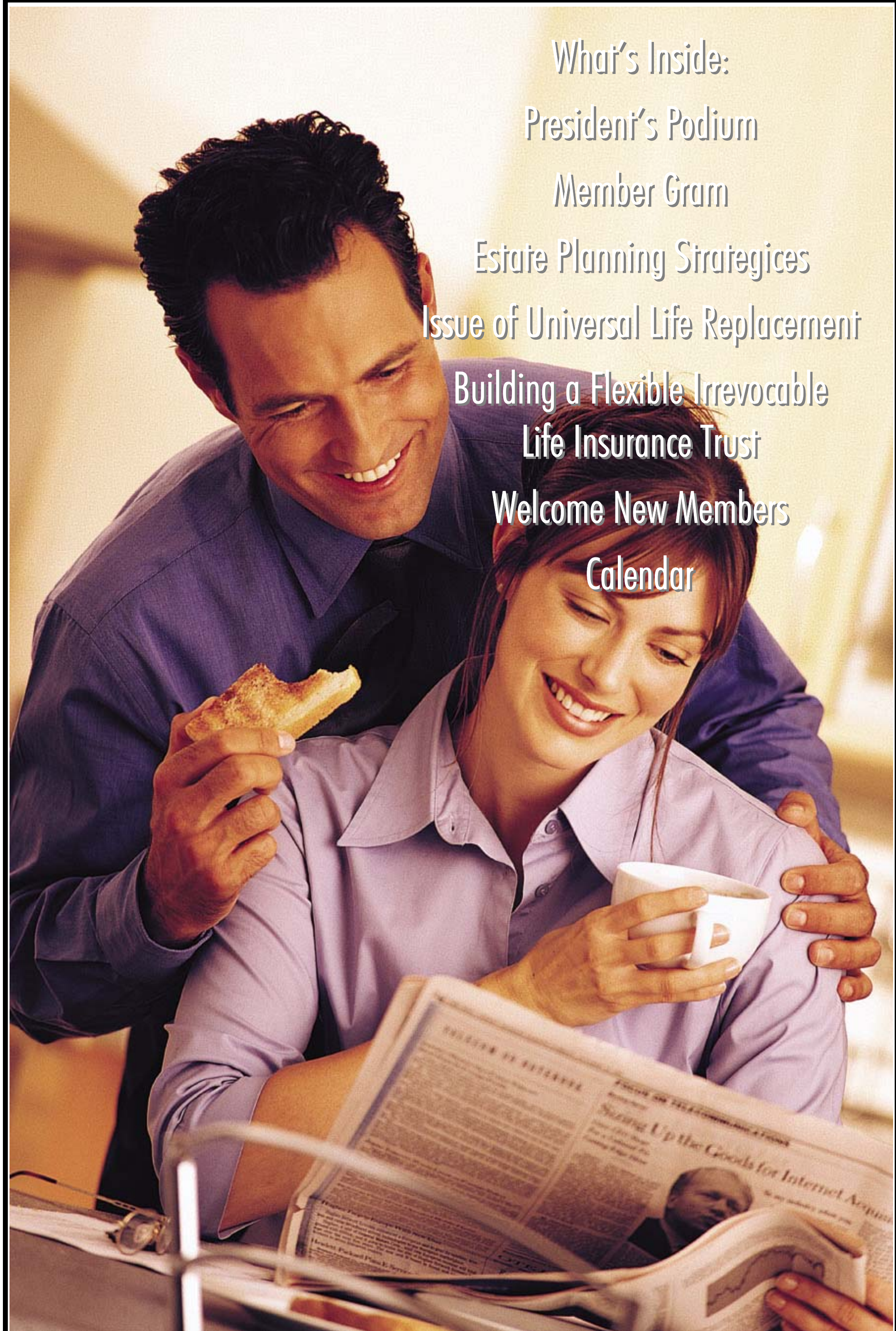
Cincinnati Chapter FSP
www.financialpro.org
Solutions for a Secure Future
(formerly the American Society of CLU & ChFC)

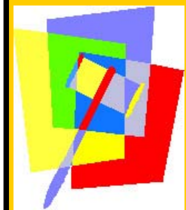
Cincinnati Chapter
Society of FSP Financial Service Professionals
4100 Executive Park Dr. #16, Cinti, OH 45241
Phone: 513-554-3062 Fax: 513-563-9743
SocietyofFSP@aol.com

