



Quarterly

BEACON HILL INVESTMENT ADVISORY

Summer 2015



*Happy 4th of July to our clients, friends and family! A view from our office.
(Red, White and Boom—Columbus, OH)*

*Tour de Grandview—Special thanks to Clint and Jenny for hosting a
"viewing party" at their house last weekend. The weather didn't cooperate
but that didn't stop everyone from having fun!*

What is the Roth IRA five-year rule?

Actually, there are two five-year rules you need to know about. The first five-year rule determines when you can begin receiving tax-free qualified distributions from your Roth IRA. Withdrawals from your Roth IRA—including both your contributions and any investment earnings—are completely tax and penalty free if you satisfy a five-year holding period and one of the following also applies:

- You've reached age 59½ by the time of the withdrawal
- The withdrawal is made due to a qualifying disability
- The withdrawal is made for first-time homebuyer expenses (§10,000 lifetime limit)
- The withdrawal is made by your beneficiary or estate after your death

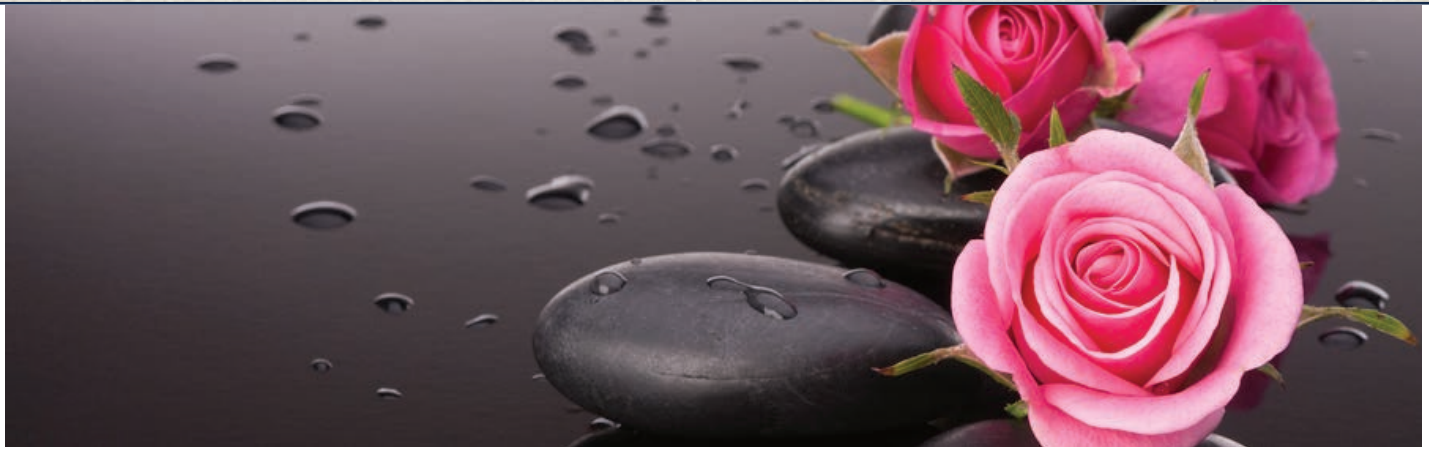
This five-year holding period begins on January 1 of the tax year for which you made your first contribution (regular or rollover) to any Roth IRA you own. For example, if you make your first Roth IRA contribution in March 2015 and designate it as a 2014 contribution, your five-year holding period begins

on January 1, 2014 (and ends on December 31, 2018). You have only one five-year holding period for determining whether distributions from any Roth IRA you own are tax-free qualified distributions. (*Roth IRAs you inherit are subject to different rules.*)

The second five-year rule is a little more complicated. When you convert a traditional IRA to a Roth IRA, the amount you convert (except for any after-tax contributions you've made) is subject to income tax at the time of conversion. However, your conversion isn't subject to the 10% early distribution penalty, even if you haven't yet reached age 59½.

But what the IRS giveth it can also taketh away. If you withdraw any portion of your taxable conversion within five years, you'll have to pay the 10% early distribution penalty on those funds that you previously avoided—unless you've reached age 59½ or qualify for another exemption from the penalty tax. This five-year holding period starts on January 1 of the year you convert your traditional IRA to a Roth IRA. And if you have more than one conversion, each will have its own separate five-year holding period for this purpose.

Source: Broadridge



Supreme Court upholds subsidies

Obamacare has been saved yet again by the Supreme Court.

The Supreme Court ruled 6-3 Thursday that the subsidies under the Patient Protection and Affordable Care Act will stay.

The ruling upholds a major tenet of the health care law enabling millions of Americans to keep the tax subsidies that help them buy and afford health coverage under the law.

Chief Justice John Roberts wrote the court's majority opinion and was joined by Justices Anthony Kennedy, Ruth Bader Ginsburg, Stephen Breyer, Sonia Sotomayor and Elena Kagan.

Should the Court have struck down the subsidies, it would have had disastrous effects for the health care market and the health reform law. An estimated 6.4 million Americans receive the subsidies in the 34 states that don't have their own exchanges. Reports had suggested millions would lose coverage and millions more would suffer from exploding premiums had the government lost in *King v. Burwell*.

The Supreme Court agreed.

"The combination of no tax credits and an ineffective coverage requirement could well push a State's individual insurance market into a death spiral. It is implausible that Congress meant the Act to operate in this manner," Roberts wrote.

"The argument that the phrase 'established by the State' would be superfluous if Congress meant to extend tax credits to both State and Federal Exchanges is unpersuasive."

