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 IV

Assessing Your Retirement Resources

How resourceful can you be during your retirement? Determining *where* your retirement money will come from is an integral part of planning for retirement. Most people draw on three main sources of income: **Social Security, employer-sponsored plans,** and **personal retirement savings**. Each offers important resources that can help you fund your desired lifestyle in retirement.

Social Security

Social Security offers a retirement benefit to workers and their spouses. You can start receiving benefits as early as age 62 (considered early retirement) or wait until you reach the **full retirement age** of 65 to 67 (depending on your year of birth). The benefits you receive are based on the income you have earned over the course of your life, subject to a maximum amount. You can calculate how much you can expect to receive by visiting the Social Security Administration (SSA) website at www.ssa.gov.

Social Security benefits will most likely fall short of meeting all of your retirement needs. The maximum benefit for a person who retires in 2014 at full retirement age (age 66) is $2,642 per month; the benefit for a nonworking spouse is considerably less. For most people, Social Security provides only a base level of income. Therefore, you may require a plan that includes additional sources of income.

(Continued on page 2)

Valuing a Closely Held Business

For many small business owners, valuing a **closely held business** is an important part of estate and financial planning. Because valuation is a multi-faceted endeavor, a comprehensive approach is needed. Equity interests in a closely held business are not frequently sold or otherwise transferred, which can make it difficult to ascertain a valuation. Therefore, valuing a business (a **sole proprietorship**, a **partnership**, or a **corporation**), involves an analysis of specific conditions that can affect closely held businesses.

Getting Down to Business

Whenever there is a need to perform a business valuation for estate purposes, there are potentially seven areas that must be researched in order to arrive at a fair value for the total business. Each area may address issues that are somewhat abstract and/or difficult to quantify. Here is a general overview:

1) The nature, scope, and history of the business operation must be reviewed. The product or service rendered must be evaluated by past performance, as well as the risks inherent in all phases of operations. While disregarding past events that are unlikely to recur, capital structure, sales records, growth, and diversity of operations can speak volumes about the past and even future performance of the business.

2) By analyzing both related business sectors and current economic conditions, an appraisal can be made regarding the future potential for business profits. Generally, the greater the expectation of profits, the greater the value of the business. The appraiser should evaluate the industry, as well as the

(Continued on page 7)

Assessing Your Retirement Resources

(continued from page 1)

Employer-Sponsored Plans

Employer-sponsored plans are a staple of retirement income for many individuals. Many employers offer benefit packages that include retirement savings options, such as defined benefit plans, 401(k) plans, 403(b) plans (for nonprofit organizations), and Savings Incentive Match Plans for Employees (SIMPLEs).

Here's how the plans work:

- With a **defined benefit plan** (also called a traditional pension), retirement benefits are generally based on a variety of factors, including salary, length of service, and a benefit formula that averages the employee's earnings over a prescribed period of years. In some instances, you, as an employee, may make additional contributions. To receive benefits, you generally must be employed for a certain number of years and reach the normal retirement age (NRA), typically age 65. On retiring, you may have options as to *how* and *when* you collect your benefits, such as in monthly payments or in one lump sum.
- A **401(k) plan**, offered by many private employers, provides you with the opportunity to contribute part of your salary, with restrictions, into a retirement account. Your employer may match your contributions, up to a pre-determined percentage and subject to a maximum. For example, if your employer matches your contributions by 50%, for every dollar you put into the fund, your employer will add $.50. In 2014, you can contribute up to $17,500, and those age 50 or over can contribute an additional $5,500. Your contributions are pre-tax, and any potential earnings are tax deferred, so payment of taxes will not commence until you begin taking distributions. If you withdraw money from your 401(k) before age 59½, you will incur a 10% Federal income tax penalty, except under certain qualifying circumstances (such as death or disability).
- A **403(b)** plan is a 401(k)-type plan designed for employees of certain educational and nonprofit organizations. Your contributions are pre-tax, and potential earnings grow tax deferred. The contribution limit in 2014 is $17,500 with catch-up contributions of up to $5,500 allowed for those age 50 or older. At retirement, you pay ordinary income tax on your distributions.
- The **Roth 401(k)**, which is available through sponsoring employers, incorporates elements of both traditional 401(k) plans and Roth IRAs. Your contributions are made with after-tax dollars, but potential earnings grow tax free and distributions are tax free, provided you are at least age 59½ and have owned the account for five years. You may contribute a maximum of $17,500 per year ($23,000 for those age 50 or older), including any contributions to a traditional 401(k) account. Matching contributions made by your employer must be invested in the traditional side of the 401(k) account, not the Roth. Under the Small Business Jobs Act of 2010, participants in traditional 401(k) plans are now permitted to roll over funds into Roth accounts within their plans, if available. Any eligible funds transferred to Roth 401(k) accounts are taxed in the year of conversion. Some 403(b) plans may also offer a Roth option.
- **SIMPLEs** are used by small businesses with 100 or fewer employees. A SIMPLE plan allows you to contribute up to $12,000 to a SIMPLE IRA or SIMPLE 401(k) in 2014. If you are age 50 or older, you may contribute an additional $2,500. Employer contributions, which are mandatory, can be in the form of either a 2% contribution to all eligible participants or a matching contribution that is generally 100% of the first 3% of compensation. Your contributions are pre-tax, and you defer payment of taxes until you begin taking withdrawals.

