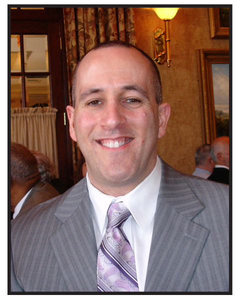
This Publication Brought to You Courtesy of:
LAURENCE M. SOBIN, CLU®, ChFC®
Sobin Financial Group
2100 Rachel Terrace, Suite 15
Pine Brook, NJ 07058-9329
Tel: (973) 276-9235
Fax: (973) 276-9234
Email: service@sobinfinancial.com
Web: www.sobinfinancial.com



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 VI

Understanding the Consumer Price Index

The highs and lows of the economy affect people and markets in a variety of ways. While some sectors may be thriving, others may be sluggish. One economic indicator used to gauge the state of the American economy is the **Consumer Price Index (CPI)**, which measures the rate of inflation in the United States.

Inflation, which is defined as a rise in the average price level of all goods and services, can have a significant impact on the economy and your financial outlook. Learning more about the CPI, and how it measures inflation, can provide a strong foundation for understanding not only market and economic swings, but also how U.S. fiscal and monetary policies affect your financial well-being.

Determining the Market Basket

Each month, the U.S. Bureau of Labor Statistics (BLS) surveys prices for a "market basket" of goods and services to create an economic "snapshot" of the average consumer's spending, which is quantified as the CPI. Actual expenditures are classified into more than 200 categories and eight major groups. These include the following:

- **Food and Beverages:** common groceries, alcoholic beverages, and full-service meals
- **Housing:** rent, furniture, and utilities
- **Apparel:** clothing, shoes, and jewelry

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A Vacation Home: The Ultimate Hideaway

Are you dreaming of a mountain cabin or an ocean-front bungalow hideaway? Then you may want to consider that a vacation home can offer some tax savings. If you choose to use the home solely for enjoyment or combine business and pleasure by renting the property part time, it is important to understand the tax laws for a second home.

As long as the combined debt secured by the vacation home and your principal residence does not exceed $1.1 million, you can deduct all of the interest paid on a mortgage used to buy a second home. This advantage is restricted to two homes. Should you purchase a third home, interest on that mortgage is not deductible. However, regardless of how many homes you have, you may be able to deduct all of the property tax paid.

One break enjoyed by homeowners—the right to immediately deduct points paid on a mortgage—applies only to a principal residence. Points paid on a loan for a second home must be deducted gradually, as the mortgage is paid off.

Personal Residence

Your vacation home is considered a personal residence even if you rent it for up to 14 days a year. In such a situation, you may retain the rent tax free without jeopardizing your mortgage interest and tax deductions. However, you may not deduct any rental-related expenses. If you rent out the house on a continual basis, things may become more complicated. Depending on the breakdown between personal and rental use, different rules may apply.

If you buy primarily for pleasure but rent for 15 days or more, the rent you receive is taxable. Because the house is

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- **Transportation:** vehicle lease and purchase costs, gasoline, auto insurance, and airfare costs
- **Medical Care:** doctor's visits, hospital care, and prescriptions
- **Recreation:** cable television, pets, events, and sporting equipment
- **Education and Communication:** school tuition, postage, telephone service, and computer equipment
- **Other Goods and Services:** tobacco, haircuts, personal services, and funeral expenses.

Because the CPI assesses expenditures in these fixed categories, it is a valuable tool for comparing the current prices of goods and services to prices last month or last year.

Interpreting and Using the CPI

As a measure of inflation, the CPI has three main functions. First, it serves as an indication of economic health and the effectiveness of government policy. To a certain extent, some inflation indicates a healthy economy; however, too much inflation, or no inflation at all, can indicate economic trouble. In fact, one of the primary economic policy goals of the U.S. government is to maintain an inflation rate ranging from 1% to 3% each year.