Financial Pro

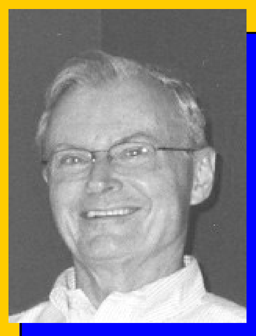
News and Information Letter of the Cincinnati Chapter
www.sfsp.net/cincinnati

Financial Pro, Volume 28, Number 11 **February/March 2008**





President's Podium



Ernie Martin,
CLU, ChFC, CFP

Greetings and best wishes in the New Year. We move forward with our goals, challenging the "weather" of our industry by building on our knowledge and nurturing relationships. Your chapter has given you a great program right out of the gate with Frank Rainaldi and his Kugler cases (Retirement Distribution Planning – with emphasis on Estate Planning).

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Our February program will feature April Caudill with "Estate Strategies, Using Life Insurance in Uncertain Times." We continue to pursue our pledge to bring to you quality programs to include CE credits.

Two executive board members have not been able to serve: Donna Sinor has moved from the area and Dennis Pascarella is caught in unexpected frequent travel. Your board has been running on "LEAN" and we are fortunate to have a committed hard-working team to step forward. By appointment to finish the current term: Joe Stenken, VP of Education and Stephen King, Secretary / Treasurer. A big thanks to Joe and Steve for taking on the responsibility and commitment to serve. We also need you (or a referral from you) to serve on the board and bring it up to full strength.

Last month we announced the opportunity to have a special meeting with the U. S. department of labor (Financial Pro Nov/Dec 2007). We need two or three individuals to help pull this together; this is a good one for a "one-shot" service opportunity. Please call me for details.

Ernie

Society of FSP
Financial Service Professionals

www.financialpro.org

MemberGram

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

January 2008

Mark Your Calendar!

Audio/Web Conferences
(12:00 noon-1:00 p.m. ET)
January 9, 2008
Charitable Lead Annuity Trust: A Valuable, but Neglected Planning Tool
January 30, 2008
Top Ten Secrets to Practice Management Success
February 6, 2008
Topic: Pensions (cosponsored by NAEPC)
March 12, 2008 (11 am -12 pm)
Topic: Final 403b Regulations

Video Training Conferences
February 20, 2008
(1:00 - 3:15 p.m. ET)
February 21, 2008
(9:00 - 11:15 a.m. ET)
Personal Financial Planning Using Employer-Sponsored Benefits and Tools

May 21, 2008
(1:00 - 3:15 p.m. ET)
May 22, 2008
(9:00 - 11:15 a.m. ET)
Working Title: The Changing Faces of Estate Planning: As You Change, So Should Your Estate Plan

Financial Service Forum
October 31 - November 2, 2008
JW Marriott Las Vegas Resort

For more information, visit www.financialpro.org, contact Customer Service at (800)392-6900, or e-mail custserv@financialpro.org. To register for the Video Training Conferences, contact your local Chapter.

Call for Nominations: 2008 ABEA Program

Society members, non-members, the general public, or the companies themselves may nominate companies for the American Business Ethics Award. The ABEA program offers Society members a valuable opportunity to nominate their customers or other companies in their communities whose business ethics programs are commendable.

Nominees are rated in four broad areas: executive commitment to ethics; ongoing ethics programming; demonstrated ethical business practices; and commitment to stakeholders, including employees, customers, and the community. ABEA judging guidelines are stringent and carefully applied by an expert panel drawn from the business, academic, public service, media, consulting, and ethics communities.