(Continued on page 3)

More About Charitable Deductions

While charitable giving warms the soul, it may also be a practical approach to saving on your taxes. When planning your giving, it is important to consider that your income may affect your eligibility to claim a deduction on your tax return. Several limitations are associated with the size of your **adjusted gross income (AGI)**, with caps on total charitable deductions for any one year, potentially ranging from 20% up to a maximum of 50% of AGI. Charitable contributions above specified limits may be carried over to the following tax year. Higher-income donors must also be wary of restrictions on total itemized deductions, which are gradually phased out above certain levels of AGI.

In general, charities are divided into two categories: **public charities** and **private foundations**. Gifts given to different types of charities are subject to different restrictions on valuation and deductibility. Similar gifts made in different ways will yield remarkably different results from a tax planning perspective. Furthermore, the type of gift, or property, may affect tax treatment.

The Internal Revenue Code (IRC) generally classifies property according to a four-tier system: 1) **ordinary income** property, 2) **short-term capital gain** property, 3) **long-term capital gain** property, and 4) **tax-free** property. Property is also classified as being either *intangible* property (stocks, bonds, mutual funds, etc.) or *tangible* personal property (artwork, collectibles, jewelry, etc.). Learning the many facets of charitable giving may best serve you and your favored charity. $

Assessing Your Retirement Resources

(continued from page 2)

Because retirement savings options often differ from one employer to another, it is important for you to understand the specifics of *your* company's benefit package. Contact your employer's benefit coordinator for more information.

Personal Retirement Savings

Personal retirement savings may be the key to achieving your financial goals. Common complements to Social Security and employer-sponsored plans include the following:

- **Traditional Individual Retirement Accounts (IRAs)** allow you to set money aside in a tax-deferred account. Depending on your income and whether or not you participate in an employer-sponsored retirement plan, you may be eligible to take an income tax deduction. In 2014, the maximum contribution for all IRAs (traditional, Roth, or both) is $5,500, and those age 50 or older can contribute an additional $1,000. Even if you don't qualify for a deduction, your contributions have the potential to grow tax deferred; you pay taxes on withdrawals, avoiding tax penalties if you are at least age 59½.
- **Roth IRAs** permit earnings to grow tax free and distributions to be taken tax free, provided you have owned the account for five years and are at least age 59½. However, your initial contributions are not tax deductible. The contribution limits are the same as with traditional IRAs, including the guidelines for catch-up contributions, in the aggregate. In 2014, only taxpayers whose adjusted gross income (AGI) falls below certain levels ($114,000 a year for single filers, and $181,000 for joint filers) are eligible to contribute after-tax dollars to a Roth IRA.

With a sound assessment of your income resources, you can begin to plan for the retirement you desire. The choices you make *today* can influence your future financial independence. Starting now puts time on your side. $

Disability Income Insurance: Protecting Your Most Valuable Asset

Have you ever wondered how you would manage financially if you were to sustain an injury or illness that left you unable to work? How long could you maintain your standard of living, pay your bills, and cover your daily expenses? The likelihood of such an event may be greater than you think. According to the Council for Disability Awareness (2013), Americans underestimate their chances of experiencing a long-term disability: 64% of working Americans believe they have a 2% or less chance of being disabled for three months or more during their working years; however, the reality is that the odds of experiencing a long-term disability are about 25%.

