



AFSC Benefactor

Your Armed Forces Services Corporation Newsletter

Legislative News for Military Families

Congress has passed and the President signed the NDAA FY2010 Bill. Listed below are some highlights of the bill of interest to our members and our surviving family members:

Service Member Pay Increase: Authorizes a 3.4 percent across-the-board pay raise for all active duty service members.

TRICARE In-Patient Fee Increase Reversed: Bars any increase of the in-patient co-pay fees during 2010 for TRICARE Standard patients.

New Dental Coverage for Children of Active Duty Deaths: Authorizes active-duty-level dental coverage for eligible children of members who die on active duty.

TRICARE for Gray-Area Reserve Retirees: Authorizes premium-based TRICARE Standard coverage for “gray-area” reserve retirees who haven’t yet attained age 60. Open enrollment date and premium costs are still pending.

Special Compensation on Behalf of Caregivers: Authorizes special compensation on behalf of caregivers of severely wounded warriors on active duty, similar to the VA “aid and attendance” payments for veterans who need caregivers.

Surviving Dependent Children TRICARE Dental Program (TDP) Expanded to the Longer of: (1) 3 years from death of member, (2) age 21, or (3) up to age 23 if, and while, enrolled in school full-time.

Three Social Security Strategies

Life doesn’t allow many do-overs, especially when it comes to financial planning. Most of us simply save and invest as best we can and hope that in retirement we run out of life before we run out of money.

Until recently, financial planners tended to treat Social Security benefits as the inflexible component of a retirement plan: a predictable income stream with limited range of motion.

But between ages 62 and 70, you can consider three surprising Social Security strategies—the reset, the file and suspend, and the restricted application—which can significantly expand your planning options and boost your benefits.

1. The Reset: The reset feature gives some flexibility to taxpayers who may have regretted taking a reduced benefit at age 62 instead of waiting until their full benefit at age 65 or 66, or the bonus amount by delaying retirement until age 70.

It allows you to reset your benefit amount by essentially coming out of retirement by filing Social Security Form 521, or a “Request for Withdrawal of Application,” repaying all Social Security benefits received to date with no interest or adjustment

for inflation, then reapplying at your current age. You can do it only once and it is irreversible.

Once the Social Security Administration approves your request, which is almost automatic, you collect at the stepped-up amount for as long as you live. One added plus: Your spouse thereafter may collect spousal or survivor benefits based on your stepped-up benefit rather than your reduced early-retirement amount.

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Do You Have Unclaimed Savings Bonds?

Many military members bought Series E Savings Bonds that have now matured and are no longer earning interest. And, many baby boomers received Series E Savings Bonds as gifts from family members years ago and simply forgot about them. Well, it's time to pull them out of hiding and cash them in since this is the final year these bonds will earn any interest. Series E bonds issued between May 1941 and Aug 1979 are no longer earning interest.

The U.S. Treasury Department's Bureau of Public Debt reports that more than \$16 billion worth of matured Series E bonds have not been redeemed. If you have some of these bonds, it's time to redeem them and put that money back to work in other investments or to reduce debt.

To check whether you have hidden fortunes held in long-forgotten savings bonds and to learn more about Series E bonds, visit Treasury Direct at: www.treasurydirect.gov/indiv/indiv.htm



Three Social Security Strategies *Continued from page 1 ...*

2. The File and Suspend: File and suspend allows married taxpayers who retire at different ages to collect optimal benefits. Here's how it works:

Let's say Jack has reached his full retirement age of 66 but plans to work until 70 to collect his delayed retirement credits, which can increase his full benefit amount by 32 percent. Let's also say Jill, his nonworking spouse, just turned 62. He can file for Social Security benefits but request an immediate suspension of his benefits, which allows Jill to then apply for her Social Security at his benefit level, without locking him into a lower payment for life. He won't receive any checks and will continue to accrue delayed retirement credits for himself.

His wife can then apply for benefits on his record and begin receiving checks at a higher amount than she would have received on her own employment record.

With a little planning and saving, Jack later may decide to reset at age 70, which would increase not only his own lifetime benefit but Jill's spousal and survivor benefit.

3. The Restricted Application: Let's juggle our Jack-and-Jill equation a bit. Jack is still 66 and wants to work until he's 70. Now let's say Jill is also 66 and looking to retire, but her career has earned her a full benefit on her own record. So she won't be drawing on Jack's record. In this case, Jack would not file for Social Security but would instead do what is called "restricting an application" to Jill's benefits only.