Members' nominations to their local business ethics award programs should be sent directly to the sponsoring Chapter. To find a list of local programs, go to www.financialpro.org and click on "Ethics." Entries submitted to the local programs are forwarded by the Chapters to the national program. If there is no local ABEA program available in your area, nominations may be sent directly to the national program using the Nomination Form provided on the Web site. **The deadline for nominations to the national program is March 31, 2008.**

2007 ABEA Recipients

The American Business Ethics Awards were presented to the following recipients at the Foundation Awards Banquet on September 26, 2007, preceding the Society's Financial Service Forum in Montreal:

Small Company Category
(fewer than 250 employees)
Donald Haack Diamonds and Fine Gems, Inc., Charlotte, NC

Midsize Company Category
(250 - 2,500 employees)
Freese and Nichols, Inc., Fort Worth, TX

Large Company Category
(more than 2,500 employees)
Freescale Semiconductor, Inc., Austin, TX

Foundation for Financial Service Professionals Receives Awards

The National Multiple Sclerosis (MS) Society presented its "Making a Difference" award for 2007 to the Foundation for Financial Service Professionals at ceremonies in Dallas on October 26. The "Making a Difference" award recognizes those who have done something extraordinary to change the lives of people with MS. This is the first time that the "Making a Difference" award has been given to an organization, rather than an individual, for their commitment to helping people with MS. The Foundation was honored for the Financial Education Partners (FEP) program which works through the MS Society's network of chapters and the Society of FSP to provide pro bono financial counseling to people with MS and their families.

The Foundation was also named the recipient of a $15,000 grant from the NAILBA Charitable Foundation. The Foundation was one of only 18 organizations selected out of a pool of 53 grant applications.

Society of Financial Service Professionals
Greater Cincinnati Chapter
presents

Estate Planning Strategies

Using Life Insurance in Times of Estate Tax Uncertainty

Wednesday, February 20, 2008

Program Description: This course provides a detailed look at estate tax reform and the implications of EGTRRA 2001 on the need for life insurance to help fund for estate liquidity. This course then goes on to discuss flexible life insurance planning techniques that can benefit consumers during these times of estate tax uncertainty.

I. Economic Growth and Tax Relief Act – Background understanding of how the Tax Act impacts the need for life insurance to help fund for estate liquidity.

- The Three Different Phases of the Act
- Phase I – Calendar Years 2002 – 2009
- Phase II – Calendar Years 2009-2010
- Phase III – Calendar Years 2011 and thereafter

II. Life Insurance Planning Techniques
- Building Flexibility Into a New Trust and Transferring
- Existing Life Insurance Policies
- Support Trusts (Single Life and Survivorship) As a Flexible Method of Structuring Life Insurance
- "B" Trust Funding
- Survivorship Standby Trust As a Flexible Method of Structuring Life Insurance
- Estate Tax Repeal Hedge Plan Funded With Term Insurance

Speaker: April Caudill

April K. Caudill, JD, CLU, ChFC is Advanced Marketing Director with Prudential Financial in Plymouth, Minnesota. Her responsibilities include Field Sales support and oversight of the updating and new development of Advanced Market reference materials.

April joined Prudential in 2007, having previously served as the Managing Editor of *Tax Facts* at the National Underwriter Company. April is also an associate editor and pension planning columnist for the *Journal of Financial Service Professionals* and a past member of the national board of directors for the Society of Financial Service Professionals. In 2002 she was the first place winner of the Kenneth Black Jr. Journal Author Award presented by the Foundation for Financial Service Professionals. She is a contributor to Retirement Income Redesigned by Harold Evensky and Deena Katz (Bloomberg, 2006) and co-author of The Mutual Fund Handbook (National Underwriter, 2001).

Meeting Information

Time:
8:00am-Registration
8:30am-11:30am-Program

Location:
Horan Conference Center
4990 East Galbraith Road

Fees:
Members - No Charge
Non-Members - $50.00

RSVP by: February 15, 2008

Please Complete Attached Registration Form

Earn 2 Hours Continuing Education Credit for Ohio and Kentucky Insurance, CFP, and CPA. Please Note: Ohio now Requires Your National Producer Number at Sign In

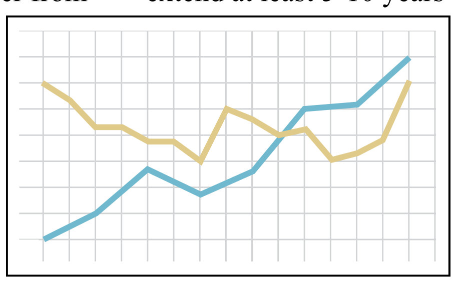
Issue of Universal Life Replacement

By: W. Jeff Martin, CLU, ChFC

Someone asked me what I thought about the ethics of replacing a universal life policy from the 1980's and 1990's. He showed me an in-force ledger where the policy would lapse in the next 10-15 years and wondered if it didn't make more sense to prop-up the current policy.

