through 2013

If you have a flexible spending arrangement (FSA), health reimbursement arrangement (HRA), health savings account (HSA), or Archer MSA, it's important to note that, beginning in 2011, over-the-counter medications (except for insulin and medications that are prescribed by a physician) will no longer be considered qualified medical expenses for purposes of reimbursement and tax-free distributions. In 2013, health FSAs that are part of a cafeteria plan will be capped at a \$2,500 reimbursement limit.

Also in 2013, two new Medicare-related taxes will affect high-income individuals. Those with wages over \$200,000 (married couples filing jointly with wages over \$250,000) will be subject to an additional 0.9% hospital insurance (Medicare) payroll tax. A new 3.8% Medicare contribution tax will also be imposed on the unearned income of individuals with AGI over \$200,000, or married couples filing jointly with AGI over \$250,000.

Changes for 2014

This is the year of the carrot and the stick. A new premium assistance tax credit will help eligible individuals purchase health care insurance through one of the newly established state exchanges. If you qualify for the credit, it will be paid directly to the exchange insurance plan that you join. Who qualifies? Individuals with household income between 100% and 400% of the federal poverty level will qualify, with the exact amount of the credit based on income level. Generally, individuals who are offered coverage through an employer health plan won't qualify for the credit unless the employer health plan doesn't cover an adequate share of benefits (60%), or it's considered "unaffordable" (the employee portion of the premium is 9.5% or more of the employee's household income).



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Retirement & Investment Services

Continued on page 3...

Market Update

Through June 30, 2010

		Trailing Returns			
		3 mos.	12 mos.	5 yrs.	10 yrs.
Blue Chip U.S. Stocks	Dow Jones Industrial Average	-9.365%	18.94%	1.65%	1.69%
Large-Company U.S. Stocks	S&P 500	-11.425%	14.43%	-0.79%	-1.59%
Non-U.S. Stocks	MSCI EAFE US\$ (Gross Div)	-13.745%	6.38%	1.35%	0.59%
Small-Company U.S. Stocks	Russell 2000	-9.922%	21.49%	0.37%	3.00%
U.S. Bonds	Barclay's Captial US Aggregate	3.489%	9.49%	5.54%	6.47%
Cash	Citi 3 Month US Treasury Bill	0.03%	0.11%	2.63%	2.56%

Indexes are unmanaged and cannot be invested in directly. Past results are not predictive of future results. Individual results will vary. The trailing returns shown include dividends.

Source:
Raymond James Financial Services

Economic Outlook

Gross Domestic Product: 3Q10 estimates between 2.0% to 2.5% GDP growth.

Employment: The job market has turned the corner. Private sector payrolls are trending moderately higher. However, the unemployment rate is likely to remain elevated for some time.

Housing/Construction: Near-term weakness is likely, as the April 30 expiration of the homebuyers tax credit shifted activity from May and June into March and April.

Manufacturing: The inventory correction has run its course. Exports are expanding, but more slowly. New orders and production have been trending moderately higher.

Consumers: Wage income growth has begun to improve and consumers are generally less fearful than a year ago. Confidence has slipped, partly a consequence of the Gulf oil spill. The savings rate has edged up recently.

Prices: Core inflation has been trending lower, held down by weakness in shelter costs.

Volatile Second Quarter Sets New Lows for 2010

- If ever a quarter announced its promise of better times only to retreat in confusion, the second quarter of 2010 might claim that distinction. It was a quarter of highs and lows for the year, marked by an unprecedented half-hour meltdown – still not fully explained – when in early May nearly 1,000 points were shaved off the Dow Jones Industrial Average before the index recovered for a substantial, but not nearly as dramatic, loss.
- Highs for 2010 so far were reached in late April, after which values steadily declined to the lows for the year, reached at the end of June. All the major indices recorded losses as the quarter ended.
- While the quarter drew to a close, the U.S. consumer confidence index plunged to its lowest level since March. The June figure reflected increasing concern about the slow pace of real job growth, as well as the general economic malaise. Reports that U.S. home prices rose in April and that incomes outgrew spending in May excited little investor interest. Offsetting these were lackluster job growth data and a bleak report that new home sales declined 33% in May to the lowest level on record. That means fewer jobs in the construction industry, which is often an engine for economic recoveries.
- Global concerns during the quarter drove down market values nearly everywhere. They ranged from worries about excessive debt in Greece and some other European Union countries – including the related fate of the Euro – to the BP oil spill in the Gulf of Mexico and a downgrading of Chinese economic growth by the Conference board.

Continued from page 1...

In addition to a premium assistance tax credit, those with household income between 100% and 400% of the federal poverty level may qualify for a cost-sharing subsidy to help cover out-of-pocket costs like co-payments and deductibles, when they buy health insurance through an exchange. Like the tax credit, the subsidy will be paid directly to the plan.

