Financial Pro

News and Information Letter of the Cincinnati Chapter
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Nov/Dec 2009

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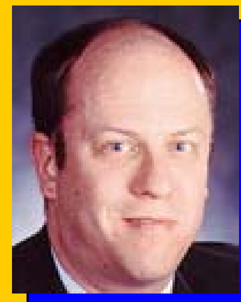
President's Podium



Joseph F. Stenken
CLU, ChFC, JD

We are off to a good start to the 2009-2010 membership year! We had excellent programs this year, and more are on the way in 2010.

If you have not renewed your membership for the 2009-2010 membership year, please do so soon. You don't want to miss out on the programs we have scheduled for the New Year. Also, in tough economic times it is important to be part of an organization that is not only dedicated to educating you on the latest trends in the industry, but is also a place where you can network with other financial professionals. An easy way to pay for your membership and make sure it does not lapse is to pay your dues by using FSP Easy Pay.

Also, don't forget about the Member-Get-A-Member contest that is going on now through the end of June 2010. If you recruit just one new member to the SFSP, you will get 25% off your 2010-2011 national dues. If you recruit just two new members, you will receive half off your national dues. And if you recruit five new members by the end of June 2010 you will not pay any national dues in 2010-2011.

Finally, I want to wish all of our membership a great holiday season and a very Happy New Year.

Joseph Stenken

Welcome to Our New Members!

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ADVANCED MARKETS Strategic Insights

Charitable Capital Transfer

Do you have clients with a strong affinity for a specific cause? Are the beliefs and values that they hold important enough that they want them to continue after they pass on? Do they find personal satisfaction in helping others?

It is an American tradition to help others through contributions to charitable organizations each year—most people make donations to United Way, churches, or other causes. These annual gifts become routine, and many may enjoy an income tax deduction if deductions are itemized on Schedule A, Form 1040.

A *Charitable Capital Transfer* makes a statement about your clients' personal values. This concept may interest your clients if there is a desire to make a significant gift "in addition to" their normal gifting program. The secret lies in *leveraging the gift with the purchase of a life insurance policy*—preferably on the life of your client, or the life of their spouse or other family members. In exchange for their single premium gift, their selected charity can purchase a larger death benefit, often with a guarantee to age 100 or longer.

Who should consider a Charitable Capital Transfer Gift?

- Older client (60+)
- High individual income tax bracket (28%+)
- Has already provided sufficient income and assets for family
- Currently donates to a favored tax-exempt organization
- Desires to leave sufficient assets to the charity to continue that work.

The Power of Charitable Capital Transfer

This concept is powerful, because it is simple. After gifting a single premium to complete the purchase of a life insurance policy, the client—as the donor—has no further maintenance. Your client can also use a series of payments in place of a single premium.

How much guaranteed death benefit can your client get for their money? It depends on a combination of factors, such as sex, age, health risk, smoking status, and type of policy purchased. Here's a rough "rule of thumb" to determine the leverage potential:

How Much Leverage?		
Age 50	$100,000 premium gift	$350,000 benefit to charity (3.5 times)
Age 60	$100,000 premium gift	$250,000 benefit to charity (2.5 times)
Age 70	$100,000 premium gift	$200,000 benefit to charity (2.0 times)
Age 80	$100,000 premium gift	$150,000 benefit to charity (1.5 times)

Source: Assumes male, standard risk, tobacco non-user purchasing a universal life policy with no-lapse guarantee rider with a $100,000 single premium.

Charitable Capital Transfer continued

Charity Starts at Home

Together with your client, you will determine *when* to take advantage of the tax benefits of Charitable Capital Transfer, as well as *what type* of tax benefit. Here are several options:

1. Your client owns the life insurance policy and names the charity as the beneficiary.

Result: There is no income tax deduction for the premium because the client still owns it. But it is the client's to control until death. At death, the full policy benefit escapes federal estate tax if it is paid to a qualifying charity.

2. Your client buys the life insurance policy and gives it to charity immediately, or gives the charity the cash and lets it buy the policy.

Result: Your client gets a current income tax deduction for the premium paid or gifted. Since your client doesn't own it, the death benefit escapes federal estate tax.

3. Your client buys the life insurance policy, holds it for a few years, and then gives it to charity.

Result: At the time of the gift, your client gets a current income tax deduction based on the policy's fair market value (either current cash value or replacement value). The transfer of ownership is a tax-free gift.

In addition to reporting the gift on your client's federal income tax return, your client may need to complete several other tax forms. Gifts in excess of a certain sum must be acknowledged by the charity, while non-cash gifts in excess of stated amounts may require a valuation (see IRS Form 8283).

