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The Tax Advantages of Charitable Gift Annuities

Would you like to donate to the causes you care about, while also generating a steady retirement income and saving on your taxes? If doing good, while continuing to work toward achieving your financial and estate planning goals sounds appealing, you may want to consider purchasing a charitable gift annuity.

Many charities have programs that assist donors in purchasing gift annuities, which are designed to provide long-term financial support to both the donor and the nonprofit organization. Essentially, a charitable gift annuity is a contract between the donor and the nonprofit organization that calls for the charity to make fixed lifetime payments to the donor and, in some cases, to his or her spouse. In exchange, the charity receives the remainder of the gift to further its work when the donor, or the donor's spouse, dies.

Recognized by the IRS as a form of philanthropic giving, a charitable gift annuity offers a number of potential tax advantages. The portion of the annuity purchase that is considered a gift can be included as a charitable contribution on your itemized deductions. In addition, a portion of the payments from a charitable gift annuity is tax free until you reach your life expectancy, while another part is taxed at ordinary income rates. If you donate appreciated securities, you will owe some capital gains taxes for the sale portion of the transaction, but the taxes are payable over your expected lifetime, rather than being due immediately.

In addition, purchasing a charitable gift annuity can reduce the size of your taxable estate. You may, for example, wish to donate appreciated property that currently generates

(Continued on page 6)

Considerations for Estate Planning

Estate planning encompasses more than simply saving money and minimizing taxes. The process also raises some difficult emotional and personal concerns. Planning your estate forces you to think about your own mortality; you are trying to plan for a time when you won't be around to make decisions. Others, particularly those you love, will be affected by the plans you make now and will be required to exercise their own judgment once you are gone. For many of us, the most difficult step in estate planning is deciding *who* gets *what* and *when*.

To whom you leave your money and property is a personal decision only you can make.

(Continued on page 8)

A Financial Review Can Pay Off at Year End

Today, many people find themselves bombarded by a constant stream of financial news from television, radio, and the Internet. Yet, does all this "information age" data really help you manage your finances any better than in the past? Often, the "old-fashioned" practices, such as performing periodic financial reviews, lead to greater success in the long run. Why not spend a few hours reviewing your finances? The changes you make today could result in increased savings. Consider the following important items:

Analyze your cash flow. When your income is greater than your expenses, the excess is called a positive cash flow. When your expenses exceed your income, the shortfall is termed a negative cash flow. A positive cash flow means that you may have funds you can set aside as savings. A negative cash flow indicates that it may be time to reorganize your budget to minimize unnecessary expenses.

Develop a plan for special goals. For every financial and retirement goal you establish, identify a projected cost, a timeline (how long it will take to reach the goal), and a funding method (through savings, liquidating assets, or taking a loan). Consider your goals in terms of a "hierarchy of importance." The bottom, or "foundation" tier, may include emergency funds to cover at least six months' worth of living expenses. The middle tier may include essentials, such as your children's education. Place less important goals, such as renovating your home or taking a vacation, on the top tier.

Boost your retirement savings. Pensions and Social Security may not provide sufficient income to maintain your current lifestyle in retirement. Thus, it is essential to identify your retirement needs and plan a disciplined savings program for the future. Maximize your contributions to retirement accounts, and if possible, make "catch-up" contributions.

In accordance with the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), taxpayers who are 50 years old, or older, are allowed to make additional contributions to their retirement plans. In 2012, traditional Individual Retirement Account (IRA) and eligible Roth IRA holders can save an extra $1,000 a year, bringing the contribution limit for those 50 years and older to $6,000. Those with eligible 401(k), 403(b), or 457 plans can save an additional $5,500, bringing the total contribution for older individuals to $22,500 in 2012.

Minimize income taxes. Consider taking advantage of all income tax deductions to which you are entitled and exploring ways of reducing your income taxes. For instance, under appropriate circumstances, losses or expenses from prior years may be carried over to the next tax year. A qualified tax professional can help you implement a tax strategy that meets your needs.

Beat inflation. Your income and retirement savings must keep pace with inflation in order to maintain your buying power. This means that if the inflation rate is currently 3%, you need to achieve at least a 3% annual increase in income just to break even. If your long-term savings plan fails to keep pace with inflation, you may be unable to maintain your current standard of living.