To be prepared for such a situation, it is important to *plan ahead*. To help protect yourself, you may wish to purchase an **individual disability income insurance policy**, which would replace a portion of your income in the event that you experience a qualifying disability. Consider the following when choosing among the coverage options:

Definition of Disability. Carefully review the policy's definition of disability. Some policies may provide coverage if you are unable to work in the occupation in which you were employed or for which you were trained, or if you can no longer earn as much as you once did in that field. In contrast, other policies may offer coverage only if you are unable to work in *any* occupation. In other words, if you were to sustain a disability but were able to work in a lower skilled, lower paying job, you may not receive benefits.

Residual Benefits or Partial Disability Coverage. Under specific circumstances, if you become disabled and are only able to earn a *portion* of your previous income, residual or partial disability coverage pays a percentage of your benefits.

Guaranteed Renewable. With this feature, the insurer cannot refuse to renew your policy prior to the policy expiration date or change any terms, except for premium cost, as long as you continue to pay your premiums on time.

Guaranteed Insurability. This provision allows you to increase your coverage amount, even if you experience health changes that would otherwise prevent you from obtaining additional disability coverage.

Cost-of-Living Adjustment (COLA). This feature helps protect your benefits against the effects of inflation during a long-term disability.

It is important to note that the cost of a disability income insurance policy varies according to the scope of coverage you choose, and there may be an additional premium for adding any riders.

The Outlook without Protection

Alternatives to disability income insurance policies are available, but they come with shortcomings. For instance, you could self-insure. But, even if you save 10% of your salary each year, one year of disability could easily deplete many years of savings. Or, perhaps, your employer provides group disability insurance. Unfortunately, **employer-sponsored plans** are often limited in scope and duration, and generally coverage is not portable on termination of employment. **Workers compensation** may be an option if an injury occurs on the job. However, eligibility and benefits vary by state.

To qualify for **Social Security** disability benefits, specific criteria must be met, and you may have to wait several months for payments to begin. Social Security disability was not intended to be an individual's sole source of disability income. Benefits are often less than what is needed to cover living expenses.

An illness or injury that reduces or eliminates your primary source of income can be a financially challenging experience. Therefore, you may want to consider disability income insurance as part of your overall financial strategy. Be sure to consult with a qualified professional. $

Survivorship Life: A Win-Win Proposal

If you are looking for a flexible and creative life insurance product, you may want to consider **survivorship life insurance**. Often referred to as "last-to-die" or "second-to-die" life insurance, this coverage insures two individuals, but provides only one death benefit payable at the death of the second insured. In some instances, especially when the insured individuals are nearing retirement, it may be less expensive than a single life insurance policy on one individual.

Cost savings are possible because the insurance risk is spread over the life expectancy of *two* lives rather than one. In fact, two individuals can be insured even if one is medically "uninsurable," therefore providing added planning potential for otherwise difficult situations.

Benefits for Estate Planning

Survivorship life insurance is often used as a vehicle to fund estate taxes. Even with the appropriate wills, trusts, and property ownership designations, married individuals who properly balance their estates are still subject to estate tax on assets exceeding the **applicable exclusion amount** of $5.34 million per person for 2014. In this type of situation, a survivorship life insurance policy can be an integral part of an estate plan.

For example, consider the hypothetical case of Adam and Julie. Adam and Julie are both 60 years old and have three adult children. They have updated and signed the appropriate legal documents (**wills**, **trusts**, etc.) and repositioned their asset ownership to maximize their individual applicable exclusion amounts. In 2014, a married couple can potentially pass on $10.68 million to their heirs free of estate taxes. However, the remainder of their assets may incur as much as a 40% Federal estate tax in 2014.

One solution to this problem would be to create an **irrevocable trust** to purchase a survivorship life insurance policy on their lives. The trust would own and be the beneficiary of the policy and, thus, would allow the policy proceeds to pass to the trust beneficiaries (their children) free of estate taxes. Adam and Julie could also *gift* the policy premiums to the trust using their **annual gift tax exclusions** of $14,000 (indexed for inflation) per person per donee for 2014. In order to qualify for the annual exclusion, the trust would need to contain **Crummey withdrawal powers**.

