



PERSPECTIVE

ON STRATEGIC WEALTH PLANNING

Fiduciary
Trust
International



Mackin Pulsifer
Vice Chairman and
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The Impact of the Health Care Reform Bill on Investment Opportunities and Wealth Planning

The long-debated U.S. health care reform bill has been signed into law, signifying the beginning of a new chapter for the health care industry. The legislation is designed to extend health care coverage to more than 32 million uninsured Americans.

The health care reform bill is projected to cost \$940 billion over 10 years, according to the Congressional Budget Office. The government expects to raise funds to exceed the costs of the plan. It relies on expected revenues from new taxes on companies in the health care industry and on individuals earning more than \$200,000 and families earning more than \$250,000. In addition, savings in the form of Medicare spending cuts are also expected to offset the costs. Because many of the revenue-raising provisions will not go into effect for several years, unforeseen obstacles are a possibility in our view.



Gail E. Cohen, Esq.
Vice Chairman and
General Trust Counsel

WITH CHANGE COMES OPPORTUNITY

With an additional 32 million people in the U.S. beginning to utilize health care services, we believe several related investment areas will benefit from this dramatic increase in demand. The bill closes the “doughnut hole” in Medicare payments, which caused some patients to skip doses of medicines to cut costs, so we believe an area that may have a lot to gain may be drug makers. However, according to the bill, drug companies will have to pay \$28 billion in fees over nine years to help the elderly afford drugs. While we believe the anticipated increase in volume will offset these fees, we do continue to favor select pharmaceutical companies that have a strong global presence, as they can benefit from both domestic and global growth opportunities.



Ronald J. Sanchez, CFA
Executive Vice President and
Director of
Fixed Income Strategies

Hospitals and related services may be another benefactor of the bill. A deluge of paying customers and an expected reduced number of bad debts may benefit hospital stocks as well as related services such as clinical lab testing groups. Their margins may improve as they experience volume increases through their established infrastructure. Over the long term, it's also possible there may be some hospital merger and acquisition activity.

In addition, we believe that technology will play a large role in enabling the industry to successfully absorb this sudden influx of new patients. In particular, technology companies that provide medical information systems and electronic recordkeeping will most likely be critical in effectively reducing the expense of treating, monitoring and administering care to patients.

Consolidation of the insurance industry appears likely in our view. Insurers will gain many new customers, but they must now also insure those with pre-existing conditions, and will be banned from revoking coverage because of severe illness and from lifting lifetime or annual benefits. Providers will need to spread the expenses of these higher-cost patients across a very large number of young, healthy customers, leading to potential merger activity across the industry.

Device makers will likely benefit the least, in our opinion, as this industry will be required to pay a 2.3% excise tax on certain devices starting in 2013. In our view, they may not gain the same revenue boost as pharmaceutical companies, insurers, and hospitals. It is likely that a large percentage of this tax increase will be pushed through to the consumer in some form of higher prices, or that some of these firms will need to reduce their operating costs to cover the tax.

WE ARE POSITIONING STOCK PORTFOLIOS TO TAKE ADVANTAGE OF CHANGES IN THE HEALTH CARE ENVIRONMENT

In our asset allocation strategies we have been increasing general allocations into the health care sector in anticipation that the uncertainties would be resolved, and that the final bill would not be as draconian as first expected; with the signing of the bill, these assumptions have now been realized.

We have favored biotech firms that focus on treatments for rapidly rising diseases such as diabetes, immune deficiencies and cancer. Select generic drug companies have been attractive to us, as we anticipate they will benefit from increased demand. We have also found potential opportunities in established pharmaceutical firms, especially those that have received patent extensions, have global exposure and strong product pipelines. Lastly, we believe that distributors of medicines such as pharmacies and drug stores should also benefit as volumes increase.

We have been reducing exposure to medical device makers in anticipation of the tax implications of the bill, and also because we believe many of these stocks have reached high valuations over the past several months.

MUNICIPAL BOND MARKETS WILL DRAW HIGHER INVESTOR INTEREST

The new bill imposes a Medicare tax of 3.8% on investment income and a 0.9% tax on earned income beginning in 2013 for individuals earning over \$200,000 and families earning over \$250,000. Tax-exempt investment income will be exempt from these new Medicare taxes.

Separate from the bill, upper-income taxpayers could see additional tax increases that are slated to take effect next year (see table). Altogether, including the new Medicare tax, by 2013 investors could be paying a top rate on interest income of 43.4%—nearly one-fourth more than the current 35% rate.