If there are constant fluctuations in the CPI, Congress and the Federal Reserve Board (the Fed) may take measures to control the amount of inflation and stimulate economic growth. As a result, business executives, labor leaders, and individual consumers may change their spending and saving patterns. For example, the Fed may attempt to curb rising inflation by raising short-term interest rates. This increase in the cost of borrowing money is likely to slow personal and business spending. Conversely, if the economy is not growing, the Fed may attempt to stimulate growth by lowering short-term interest rates. Lowering the cost of borrowing is likely to trigger increased spending among businesses and consumers.

As a second function, the CPI helps determine the "real" value of a dollar over time by removing the effects of inflation. As prices increase, the purchasing power of a dollar decreases. Therefore, more dollars are needed to purchase the same amount of goods and services. Comparing inflation-free wages and prices allows economists to determine the actual earning and spending patterns of the American consumer, including what percentages of money are being saved or spent in certain areas.

Lastly, the CPI is used as a means of adjusting salaries and government benefits to account for price changes. For example, as a result of collective bargaining agreements, the wages of millions of American workers increase according to the amount of change in the CPI. The CPI is also used to determine the benefits of almost 50 million people covered under government programs, including Social Security beneficiaries and military and Federal Civil Service retirees. In addition, changes in CPI can be seen in the eligibility requirements for recipients of food stamps and school lunch programs, as well as through rents, royalties, alimony payments, and child support payments as determined by private firms and individuals. Finally, the CPI has been used to adjust the Federal income tax structure to prevent increases in taxes caused solely by inflation.*

For More Information

Inflation can have a serious impact on the American economy due to the effect it has on government policy, as well as the spending and saving patterns of businesses and consumers. Understanding and following changes in the CPI can help you identify how the value of the dollar changes and estimate how inflation may affect your future plans. The U.S. Department of Labor (DOL) publishes current information on the CPI each month through the BLS. For more information, visit their website at www.bls.gov/cpi. $

* Source: Bureau of Labor Statistics, "Addendum to Frequently Asked Questions," http://www.bls.gov/cpi/cpiadd.htm#2_3.

Alphabet Soup: ILITs and the GST

With Federal estate taxes designed to tax assets transferred from one estate to another, planning to preserve wealth for your children, grandchildren and future generations can be challenging. In 2013, the Federal estate and gift tax rates are as high as 40%; therefore, wealthy individuals, as well as those of modest means, need to carefully formulate their financial and estate plans in order to help *minimize* taxes and *maximize* their financial legacies. As a result, the **irrevocable life insurance trust (ILIT)** has become recognized as a straightforward mechanism for funding future estate tax liabilities and creating the potential for leveraged gifts to family or charity. However, in such cases, estate planners should also be aware of the implications of **generation-skipping transfer (GST) taxes** and take special care to ensure this additional transfer tax is not incurred.

Annual gifts by a donor to an ILIT are typically used to make premium payments on a life insurance policy insuring the life of the donor(s). The size of the gift will determine the amount of insurance the ILIT will be able to purchase. Thus, it is not uncommon for grandchildren to be included as ILIT beneficiaries in order to maximize the use of the donor's **annual gift exclusion** ($14,000 annually per donee and $28,000 for gifts made by a married couple) and Crummey withdrawal powers.[1] The proceeds of a properly executed ILIT will not be included in the estate of the donor(s).

The GST tax is an additional tax imposed on all transfers (during one's lifetime or at death), either outright or in trust, to a skip person, where the transferred assets are not subject to estate taxes in the gross estate of the skipped generation. A skip person is an individual at least two generations removed from the generation of the transferor. For example, if a grandparent is a transferor, a grandchild qualifies as a skip person. The GST tax rate is currently equal to the maximum 40% Federal estate tax rate and is applied to the entire transferred amount. In addition, every individual has a **generation-skipping exemption** ($5.25 million in 2013) for transfers while living, as well as those at death, and the generation-skipping exemption cannot be transferred between spouses.

It should be noted that the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) has amended the GST tax exemption amount in any calendar year to equal the estate tax applicable exclusion amount in effect for such calendar year.