Enhance Charitable Gifting

Even if an individual does not foresee any estate tax problems, survivorship life insurance can be a dynamic method to enhance any gifting program. Suppose Adam and Julie's net assets total $600,000, and they have little concern about estate taxes. However, they make an annual gift of $5,000 to a favorite local charity. Rather than gifting $5,000 in cash to the charity every year, they may choose to leverage their gift and pay the premium on a survivorship life insurance policy. This insurance gifting program can be arranged so that the charity would be the owner and beneficiary of the new survivorship life policy. Adam and Julie would then receive an annual charitable deduction for their gift, and the charity would ultimately receive a life insurance death benefit.

Maintaining Business Continuity

In a more advanced use, survivorship life insurance can be effective in helping to ensure continuity in a closely held business. For instance, passing a family-owned business of substantial value to heirs may be hindered by potentially high estate taxes that, in some instances, may require a forced sale of the business in order to raise the necessary cash to pay the taxes. A survivorship life insurance policy can be purchased on the lives of the owner and his or her spouse, with the death benefit providing cash to help meet estate tax obligations and keep the business in the family.

Whether you have concerns about potential estate taxes or wish to leverage the value of a gift to your favorite charity, a survivorship policy can help provide a relatively high benefit for a minimal cost. Be sure to consult your team of professional advisors, including tax and legal professionals, for advice according to your unique circumstances. $

The Spending Plan with Built-In Rewards

When it comes to personal finances, the only way to increase your savings in the long run is to spend less than you earn, or if that is too difficult, increase your income to exceed your expenses—easier said than done. In fact, it may seem that there is never enough to pay the bills and still provide for all that you and your family members want or need.

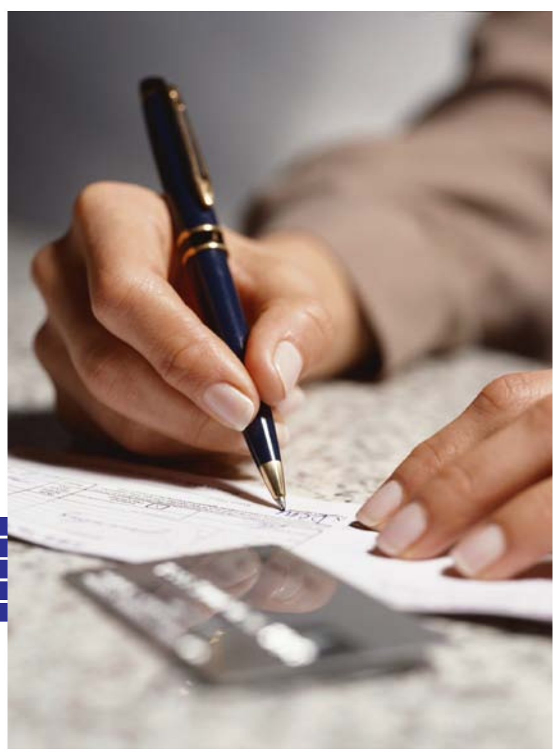
If you find yourself in this situation, there is a way to manage your financial predicament. You can monitor *where* your money actually goes and plan ways to spend it more *wisely*, or in other words, prepare and adhere to a budget.

However, if the mere thought of a budget makes you feel deprived, call it a personal spending plan instead. Rather than focusing on what you should *not* spend, a personal spending plan can help you wisely redirect the money you *do* spend.

The reward comes in paying yourself first by labeling the budget's top line as "savings." Even if you start with zero dollars on this line, with patience and persistence, you may be able to find ways to reallocate your money over time and see your savings grow.

Here are some steps to help you get started:

Track your expenses for one month. Record your daily expenses in a small notebook or enter details on an e-calendar for at least one month. Categorize your expenses as fixed, variable, or discretionary. *Fixed* expenses include those for which the cost remains the same every month, such as your mortgage or rent, car payment, and insurance premiums. *Variable* expenses are those you pay on a regular basis, but with varying amounts, such as food, utilities, child care, travel expenses, and credit card purchases or debt. *Discretionary* expenses are those you could forgo if necessary, such as dining out, frivolous shopping, and entertainment. After tracking your expenses for one month, you can begin to see exactly where your cash is going.



