This Publication Brought to You Courtesy of:
LAURENCE M. SOBIN, CLU®, ChFC®
Sobin Financial Group
2100 Rachel Terrace, Suite 15
Pine Brook, NJ 07058-9329
Tel: (973) 276-9235
Fax: (973) 276-9234
Email: service@sobinfinancial.com
Web: www.sobinfinancial.com

- **Insurance** – Life, Disability, Long-Term Care, Health, Medicare Supplement
- **Planning for** – Retirement Income, Wealth Accumulation, College Education, Estates
- **Investments** – IRA's, Annuities, Mutual Funds, Professional Money Management*

An economic and investment update

THE FINANCIAL INSIDER

Securities and advisory services offered through Packerland Brokerage Services, Inc., an unaffiliated entity, Member FINRA & SIPC

Volume XXXIII, Number II

Tax Breaks for Elder Care

Like many Americans, you may find yourself having to help cover the medical costs and caregiving expenses of an aging parent or other close relative. If you and your parent meet certain criteria set by the Internal Revenue Service (IRS), you may qualify for tax breaks that can ease the financial burden of paying for care, even if your parent does not live in your home.

For example, your mother must not have earned or received more than the exemption amount for the tax year to qualify as a dependent. For the tax year 2012, your mother's gross income for the year has to be less than $3,800. Gross income is all income in the form of money, property, and services that is not exempt from tax. Generally, Social Security income is not counted in this amount, but there are exceptions. If, for example, your mother has other income from interest or dividends, a portion of her Social Security may also be taxable.

To be considered a dependent for tax purposes, your mother must receive more than half of her support from you. You can determine whether you have provided more than half of your mother's total support by comparing the amount you contributed to her support with the entire amount of support she received from all sources. If your mother is in her own house or in an assisted living facility or a nursing home, amounts you pay for her support at those locations count toward meeting the IRS 50% threshold.

If your mother lives in your home, you are permitted to take into account the fair market value (FMV) of her accommodations, utilities, food, medicine, and other support items you provide when seeking to meet the 50% threshold. If, however, your mother is using Social Security benefits to pay for some of these items, this must be figured into the calculation of whether you cover more than

(Continued on page 6)

The Benefits of Key Employee Life Insurance

If your key employee significantly contributes to the success of your business, have you considered how losing such an employee could impact your operations? Key employee life insurance can help protect your business from the financial consequences of a key employee's death. During the key person's tenure with the company, life insurance may strengthen the credit of the business, as well as provide needed cash for emergencies. In addition, when the key employee dies, key employee life insurance may reinforce the capital structure of the business, maintain lines of credit, and pay for training costs of a replacement.

(Continued on page 7)

How to Avoid the Most Common Estate Planning Mistakes

Whether your estate plan is simple or complex, there are many details that can get overlooked, which may undermine your plan's effectiveness. The following is a list of the 10 most common estate planning mistakes to avoid, in no particular order of importance:

1) Titling property jointly with your children as a substitute for a will. Unlike a will, a transfer of an interest in your property is irrevocable, which may prevent you from changing the disposition if circumstances change before your death. Also, titling your personal residence jointly can result in partial loss of the capital gain exclusion if it is sold before your death.

2) Failing to plan for the possibility of children getting divorced or having problems with creditors. Parents often have cause to regret having made outright gifts to their child when the child subsequently divorces and the ex-son- or daughter-in-law is awarded an interest in the gifted property by a court, or when the property is taken pursuant to a legal judgment against the child. Such problems can be minimized through proper use of trusts or a business entity, such as an LLC.

3) Failing to make sure that all your assets pass in accordance with your wishes upon your death. Many types of assets can pass to your heirs or others based upon beneficiary designations (life insurance, IRAs, brokerage accounts). The provisions of your will cannot change a beneficiary designation. Remember to account for things you've already designated. You should review your will, as well as all other beneficiary designations, when formulating your estate plan.

4) Underestimating the true value of your estate for Federal estate tax purposes. For instance, many people are unaware that the proceeds of life insurance on their lives are includable in their taxable estates if they own the policy. This could bring their total estates to more than the amount sheltered from estate tax by the estate tax exemption—$10.50 million per married couple in 2013, which is annually adjusted for inflation.

5) Failing to consider state death taxes in light of recent changes in the law. Many states have "decoupled" their death tax from the Federal estate tax, which means your estate could be subject to death tax in a state even if no Federal estate tax is due. This could result in an unpleasant surprise upon your death, one that might be avoidable with proper planning. The laws of each state where you own property should be carefully reviewed to determine the potential exposure to state death taxes and how to minimize them.