Dotting the "I" and Crossing the "T"

When properly drafted and implemented, an ILIT can be a creative tool for passing wealth to future generations while avoiding GST taxes. In many instances, this can be achieved without utilizing the donor's generation-skipping exemption. "Nontaxable gifts," such as those made under the annual gift exclusion, are excluded from the GST tax.[2] However, when nontaxable gifts are made to a trust, two additional vesting requirements must be met for the trust to be exempt from GST taxes.[3] First, the distribution of trust income and principal must be limited solely to the trust beneficiaries. Second, if a beneficiary predeceases the life of the trust, the deceased beneficiary's interest in the trust must be includable in his or her gross estate.

The use of ILITs is fairly commonplace in today's estate planning arena. However, the GST tax is typically underestimated as an issue. Thus, great care should be taken to help ensure generation-skipping transfer taxes do not undermine the benefits of an ILIT. $

[1] Crummey v. Comm., 397 F.2d 82 (9th Cir. 1968).
[2] IRC Sec. 2642(c)(3).
[3] IRC Secs. 2642(c)(2) and 2652(c)(3).

Estimating Future College Costs

For most people, a child's college education is the second most expensive purchase (after that of a home) they will ever make. For parents and grandparents who wish to estimate the cost of a college education, the following tables can facilitate an educated guess.

According to The College Board's *Trends in College Pricing 2012*, the average annual cost of in-state tuition, fees, room, and board at a four-year public institution is $17,860 for the academic year 2012–2013. For a private institution, the cost of tuition, fees, room, and board is $39,518. Both public and private colleges and universities experienced an increase of more than 4% from the prior year, 2011–2012. Although the average tuition increase at private four-year schools is 4.2%, nearly two-thirds of students in this sector attend institutions with tuition increases of between 3% and 6%.

If the cost of a college education increases by 6% annually, and your child enters a private college in the 2022–2023 academic year, the estimated tuition will be $76,333. Based on the projections below, a four-year education would cost approximately $305,000. For young families, skyrocketing cost projections can lead to sticker shock, but there are strategies that can help you keep pace with tuition hikes. The College Board reports that almost 75% of undergraduate students receive some type of financial aid. In addition, the Federal government offers tax breaks for education savings, as well as other credits and deductions for taxpayers currently facing college costs.

Use the table below to estimate the approximate annual cost of tuition, as well as room and board, for a four-year undergraduate education based on the year a child will enter

Projected Higher Education Costs

	Public Colleges & Universities			Private Colleges & Universities		
School Year	**3% Inflation**	**6% Inflation**	**10% Inflation**	**3% Inflation**	**6% Inflation**	**10% Inflation**
12–13	$18,403	$18,961	$19,730	$40,472	$41,955	$43,656
13–14	18,963	20,131	21,796	41,958	44,543	48,227
14–15	19,540	21,373	24,078	43,235	47,290	53,277
15–16	20,134	22,691	26,600	44,550	50,207	58,856
16–17	20,746	24,090	29,385	45,905	53,304	65,019
17–18	21,377	25,576	32,462	47,301	56,591	71,828
18–19	22,028	27,154	35,861	48,740	60,082	79,349
19–20	22,698	28,829	39,617	50,222	63,788	87,658
20–21	23,338	30,607	43,765	51,750	67,722	96,837
21–22	24,099	32,494	48,348	53,324	71,899	106,977
22–23	24,832	34,499	53,410	54,946	76,333	118,179
23–24	25,588	36,626	59,003	56,617	81,041	130,554
24–25	26,366	38,885	65,182	58,339	86,040	144,244
25–26	27,168	41,284	72,007	60,113	91,347	159,326
26–27	27,994	43,830	79,547	61,942	96,981	176,010
27–28	28,846	46,533	87,877	63,826	102,962	194,440
28–29	29,723	49,403	97,079	65,767	109,313	214,801
29–30	30,627	52,451	107,244	67,767	116,055	237,293

Figures are estimated projections based on the average cost of tuition at public and private universities for the 2012–2013 academic year.