Income Percentage Limits For Lifetime Gift

Type of Gift	Value	Public Charity	Private Charity
Cash or cash equivalents	Actual	50% of AGI	30% of AGI
Short-term capital gain property	Cost Basis	50% of AGI	30% of AGI
Long-term capital gain property	Fair Market Value	30% of AGI	20% of AGI
Life Insurance Premium	***Actual***	***50% of AGI***	***30% of AGI***

Source: *Tools & Techniques of Charitable Planning* (1st Ed. 2001), Appendix D. "AGI" means "Adjusted Gross Income."

Summary
Charitable Capital Transfer is a powerful concept. Tax benefits abound – you help choose which ones are important to your client. More importantly, it puts your client – the donor – in control of their personal legacy. And it's hard to beat the immediate leverage (death benefit) that has been created for their selected charitable organization.

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MemberGram

A report on Society activities brought to you by your local chapter

October 2009

Mark Your Calendar!

October 26-28, 2009
FSP Forum
Pointe Hilton
Tapatio Cliffs Resort
Phoenix, Arizona

November 18, 2009
(1:00 - 3:15 p.m. ET)
November 19, 2009
(9:00 - 11:15 a.m. ET)
Video Training Conference
Hot Ideas in a Cold Economy: How Others Are Succeeding in Today's World

January 10-14, 2010
Arizona Institute
Pointe Hilton Squaw Peak
Phoenix, Arizona

February 17, 2010
(1:00 - 3:15 p.m. ET)
February 18, 2010
(9:00 - 11:15 a.m. ET)
Video Training Conference
Working Title: *Making the Switch from Active to Passive Income: Strategies to Make It Last a Lifetime*

For more information about Society programs, visit *www.financialpro.org*. To register for any of the programs, contact Member Services, at (800)392-6900 or e-mail *info@financialpro.org*. To register for the Video Training Conferences, contact your local Chapter.

FSP Member Get a Member Contest

Share your personal and professional experiences to help colleagues and peers discover the success FSP can bring to their careers. Invite a colleague to join FSP today!

When you recruit new members to FSP, you're not only helping your Society grow, you'll also have the opportunity to win great prizes in this year's Member Get a Member campaign, such as:

- Reduced or complimentary national dues for the 2010-2011 membership year
- A grand prize of free registration to the 2010 FSP Forum and Professional Leadership Symposium (including three nights' on-site hotel lodging and airfare voucher up to $500)
- Valuable prizes in monthly drawings from January through June.

In addition to becoming eligible for the above individual prizes, you'll also help your local Chapter win a continuing education program with a nationally renowned speaker. There are four flights by Chapter size. The Chapter in each flight that recruits the highest number of new members wins.

The FSP MGAM contest runs from July 1, 2009 until June 30, 2010, so start recruiting today! Go to the FSP Web site at www.financialpro.org and click on the Member Get a Member button for contest details, new member applications, and communication tools to help in your recruitment efforts.

November VTC Explores How Advisors Are Succeeding in Today's Economy

When the economy began its downward spiral in the second half of 2008, the sale of financial products became more challenging. However, certain areas of business such as guaranteed income have actually done well. The Society's November 2009 Video Training Conference (VTC), **"Hot Ideas in a Cold Economy: How Others Are Succeeding in Today's World,"** aims to bring these areas to the attention of our members. The program's moderator, Dick Weber, CLU, MBA, will introduce ideas sent in by current members on how to be more productive, as well as some of the best ideas from past VTCs. This VTC is strictly about productivity issues: how to run a practice more efficiently; how to gain new clients; what financial planning and life insurance products are proving most lucrative; and which areas seem most important to clients in today's economy, such as guaranteed income vs. speculative or investment income.

Because of its practice management and sales orientation, this program will not offer CE credits. The Society has taken the position that, in light of the extraordinary economic conditions, surviving tough times takes precedence over CE.

Hot Ideas in a Cold Economy: How Others Are Succeeding in Today's World

National Broadcast Dates

November 18, 2009: 1:00 – 3:15 p.m. ET
November 19, 2009: 9:00 – 11:15 a.m. ET

For more information, contact your local Chapter or call the national Society at 800-392-6900.

Rebutting Senseless Views on Index Annuities

By Thomas K. Brueckner

Index annuities, like all the tools in an advisor's tool box, are neither good nor bad; they are merely one tool among many, which—when properly used—can solve a myriad of problems for older baby boomer clients.

