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 XXXIV, Number III

Remarriage: Altering Your Financial Plan to Meet Your Needs

In previous generations, husband's traditionally handled the family finances. While this arrangement may have worked well during the husband's lifetime, the consequences of the wife's lack of involvement in the family's finances often became clear after her spouse died. Today, more women are actively directing the outcome of their personal finances, and for good reason.

Women need to plan for a time when they may be on their own. Through divorce, widowhood, or personal choice, the odds are high that a woman will be independent at some point in her lifetime. Financial planning is essential for women throughout life, but it becomes especially important in the event of remarriage, as financial arrangements may need to be made for ex-spouses and children.

If you are in a second marriage or about to remarry, you may want to consider the following important points about managing your personal finances:

Bank Accounts. Should married couples combine their bank accounts or keep them separate? Or, perhaps combine certain accounts and keep others separate? There is no right or wrong choice—this is a personal decision. An open and honest discussion may reveal whether or not you and your spouse

(Continued on page 2)

What Is Your Management Style?

At times, managing people can feel more like an art than a science. Approaches that work well with certain employees and in certain types of workplaces may prove ineffective in other circumstances. A good manager should be prepared to adapt his or her management style to the culture and business requirements of an organization, and to the dynamics of groups and personalities of individual employees.

Below are some common management styles, with descriptions of the types of environments in which they are likely to prove particularly effective, or as the case may be, counterproductive:

Authoritative. Managers who adopt this top-down approach tend to assume that people don't like to work, and must be

(Continued on page 7)

Remarriage: Altering Your Financial Plan to Meet Your Needs

(continued from page 1)

are financially compatible regarding spending habits, saving, investing, debt, etc. If there is a marked difference in the way you both handle money, then separating your finances may be a better plan.

Prior Debt. Will each spouse be responsible for the other's prior debt, and if so, to what extent? Keeping the indebted spouse's prior debt separate may help ensure that the other spouse's property remains out of reach from creditors.

Property Acquired before Remarriage. Owning previously acquired property in your own name can prevent the risk of losing personal property to your spouse's potential creditors. Also, doing so may have estate tax benefits. Keeping your property in your own name can help to minimize estate taxes while providing an inheritance for children from a previous marriage.

Home Ownership. Many married couples choose to title property jointly as tenants by entirety. When one spouse dies, the home passes to the surviving spouse tax-free. However, there may be estate tax consequences when the surviving spouse dies. Be sure to consult with a qualified tax professional beforehand.

Retirement. Saving for retirement is one of the major financial goals for married couples. Women, in particular, have unique concerns when planning for retirement. First, women typically live longer than men, so their retirement income needs to last longer. In addition, women often spend more time out of the workforce than men as a result of caregiving responsibilities, and therefore are less likely to have pensions and full Social Security benefits. According to the U.S. Department of Labor, women average 12 years out of the paid workforce, primarily for caregiving duties. When they do work, women typically earn 80 cents for every dollar earned by their male counterparts. Consequently, the gap between gender incomes makes it especially important for women to prepare for retirement.

Insurance. Disability income insurance can help replace a portion of your income in the event you are unable to work due to sustaining an injury or illness. This type of insurance provides funds that can be used for bills and expenses. Similarly, life insurance provides a death benefit that can be used by your family. Proceeds can help ensure that children from a prior or current marriage can attend college, the mortgage can be paid, and the surviving spouse has some replacement income.

Estate Planning. It is important for blended families to plan for the final disposition of assets. Trusts can be a valuable tool to minimize estate taxes and to help ensure that your assets are distributed to heirs according to your wishes. For example, at your death, your assets can pass to a trust, from which your surviving spouse will receive income without direct access to the assets. At the death of the surviving spouse, the assets can then pass to children from your current or previous marriage. This provides ongoing income for your surviving spouse and an inheritance for your children, as well. In addition, if the surviving spouse later remarries, the trust can be designed to preclude your assets from their marital or community property.

Every woman who remarries needs to balance her financial past with her financial future. By addressing the management of your personal finances as soon as possible, you can avoid disputes and build financial independence for your extended and blended families. $

How Much Do You Know about Estate Planning?

Take this true/false quiz and find out.