6) Uninformed about recent legislation affecting the gift tax and estate tax amounts. As of January 2, 2013, the American Taxpayer Relief Act (ATRA) provides a 40% tax rate and a unified estate and gift tax exemption of $5.25 million per individual and $10.50 million per married couple (adjusted annually for inflation). You can make yearly gifts up to the annual exclusion amount ($14,000 per person for gifts made by an individual and $28,000 for those made jointly by husband and wife) that don't count against your $5.25 million gift tax exemption.

7) Failing to maximize the benefits of the income tax basis "step-up" at death. Low-basis/high-value assets should generally not be given away during your lifetime, since the basis for capital gain computation purposes will be increased to fair market value at death. If the asset is given away, the basis remains at the property's original cost.

8) Failing to indicate your desired funeral arrangements. A pre-arranged funeral can greatly relieve family members from additional stress upon your death.

9) Failing to plan for disability. In the absence of adequate medical care directives, powers of attorney, or trusteeship of assets, costly and time-consuming court proceedings may be required in order to appoint a guardian or conservator to act on your behalf if you become disabled.

10) Not reviewing and updating your estate plan on a regular basis. Changes in the law and in your personal financial and family situation over time make it essential that you periodically review your estate plan to make sure it still carries out your wishes.

Be sure to consult with your qualified team of tax, legal, and financial professionals. Early and thorough planning can help you avoid these common mistakes, meet your financial goals, and leave a lasting legacy. $

Giving Back to Your Community Can Boost Your Bottom Line

Regardless of size, companies benefit when the community in which they do business thrives. For entrepreneurs, giving back to the community is more than just a charitable act; it makes good business sense. If you have been reluctant to get involved in philanthropic activities, fearing it could cost too much and distract your employees, think again. Community involvement can strengthen your company directly by bringing in new business and indirectly by enhancing your company's reputation and improving employee morale.

Crafting a charitable giving strategy for your business involves more than just selecting a worthy organization and writing a check. While you may get a tax deduction on cash donations, your business may get considerably more out of community involvement, especially if you carefully consider the causes you want to support and the organizations that would make appropriate partners for your company.

The type of charitable giving you choose may be influenced by the type of business you operate, the interests of your employees, and the needs of the community. Whether your company produces goods or provides services, organizations within your community could likely benefit from your support. A restaurant or caterer, for example, could choose to donate leftovers to a soup kitchen or homeless shelter. A construction company could donate materials and labor for building a community playground or renovating a youth center. Involvement in such worthy initiatives may be very effective in making a positive impact on the community.

To maximize your charitable efforts, your company (or the organization your company is helping) may choose to distribute a press release or inform the local media about upcoming events and activities. This often results in free—and positive—publicity for your company. It may also be possible for the charity to help increase your company's visibility through its marketing resources. When partnering with a nonprofit, you may be able to arrange for your company's name and logo to appear on the organization's advertising materials and website.

Ongoing charitable involvement can help attract new customers and engender loyalty within your existing customer base. A company that donates a portion of its profits to worthy charitable causes may gain a competitive advantage. It can generate goodwill among customers and enhance your company's reputation to be associated with important causes in your community, such as helping abused children, improving literacy skills, or finding homes for abandoned pets.

Employee morale can also be improved through charitable initiatives. When deciding which causes your business will support, be sure to include your employees, especially if you want them to participate in events. By asking your employees what causes are close to their hearts, you may discover that some have personal passions that can prove valuable to a charitable campaign. Providing paid time off for charitable work may be considered a valuable benefit by your staff. Having your employees volunteer as a group can serve as a positive team-building exercise, as well as provide a welcome break from the work routine.

Another benefit of giving back to the community is the potential for networking with other local businesses. Through professional clubs or your local chamber of commerce, you may meet other business owners who may want to cooperate with you in organizing events. By participating in charitable events, you and your employees may forge valuable friendships with other business owners, staff, and the media.

Regardless of your company's size and resources, you can find a way to make a difference in your community. Even minor gifts, such as allowing your facilities to be used for a school event or donating used equipment, can go a long way toward making your community a better place to live and do business. And that's the bottom line. $

Naming Your Life Insurance Beneficiaries

In the language of life insurance, a **beneficiary** is the recipient of the proceeds of a policy when the named insured dies. The owner of a life insurance policy has a great deal of flexibility in naming beneficiaries and can generally name anyone he or she chooses. However, it is important to understand the different types of designations and methods of distribution before choosing your life insurance beneficiaries.