Manage unexpected risks. Without warning, a disability or death can cause financial hardship for your family. Adequate **insurance** is an important foundation for your financial plan; it offers protection to help cover potential risks and liabilities.

Consult your financial professional. In today's complex financial world, everyone needs help making informed decisions. Planning can help ensure that your financial affairs are consistent with your current needs and long-term goals.

A financial review can help bring focus and clarity to your overall financial picture. In the future, you may wish to modify your plans according to changing goals and circumstances. By reviewing your finances periodically and tracking your progress, you may be in a better position to achieve financial independence and realize the retirement of your dreams. $

Disability Income Protection

You have put a lot of time and effort into accumulating your assets, and you value them. But, how much do you spend to protect them? Most of us have automobile and homeowners insurance, and possibly, additional coverage for more valuable items. While your assets may indeed be valuable, their liquidity and *income-producing* value may be negligible.

Your true wealth, and perhaps your greatest asset, is your *ability to earn an income.* Your income pays for all of your living expenses, including housing, transportation, food, clothing, and recreation. It also pays for property insurance and premiums on **liability** and **life insurance** policies. A closer look at your monthly expenditures will likely reveal even more expenses.

Prepare for Uncertainty

What would happen if you sustained a disability due to a sudden injury or illness? How would you meet your financial needs and obligations if you were too sick or injured to work? While no one likes to consider this possibility, the risk of disability *does* exist and warrants full consideration as you plan for your financial future.

You may want to ask yourself the following additional questions should you sustain a disability: Would you have sufficient funds to support yourself and your loved ones during a six-month period of disability? How might such a situation affect your ability to borrow money? How quickly could you liquidate a portion of your assets to provide needed cash?

If you are married, perhaps your spouse could provide the necessary income to support your family, but the combined responsibilities of spouse, parent, caregiver, and breadwinner can be overwhelming. **Social Security** may not replace all of your lost wages should you experience a serious illness or accident. In addition, you must meet very specific criteria to qualify for Social Security disability benefits, and it may be months before payments begin.

Alternative sources of income may, at best, be limited. The bottom line is that you need a dependable source of income. If you lose your ability to earn an income, you jeopardize your future financial independence.

Know Your Options

Some employers offer a **salary continuance plan** in the event that you sustain a disability. However, most group plans have an upper limit or "cap" on the benefit amount. Consequently, the percentage of pre-disability income covered under a group plan may be insufficient to meet your needs. In many plans, only base salary is covered, which leaves bonus and other incentive income unprotected. Also, with a group plan, you are not the owner of the policy, which leaves your coverage vulnerable to termination should you change employers. Finally, if the benefits are provided under an employer-paid group plan, they are taxed as ordinary income, which further reduces the actual amount available to cover your living expenses.

One solution to these limitations may be to supplement your group disability insurance plan with a **disability income insurance** policy that you own and is tailored to meet your needs. A policy can help reduce the gap between your pre-disability level of income and the benefits provided under your group plan. Keep in mind that disability income policies typically have a waiting or elimination period before benefits become payable.

While no one likes to dwell on life's uncertainties, it may be wise to consider protecting your greatest asset—your ability to earn an income. Evaluate your present ability to meet financial obligations should you become disabled.

An individual disability income insurance policy can help protect your financial independence, in case of an injury or long-term illness, giving you the confidence to face whatever the future may bring. Be sure to consult with your insurance professional to determine the amount of coverage that will best suit your overall objectives. $

Negotiating a Lease for Your Business

Leasing commercial space is quite different from renting residential property. In general, commercial leases have far fewer consumer protections than commonplace residential leases. Therefore, it is especially important to negotiate and understand the terms of any commercial lease before you sign it.

In general, there are two types of commercial leases: "gross" and "net" leases. A gross lease stipulates that the landlord is responsible for paying expenses such as utilities, taxes, repairs, insurance, and other costs. In a net lease, the renter assumes responsibility for all or some of these costs. Depending on the circumstances, you may prefer a gross or net lease. Before making a decision, be sure you understand all the costs involved.

Once you have chosen a lease type and found an appropriate property, it is time to hammer out an agreement. To start, landlords generally will present a pre-set form lease. These forms may favor the landlord, so business owners are advised to review the lease carefully with their personal legal counsel and then earmark the areas that require negotiation. Before you begin lease negotiations, be sure to research the current rates and availability of commercial space in the area. Statistical information provides you with support for your negotiation terms.