( ) 1. A **will** provides for the distribution of your assets as intended.
( ) 2. One disadvantage of **probate** is that your private assets become a matter of public record.
( ) 3. If you use the **marital deduction,** unlimited assets may pass to your spouse tax free.
( ) 4. The **applicable exclusion amount** effectively exempts an estate of $3,000,000 from Federal tax.
( ) 5. **Qualified retirement plan** benefits and 50% of all property owned in **joint tenancy** with your spouse with right of survivorship are included in your gross estate.
( ) 6. Federal estate tax must be paid 12 months after the estate tax return is filed.
( ) 7. The highest Federal estate tax rate is 40%.
( ) 8. A **qualified terminable interest property trust (QTIP trust)** can help provide a surviving spouse with income for their lifetime.
( ) 9. An **irrevocable life insurance trust (ILIT)** can provide liquidity to help pay Federal and state estate taxes.
( ) 10. The **annual gift tax exclusion** limit cannot be exceeded for educational and medical needs.
( ) 11. With charitable giving, you can receive an immediate income tax deduction for the value of a **remainder interest** gifted to a charity.
( ) 12. A properly designed trust will eliminate the need for a **will**.
( ) 13. In valuing a business, the future earning capacity of the company can be accurately determined using valuation formulas.
( ) 14. Owners of small corporations may prefer a **cross-purchase buy-sell agreement** because they receive an increase in basis with a cross-purchase plan.
( ) 15. Changes in tax laws and changes in a person's family situation are valid reasons for updating an estate plan.

(Answers on page 5)

E-Learning: Doing the Virtually Impossible

Many individuals struggle to balance their personal and professional lives. You may be juggling parenting and domestic responsibilities with a full-time career, as well as caring for aging parents. Finding the extra time to pursue an education or finish a degree, until recently, may have seemed out of the question.

But today, electronic learning, or e-learning, has changed all that. E-learning refers to the use of computer-based electronic technology as an educational tool. Internet, email, websites, video tutorials, CD-ROMs, and online discussion groups are some of the platforms used to deliver, facilitate, and enhance learning. Some online courses are "synchronous." This means all students must be online at the same time for live discussions or exams. Other e-learning courses allow students to work independently during the week, but require weekly deadlines for assignments and exams. Still others allow students to work at their own pace. They may finish the course as quickly, or as slowly, as they like.

Rather than the traditional classroom experience, e-learning offers individuals a far more flexible way to achieve their educational goals and remain competitive in the workplace. Ideal candidates for e-learning are self-directed and self-motivated and have the ability to multi-task. It is important to keep in mind that, because a growing number of online courses are including participation in blogs, wikis, or game-like simulations, e-learners must have good computer skills and access to computers with high-speed Internet connections. Students who are unsure about their ability to use such technology should seek online schools with readily accessible help desks and other technological guidance and support.

Even in a challenging economic climate with a tight job market, college graduates may fare better than those without college degrees. In addition, in recent years, the responsibility for training and higher education has shifted from the employer to the employee in the workplace, which essentially requires workers to be more in charge of their own career growth and responsible for the acquisition of more marketable skills. As technology continues to advance, employees may need as much education and training as possible in order to keep up in the competitive job market. $

A Short Course in Insurance: Permanent vs. Term

When choosing **life insurance** coverage, you may wonder which type is more appropriate for your situation. During life stages, you will probably review and update your insurance coverage, as your needs change. There are two basic types of coverage—**permanent** (sometimes referred to as **cash value**) and **term life insurance**. Let's take a closer look at the short- and long-term benefits of each.

Permanent Life Insurance

Permanent life insurance helps provide financial security for surviving loved ones upon the death of the insured, and also builds cash value for the policyholder. Premium payments first pay the cost of the policy coverage, including the expenses and mortality factors of the insurance company. Then, the insurance company invests any remaining amount in order to build the cash value of the policy. Permanent life insurance combines protection with cash value as assets and earnings accumulate over the life of the policy, and the policyholder can generally access these funds for any purpose.

Some permanent policies provide policyholders with nonguaranteed **dividends**, which are the result of favorable mortality experience, investment results, and expense savings that result in a surplus for the insuring company. Dividends can be taken in cash or used to pay future premiums or to purchase additional life insurance coverage, but are not guaranteed.

Premium amounts for permanent insurance will not change as long as they are paid in accordance with the schedule set forth in the policy. Payments continue for a predetermined period, as chosen by the policyholder. The length of the payment period and the amount of coverage will affect the premium cost. Permanent life insurance protection is guaranteed, which means that as long as premiums are paid on time, the insured is guaranteed coverage for life in accordance with the terms of the policy. Guarantees are based upon the claims-paying ability of the policy issuer. Evidence of insurability will never be necessary as long as the original policy remains in force, and benefits will never decrease.