Types of Beneficiaries

Beneficiaries are typically categorized as either **primary** or **contingent**. A *primary* beneficiary is entitled to the benefits of the policy upon the death of the insured, but such rights expire if he or she dies before the insured. A *contingent* (or secondary) beneficiary is entitled to the policy benefits if the primary beneficiary has predeceased the insured. One fairly common arrangement stipulates that, if a primary beneficiary dies before the insured, then the amount would be payable to the contingent beneficiary. You may want to have several contingent beneficiaries.

A beneficiary can be designated as a **specific** beneficiary (a person identified by name and relationship) or a **class** beneficiary (a group of individuals such as "children of the insured"). While the naming of specific beneficiaries is usually clear, unintended complications can arise when designating *classes* of beneficiaries.

For example, if you plan to name your children as beneficiaries, you must clarify if you intend to include adopted children or children by a former spouse. If your children are minors, it must be determined if the insurance company will pay the benefits to a minor beneficiary. Typically, insurers pay benefits to a legal guardian rather than to a minor.

Let's look at the following scenario whereby the policyowner's intentions appear straightforward, but could become complicated. Bonnie, age 70, has planned for the benefits of her life insurance policy to be paid to her children (David, Michelle, and Joanna) or her grandchildren. Now, suppose David and Joanna die before their mother. David leaves four children and Joanna has no children. How will the proceeds of the policy be distributed when Bonnie dies?

Methods of Distribution

Per stirpes and **per capita** are terms that describe methods of distributing property to family members and heirs. Per stirpes means "branches of the family," and per capita means "by heads." In the example above, under a *per stirpes* distribution, Michelle (one branch) would receive one-half of the proceeds and David's surviving children (the other branch) would divide the remaining half among themselves. Under a *per capita* distribution, David's four children, along with Michelle, would *each* receive one-fifth of the proceeds. Remember, if any of David's children are still minors when Bonnie dies and legal guardians have not been appointed, there may be complications.

Revocable vs. Irrevocable

Consequences may also vary according to whether beneficiary designations are revocable or irrevocable.

If a beneficiary designation is **revocable**, the policyowner reserves the right to change the beneficiary. A person designated as a revocable beneficiary has only an "expectation" of benefits, since the owner of the policy can exercise any of the policy rights without the consent of the revocable beneficiary.

On the other hand, an **irrevocable** beneficiary designation cannot be changed without the consent of that beneficiary. While this arrangement is sometimes desirable for estate planning purposes, the legal status of an irrevocable beneficiary is uncertain. Some may regard an irrevocable beneficiary as a "co-owner" of the policy; therefore, the beneficiary's consent is needed to exercise any policy rights. Others may contend that an irrevocable beneficiary's consent is needed only for exercising a change of beneficiary.

The latter position can create the somewhat puzzling situation of compromising the beneficiary's rights if the policyowner exercises other rights, such as surrendering the policy or permitting it to lapse. Due to the serious implications of an irrevocable designation, it is often preferable to use revocable beneficiary designations.

A further complication can arise when one's estate is named as a beneficiary of a life insurance policy. The policy benefits may be tied up in the probate process or reduced by the claims of creditors.

The distribution desired by the policyowner must be clearly set forth in the beneficiary designation. A change in family circumstances after a policy is initially written, such as a divorce, could leave unintended beneficiaries, so it is important to review your insurance policies regularly. If you are unsure about your beneficiary designations, check your policies, and take the steps necessary to make appropriate changes. $

Choosing Your Pension Payout Option

Many couples may find themselves confronted with a dilemma as retirement nears. If you plan to receive your **pension** payout on a monthly basis (rather than in a lump sum), you must decide whether you want to receive a higher payment during your lifetime (the **life option**) or a lower payment that will span the lifetimes of both you and your spouse (the **joint and survivor option**).

As you choose between these options, you will need to consider the current and anticipated health of both you and your spouse, as well as your life expectancies. You will also need to assess your financial situation and income requirements. Here is a brief look at each of these payout options:

Life Option. With this option, let's assume you receive $1,700 per month for your lifetime. This will be higher than the amount you would receive with joint and survivor benefits, say by $475. If you live a long life, this extra $475 per month will undoubtedly come in handy. On the other hand, once you die, payments to your surviving spouse, who may live for many more years, will stop. This could have a significant impact on his or her standard of living.