The municipal sector will likely benefit from these higher tax rates. We expect that the municipal bond market will enjoy strong demand as investors respond to a new landscape where municipal debt is inherently more attractive on an after-tax basis. It is important to note, however, that taxes generally influence the relative yields of municipal bonds vs. taxable bonds. The absolute yield on a municipal bond is determined by a larger set of variables, such as the demand for capital, real rates of return, inflation expectations and fiscal and credit fundamentals.

Because the municipal markets continue to be plagued by budget challenges and weakening fiscal positions, diversification by industry and issues and a strict security selection process are critical. We are focusing on opportunities in the municipal markets that we believe can provide solid tax-free yields while keeping credit risk in check.

Projected Federal Tax Rates (Maximum Rates)

Year	PROJECTED TAX ON EARNED INCOME		PROJECTED TAX ON INVESTMENT INCOME		
	Top Federal Income Tax Rate	Medicare Surcharge Income Tax Rate	Top Federal Tax Rate on		
			Short-Term Capital Gains and Ordinary Income	Long-Term Capital Gains	Dividend Income
2010	35.0%	N/A	35.0%	15.0%	15.0%
2011–12	39.6%	N/A	39.6%	20.0%	39.6%
2013	39.6%	0.9%	43.4%*	23.8%*	43.4%*

*Includes the 3.8% Medicare tax for individuals earning over \$200,000 and couples earning over \$250,000.



TAX PLANNING STRATEGIES BECOME EVEN MORE IMPORTANT

The Medicare taxes for 2013, along with the tax increases slated for higher-earning taxpayers in 2011, make strategic tax planning now even more critical. To minimize wealth erosion, we believe strategic wealth planning must be tailored to each client's unique situation. While investors should not base investment decisions solely on tax rates, if decisions fit within their strategic plans, there are several actions investors could consider.

In 2010, investors may want to take advantage of today's lower rate window. Triggering capital gains in 2010 when the long-term federal capital gains tax rate is still 15% may be advantageous versus in future years, when capital gains tax rates are scheduled to increase and taxes will likely affect a bigger portion of these transactions. Also, a Roth IRA conversion is also worth considering in 2010 as investors may pay less in tax today to convert to a Roth IRA than they may on future taxable distributions.

As tax increases are slated to begin taking effect next year, gifting strategies using tools such as Charitable Remainder and Charitable Lead Trusts may become more beneficial as tax rates increase in 2011, and certainly by 2013, with the additional Medicare taxes. As tax rates increase, the value of any of these deductions also increases; and, the deductions may assist taxpayers in staying under the threshold amounts for paying the additional Medicare taxes.

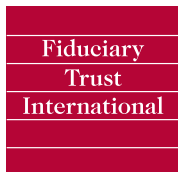
Implementing effective planning strategies as tax environments change can make a significant difference in the amount available to you during your lifetime that ultimately passes to your heirs. As always, we encourage you to reach out to your Fiduciary Trust contact if you have any questions or if you would like to discuss your investment portfolio or tax planning needs.

Snapshot of Health Care Reform

<p>2010</p> <ul style="list-style-type: none"> • Prohibits insurers from dropping coverage when customers become sick • Bans lifetime caps on insurance payouts to the chronically ill • Provides rebates up to \$250 to seniors paying out-of-pocket drug costs due to the "doughnut hole" gap in Medicare prescription drug coverage • Forbids denial of coverage to children with pre-existing conditions • Permits children to remain on parents' insurance plans until age 26 • Offers small businesses tax credits of up to 35% of premiums if they provide insurance to employees 	<p>2011</p> <ul style="list-style-type: none"> • Fees and taxes on the health industry begin to be phased in (starting with a \$2.3 billion annual fee on drug manufacturers) • Insurers are required to spend at least 80% of premiums on medical services 	<p>2014</p> <ul style="list-style-type: none"> • Most uninsured Americans are required to purchase insurance or be subject to fines • Employers with 50 or more employees are required to provide insurance • Insurance companies are prohibited from denying coverage to anyone with a pre-existing condition • A competitive insurance market is established, enabling the uninsured to shop for coverage
	<p>2013</p> <ul style="list-style-type: none"> • A 3.8% Medicare tax is imposed on investment income for singles earning over \$200,000 and couples earning over \$250,000 • A 0.9% Medicare surtax is imposed on wages of singles earning more than \$200,000 a year and couples earning over \$250,000 	<p>2018</p> <ul style="list-style-type: none"> • An excise tax on "Cadillac" plans is imposed • Expansion of care to 32 million Americans completed

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