What does that do? It allows Jack to file as spouse on Jill's record and earn half of her full benefit while still racking up delayed retirement credits of his own. That means if Jill earns \$1,000 a month, Jack will receive \$500 a month on her record while he continues working, increasing their family benefit amount 50 percent.

When Jack retires at 70, his delayed credits will bring a higher benefit amount, which would mean a higher survivor benefit for Jill should she outlive Jack. The reset has been around as an escape clause since the dawn of the program for people who wanted or needed to return to work, while file and suspend was enacted in 2000 as part of the Senior Citizens' Freedom to Work Act. What is new is their use as planning tools in retirement strategies.

Should you plan to reset? There is consensus that the spousal features of file and suspend and restricted application are sound, prudent and worthy of including in any retirement plan. But opinions vary as to the wisdom of planning to take a reduced benefit at 62 and then repay and reset the benefit amount at a more advantageous age.

Such a strategy makes perfect sense if you plan for the worst-case scenario of living to 100 rather than to some actuarial target in the upper 70s. What's more, if inflation takes off, as now seems likely, it would make the repay and reset strategy even sweeter because you would be repaying in ever-less-valuable dollars.

One of the problems with resetting as a strategy at the time of early retirement is the taxpayer may not have the money to repay when the time comes because of medical or other emergencies. He may die before resetting, thereby leaving the spouse with a lower survival benefit. Or the person may die shortly after repaying, in essence forfeiting eight years of benefits. A marriage or divorce also could affect the outcome. Then there's the health issue: How can you predict at 62 what you'll feel like at 70?

For most people, Social Security is a significant portion of their income. And once they retire, they need that Social Security check to continue to pay their bills.

New Rules for Recipients of Death Gratuity and SGLI Benefits

On June 17, 2008, former President Bush signed into law the Heroes Earnings Assistance and Relief Tax Act of 2008 (HEART). Among other things, the new law now permits the recipient beneficiary of the military death gratuity and/or SGLI insurance to contribute some or all of these proceeds into their Roth IRA or a Coverdale Education Savings Account (ESA). These beneficiaries can make a Roth contribution without worrying about the annual contribution or income limits that apply to those accounts. The contribution must be completed within one year of receiving the death benefits. (Contributions to a Traditional IRA or Section 529 College Savings Plan are not permitted).

Normally, a Roth IRA owner cannot take a qualified distribution of funds (one

that is penalty-free) until he or she has held the account for 5 years and is 59 ½, dies, becomes disabled, or uses up to \$10,000 of the funds for a first home purchase. However, under the new law the funds contributed in this case are considered a qualified rollover (basis) and can be withdrawn at any time with no tax or penalty. Only the earnings on those contributions would be taxed and subject to penalty if withdrawn.

The total amount contributed to a Roth IRA and an ESA cannot exceed the total amount of the benefits received. If a beneficiary receives more than one benefit, he or she has one year from the date of receipt of each benefit to make a contribution. You should consider consulting with a tax advisor or your financial planner before making such contributions.

Special Survivor Indemnity Allowance Extended

President Obama signed a new bill in June 2009 that extends a temporary survivor's benefit through the year 2017 and also provides annual increases in the payment amount.

The Special Survivor Indemnity Allowance (SSIA) was created two years ago as a small but symbolic payment to survivors whose military benefits are reduced dollar for dollar by the amount they receive in veterans survivor benefits (DIC). The allowance, which began as a \$50 monthly

payment, increased to \$60 on 1 October, 2009. It is scheduled to increase each year on 1 October by \$10 per month.

The original law had the benefit expiring in 2014, but a provision of the Family Smoking Prevention and Tobacco Control Act, signed by Obama on 22 June, 2009, extends the allowance for another five years, with continued regular increases. Under the new law, the payment will be \$150 in 2014, \$200 in 2015, \$275 in 2016 and \$310 in 2017.

Sorry, No Annual Cost of Living Increase for 2010

Due to the negative inflation rate for the past year, there will be no cost of living increases in 2010 for military retired pay, social security benefits, military SBP payments, or VA disability compensation.



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Convert to a Roth IRA?