In the 1970's and 1980's, replacement was semi-considered a rip-off done only by the unscrupulous agent hell bent on finding unsuspecting clients. The part-time A.L. Williams agents were the most likely culprits and most of them had little idea what they were doing. Saving a policy was pretty easy if the client would allow you to come out and discuss the fallacies of the story told by someone who knew only what he/she had been taught about the evils of cash value life insurance.

Now, we face a whole different dilemma and very often replacement is easily justified and may be the required course of action to protect the producer from E&O claims. Many of the traditional chassis universal life policies are blowing up due to a long term drop in interest rates and the ability of carriers to increase expense charges and mortality rates.



The promises of policies that were originally illustrated and sold with the idea they would maintain a level 8-10% interest rate for the life of the policy over 30-50 years are just not coming true. Because illustrated premiums were highly sensitive to interest rates, premiums dropped as illustrated rates rose but few ever anticipated interest rates could drop as low as they did and stay there for such a long period.

Now, the 500lb gorilla is at the kitchen table and something has to be done. What should a producer do? First, ask your UL carrier for in-force policy reports and review them. I just started a similar program with a P&C agency I work with and we did a mailing to agency UL clients. They were keenly interested (50% return rate) and we did not receive a single negative comment. They seemed to appreciate the pro-active review and a few had even forgotten they had a policy!

Request the carrier do the following:

1) Provide a current "as is" in-force report showing what happens if the full target premium is paid annually (or the premium they are currently paying in the same modal); and

2) Provide a report showing what annual (or correct modal) premium is necessary to carry the policy through to age 100 at either the current interest rate or guaranteed rate (usually 3%)

If the policy is in good shape, they should obviously keep it. Generally, I'm looking for what premium level will give reasonable assurance the policy will extend at least 5-10 years beyond their life expectancy.

If the policy illustration proves it will not survive without a major increase in premiums then look at the options available today. A guaranteed death benefit UL may be a good choice because you can provide assurance the policy will be in force, provided the illustrated premium schedule is paid (on time of course). If the new policy is clearly a better option, then I feel no qualms about recommending replacement. Life insurance is a consumer product and sometimes those products have to be replaced due to wear & tear. However, it is *__required__* you do your due dili-

Issue of Universal Life Replacement continued

gence; order and review the in-force policy reports.

Review the in-force proposals with the client and decide with them on a course of action. Look at carrier ratings and compare the Comdex Index to be sure the carrier you are recommending is financially strong (many suggest a Comdex of at least 90 or higher). The carrier list in the annual September issue of the *Insurance Forum* (Joe Belth) is also a good guideline.

It often helps to place the "current" illustrated interest rate in context and explain the potential for future movement. Clients easily understand what would happen if they counted on or expected their bank CD's to continue to earn 8-10% for life. Most have already faced that reality when they rolled them over into CD's at 4-5%. The interest rate in a life insurance policy will usually make similar sense.

If replacement is warranted, today's universal life with guaranteed death benefits and more flexible whole life products may be a more attractive option coupled with a 1035 exchange. However, **go slow;** be sure replacement is the right choice and make sure the client can be accepted medically at an offer where replacement still makes sense. The CLU Creed must be the standard we all adhere to.

Good Selling!
Jeff Martin
jeffmartin@finsvcs.com

CASE CENTER FOR ADVANCED SALES EXCELLENCE

FAQs

Building a Flexible Irrevocable Life Insurance Trust

By: Prudential Advanced Marketing

Question: When I discuss the use of an irrevocable life insurance trust (ILIT) with clients, I often meet resistance. The grantor does not want to be locked into a plan that may not meet future needs or becomes outdated by tax law changes. Is there some way to make an irrevocable trust "less irrevocable?"

Answer: By its very nature, an ILIT requires some guesswork on the part of the grantor as to the future needs of the beneficiary(s). In order for an ILIT to accomplish its purpose of keeping policy proceeds out of the insured's taxable estate, it must be irrevocable. That does not, however, mean that it needs to be inflexible.

The key to a flexible ILIT is good legal counsel. You and your client need to work with someone who is experienced in the estate planning area.

With careful drafting, a client's specific circumstances and concerns can be addressed and incorporated into the trust document. As a financial consultant, you can aid the process by helping the client to identify his/her feelings and concerns.