King v. Burwell ultimately hinged on just four words — "established by the state" — as it called into question the legality of federal exchanges. While PPACA challengers said that phrase limits the tax credits to the 16 states that have set up their own exchanges, the Obama administration repeatedly defended an IRS rule that interpreted the law as allowing subsidies nationwide.

The case represented the biggest legal threat to PPACA since the law was challenged in the Supreme Court three years ago. Then, the court upheld the law's centerpiece, the individual mandate, as a tax, by a 5-4 vote, but left Medicaid expansion up to the states.

The Obama administration also did not have a backup plan had the subsidies been gutted.

Ultimately, this was the decision most had hoped for: Poll after poll had found that the public backed the subsidies and wanted the court to uphold all the law's subsidies, regardless of if they supported PPACA in general.

Praise for the decision came in fast this morning.

"Today's decision by the Supreme Court assures those consumers that the promise of affordable health coverage will still be there for them," Anne Filipic, president of Enroll America, said in a statement. "Right now, our priority is to make sure consumers know what this ruling means: that nothing has changed about their financial help. And this is a critical opportunity to inform those who have not yet enrolled that financial help is available, and here to stay. Opponents have repeatedly attempted to derail this law, but in spite of that opposition, it is working and millions of Americans are benefiting."

The National Business Group on Health said the ruling was "welcome news" to large employers in "affected states which have relied on exchanges for health insurance for early retirees, part-time employees, and other employees."

"Millions of Americans, including employees, retirees, and their families can now rest assured that they will continue to have access to federal subsidies that help keep their health insurance coverage affordable," said Brian Marcotte, President and CEO of the National Business Group on Health. "It also reassures employers in affected states which have relied on exchanges for early retirees, part-time employees and other employees, that there will be no disruption in coverage."

Despite the administration's victory, analysts do not see this being the end of controversy for PPACA.

"Affordable Care Act implementation returns to normal following today's ruling but debate over the law is likely far from over," said Elizabeth Carpenter, director at consulting firm Avalere Health. "Congress may still pursue strategies to alter the Affordable Care Act, and the debate over reform is likely to reignite as part of the 2016 presidential race."

"Congress is still likely to consider repeal of the medical device tax and the Independent Payment Advisory Board, as well as changes to the employer mandate and the Cadillac Tax."

Source: BenefitsPro, Kathryn Mayer



Same-sex marriage ruling ends personal finance confusion

The Supreme Court's decision to allow same-sex marriage nationwide will remove tax and personal-finance headaches that have bedeviled gay couples.

The 5-4 decision by the court is a particularly significant victory for many residents of the 14 states where same-sex marriages were banned until Friday, often under state constitutional amendments.

Gay couples who are married will now be able to file joint state tax returns, inherit property easily and enjoy hospital- visitation rights just like opposite-sex couples can. In his majority opinion, Justice Anthony Kennedy cited these and other practical benefits of marriage as a reason to require states to recognize same-sex marriages.

"By virtue of their exclusion from that institution, same-sex couples are denied the constellation of benefits that the States have linked to marriage," Kennedy wrote. "This harm results in more than just material burdens. Same-sex couples are consigned to an instability many opposite-sex couples would deem intolerable in their own lives."

The financial gap between gay and straight married couples has been narrowing over the past few years. The Supreme Court, in a separate case in 2013, overturned the core of the federal Defense of Marriage Act.

That decision meant gay couples in states where same-sex marriage is legal could file joint federal tax returns and get spousal exemptions under the estate tax. Some states, however, then required gay couples to split their tax returns for state purposes.

Health benefits

One of the biggest areas ripe for change will be health and medical benefits. Currently, some employers offer health benefits to unmarried same-sex couples while others don't, said Todd Solomon, a partner in the employee benefits practice group at McDermott Will & Emery.

Some employers may drop coverage for unmarried same-sex partners now that same-sex marriage is a national right, Solomon said.

The ruling also may simplify traveling across state borders for those who are already married, said Janis Cowhey, a partner at Marcum LLP in New York and co-leader of the firm's Modern Family & LGBT Services Practice Group.

Cowhey has told clients who are married in New York, for example, to keep their marriage license and other documents such as a health-care proxy and living will on a flash drive — in case they are traveling in a state where their marriage isn't recognized. If there's a car accident, they then would have the documentation needed to see their spouse in a hospital or help make medical decisions, she said.

Rights 'extended'

"This should mean certain state-run health-care programs and adoption rights and community property rights will be extended to married couples, which can have some significant economic and non-economic benefits," said Alex Popovich, a wealth adviser at JPMorgan Chase & Co.'s private bank. "You seemingly equalize rights across the board to couples regardless of gender of the married persons."

For example, in community property states including California, Arizona and Texas, assets held and earned by one spouse are generally treated as community property and therefore the equal property of both. That right would extend to same-sex married couples, which is extremely relevant in many situations including divorce and bankruptcy, Popovich said.

Source: Bloomberg; BenefitsPro – Margaret Collins and Richard Rubin



Client Spotlight



Warren Fishman

Warren Fishman hit the front page of the Dispatch a few weeks ago for his involvement in Muirfield Country Club. We are fortunate to have this iconic Jack Nicklaus course built in our backyard. Once considered a questionable venture for Mr. Nicklaus, the course has joined the ranks of storied courses on the PGA Tour.

Mr. Fishman has intimate knowledge of Muirfield's history as one of the first residents and still living in the village after nearly 40 years.



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