Two of the most important elements of the commercial lease are the rent amount and term (length of time) of the contact. These factors are to some degree intertwined. The length of your lease will likely influence the amount of rent to be paid. A longer term may mean a lower monthly payment.

It is important to keep in mind that a commercial lease is a binding contract that cannot be broken. If your business is location-sensitive, i.e., a restaurant or retail store, a long-term lease may be preferable. On the other hand, a short-term lease may be desirable for your business if you anticipate future growth that would require relocation. For new businesses, whose future success is unknown, a short-term lease may be the most appropriate choice.

In some cases, with a short-term lease, you can negotiate an option to renew. With this option, you may also have to negotiate the cost of renewal. The landlord may expect a rent increase if the renewal option is exercised.

In addition to the rent amount and term of the lease, there are other items to consider:

- **Security Deposit.** What amount is required for a security deposit? How and under what conditions will it be returned?
- **Improvements.** Will the landlord pay for building improvements, such as adding walls or lighting? Typically, the landlord owns these once they are installed.
- **Allowable Signage.** Are you allowed to install necessary signs to draw attention to your business?
- **Repairs to Building Systems.** Will the landlord assume all responsibility for repair to systems, such as ventilation and heating? Even if you have a gross lease, be sure to re-affirm the landlord's responsibility for these costs.
- **Sublet Rights.** Are you allowed to sublet all or part of the premise to another tenant?
- **Dispute Resolution.** How will disputes be mediated, if necessary?

Before you sign a lease for your next commercial property, be sure to do your homework and consider all the factors involved in order to make the choice that is most appropriate for your business. $

Paying Back Student Loans

It takes four years, on average, to graduate from most colleges and universities. During that time, students can accumulate a large amount of debt. For most, the degree is worth the burden of paying off student loans long after graduation. However, these questions remain: How should the debt be repaid? Are there any plans that can help make "payback" easier? What if a student can't find a job right away?

There are plans available that offer flexible payment schedules. Students applying for a Federal student loan can choose a graduated repayment plan that will allow them to make smaller payments upon graduation, and larger payments when they are earning more money in the workplace.

Students also have the choice of an income-contingent repayment plan. This plan requires them to pay a fixed percentage of their post-graduate income toward their student loan. This percentage could be approximately 5% to 10% of anything above the poverty level of a single person, which is $11,170, according to the Department of Health and Human Services poverty guidelines (HHS, 2012).

A third choice is an extended repayment plan that offers monthly payments and allows graduates to extend their loan payment schedules from 10 to 15, or even 20, years.

Deferment or forbearance may also be a temporary option for graduates in a financial bind due to unemployment or other extreme hardship. In select situations, borrowers may qualify for other repayment alternatives through their loan servicers.

Consolidation Offers Flexibility

For students who already carry a substantial amount of debt, existing loans can be consolidated with a direct loan from the government under the Student Loan Reform Act of 1993. This plan offers a more flexible repayment schedule while interest rates remain the same.

To be eligible for this plan, student loan recipients need to ask their original lender for an "income sensitive" repayment option. The plan adjusts the monthly payments for the loan's capital, but not the interest, to annual income. If the original lender will not agree to this option, the student may then be eligible for a direct loan from the government.

Two advantages of a direct government loan are as follows: First, the monthly installment payments of principal and interest are contingent upon income. Because the payments are withdrawn from wages, there's less paperwork. Second, as wages increase, the percentage withdrawn from pay will also increase, allowing the loan to be paid off more quickly and with less accrued interest.

For students who need to borrow for the current school year, direct loans (and the income-adjusted repayment plan) are also available if they're attending one of the schools participating in this plan. Parents may also be able to obtain a Direct PLUS loan for up to the entire cost of their children's college education.

For more information, contact the Federal Student Aid Information Center at 800-433-3243, or visit online at www.studentaid.ed.gov. $

The Tax Advantages of Charitable Gift Annuities

(continued from page 1)

little or no income, but which would be taxable if it were sold or passed on to the next generation.