Why Now May Be the Right Time



The Cammisio Group at Merrill Lynch offers financial planning and investment management services. This is the fourth in a series of financial columns in your AFSC newsletter.

by Sarah A. Cammisio, CIMA®, CRPC®, WMA, First VP, PIA Portfolio Manager, Merrill Lynch

This coming year will be incredibly important for those who are considering converting traditional IRAs or 401(k)s to Roth IRAs. I felt that it was important to relay this complex information in a simple and straightforward way to AFSC members, so that you have as much time as possible to make this very important decision. The article below, written by Laura Grogan-O'Mara, Vice President of Legislative and Public Policy for Merrill Lynch, highlights the conversion topic. Please note that, in addition to what is written below, a Roth conversion may be appropriate for someone who will likely never need these funds in retirement but wishes to pass them onto their heirs. This may create a tax-free, penalty-free stream of income for the beneficiaries, almost like creating a private pension.

Next year the IRS lifts income restrictions for those converting traditional IRAs or 401(k)s to Roth IRAs. Is the opportunity right for you? Since its introduction in 1997, the Roth IRA has enjoyed great popularity. If eligible, Roth IRA owners can make after-tax contributions and withdraw them, tax-free, at any time if certain conditions are met. Once the account has been open and funded for five years, distributions will be income-tax- and penalty-free provided the account holder is at least age 59½ or meets one of the other circumstances for making a qualified distribution. And Roth IRAs are not subject to required minimum distributions during the holder's lifetime.

One of the Roth's few drawbacks has been its income restriction for converting from a traditional IRA. Currently anyone, whether married or single, who earns more than \$100,000 is not permitted to make a conversion. However, starting in 2010, the IRS is lifting this income restriction. If you're focused on saving for retirement, this is good news. But anyone considering converting to a Roth IRA needs to understand the less obvious effects of this decision. For instance, the conversion involves an up-front tax liability that may be worth assuming, depending on your circumstances and retirement income strategy.

Typically, it makes most sense to convert when:

- The balance of the traditional IRA you're converting is substantial
- You expect to occupy a higher tax bracket in retirement than you do now
- You expect your beneficiaries to move to a higher tax bracket after they inherit your IRA assets
- You can pay the taxes on the conversion from assets other than those being converted
- Consider these questions when you speak with your Financial Advisor about Roth IRAs:
 - How would I benefit during retirement from a Roth conversion now?
 - What assets do I have available to cover any tax liability that proceeds from converting my IRA or 401(k)?
 - How would converting my IRA or 401(k) to a Roth IRA affect my beneficiaries?

There are two other factors you may want to consider as you mull over the choice. One is that recent market turbulence may have primed your IRA or 401(k) for conversion—a lower account balance generates a lower tax burden. The other thing to remember is that for conversions made in 2010, the IRS allows you to spread the tax payment over a two year filing period.

Another way to potentially mitigate the taxable burden is by converting only a portion of your assets. However, it's wise to explore the ramifications beforehand. Converting a portion of IRA assets is more complex than it seems at first blush.

Investors may be under the impression that it's possible to convert only after-tax IRA contributions to a Roth and thus avoid having to pay any taxes on the conversion. As nice as that would be, it's not possible because of the way the IRS views IRA assets. Even if you have after-tax money in your IRA, the IRS won't allow you to convert only those contributions. Instead, the IRS looks at all your IRA accounts together and prorates the taxes you owe based on both taxable and nontaxable assets.

Of course, all the earnings on your contributions are still subject to tax upon conversion. Taxes on earnings are not prorated—it doesn't matter whether those earnings came from deductible or nondeductible contributions. In the right situation, converting to a Roth IRA can be extremely beneficial to your retirement plans. It's important to talk with your Financial Advisor. He or she can help you determine whether this brand-new opportunity can help you achieve your retirement savings goals.

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TRICARE and College Age Kids

Your 18-year old son or daughter is moving out of your house to live at or near the university where he'll be attending school full-time. What happens to his or her eligibility for health care under the TRICARE system?

College-age students retain their TRICARE eligibility after age 18 under any of the three programs, TRICARE Prime, Standard, or Extra depending upon the program most suitable for them where they live. Military sponsors must ensure the student's military ID card is current and that his address and status are up to date in DEERS.