As for the cash value component of permanent life insurance, funds may be borrowed against the cash value of the policy at a predetermined loan interest rate. No repayment schedule is set beyond regular payment of interest on the loan, with outstanding loan balances deducted from the death benefit. These loans are generally tax free, and there are no restrictions on their use. Access to cash values through borrowing or partial surrenders can reduce the policy's cash value and death benefit, increase the chance that the policy will lapse, and possibly result in a tax liability if the policy terminates before the death of the insured.

Term Life Insurance

In a term life insurance policy, there are three basics to consider: 1) The period of protection is for a predetermined, specified term; 2) policies do not accumulate cash values like permanent insurance; and 3) premiums may initially be lower than permanent life insurance premiums, but will rise over time as set forth in the policy document.

Nonrenewable, nonconvertible term insurance for one, five, or 10 years may provide the most affordable protection, especially for those who require coverage to back a business loan, cover the cost of a mortgage, protect minor children, etc. Premiums will, however, increase over the period of protection. Term insurance is also available for longer durations (e.g., to age 95), but increasing premiums may result in higher overall costs than permanent life insurance over the long term.

Term insurance may be ideal to help cover a specific need, such as an outstanding mortgage. These needs can be met by purchasing coverage for a specified period of time and at the lowest premium cost. In fact, many companies offer decreasing term insurance in which the value of the death benefit decreases over time, as in the case of covering a decreasing mortgage balance.

Which Product and When?

Life insurance serves many purposes. When determining an appropriate amount of coverage, it is important to consider your short- and long-term goals, current financial status, and what you can afford. A thorough review of your needs with a qualified professional can help you choose a suitable policy for your situation.

Note: Life insurance policies contain exclusions, limitations, reductions of benefits, and terms for keeping them in force. Your financial professional can provide you with costs and complete details. $

How Much Do You Know about Estate Planning?

(continued from page 3)

Answers:

While this quiz is designed to test your general knowledge about estate planning, its larger purpose is to stimulate your thinking about the issues that may need your attention. Let's see how you did.

1. **True.** However, contract assets, such as qualified retirement plans and life insurance policies, will pass according to the terms of the contract.
2. **True.** Probate is always a public proceeding.
3. **True.** In using the marital deduction, you can pass unlimited assets to your spouse without paying estate taxes at your death.
4. **False.** The applicable exclusion amount is $5,340,000 for each individual in 2014. Through the "portability" of the Federal estate tax exemption, if one spouse dies without making full use of his or her exemption from Federal estate and gift taxes, the surviving spouse has the right to utilize whatever exemption amount the deceased spouse did not use.
5. **True.** All property, of which an individual is considered the owner, is included in the gross estate.
6. **False.** The Federal estate tax return, if required, must be filed—and the tax paid—within nine months of death. The Internal Revenue Service (IRS) may extend the time for payment due to "reasonable cause."
7. **True.** The top rate can be as high as 40% in 2014.
8. **True.** A QTIP trust can provide lifetime income for a surviving spouse, with the creator of the trust determining the ultimate disposition of the trust assets.
9. **True.** The proceeds of an irrevocable life insurance trust are not included in the decedent's gross estate, and such a trust is typically used to help provide liquidity for estate taxes.
10. **False.** Gifts in excess of the annual gift tax exclusion can be made without gift tax implications provided the donor pays the expense *directly* to the service provider (e.g., a college or a hospital).
11. **True.** In gifting a remainder interest, the future value of the gift is discounted to a present value. A deduction is allowed for the present value of the future (remainder) gift on the current year's income tax return.
12. **False.** A trust is not a substitute for a will; some matters, such as appointing guardians for minor children, can only be done through a will.
13. **False.** One valuation method is based on an estimate of future earnings, but estimating the future earning capacity of a company involves a good deal of speculation.
14. **True.** One of the advantages of a cross-purchase buy-sell agreement is that the remaining shareholders receive a "step-up" (increase) in basis.
15. **True.** Changes in tax laws and changes in a person's family situation are typically the primary reasons for updating an estate plan. $

Is It Time to Refinance?

Over time, mortgage rates fluctuate. Depending on where rates currently stand, now may or may not be a good time for homeowners to consider refinancing their mortgage. How can you determine whether it makes sense at any given point to refinance your mortgage?