A charitable gift annuity can also be a great option if you want to donate to your favorite charity, but cannot afford to make a large gift outright. If you are thinking about purchasing a charitable gift annuity, you should, however, be aware that these annuities are not identical to commercial products, which generally offer higher rates of interest. But the tax savings associated with gift annuities can help to offset the smaller payments. The interest rates paid by all types of annuities are also usually superior to those paid on savings accounts and certificates of deposit.

Purchasing an annuity can be especially attractive at more advanced ages, as the payments will be higher. If you are younger and do not yet need the income, you can select an annuity that allows you to defer payments until reaching a specific age. If you are interested in buying a charitable gift annuity but do not yet know when you might wish to start collecting payments, you can opt for a flexible annuity, which does not require you to choose the payment starting date at the time of purchase.

To set up a charitable gift annuity, the donor typically makes a donation of cash, stock, or other assets for a set amount—usually no less than $5,000. Under a "single life" agreement, the charity commits to making payments to one person for the course of his or her lifetime, while under a "two lives in succession" agreement, the charity makes payments first to one person, and then to a designated survivor. If you are married, you may prefer to enter into a "joint and survivor" agreement, in which the organization splits the payments between spouses during their lifetimes, and makes the full payment to a surviving spouse.

Remember, however, that annuities are irrevocable, and you will not be able to extract your funds or property once the donation has been made. Keep in mind, too, that charitable gift annuity payments are not inflation-protected, and your income from this type of annuity will not go up even if the cost of living rises. On the other hand, the annuity payments become a general obligation of the charity, and the annuity is backed by the organization's entire assets, not just by the property donated. The charity is therefore committed to continuing payments throughout the lifetime of the donor, regardless of whether the funds used to purchase the annuity have been exhausted.

Even if you are already familiar with the charity from which you are purchasing the annuity, it is nonetheless advisable to investigate the financial stability of the organization to ensure that it will be able to make payments well into the future. If the charity becomes insolvent, the funds will be lost and annuity payments will stop. Charitable gift annuities are not insured, but some states regulate this type of annuity, generally requiring charities to maintain sufficient reserves to meet obligations to annuitants.

It is usually best to choose a charity that has an established charitable gift annuity program, as they will be able to guide you through the process of purchasing an annuity, and will be able to help you resolve any issues that might arise. $

Updating Your Will

Whether you are decades or months away from retirement, it may be prudent to review your will whenever there is a significant change in your family circumstances or finances. To stay current, revisit your will at least once every five years to help ensure your estate tax strategies are on track, and that your assets will be distributed according to your wishes.

Seek Counsel

Legally, you could draft a will on your own. However, it is recommended that a will be drawn up by a lawyer. Besides the inherent complexity of estate planning, states have different standards and often require specific language in order for the document to be deemed valid. If you draft your own, have your will *reviewed* by a lawyer so you can be assured that all statutory requirements are met.

A married couple may draft a will jointly or separately as individuals. Separate wills may help specify *who* owns *what* property. The portion of your estate covered by a will includes *tangible* assets, such as your home or car, as well as *intangible* assets, such as savings accounts held in your name. (Property owned jointly with right of survivorship will pass

(Continued on page 7)

Being Prepared for a Small Business Conference

Are you looking for an opportunity to network and learn tips, techniques, or new ideas that could benefit your small business? If so, consider attending a small business conference. The following tips can help you get the most out of your next business conference:

Do your research. It's important to research the event before you register to make sure it's right for you. Find out who is hosting the conference to get an idea of what to expect. Once you decide on a conference, be sure to take a look at the schedule ahead of time to choose which sessions to go to. Undoubtedly, there will be some sessions you will not want to miss, so try to plan your day around them, if possible. In addition, if there will be key people attending who you would like to connect with, you may want to contact them in advance to coordinate schedules.

Plan ahead. Working on projects while you're out of the office can be difficult. But try to get as much done before the conference as you can to avoid a stockpile on your desk when you return. If possible, assign your work to others in order to maintain your productivity. Also, be sure to let your clients know in advance that you'll be traveling. Consideration toward your clients goes a long way. Inform them of your availability (or inaccessibility) while you're away; for example, whether you'll be checking your email or voicemail a few times during the day, or not at all during the conference.