Calculate each expense as a percentage of your income. This exercise helps identify how each expense relates to your total income. For example, if you lease a new sport utility vehicle for $320 per month and your monthly income is $3,200, you are spending 10% of your income on your vehicle. Aim to trim these percentages wherever possible. It may be possible to make large gains in savings by reducing many expenses by small percentages.

Prioritize your expenses. Rank each expense as "important," "moderately important," or "unimportant." Carefully scrutinize each item, starting with the "unimportant" ones. Eliminate those items you can do without. You will probably find the most wiggle room with discretionary expenses. The savings you generate may be enough to begin a modest savings program. Then, look for opportunities to trim expenses that fall into the "moderately important" and "important" categories. For example, you may be able to find a less expensive cable TV/Internet/phone bundling plan if you shop around. Or, perhaps you could manage with a less expensive vehicle when your auto lease is up.

Pay yourself first. After successfully crafting a budget and identifying savings where you can, write yourself a check for the amount you saved and pay yourself first. *How* you manage your money depends on how much you have and your future goals. So if you plan on sending a child to college, you might develop an education funding plan. You could also consider contributing on a regular basis to an **Individual Retirement Account (IRA)** or employer-sponsored **401(k) plan** to provide retirement income.

By treating your savings as a weekly or monthly expense, you may be a lot more likely to set aside money for your future. As you watch your funds accumulate, you may find that putting yourself first has become its own reward. $

Valuing a Closely Held Business

(continued from page 1)

position of the particular business within the industry. The economic climate may impact the ability of all businesses to generate profits. Often, insight can be gained from looking at several competitors' past performance and future growth potential.

3) Book value, defined as assets minus liabilities, is readily obtained from the balance sheet. However, in most cases, balance sheet adjustments according to book value will need to be made for an accurate reflection of economic versus tax depreciation.

4) Profit and loss statements must be scrutinized to determine the company's earnings history. While the Internal Revenue Service (IRS) may require the past five years of profit and loss statements, for example, the agency generally will not respect five-year earnings averages, because it believes that averages do not indicate realistic valuations. It is common for appraisers to "capitalize" earnings as a means of reducing future income to a single number, otherwise referred to as "present value". Capitalizing earnings is a way to determine how much an individual will pay for a business given the level of risk involved. Typically, the greater the risk, the less the buyer will pay, and vice versa.

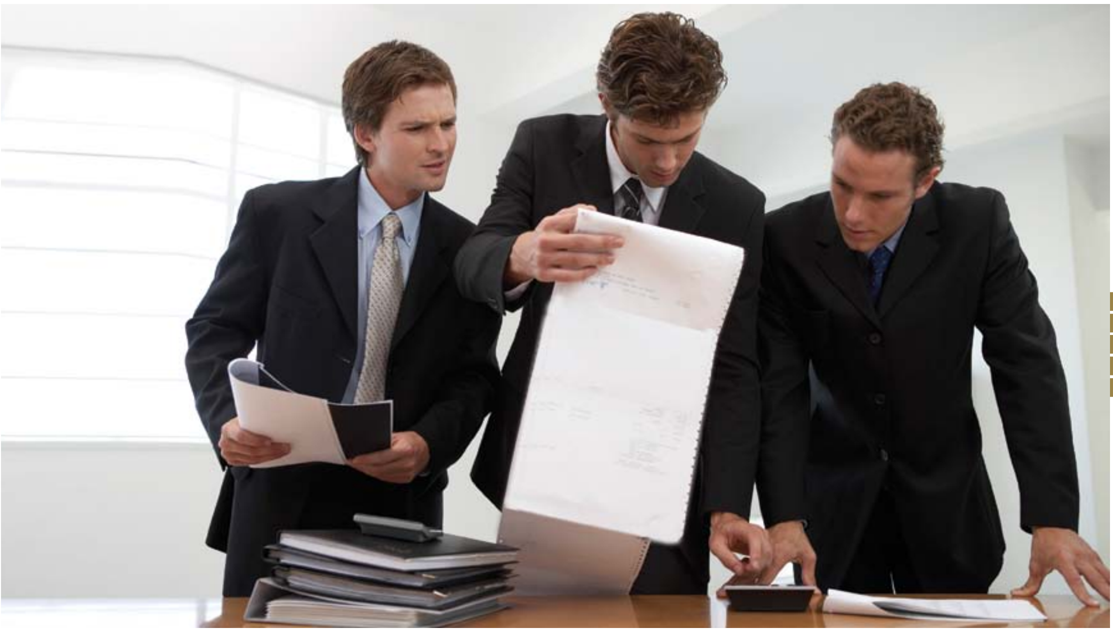
5) Where appropriate, the dividend-paying capacity of the company will be determined from financial statements. However, dividends may not be a reliable criterion of market value for a closely held company since the controlling stockholders may have used discretion in opting to pay deductible salaries and bonuses, rather than nondeductible dividends.

