AHP Financial Services Inc.

An Independent Registered Investment Advisor

Winter 2010

OPEN LETTER TO OUR CLIENTS

Your AHP Financial Services Team would like to sincerely thank our valued clients and friends. Thank you for your business, your confidence, and your sincere concern. Bravo to those that found a way to stay invested when the TV news suggested a tsunami that was not survivable! You saw your portfolio values rise from the depths of the panic selling in March through year end. When the year was over, your courage was rewarded with an S & P 500 index gain of over 26%. While we still have a way to go, we believe we're heading in the right direction.

If you didn't stay invested, now's a good time to review your situation. There are alternatives and you should know what your options are. Call us.

New Year's Resolutions
AHP Financial Services' Picks

1. Stay physically fit! (don't spend your retirement dollars on healthcare expenses)
2. Always pay off credit card balances at month end (and encourage your children to do the same)
3. Start a 529 College savings plan for a child, grandchild, niece, or nephew.
4. Review your liability limits on your homeowners and auto insurance policies.
5. Review your will and/or trust (don't tell us you don't have at least a will!)

ANNUITY MAXIMIZATION: A STRATEGY TO LEAVE MORE TO YOUR HEIRS

What if you're living comfortably in retirement and find that you don't need a deferred annuity you bought years ago? Instead, you want to leave it to your heirs at your death. What you may not know is that transferring your deferred annuity at death may subject it to both estate and income taxes. A strategy that can minimize the impact of these taxes is called annuity maximization using permanent life insurance.

Some background

When you die, the portion of the annuity death benefit received by your beneficiaries (either in a lump sum or as periodic payments) that exceeds your investment in the annuity is includible as taxable income to your beneficiaries. In addition, the full accumulation value of your deferred annuity is includible in your gross estate at your death. If your estate is large enough to owe federal and/or state estate taxes, your deferred annuity will be subject to those taxes as well. The combination of estate and income taxes can erode a significant portion of your annuity's value. The result is that your beneficiaries may receive an annuity worth much less than you anticipate.

How annuity maximization works

Here's the basic way this strategy works: you exchange your deferred annuity for a single premium immediate annuity (SPIA) that provides an income stream to you for the rest of your life. You then obtain permanent life insurance with you as the insured, and use the SPIA distributions to pay the insurance premiums. At your death, the SPIA payments stop and the insurance proceeds are paid to your beneficiaries. Alternatively, if you prefer to retain the deferred annuity instead of converting it to an SPIA, you may be able to take penalty-free withdrawals from your deferred annuity, which also can be used to pay the insurance premiums. However, annuities vary as to penalty-free withdrawal availability, so for complete details, be sure to check with the annuity issuer, or review your annuity contract or prospectus.

Caution: *Annuity distributions before age 59½ may be subject to a 10% federal tax penalty. Annuity guarantees are based on the claims-paying ability of the annuity issuer.*

See ANNUITY MAXIMIZATION on page 2.

Need life insurance? Going to quit smoking this year?
John Hancock has a policy that offers premium discounts even if you haven't quit yet, but are going to. See us for details.

SPOTLIGHT ON CLIENT SUCCESS

Robert L. Malecki, D.D.S. PC

Robert L. Malecki, D.D.S. PC specializes in preventetive and restorative dentistry. Patients can expect prompt, dependable dental care in a caring and compassionate atmosphere.
The office is located at 512 South Trumbull Street in Bay City, Mich. Give them a call at 989.892.7663.

Robert L. Malecki, D.D.S. PC neither approves or disapproves of the advice and services of Raymond James.

MARKET UPDATE

Stock and bond prices recovered from March lows and finished higher in 2009. Although the recession officially ended, we foresee a long, gradual recovery. Don't look for the stellar returns of 2009 to be repeated this year. We are confident the recovery will continue in both the markets and the economy, but think in terms of good, not great.

Stock Market Returns 2009

	4 Week	13 Week	2009 Year End
Dow Jones	1.95%	8.84%	27.98%
Nasdaq	5.57%	8.09%	47.14%
S&P 500	1.93%	6.04%	26.49%
MSCI EAFE	5.35%	5.34%	22.07%

The Dow Jones industrial average is a price-weighted index of 30 actively traded blue chip stocks. The NASDAQ composite index is a market weighted index of over-the-counter stocks traded on the NADAQ system. The S&P 500 index is a group of 500 stocks considered by many to be representative of the stock market in general. The MSCI (Morgan Stanley Capital International) and the EAFE (Europe, Australia, and Far East) are an index of 21 developed markets, but excludes those from the US and Canada. One cannot invest directly in an index. Past performance does not guarantee future results.

Check your mail for an account review letter coming soon. Let us know what topics you would like to discuss at our meeting.

Do you know who gets your money if something happens to you? Life insurance, pensions, annuities, and IRAs all have beneficiary elections.
Are you sure elections you've made in the past are still correct?

ANNUITY MAXIMIZATION FROM PAGE 1

The annuity maximization strategy may pose some income tax issues for you. SPIA payments and annuity withdrawals may be taxable to you. A portion of each SPIA payment you receive is subject to income taxes and a portion is considered a non-taxable return of premium. Conversely, withdrawals from your deferred annuity (for annuities issued after 1982) are taxed as income first, meaning the entire withdrawal is includible as income until all of the annuity's earnings are withdrawn, after which withdrawals of principal are not includible as income.

Why annuity maximization works

Instead of getting the deferred annuity at your death, your beneficiaries receive the life insurance proceeds, income tax free. And you can effectively remove the value of the deferred annuity from your estate by converting it to a SPIA. Since the SPIA payments cease at your death, the SPIA is not included as an asset of your estate. In addition, the life insurance can escape estate taxes if the policy is not part of your estate at death. To achieve this goal, you can't own the policy; it must be owned by another (e.g., your child or an irrevocable life insurance trust). You then make gifts to the policy owner equal to the annual insurance premium. However, gifts may be subject to both federal and state gift taxes, so you should consult your tax professional before making such gifts.

The bottom line

If you own an annuity that you want to transfer to your heirs at your death, a significant portion of its value may be lost to estate and income taxes.

Life insurance for long term care? Riders on today's policy allow access to death benefits to pay for long term care expenses. Let's see, a living benefit from a death benefit...genius!

BAY CITY 866.888.5226 | SAGINAW 888.754.8478

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