And then there's the stick. Beginning in 2014, if you're a U.S. citizen or legal resident, you're generally required to have adequate health care coverage. If you don't, you'll face a penalty tax. In 2014, the tax will equal the greater of 1% of the amount of your household income that exceeds a specific amount (generally, the standard deduction plus personal exemption amounts you're entitled to for the year), or \$95 per uninsured adult (half that for uninsured family members under age 18), with a maximum household penalty of \$285. By 2016, the percentage rate increases to 2.5%, the dollar amount per uninsured adult increases to \$695, and the maximum household penalty increases to \$2,085.

Source: Forefield, Inc.

How Do I Talk To My Elderly Parents About Their Finances?

Talking to your parents about money is always difficult, especially when the money you're talking about is theirs. They belong to a generation that was taught to keep their information private and not to share their concerns openly. Even if they need help, they may be unwilling to talk to you because it's "none of your business," or because they're afraid to give up control over their own financial affairs.

If they're reluctant to talk to you, make it clear that you respect their needs and concerns. However, don't be afraid to express your own needs and concerns as well. Their financial situation may impact you also, particularly if they become unable to support or care for themselves. At the very least, you should find out where they keep their personal records, discuss

housing, health care, and budgeting issues, and find out what steps they have taken to plan their estate.



What if they still refuse to talk to you? If they're capable of managing their affairs for now, you may want to drop the matter and reapproach them later. Or you may suggest that they talk to another family member, a trusted friend, or a professional advisor, such as an attorney or financial planner.

However, if you feel that they're no longer competent to manage their own affairs, or that their financial situation is precarious, you should seek out professional advice right away. Call the Eldercare Locator, an information and referral service sponsored by the federal government, at (800) 677-1116 for a list of local and national organizations that can help.

Source: Forefield, Inc.

The Commerce Company is celebrating 15 years of business in the Pacific Northwest! We thank you for your partnership and trust, and look forward to working with you in the coming years.

As we commemorate this milestone throughout the year, we are making a special contribution to a local nonprofit organization, and invite you to join us:

For every 15 people that email 15years@thecommmco.com between now and September 15th 2010, **The Commerce Company will donate \$15 of bookstore gift cards to Open Meadow Alternative School**, up to \$1,500.

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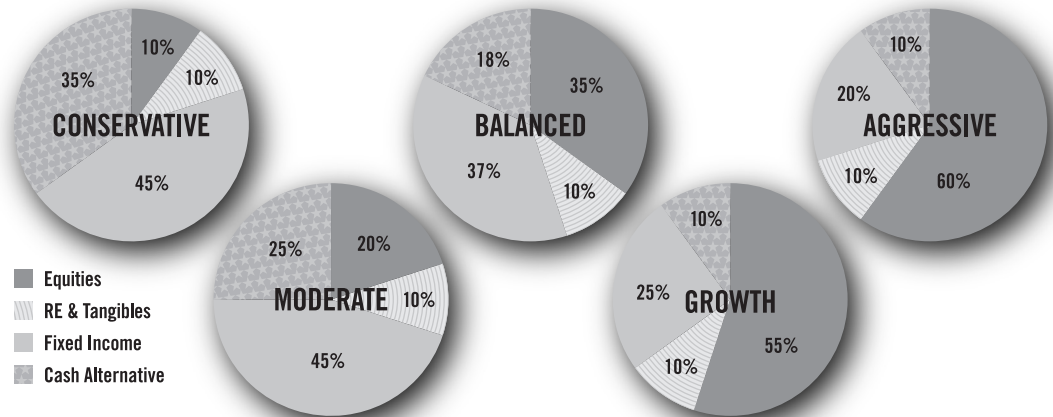
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Asset Allocation

Our suggested allocations reflect: Up-to-date asset allocations can be viewed online anytime at www.thecommmco.com.

- With a cautious outlook for the remainder of 2010, we are decreasing equity exposure in four models: 5% moves to fixed income in the Growth and Aggressive portfolios; 3% to cash for the Balanced; 5% to cash for the Moderate. International exposure within equity portfolios are being reduced to the 10-15% range with a bias towards emerging markets.
- The economic outlook has weakened since last quarter, as a number of significant headwinds remain in the near term: lingering problems in real estate; tight bank credit; and contractionary fiscal policy at the state and local levels. Additionally, the Gulf oil spill and the European debt crisis are two major developments that are having a negative impact on growth.
- We believe U.S. equities are more likely to stagnate over the next 12 months than to rise as earnings growth slows, incomes for higher wage earners are hit with higher federal taxes next year, and consumers continue to suffer from higher costs of credit card debt.