For example, a couple who has a long and happy marriage may be trying to give the surviving spouse the greatest possible financial control without sacrificing estate tax savings. On the other hand, second marriage clients might want to place financial restrictions on the surviving spouse in order to provide for children from a first marriage. Identifying these needs is the key to successful trust drafting.

Let's take a look at some of the basic drafting techniques used to maintain trust flexibility and meet client concerns. Be aware these methods are discussed in generalities only. Their use and application may vary depending on the parties to the trust and the specific needs and circumstances of the individuals involved.

Addressing Changes in Marital Status. The trust may provide that the insured's spouse ceases to be a beneficiary or trustee in the event of a divorce. The trust often limits the term "spouse" to the person to whom the grantor is married at the date the trust comes into existence.

The Need to Change the Trustee. The ability to replace a trustee can be addressed in a number of ways. For example, the trust document can be drafted to give the beneficiary (or all the beneficiaries together) the right to replace a trustee. Often the trust provides for a triggering event – such as the attainment of a certain age or death of a prior trustee – which then results in the beneficiary assuming a trustee or co-trustee role. Where a beneficiary replaces the trustee, additional trust provisions are needed to limit the beneficiary's powers so as to prevent inclusion in his/her estate of any or all of the trust assets.

Another approach to ensuring competent management of the trust assets is to give the trustee the power to hire a money manager.

Finally, developments in law have given the grantor broad power to replace a trustee without incurring adverse estate tax consequences. Since a 1995 revenue ruling, the grantor can be assured that having the right to

Building a Flexible Irrevocable Life Insurance Trust continued

remove the trustee and appoint an individual or corporate successor trustee that is *not related or subordinate to the grantor* will not bring the trust property back into his/her estate for estate tax purposes. [1]

Limitations on *Crummey* Power Holders. To protect against a beneficiary who becomes financially irresponsible, a grantor can be given the right to remove a *Crummey* power holder or to exclude a beneficiary from exercising a withdrawal power. *Note: Removing a Crummey power holder may lead to an insufficient number of power holders to qualify transfers to a trust for the annual gift tax exclusion.*

Guaranteeing Sufficient *Crummey* Donees. By naming alternate power holders in the event one or more *Crummey* power holders should die or be removed, the grantor can ensure a sufficient number of persons in order to avoid gift taxes on transferred premium dollars.

Giving Broad Power to the Trustee. By selecting a trustee that understands the grantor's personal and estate planning objectives; who personally knows the strengths and weaknesses of the trust beneficiaries; and who has demonstrated good business judgment, a trust management platform can be built that allows for additional trust flexibility through discretionary trustee decisions.

The trustee can be given the power to change non-dispositive provisions – such as custody of assets, management advisors, the power to allocate between principal and income, etc.

In addition, a non-beneficiary trustee may be given the power to distribute property to the beneficiaries on a discretionary basis. Or the trustee may be given the power to make arms-length loans to any person, including the grantor. The trustee may also be given the power to change the trust or merge with another trust with similar provisions. The trustee can even be given the power to terminate the trust and distribute the assets including any life insurance policies to the trust beneficiaries.

Use of a Co-Trustee. If a trustee is a personal trusted friend but lacks sufficient business acumen or more technical knowledge is needed, an experienced co-trustee can be authorized – such as a trust company or a trust department of a bank.

Powers of Appointment. A limited power of appointment is a powerful tool for building flexibility into an ILIT. A power is considered a limited power of appointment when the power holder (or donee) is authorized to appoint an interest in property only to specified individuals or a class of individuals excluding the donee, the donee's estate, or creditors of the donee or his/her estate. It is possible to create a power that can be exercised either during the lifetime or by means of the will of the power holder.

Through the use of limited powers, the grantor of the ILIT may give considerable control to a non-trustee beneficiary, making it possible for the power holder to change the outcome of the trust in ways the grantor might have wanted if he/she could have foreseen future events. The power holder may be thought of as an agent, delegated by the ILIT grantor to make changes in the distribution plan of the trust as circumstances warrant.