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Real Estate: A Form of Charitable Giving

In unpredictable economic times, many donors may be wary of making large donations of cash, even to charities they would otherwise like to support. Nonprofits are therefore increasingly encouraging donors to make gifts of non-liquid assets, including real estate. When thoroughly screened and properly structured, real estate gifts can help donors meet their financial planning and philanthropic goals, while providing charities with a fresh source of funding.

Although real estate holdings make up a significant share of the assets for U.S. households, only a small proportion of charitable contributions take the form of land or buildings. Many people who own surplus real estate may prefer to donate their appreciated property to charity rather than sell the property themselves, especially if their goal is to minimize taxes or generate retirement income. Because real estate gifts are more complex and costly for charities to process and manage than cash donations, it is important to consider donating to charitable organizations with a clear set of gift acceptance policies and procedures in place.

Prospective donors should look for policy guidelines that outline the types of properties that will and will not be accepted, such as residential, commercial, or undeveloped land. The types of estate planning structures that donors may use when making these gifts should also be stated, such as charitable remainder trusts, charitable gift annuities, and retained life estates. In addition, find out if there are stipulations on the charity's acceptance of properties that come with mortgages or other risk factors.

How It Works

After a real estate gift has been approved on a preliminary basis by a charity, the donor may then be asked to provide more complete information about the property. This due diligence phase generally includes an investigation of the title with the help of a real estate attorney, assessments of the local market and environmental conditions, a professional inspection, and a site visit by the organization's representative. Typically, the charitable organization covers the costs of conducting these studies. After the due diligence has been completed and the charity has agreed to accept the gift, the donor would be notified of the findings of the investigations, and of plans for how the final transfer of the property will occur.

When considering charitable gifts of real estate, there are multiple advantages for donors, including generating income, deferring or lowering taxes, and eliminating ongoing expenses of property maintenance. Be sure to consult your tax professional for more information about real estate contributions to charities. $

Estimating Future College Costs

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college, the inflation forecast, and the choice of a public or private institution.

How Much Do You Need to Save?

By starting a disciplined savings plan *now,* you may be better positioned to meet your child's future education needs. The following table shows the return of a variety of monthly savings contributions, earning 6% interest, for intervals of 5, 10, and 18 years—the average college age. *This hypothetical example assumes a 25% Federal tax rate and 3% inflation.*

Many parents may feel overwhelmed by the daunting task of planning for education funding, or think that saving the required amount of money will severely compromise their current lifestyle. While these are legitimate concerns, they need not stop you from establishing and maintaining an effective college funding plan. Whether you are considering a public or private college education for your child, the key to effective planning is to begin saving as early, and as much, as possible. $

	Savings Growth at 6%		
Save per Month	**5 Years**	**10 Years**	**18 Years**
$50	$3,109	$6,454	$12,339
$100	$6,219	$12,909	$24,678
$250	$15,549	$32,273	$61,696
$500	$31,099	$64,546	$123,392
$1,000	$62,199	$129,093	$246,785

For illustrative purposes only. Not indicative of any particular savings vehicle or insurance product.

Life Insurance: Changing Times, Changing Needs

When Judy purchased her **life insurance** policy 10 years ago, she thought her insurance planning was complete. She assumed that if she paid her premiums on time, she could sit back and not think about life insurance anymore. Judy's life insurance may help to protect her loved ones from future uncertainties, but her policy should not be left to run on autopilot. Life insurance is just like any other piece of your financial puzzle. As your circumstances and needs change, periodic monitoring is needed to help ensure that your life insurance will achieve your desired objectives. Here are some questions that Judy, like all policyholders, can ask as part of an annual review.

Is My Coverage Up-to-Date?

To start, Judy may want to consider whether her original reasons for purchasing her policy are still applicable. She may also evaluate any additional needs. For instance, when Judy initially purchased her policy, she was newly married and owned a modest home. Now Judy and her husband, Jim, have four children and a much larger home. Is Judy's existing policy appropriate for her new circumstances? She may need additional life insurance to help cover a larger mortgage, pay college expenses for four children, and contribute to her family's financial future in the event of her death.