TRICARE covers eligible children until their age 21. For TRICARE coverage beyond the age of 21, your college student must be enrolled full-time at an accredited institution of higher education AND the sponsor must provide more than 50% of the student's financial support. Call the nearest ID card issuing facility for information on necessary documentation you will need to extend benefits of your college student beyond their 21st birthday. To find an ID card facility near you visit www.dmdc.osd.mil/rsl/.

You Could be Bounced from TRICARE Prime

A new Department of Defense (DOD) policy aimed at cleaning up TRICARE Prime enrollment at military treatment facilities (MTF) could mean some significant changes for many Prime enrollees.

TRICARE has long had established travel access standards to help beneficiaries receive timely health care. The standards require that enrollees shouldn't be assigned a primary care manager (PCM) at a military hospital or clinic that's more than a 30-minute drive from the beneficiary's home address. As a practical matter, DOD never really enforced that policy. But it will be enforced now.

If they want to continue to be seen in the MTF, current Prime enrollees in the U.S. who live farther away than a 30-minute drive from the MTF will have to request a waiver of the drive-time standard from the MTF commander or the TRICARE



TRICARE benefits end when your child reaches age 23 or when full-time student status ends, whichever comes first, regardless of the graduation date.

By the way, when your child turns 18 the HIPAA law requires him or her to give written permission for parents to access their medical records. Students age 18 or over must file their own TRICARE claims forms and make their own medical appointments and primary care manager choices.

Regional Office. Drive times will be determined by a computer program similar to MapQuest. Approved waivers will have to be renewed annually from now on.

Unless they apply for and are granted a waiver before 1 October, 2009, enrollees who live more than 30 minutes (but less than 40 miles) from the MTF will be assigned a civilian primary care manager closer to their residence. Absent a waiver, those who live more than 40 miles from the MTF will be disenrolled from Prime and revert to TRICARE Standard as of 1 October.

TRICARE contractors are mailing letters to all affected beneficiaries, providing detailed instructions on the waiver process. If you have specific individual questions, call your regional TRICARE contract provider or visit your local TRICARE Benefits Advisor at the Military Treatment Facility (MTF).

VA Announces New Agent Orange Conditions

The Department of Veterans Affairs has added three specific illnesses to the list of Agent Orange related conditions:

1. **B cell leukemias** - Cancers which affect B cells, such as hairy cell leukemia.
2. **Parkinson's disease** - A motor system condition with symptoms that include trembling of the limbs and face and impaired balance.
3. **Ischemic heart disease** - A disease characterized by a reduced supply of blood to the heart.

That brings to 15 the number of presumed illnesses recognized by the Department of Veterans Affairs (VA) related to Agent Orange. Presumption means that the veterans and survivors do not have to prove an association between their military service and their illness.

VA is now accepting claims for service connection for the new conditions and encourages filing as soon as possible. However, it may be several months before regulations can be changed to allow claims to be processed.

Please contact AFSC for more details and assistance with filing a claim.

Medicare Part B Premium Costs in 2010

The Medicare Modernization Act of 2003 made significant changes to the way in which Medicare Part B premiums are calculated. Beginning in 2007, some seniors have been required to pay higher premiums under a new means test based upon adjusted gross income (AGI). Adjusted Gross Income is your total income from all sources, less certain adjustments, and is usually the bottom number on the front side of your 1040 tax return. The regular Part B premium for 2010 remains unchanged at \$96.40.

Below is a chart depicting the increased cost of Part B premiums in 2010 for those with AGI over \$85,000 for an individual filing single or \$170,000 for a married couple filing a joint return. The IRS will provide your tax return information to CMS for the two years preceding the year for which the higher Part B premiums are applicable. Certain life-changing events will allow modifications to the data provided by the IRS for determining a modified AGI.

Beneficiaries who file an individual tax return with income:	Beneficiaries who file a joint tax return with income:	Total monthly premium amount:
Less than or equal to \$85,000	Less than or equal to \$170,000	\$96.40
Greater than \$85,000 and less than or equal to \$107,000	Greater than \$170,000 and less than or equal to \$214,000	\$154.70
Greater than \$107,000 and less than or equal to \$160,000	Greater than \$214,000 and less than or equal to \$320,000	\$221.00
Greater than \$160,000 and less than or equal to \$214,000	Greater than \$320,000 and less than or equal to \$428,000	\$287.30
Greater than \$214,000	Greater than \$428,000	\$353.60