In the past, if the current interest rate was 2% lower than the rate you were paying on your existing mortgage, it made sense to refinance. That general rule may still apply in some cases. However, even if the rate were less than 2% lower than your existing rate, refinancing may still be an appropriate choice.

In addition to favorable interest rates, there are several other reasons why refinancing may be an important option for you to consider:

Move from an Adjustable Rate to a Fixed Rate Mortgage. Many first-time homebuyers must go with an adjustable rate mortgage (ARM) because they do not qualify for a fixed rate loan. If this was true for you, perhaps your ARM is about to go up. If so, you may be able to "lock in" a lower rate by refinancing with a fixed rate mortgage.

Build Equity at a Faster Rate. Perhaps you would like to pay off your mortgage in less than the traditional 30 years. A drop in interest rates may allow you to refinance your 30-year mortgage and replace it with a 20- or 15-year mortgage at a monthly payment that may be close to what you have been paying. This option may be especially attractive to homeowners who are nearing retirement and would like to pay off their mortgages before that time.

Replace a Jumbo Mortgage with a Conventional Loan. The threshold for a jumbo mortgage is at the current level of $417,000 (and higher in expensive housing markets, such as Alaska, Hawaii, U.S. Virgin Islands, and most of California where it is $625,500). The difference between a jumbo and conventional mortgage depends on the current market price of risk and can be significant—usually between 0.25-0.5%. If you have a jumbo mortgage, you may be able to refinance and pay down enough to qualify for a conventional mortgage to get the lowest possible rate.

Take Advantage of a Lower Interest Rate. The most common reason for refinancing is that the current interest rate is significantly lower than the rate you are paying on your existing fixed rate mortgage. You will also need to consider variables such as refinancing costs, points, and how long you plan to stay in your home. It is always wise to shop around to ensure you are getting the lowest rate possible and paying the lowest cost.

Eliminate Private Mortgage Insurance (PMI). PMI, which is required by most lenders if your original down payment was less than 20%, is tacked on to your monthly payment. If the value of your home has increased since you bought it, you may be able to have the PMI removed just by having your house appraised. Or, you can eliminate the PMI when you refinance if you have more than 20% **equity** in your home.

Tap into Your Home's Equity. If you have other debt or are anticipating new expenses, such as college tuition bills, you may want to refinance for a larger mortgage at a lower interest rate and use the extra cash to pay off the debt or forthcoming tuition bills.

Deciding when to refinance depends on the current rates, your personal financial situation, and your plans for the future. You may want to do some number-crunching in advance to determine how low rates would need to drop for refinancing to make sense for you. Then, you will be ready to make your move. $

What Is Your Management Style?

(continued from page 1)

coerced into performing their jobs properly. Authoritative managers believe in imposing strict guidelines and policies, and insist that employees follow the rules. Managers who use this style seldom ask workers for their opinions, or participation in decision-making. Instead, they demand unquestioning obedience, and may even discipline employees who fall out of line.

While this style of management may produce compliance in the short-term, employees who work under authoritative managers may become discontented and rebellious. On the other hand, some form of this style may be appropriate in situations where employees lack self-discipline, and need very clear and precise instructions about how to carry out their duties.

Democratic. Advocates of the democratic style of management believe that the business benefits when employees are given the opportunity to express their opinions about the company's operations, and to have some individual control over their work environment. At the same time, democratic managers cultivate cooperation and teamwork among employees.

Rather than threatening employees with negative consequences if they fail to produce the desired results, democratic managers offer incentives for superior performance, such as monetary bonuses or forms of public recognition. Managers using this approach focus on the positive aspects of an employee's performance, encouraging them to build on their contributions by doing an even better job in the future.

Organizations that promote the democratic style of management tend to report a high level of morale among their employees, and often profit from access to insights that only workers at the ground level can provide. This management approach is especially appropriate with employees who know their jobs well, and have proven that they can do their work without requiring constant supervision. Occasionally, however, employees may feel democratic managers are offering them too little direction or instruction, and may find it difficult to motivate themselves to make good choices.

Paternalistic. Managers who adopt this style are directive and make most decisions unilaterally. But unlike those managers who opt for an authoritative approach, paternalistic managers make an effort to show employees they care about them personally, often by throwing parties or offering certain perks. These managers are friendly up to a point, asking employees about their personal lives and showing an interest in their well-being.