Joint and Survivor Option. If you were to select the joint and survivor option, suppose you receive $1,225 per month ($475 less than with the life option). If you die before your spouse, payments to your surviving spouse will continue for his or her lifetime. This may help provide critical income for your surviving spouse, especially if he or she outlives you by many years. However, if your spouse dies before you, you cannot change your payout option, even though your reason for choosing the lower monthly benefit—to protect your spouse's long-term income—is no longer applicable.

The Best of Both Worlds

Deciding between these options may leave you and your spouse feeling as though you are betting on each other's lives. But, you need not be locked into an "either-or" situation. With proper planning, you may be able to have it both ways—a higher monthly benefit now *plus* continuing income for your surviving spouse should you die first.

In structuring this approach, you would select the life option and use a portion of the higher monthly benefit to purchase a permanent **life insurance** policy on yourself. If you should die first, your surviving spouse can manage the insurance proceeds to help create monthly income, as needed. On the other hand, if your spouse should predecease you, you can cancel the policy and continue receiving the higher monthly pension benefit.

This strategy requires *disciplined* money management to achieve the desired results. First, your life insurance policy may lapse if the premiums are not paid. Second, a lump-sum death benefit must be properly managed to yield the anticipated income. Third, by waiving the spousal provision, your spouse may lose other pension-related benefits, such as cost-of-living adjustments or company-sponsored health insurance. Finally, the issuance of a policy at a reasonable premium (which would depend on your age and health) is not guaranteed. Therefore, it is important to apply and verify that you qualify for the appropriate amount of life insurance prior to making the pension payout selection. If the premium consumes too much of your monthly payout, this strategy may not be feasible.

Consider *All* Your Options

When choosing between the life option or the joint and survivor payout option for your pension, coupling the life option with a life insurance policy may be appropriate. There are many factors to consider, including your age, your spouse's age, your health, your actual pension benefit, and the insurance premium costs. It is always important to analyze your situation carefully with the assistance of your financial professional to help determine which approach may work best for you. $

Tax Breaks for Elder Care

(continued from page 1)

half of her support costs. Since the rules on what items can be counted as necessary for support are complicated, and may vary from case to case, the IRS Publication 501 provides more specific information.

If your mother has met the IRS dependency tests, you can use any medical expenses you pay for her, including prescription drugs, medical equipment, hospital care, or doctor's visits, toward the itemized medical expenses deduction. The addition of your mother's expenses could help you meet the requirement that your medical costs exceed 7.5% of your adjusted gross income (AGI). If your mother is your dependent, premiums for supplementary Medicare coverage or long-term care insurance may also be included in this deduction. Even if your mother is not considered a dependent for exemption purposes because she earns too much, but has satisfied the other tests, you may still be able to count some medical expenses you have covered for your parent toward your own medical expenses deduction.

If your mother lives with you and requires continual care that is provided by paid caregivers while you and your spouse are at work, you may also be eligible to claim the nonrefundable child and dependent care credit, which covers up to 35% of the cost of care. To qualify, your mother must be physically or mentally unable to care for herself, and you, as the adult child responsible for your parent's care, need to have earned income and work-related expenses. When claiming the credit, you must be able to properly identify your care provider, including the provider's name, address and Social Security or employer identification number. In some cases, these expenses can be covered by pre-tax payments you make through a flexible spending arrangement (FSA) sponsored by your employer. You must, however, choose between the FSA and the tax credit, as you are not permitted to claim both for the same expense.

In many families, brothers and sisters share the costs of caring for a parent. If you and your siblings share the cost, with none of you solely paying for half of the support, but with each contributing at least 10% toward parental care, the person claiming the parent as a dependent should file Form 2120 when filing his or her taxes, which will help you and your siblings account for the tax implications of a shared-care arrangement.

In another example, say your father is in a nursing home or assisted living facility. Your father's Social Security covers 40% of the facility's costs, and you and your brother split the remaining costs, with each paying 30%. Because more than half of your father's support comes from his two adult children, he can be claimed as a dependent by you or your brother. You may then agree with your brother to take turns claiming the deduction in successive tax years.

If you agree that your brother can claim your father as a dependent this tax year, your brother then files Form 2120 with his 1040 tax return. This form indicates that, although more than one sibling contributed to your father's support, the other has agreed to waive any tax exemption claim for that year. Your brother should get a signed statement from you acknowledging that you have waived your tax claims, and keep them in his records in case the IRS questions any exemption or medical deduction claims. $

The Benefits of Key Employee Life Insurance

(continued from page 1)

Consider the variables by looking at a hypothetical case: Alonzo, a talented chemical engineer, works at XX Plastics, Inc., a plastics fabrication company. In his seven years with the company, Alonzo has developed several important compounds, in addition to an innovative new process for manufacturing automobile engine blocks. Because he has been so instrumental to XX Plastics, and his work has propelled the company to the forefront of its industry, Alonzo is considered one of the company's key employees.