If Judy's existing policy is **term insurance**, she may want to consider converting it to a **permanent** contract. Permanent insurance contains a **cash value** component that offers the potential for *tax-deferred* accumulation, as well as the same **death benefit** features of term insurance. In the future, the cash value could be accessed to help supplement retirement income needs. Keep in mind that withdrawals and loans taken against a policy's cash value could reduce the death benefit, increase the chance that the policy will lapse, and may have tax consequences.

Have My Beneficiaries Changed?

Currently, the primary beneficiary of Judy's life insurance policy is her husband, Jim. If Jim were to predecease Judy, the policy currently names Judy's nephew as a **contingent beneficiary**. However, now that Judy has her own family, she may choose to update her policy's beneficiary arrangement to name her children as contingent beneficiaries instead of her nephew. In addition, if Judy and Jim eventually set up a **living trust**, a legal professional may suggest naming their trust as the policy's beneficiary.

Has My Estate Grown?

Regardless of the type of life insurance Judy owns and the beneficiary she chooses, the death benefit proceeds from the policy will be included in Judy's estate. As their asset base increases, the family may want to periodically monitor and update their estate planning strategies to help minimize the effects of estate taxation.

Life insurance may play a significant role in solidifying the family finances of couples like Judy and Jim. But as with all financial matters, life insurance policies need to be reviewed on a regular basis. Be sure to consult a qualified insurance professional to help you evaluate your present situation and determine an appropriate course of action. $

Tips for Conducting Effective Job Interviews

Recruiting talented and dedicated staff is crucial to the success of any growing or established company. Yet, despite the obvious importance of bringing the right people on board, many businesses invest too little time and effort into recruiting employees who not only have the right qualifications, but who also represent a good fit for the company's culture and are likely to thrive in the position.

To help maximize the chances of attracting the best candidates, while minimizing employee turnover and improving employee satisfaction levels, consider the following tips when preparing for and conducting job interviews:

Outline the job description. Before posting the job advertisement and selecting candidates for interviews, you may want to prepare a detailed outline of the tasks and responsibilities associated with the job that can serve as a guide throughout the recruitment process. Keep in mind that a candidate who worked successfully as an office administrator for one firm may not be able to handle the duties assigned to the same job at another organization. If there are any discrepancies between the job description and the qualifications outlined in the resume, be sure to make

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Divorce and Retirement Plan Proceeds

Divorce can be "taxing" enough, but need not be made more difficult by the mismanagement of the division of assets in a retirement plan. As more Americans participate in 401(k) plans and other defined contribution retirement plans, dividing vested retirement plan assets in divorce situations can be complicated. In addition, defined benefit plans can involve numerous concerns, such as the participant's death before retirement, and the form of the benefit payments at retirement.

A Qualified Domestic Relations Order (QDRO) is a legal document that enables a retirement plan to transfer money or other plan assets to the non-employee former spouse. A QDRO must meet very specific requirements of the Internal Revenue Service (IRS) and the Employee Retirement Income Security Act of 1974 (ERISA). Note that without a QDRO, a transfer of retirement plan assets cannot occur.

Entitlement to your former spouse's retirement plan benefits depends on the type of plan. For a defined contribution plan, whereby each plan participant has his or her own individual account, a former spouse may be entitled to 50% of the vested and non-vested benefits that were credited or accrued during your marriage. Depending on the type of defined benefit plan, you can receive a portion of the retirement benefit based on the amount of time of your marriage during plan participation and the total amount of time the employee former spouse participates in the plan through retirement.