Limited powers of appointment can be used if a grantor is concerned that the trustee may not exercise discretionary powers over the trust or may do so in too restrictive or too generous a manner. A limited power of appointment may allow a surviving spouse to make a distribution of the final balance of a trust based on

Building a Flexible Irrevocable Life Insurance Trust continued

how children have “turned out” or on their relative financial situations. A limited power of appointment may also be used when a child has gotten into financial difficulties; the power holder may choose to establish an “asset protection trust.” Finally, a limited power of appointment may be used to appoint property to a charity where the power holder feels the heirs have sufficient assets.

Trusts using powers of appointment must be carefully drafted to avoid creating a “general” power of appointment resulting in estate and gift tax consequences. A power is considered a general power of appointment when the power holder may give the interest in the property to anyone he chooses, including himself/herself. A general power results in the inclusion of the property subject to the power in the estate of the power holder at his/her death. In addition, the exercise, lapse or release of a general power during the power holder’s life is treated as a gift subject to gift tax.

Ascertainable Standards. Under IRC § 2041(b)(1)(A), if a power may be exercised only in accordance with an ascertainable standard relating to health, education, support, or maintenance, it is not treated as a general power of appointment. Thus a beneficiary may be given the power to appoint trust assets to himself/herself, subject to an ascertainable standard, without having the assets included in his/her estate. This is a very useful exception where a grantor’s spouse serves as trustee of the ILIT.

In Summary. While an irrevocable trust appears by its nature to be an inflexible instrument, it is important to convey to your client that competent legal counsel can draft “flexibility” into the trust document so that the trust may be able to effectively deal with future changes within the confines of the trust instrument. The key is to build this flexibility into the trust at its inception.

[1] *Rev. Rul. 95-58, 1995-2 C.B. 191*

This material has been prepared to assist our licensed financial professionals and clients’ advisors. It is designed to provide general information in regard to the subject matter covered. It should be used with the understanding that Prudential is not rendering legal, accounting or tax advice. Such services should be provided by the client’s own advisors. Life insurance is issued by The Prudential Insurance Company of America and its affiliates. Prudential, Prudential Financial, the Rock logo, and the Rock Prudential logo are registered service marks of The Prudential Insurance Company of America and its affiliates.

QUESTIONS? CALL ADVANCED MARKETING

CEU NEWS!

The Ohio Department of Insurance will no longer require signing in with your Social Security number. In place of using an agent's SSN, the agent's **National Producer Number** ("NPN") will be needed at sign in.

For those agents who do not know their NPN, the following resources are available for obtaining the number:

Department's website at www.ohioinsurance.gov
Under agent/agency locator option
www.ohioinsurance.gov/ConsumServ/Ocs/agentloc.asp
Under Agent & Agency Services Related Links
www.ohioinsurance.gov/agent/scripts/LicNumQuery.asp
NIPR's website at www.nipr.com
Under National Producer Number Access
www.nipr.com/html/PacNpnSearch.html
Sircon Compliance Express at www.sircon.com
Under Find your license number/NPN
http://www.sircon.com/ComplianceExpress/Inquiries/index.jsp?nonSscrb=Y&lid=si_aa7&sc=yoqmbuwl&sscrbid=9028

Welcome To Our New Members!

Robert S. Cottrell
Mass Mutual/Financial Clarity Group
8366 Princeton Glendale Rd, Suite B5
West Chester, OH 45069
(513) 942-1000
rcottrell@finsvcs.com

Dawn T. Henz
Horan Assoc
4990 E. Galbraith Rd
Cincinnati, OH 45236
(513) 745-0707
dawnh@horanassoc.com

Jeffery D. Mohr, RHU
Diversified Brkg Specialists
30 W 3rd St
Cincinnati, OH 45202-3559
(513) 621-9650
jmohr@dbs50.com

Timothy P. Murray, CLU,ChFC
John Hancock Financial Services Inc
300 E Business Way Ste 190
Sharonville, OH 45241
(513) 791-1776x129
tpmurray@jhnetwork.com

Mark Your Calendar for these upcoming SFSP events!

February 20, 2008:

Estate Planning Strategies
Using Life Insurance in Times of Estate Tax Uncertainty

Speaker: April Caudill, JD, CLU, ChFC

Location: Horan Conference Center
4990 East Galbraith Road

Time: 8:00a.m.– 8:30a.m.—Registration and Continental
8:30a.m.– 11:30a.m.—Program

2 Hours CEU's will be Offered—