The paternalistic style tends to work best when employees have much lower skill and responsibility levels than the managers. Workers who are more experienced and independent may, however, find this approach patronizing.

Reactive. Most management experts agree that this is one of the least effective management styles. Reactive managers fail to provide employees with guidelines and direction, and may neglect to supervise the work of their subordinates for days on end. Yet when it emerges that employees have not done their jobs correctly, these managers react by frantically trying to solve a problem that could probably have been prevented in the first place. The most dangerous reactive managers are those who, in an attempt to deflect blame from themselves, point fingers at others when things inevitably go wrong. Essentially, it's best to strive not to be a reactive manager.

Laid-back. Sometimes referred to as laissez-faire, managers who use this style believe that by hiring the right people to do jobs that match their skills and abilities, the need to supervise their work will be minimal. Laid-back managers tend to treat employees as equal partners, discussing with them the work that needs to be done, and allowing them to make many of their own choices. This style may be especially appropriate for managers working with highly skilled and creative professionals who understand certain aspects of their jobs better than the managers themselves, and therefore require some latitude in decision-making. To avoid falling into the reactive trap, laid-back managers must ensure they are communicating regularly with employees, and are checking that performance goals are being met. $

Retirement Plan Assets and Multiple Taxation

Retirement planning generally focuses on accumulating funds to support your desired lifestyle after your departure from the workplace. At the same time, it is important to realize that, in all likelihood, your retirement savings may constitute a very large portion of your total assets. Upon your death, items such as your personal property and savings may ultimately be subject to varying degrees of estate taxation. Like all other assets, your retirement savings are generally included. However, retirement plan assets are also subject to *income* taxes in addition to *estate* taxes.

Should You Be Concerned?

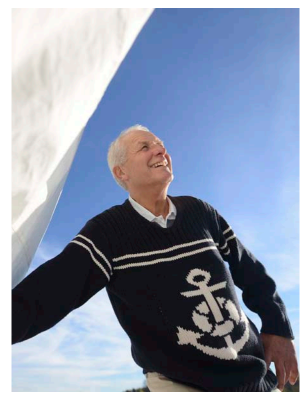
Historically, high net worth individuals have been the most concerned with estate taxation. If you have more than the applicable exclusion amount of $5.34 million in 2014 (adjusted annually for inflation), you may want to review the Federal estate tax implications with your professional advisors. With advance planning, you may be able to minimize your estate tax liabilities. Since your retirement plan assets are part of your estate, they may also be subject to estate taxation. In general, estate taxes are based on the full, *pre-income tax* value of the plan assets. In addition, income taxes will also be due on *pre-estate tax* values.

A distribution of the qualified plan or Individual Retirement Account (IRA) balance at an employee's or IRA owner's death can be income in respect of a decedent (IRD). Generally, IRD is included in the gross income of the recipient beneficiary, although there is a deduction for estate and generation-skipping transfer (GST) taxes paid on the income. If the income is distributed over a number of years, only a proportional amount of the deduction is allowable each year.

Substantial retirement plan assets, especially those for which no advance planning has been made, may ultimately be subject to income and estate taxes at a combined marginal rate that could potentially approach, or even exceed, 70%. That translates into nearly three out of every four dollars of your retirement savings going toward paying taxes, rather than funding your retirement or passing to your heirs.

Are There Any Alternatives?

Implementing a tax strategy geared toward passing retirement plan assets *in full* to heirs can be challenging, especially if you plan to depend on these assets to meet your retirement income needs. However, those who are fortunate enough not to need the bulk of this income may consider taking all, or part, of the balance in a lump sum. Amounts not distributed may be directly transferred from the plan to an IRA. Even though income taxes are due in the tax year of the withdrawal, the after-tax proceeds may be slowly gifted directly to heirs free from additional taxation.



This gifting program can involve either *direct* transfers or transfers to an irrevocable trust established to benefit the heirs (gifts of $14,000 per individual or $28,000 for married couples in 2014, indexed annually for inflation, can be made annually without incurring a gift tax).

It Pays to Plan

Saving for retirement requires hard work, foresight, and diligence. Once you have built your retirement assets, the challenge becomes asset preservation. With the assistance of qualified legal, tax, and financial professionals to review all the legal and tax consequences of your planning decisions, you may be able to enjoy your retirement while simultaneously passing on a sizable nest egg to your loved ones. $

D9019