Example: On our recommendation, my client, a retired Army colonel, invested in several securities products from 1997 to 2000, doubling her individual retirement account. Then we recommended, and she agreed, to move into cash. Later, in July 2002, we recommended she move into an index annuity. In the next 7 years, her index annuity account credited over 49% interest—this during a period when the S&P 500 actually lost 4% (July 1, 2002 to July 1, 2009).
Thus, this retired officer has outearned the S&P index by an astounding 53% in 7 years, earning index-linked interest during the gain years, and retaining that interest during the current recession.

She is typical of many in our client family. Yet despite many such stories, annuity-averse advisors still disparage and even vilify index annuities. Some say the products have no place whatsoever in a baby boomer's retirement portfolio.

Let's examine several of their favorite objections:

Those awful surrender penalties. Most annuities allow account owners to take up to 10% of contract value out each year, penalty-free, after which they will incur a surrender penalty on the excess. Logic dictates that retirees who spend down 10% of their IRA each year will run out of funds within 12 years, far sooner than the +20-year retirement most plan for. By comparison, if a boomer were to lose—as many have—30% to 40% of their life savings in equities, wouldn't that also "penalize," even jeopardize, that boomers' latter retirement years?

Those unsuitable products. Critics ignore the fact that the Model Suitability Regulations that the National Association of Insurance Commissioners passed in 2007 established suitability guidelines. Indeed, today's insurers often reject business that places more than 50% of a client's investable assets into any annuity.

While the insurance industry is often turning away excess allocations to the safety of indexed annuities, some within the broker-dealer community are all too happy to place and keep as much as 85% of a 71-year-old's assets at risk in stocks, exchange traded funds, and mutual funds.

Many older boomers routinely tell us they have left advisors they've been with for 10+ years because those advisors refused to move them from risk to cash, even after repeated insistence to do so.

Those high commissions. Industry researchers say the average commission paid over the life of a typical 7- to 10-year indexed annuity is less than 7% of the initial value. Compare that to how advisors are typically paid for mutual fund sales.

On a $100,000 initial deposit, the typical mutual fund with an up-front load (A-share) followed by only a 1% annual management fee would yield over $17,000 in commissions to a registered rep. Meanwhile, an annuity agent would be paid less than $7,000 over that same 10-year period, assuming the $100,000 grows to $200,000 during that decade. The annuity might do this without risk to principal or each year's interest credits, but the mutual fund's values would be at constant risk to a market downturn. So, since commissions "ultimately come at the consumer's expense," which of these sums—under $7,000 or over $17,000—would most boomers prefer to pay over the next 10 years?

No institutional protection. In terms of long-term financial protection, all annuities are backed by the insurer's financial strength in addition to the capital reserve re-

Rebutting Senseless Views on Index Annuities continued

quirements of the 50 states, plus the state guaranty funds which provide a safety net that varies by state in a range of $100,000 to $300,000. Equities, including variable annuities, aren't protected by either.

The big question to ask boomers considering index annuities for a portion of their retirement is this: "What would you rather experience at age 71: 'missing out' on some of a gain, or watching nearly half of your life savings washed away by a stock broker's insistence that you're still 'a long-term investor at that age?"
Index annuities have never cost a single client a market-based loss, and they have spared millions of retirees the devastating losses that "stay-the-course" advisors have inflicted upon others. They are one tool among many, which—when properly used—can solve a myriad of problems for older baby boomer clients.

Thomas K. Brueckner, CLTC, is president and CEO of Senior Financial Resources, Inc., Nashua, N.H. His e-mail address is thom@seniorfr.com.
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Transfer for Value

By W. Jeff Martin, CLU, ChFC

Perhaps no area of life insurance taxation holds more "traps" for the producer than issues involving transfer for value. That view is held by no less an authority than Stephan Leimberg in an article on the topic I recently read.

The concern is that a seemingly innocent act by a producer or insured can place the tax- free death benefit in jeopardy. *A good rule to follow is that ANY transfer of ownership or beneficial interest in a policy should be considered a transfer for value until proven otherwise.*

In most cases, one of the well discussed exceptions will likely provide continuation of the death benefit exemption. In some cases, however, you may need to turn to the advice of your favorite advanced planning department attorney for comment and advice. In all cases, ask for their opinion in writing. Paranoia is the safe ground to stand on!