Bring business cards. Whether you're attending the conference as a speaker, participant, or vendor, passing out business cards is an absolute must in conference networking situations. Bring plenty of cards with you. Remember, a good business card can help to make a strong first impression. If your cards need updating, have them revised before the conference.

Pack smart. In addition to your business cards, here are a few other items to bring along:

- **Itinerary.** Keep travel documents that you'll need with you, particularly your hotel confirmation, conference registration ticket, car service information, and a photo ID.
- **Wireless devices.** Many conference venues provide Wi-Fi access, so consider bringing your laptop, notebook, iPad, and/or smartphone with you for taking notes and staying connected with your colleagues back at the office.
- **Chargers.** Regardless of which mobile devices you bring, don't forget to also bring their chargers for optimal performance wherever you are.

Taking some time to properly prepare for a small business conference before you leave can help free you up to make the most of your time there. $

Updating Your Will

(continued from page 6)

directly to the surviving owner, while other assets, such as life insurance death benefits, will automatically pass to your designated beneficiaries.)

Be Thorough

Whenever you update your will, the new document should include the date, a statement revoking all previous wills, provisions for trusts (if any), names of guardians and alternates for minor children (if necessary), and specific bequests. A specific bequest calls for the transfer of *a particular piece* of property to a named beneficiary, while a general bequest does not specify from which part of an estate the property is to be taken. Be sure that the updated and signed document also includes your full name, a statement that the document is a will, and the names of the executor and substitute executor.

Once you have reviewed and updated your will, make copies for yourself and family members, or others who may need the information. Be sure the original is kept in a secure place, such as a bank safe-deposit box or lawyer's office. Also, make sure your family and friends know where the will is located. Once these tasks are completed, you can feel confident, knowing that your wishes will ultimately be fulfilled. $

Considerations for Estate Planning

(continued from page 1)

Most people naturally think of their spouse, children, and relatives first. After the family is provided for, perhaps a favorite charity, such as an alma mater or research foundation, might be included as a **beneficiary**.

The best approach for you will depend upon your family, the size of your estate, and your personal wishes. Here are some guidelines to consider:

Talk to your children. When your children are mature enough to discuss financial matters, let them know the general size of your anticipated estate, and talk over your plans with them. If they are old enough, give them the opportunity to make their preferences known. Are they interested in running the family business? Do they have a preference about how their inheritances or **trusts** might be structured? Listen to what they have to say.

Choose beneficiaries carefully. It's important to recognize the implications of your bequests for your beneficiaries. In most states, an individual is typically considered to be a legal adult at the age of 18. However, even an 18-year-old may not be mature enough to handle the responsibilities of a sudden windfall. Think about the age at which your children might be capable of meeting this challenge, and consider strategies that can help you plan for that time.

Anticipate estate taxes. As has often been said, two things in life are certain: death and taxes. Estate planning is the art of ensuring that one doesn't cause the other. Avoid underestimating the size of your estate, which may leave your heirs with an unanticipated estate tax bill.

If you are a business owner or professional, for instance, the value of your estate may already top the exclusion amount. But, even if you don't have substantial personal wealth, hidden assets such as **pension** or **profit-sharing plan** benefits, as well as **life insurance**, may cause your taxable estate to exceed the exclusion amount.

Add it all up. At death, the Federal estate tax applies to asset transfers to beneficiaries other than a spouse for estates valued in excess of the **applicable exclusion amount** ($5.12 million in 2012). One of the most important elements in estate planning is calculating the value of your estate. The following steps can help you estimate your estate's worth:

Prepare a **net worth financial statement** listing all of your assets and any interests of ownership reduced by any and all liabilities. The total is your net worth. Be certain that you do not overlook hidden assets. Also, when subtracting your liabilities, include estimated funeral and burial expenses and the estimated costs of administering your estate (generally, 2% to 5% of the gross value of the estate). Next, subtract your charitable bequests and the marital deduction. Your entire estate, no matter its size, can pass to your spouse estate tax free. This deduction, however, does not eliminate the possibility that estate taxes may be due on assets transferred by your surviving spouse upon his or her death. For this reason, both you and your spouse may choose to establish estate plans that will maximize asset transfers to your heirs and minimize estate taxation.

Estate planning may be a difficult subject to broach, but starting *now*, may help to provide for your family's future. Be sure to consult an estate planning team, including your tax, financial, and legal professionals. $