6) The most difficult area for valuation purposes is goodwill, or the ability of a business to earn a return over and above what it could on its fixed assets alone. Consumer satisfaction, trust, and trademarks may be important factors in gross revenues. In addition, intangible goodwill value can be based on location, reputation, or clientele. While it may be difficult to determine a precise valuation, an independent appraiser may be able to discern the overall significance of the company's goodwill.

7) If shares were purchased in the last three years, for example, the price paid for an interest in the business may be a significant factor in valuation for a closely held business. In this case, the IRS may scrutinize when the sale was made, whether the interest sold was a controlling or a minority block, and whether or not the sale was forced by other conditions in the business or circumstances associated with the buyer or seller.

Wherever possible, each area must be reduced to specific numerical values. The IRS cautions against averages, to prevent the appraiser from simply averaging factors, such as book value, goodwill, and capitalized earnings, and then coming up with a figure. Courts generally agree with the IRS in not giving credence to averages and formulas. As a result, valuation has become more complicated.

While determining the valuation of a closely held business may seem overwhelming at first, it may prove useful in estate and financial planning, as well as **business succession planning**. Because the valuation process is intricate and involves many variables, be sure to consult with qualified professionals. $



The Blank Canvas: Staging Your Home for Sale

In life and in home sales, first impressions are everything. Prospective buyers may look at many homes before deciding which one to buy. Often, the first viewing factors into whether a home receives a second consideration. In preparation for the prospective buyers who will look at your home, it's important to put your property's best "face" forward with pre-sale home improvements, or in other words, to "stage" your home for sale.

Exterior Impressions

The very first image that prospective buyers see is your home's exterior, so pay attention to the landscaping. It may be worthwhile to mulch and plant a few new bushes or flowers in your yard to spruce it up. Keep in mind that as a seller, you want to show prospective buyers the possibilities your home offers. You don't have to plant a lavish new garden, but some simple, attractive landscaping can allow potential buyers to imagine what they could put in those spaces, too. Also consider hanging a seasonal wreath on your door and filling planters for your porches. A little goes a long way in beautifying the exterior of your home, so be sure not to go overboard.

You should also determine whether the exterior of your house needs to be repainted in order to sell it. A house that has peeling paint and bare wood spots may present as a home that has been neglected, which in turn could lead buyers to wonder what else hasn't been kept up. Calculate the cost of painting the house. Are you able to paint it yourself? Or do you need to hire a crew to do it? Perhaps you don't need to repaint the whole building, but a fresh coat on the front door could accent your home's attractiveness just enough to create a favorable first impression.

Interior Impressions

For the interior, cleanliness is essential when it comes to showing your home to prospective buyers. While buyers may realize that some properties are "fixer-uppers" that will require some elbow grease, a cluttered, unkempt house tends to discourage buyers from even considering the property. After seeing any number of prospective homes, buyers are more likely to eliminate disorderly or unclean homes up for sale.

In addition to general housekeeping, a new coat of paint in each room can help freshen up your home. While you may prefer walls in espresso brown or deep indigo, your tastes may not be shared by the prospective buyers. In staging your home, you want to offer a blank canvas to help buyers imagine their possibilities. This means painting the interior in neutral colors. It also means de-accessorizing your home, especially if your personal taste runs toward the eclectic. Keep your accessories simple, spare, and tasteful so buyers can envision a living space that matches their own pictures, lamps, and furniture. The most common mistake prospective sellers make is to showcase their personal decorating tastes and styles to impress potential buyers. Instead, when staging your home for sale, think Thoreau, and "Simplify, simplify," by offering the prospective buyer a blank canvas to paint on. $