Since many issues need to be thoroughly discussed regarding divorce and retirement plan benefits, be sure to consult your tax and legal professionals for guidance about your unique circumstances. $

A Vacation Home: The Ultimate Hideaway

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still considered a personal residence, you may deduct all of the interest and property tax. You may also be able to deduct other rental-related expenses, including the cost of utilities, repairs, and insurance attributable to the time the house is rented. In some cases, you may be able to deduct depreciation. When the house is considered a personal residence, rental deductions cannot exceed the amount of rental income you report. In other words, your second home cannot produce a tax loss to shelter other income. In most cases, the interest and taxes assigned to the rental use of the house, plus the operating expenses, more than offset rental income, thus limiting your ability to write off depreciation.

Rental Property

Now, consider your tax situation if you buy a property primarily as an investment and limit your personal use of the property to 14 days a year (or 10% of the number of rental days, whichever is greater). Because the house is a rental property according to the Internal Revenue Service (IRS), your deductions can exceed the amount you receive in rental income.

If your rental income does not cover the cost of renting the house, you may be able to claim a taxable loss. Rental losses are classified as passive and can be deducted only against passive income, such as another rental property that realizes a gain. If you do not have passive income to shelter, the losses have no immediate value; however, unused losses can be used in the future when you have passive income.

There's an exception to this rule, however, that permits taxpayers with adjusted gross income (AGI) under $100,000 ($50,000 if married filing separately) to deduct up to $25,000 ($12,500 if married filing separately) of passive losses against other kinds of income, including salaries. To qualify, you must actively manage the property. The $25,000 allowance is gradually phased out for taxpayers whose AGI is between $100,000 and $150,000.

If your vacation home is considered a rental property, the mortgage interest attributable to the time the premises are rented is a business deduction. The remainder cannot be deducted as home mortgage interest since the house doesn't qualify as a personal residence.

These tax laws also apply to apartments, condominiums, mobile homes, or boats with basic living accommodations. Generally, this means the property must include a sleeping space, bathroom, and cooking facilities. If you are considering the purchase of a vacation home, keep in mind that, from a tax perspective, that mountain cabin or ocean-front bungalow may be the ultimate dream home. $

Tips for Conducting Effective Job Interviews

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a note of these gaps and plan to discuss them with the candidate during the interview.

Review resumes well in advance. Interviewers who are still glancing over a job candidate's resume and cover letter after the meeting has already begun are unlikely to ask thoughtful questions, and may not make a positive impression on the job candidate. Ideally, make time to read each resume well ahead of the interview, noting questions that arise and any concerns you wish to explore further with the candidate.

Avoid scheduling back-to-back interviews. While it is often more convenient for the interviewers to book meetings with a number of candidates in a block of time, scheduling several interviews in a row also has its disadvantages. Crossing paths in the waiting room with other candidates can be awkward and discouraging for jobseekers. A tight schedule can also make it difficult to give candidates additional time if needed. Worst of all, there may be confusion about which candidate said what, after interviewing assembly style.

Train in behavioral interviewing techniques. Hiring managers may believe that interviews consist of primarily asking candidates about their previous job experiences and transferable skills in order to make a decision. However, interviewers may not be familiar with behavioral questions, which are designed by Human Resources professionals to reveal more about the candidate's attitudes, priorities, and analytical abilities than a résumé or LinkedIn profile offers. For example, rather than simply requesting that candidates outline their responsibilities in previous positions, interviewers may want to ask jobseekers to describe some past high-pressure employment situations and how they were resolved. Recruitment professionals can help interviewers learn how to pose these types of questions effectively and how to interpret the responses.

Look beyond the pedigree. Beware of hiring decisions based on the rank and prestige of the candidate's undergraduate institution, graduate school, or previous employers. While candidates who attended top-rated schools are certainly attractive, a candidate who performed well at a lesser-known college could be just as qualified and may prove to be a better fit for the company's culture.

Remember the small talk. Engaging job candidates in a few minutes of informal conversation is hardly a waste of time. Chatting with jobseekers can reveal much about their personal interests, attitudes, and circumstances. Candidates who are unable to comfortably engage in light conversation may have the technical knowledge necessary to do the job, but could lack the social skills to successfully interact with clients and co-workers.

Finding the right individuals for your staff can make a difference to your business. Be sure to prepare in advance to maximize your chances of success. $