XX Plastics' owners realize the importance of Alonzo to the success of the company and have purchased a key employee life insurance policy. This type of policy could be of great benefit in the event of the loss of such a valuable employee.

How Does the Employer Benefit?

A company like XX Plastics may benefit from life insurance held by the company on key employees in the following ways:

- Proceeds from the policy can provide XX Plastics with funds to compensate for the loss that could result in the event of a key employee's death. The company could then use the money to recruit a new employee with credentials and capabilities similar to those of Alonzo, train the new employee, promote additional sales, or provide for improvements that would eventually compensate for the loss sustained following the death of such a valuable employee.

- Permanent life insurance on a key employee could provide XX Plastics with an accumulation of funds to be used in emergencies. Payment of the annual premiums provides an orderly accumulation of funds with an increasing **cash surrender value**. Ordinarily, the policy has a guaranteed cash value, as the cash surrender value can be determined for any period of time. Guarantees are based on the claims-paying ability of the issuing company.

- By maintaining key employee insurance, XX Plastics may strengthen its credit. The insurance may be used as supporting collateral for loans and may be considered evidence that the company will continue to meet its debt obligations in the event of the key insured employee's death.

How Does the Key Employee Benefit?

While life insurance on a key employee can help protect XX Plastics against the premature death of Alonzo, there is no guarantee that such a key employee will remain with the company until retirement or death. Therefore, establishing a **deferred compensation plan** for that employee may provide an incentive for the desired employee to stay with the company.

Under this plan, XX Plastics would enter into a contract with Alonzo to pay certain benefits upon his retirement. XX Plastics may also require Alonzo to promise not to compete (a **noncompete agreement**) with the company after his retirement. The contract is a separate plan and is not tied directly to the insurance policy. However, life insurance can be an advantageous way to fund the deferred compensation plan.

A combination key employee deferred compensation plan may be adopted and funded with a single life insurance policy. That policy would provide indemnity to XX Plastics in the event of Alonzo's death and would also serve as a source of retirement income for Alonzo upon his retirement. XX Plastics would take out a life insurance policy on Alonzo; he would not be a party to this insurance contract. Then, at the same time, XX Plastics and Alonzo would both enter into the deferred compensation plan.

Therefore, XX Plastics would have indemnity protection until Alonzo's retirement date. Upon that date, the company can surrender the policy and use the proceeds to make the deferred compensation payments. This type of key employee insurance plan does not have to cover any specific number or class of employees. It may be particularly appropriate for companies that do not wish to establish qualified deferred compensation plans.

If you have employees who are vital to the successful operation of your company, you may want to consider taking the steps that XX Plastics took in the example and purchase life insurance as protection and incentive for your key employees. $

Long Term Care Insurance: The Importance of Annual Reviews

Long term care insurance is just like any other piece of your financial puzzle. Periodic monitoring can help ensure your insurance continues to meet its desired objective. An annual review provides an opportunity for you to re-examine your coverage, analyze relevant Federal legislation that may impact your policy, and assess any changes in your personal financial situation.

Items for Review

Once a year, review your policy contract and its terms. You may want to pay particular attention to the following items: the existing coverage amounts, criteria for receiving benefits, and procedures for filing a claim. If you have chosen an inflation protection option, re-evaluate your current benefits with respect to projected costs for long term care. Your policy may also carry a provision to upgrade your contract without additional underwriting.

If you own a tax-qualified policy, it is important to be aware of any Federal legislation that may affect your policy. For example, a portion of your premiums may be deductible, depending on your age and the total amount of your deductible medical expenses. Be sure to consult your qualified tax professional for more information.

Changing Circumstances, Changing Needs

An annual review also gives you an opportunity to examine your current financial situation and determine what impact recent circumstances may have on your existing long term care plan. It is important to make sure your coverage meets both your short-term and long-term financial goals.

Staying current also means knowing how your long term care coverage fits into your overall estate plan. Look at your policy in the context of your wealth transfer strategy, and fine-tune your estate plan with your professional advisor, as needed.

Long term care insurance can help preserve your assets, increase options for care, and ease the financial and emotional burden of caregiving on your loved ones. After obtaining coverage, don't leave your policy in a drawer to gather dust. An annual review can help ensure your coverage continues to meet your extended care needs in the future. $