Let's review the background:

First, it is Internal Revenue Code Section 61 that tells us that gross income includes "all income from whatever source derived." Thus, life insurance proceeds would be considered taxable income. That is until we come to Section 101 (a) which specifically provides an exemption for life insurance death benefits "if those amounts are paid by reason of the insured's death." This exception (Section 101(a)) allows that death proceeds from life insurance, in unlimited amounts and regardless of beneficiary, are paid income tax-free.

Hold your horses though. There is an exception to the exception of that unfettered death benefit we all know about. Section 101(a)(2) states that *if* there is a transfer for valuable consideration, the proceeds are *not* entirely free of income tax.

Let's review an example of what may seem a harmless agreement causing a major problem.

Insured A and Insured B own a business with two term policies owned by that business. They decide they don't need the insurance anymore, but don't want to give up the policies since both have health issues. After discussion with you, their trusted insurance advisor, they decide to transfer the policy ownership out of the company and directly to each insured. It's fine so far. There is no transfer for value issue because one of the exceptions is a transfer of ownership to the insured.

Privately, they then make a gentleman's agreement to name each other as beneficiary. Bingo…they've done it! The *quid pro quo* of naming each other triggers the potential taxation of the death benefit minus the basis in the policy.

January is one of those months where you hold your breath and hope that no one calls you with an anxious question regarding an *unexpected* 1099 form they received from a life insurance carrier as a result of a transaction with their life insurance policy. This is where Leimberg believes we are most at risk.

Another tax trap just waiting to snare the unexpected is a policy with a loan. Let's assume Dad

Transfer for Value

buys a life policy on his only child at birth and pays $1,000 annual premium for 25 years. During that time, Dad has borrowed money out to help pay for college. The loan is $40,000 and Dad's basis is $25,000. The net cash value is $15,000. As a wedding present, Dad decides he will transfer the policy ownership to his son. Under these circumstances:

- The IRS may view the transfer as a "transfer for value." Why? Because the IRS could rule Dad is absolved of repaying the $30,000 loan so he has incurred a benefit or "valuable consideration" for the transfer.

- Dad could also be deemed to have a reportable gain of $15,000 because the loan is in excess of his basis. Also note that Dad has made a gift of the net cash value ($15,000) to his son.

You can easily see that the facts of the situation will determine the potential tax impact. Changing the facts above to reflect a forgiven loan that is less than Dad's basis in the policy means there would be no reportable gain.

Again though, the caution to the producer is to always check with your home office to be sure…BEFORE making any move so that you can advise your clients with confidence.

Good Selling!

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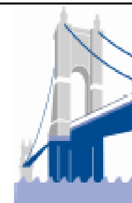

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Adding Liquidity to Universal Life Policies

By J. Brendan Ryan

I am always eager to write about total metamorphoses as well as less cataclysmic changes in life insurance. And there are periodic opportunities to do so since this industry is very innovative. Here is another valuable change.

Please recall that the first generation of universal-life insurance (UL)—which is still available today—comes with several moving parts. The flexibility of premium payments at the insured's option is always a benefit for the insured. One can increase, decrease, suspend, or accelerate premiums at will. Any such modification causes changes in the cash-value accumulation, but has no effect on the death benefit of most policies.

Other parts that move include the interest credited to the cash value and the internal charges made against the cash value. Depending on how these change, the insured could be helped or hurt.

But the fact that interest rates could drop or mortality and overhead charges could rise, thus damaging the growth of the cash value and the future cost of the policy, either way these are possibilities that are of major concern for some people.

So, several years ago the industry came up with a guaranteed UL. It says that as long as you pay your planned premium on time, the policy is guaranteed to last as long as you live with a guaranteed fixed premium. The trade-off to get this guarantee is that eventually the cash value becomes locked up—unavailable for loan, withdrawal, or policy surrender.

Most people do not mind this downside. They have bought the policy for the security of the death benefit. And the guarantee of that death benefit and its fixed future cost make the lack of cash value palatable for the majority of insurance buyers. It is like buying very long-term term insurance, guaranteed for life, with a level premium.

But some people are concerned with the lack of liquidity. So, we have a new provision just beginning to appear which addresses that issue.

I have seen only one policy so far that deals with this. It says that a surrender value is guaranteed to be available just in the 10th year equal to at least 90 percent of all premiums paid less any earlier withdrawals by the insured. Then in the 15th year, it guarantees that at least 100 percent of the premiums paid less earlier withdrawals will be available as a surrender value.

I predict that many more companies will follow suit soon. So, now for those who like the guarantee of premium and death benefit, but worry that they are forever committed, they have an alternative. They can have their cake and eat it too. That is, they can get the guarantees and still have access to their money if they want to surrender down the road.

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