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An economic and investment update

THE FINANCIAL INSIDER

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Employee Life Insurance May Hold the "Key"

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.

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

XYZ Plastics' owners realize the importance of Alfred to the success of the company

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Strategies to Sell Your Home

When you sell a home on your own, there is more required than just putting up a curbside sign and waiting for buyers to come to your door with money in hand. However, doing a little "homework" and gathering all the facts can help you understand what is involved when you decide to sell your home.

Sellers, who are emotionally attached to their homes, often price them too high. To determine a more realistic price, compare your home with similar homes in your neighborhood or town. If houses are not selling quickly or if the price of your home is higher than those around you, you may have to set the price lower than you originally intended. You may choose to hire an **appraiser** to help you determine an appropriate selling price.

All too often, owners skimp on advertising. In addition to the "For Sale" sign in your front yard, post others where legally allowed. Compile a brochure or fact sheet listing the asking price, lot size, individual rooms and dimensions, heating and cooling systems (with monthly utility bills for the last year), appliances or other fixtures included, present financing, taxes, and any unusual or particularly attractive features. Don't forget to include a telephone number and show your property by appointment only. The Internet can also be a useful tool when selling your home. People who may be relocating to your area can view photos and a fact sheet, which could spark their interest.

It may be wise to screen potential buyers. If they seem interested, inquire about their potential down payment. If you are getting close to a deal, consider asking the buyer to supply a financial statement from a bank or

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Life Insurance Solutions for Unmarried Couples

Unmarried couples face some unique financial and estate planning issues. While married couples typically use **life insurance** to provide funds to help replace income upon the death of a spouse, unmarried couples may have an even greater need for replacement income, since the surviving partner is ineligible for spousal benefits from Social Security and may also be ineligible for many **defined benefit pension plans**. In addition, both partners' estates may have a greater need for cash to help pay estate taxes, since unmarried couples are not entitled to the **unlimited marital deduction** for property bequeathed to one another.

With proper planning, life insurance may provide you with the cash you need to help meet your financial responsibilities as an unmarried couple. It may also offer a way to provide for your partner beyond a **will**, which carries the potential to be contested by family members.

Income Replacement

There are two ways to structure life insurance to help provide replacement income. You can either ***cross-own*** policies or own ***individual*** policies with the other partner named as the **beneficiary**.

Cross-owning policies. Let's suppose that you each own a policy on your partner's life. When one partner dies, the surviving partner uses the death benefit proceeds to help provide income. Since the policy is owned by the surviving partner, not the deceased, it is not included in the deceased's estate and therefore, is not subject to Federal estate taxes.

To cross-own policies, you may need to demonstrate an **insurable interest**. Spouses are automatically assumed to have an insurable interest on one another. As an unmarried couple, be prepared to prove insurable interest with evidence of jointly owned assets, and possibly, copies of wills or **trust** documents.

Individual policies with the partner as beneficiary. In this scenario, you each own a policy on your own life, naming your partner as beneficiary. The surviving partner uses the death benefit proceeds to help provide income. However, since you each own your own policy, the proceeds are included in the deceased partner's estate and may be subject to estate taxes.

Cash to Pay Estate Taxes

Married couples qualify for a special tax break the unlimited marital deduction that allows them to transfer unlimited assets to each other during their lifetime, or at death, free of gift and estate taxes. Since unmarried couples are not eligible for this deduction, the value of any property you leave each other above the **applicable exclusion amount** may be subject to Federal estate taxes. Some states may also levy estate taxes. Life insurance provides cash that can be used to help pay estate taxes. You can either cross-own policies or create an **irrevocable trust**.

Cross-Owning Policies. With cross-owned policies, you each purchase insurance in the amount of the estimated taxes. As mentioned above, one advantage of this approach is that you each own the policy on your partner's life. Consequently, the proceeds are not included in your partner's estate.

Irrevocable Trusts. With irrevocable trusts, a **trustee** buys and owns the life insurance policy, and each insured furnishes the trust with the funds to pay the premiums. However, irrevocable trusts must be structured properly to avoid adverse tax consequences. They are costly to set up, and as the name implies, they cannot be revoked if circumstances should change in the future.

Life insurance has long provided a valuable solution for many married couples who may need cash to help replace income and pay estate taxes at the death of a spouse. As an unmarried couple without the legal protections of marriage, your need for cash at the death of a partner may be even greater. As with all insurance and estate planning concerns, be sure to consult qualified professionals to discuss your unique circumstances and to help ensure that all arrangements are structured properly. $

Survivorship Life Insurance: Preserving Your Business Legacy

Are you hoping the business you've worked so hard to build will live on for the benefit of your family once you're gone? So was Mark (a hypothetical case), the founder of a thriving $3 million car dealership. His dream was to pass the company on to his son, Jimmy. But Mark, a widower, had never found the time to plan his estate. After Mark's death, his estate faced a significant estate tax liability.

To keep the business in the family, nearly every asset in Mark's estate, with the exception of the business, was liquidated to raise the cash needed to help pay estate taxes. After almost losing the family business to estate taxes, Mark's son, Jimmy, vowed not to put his family through a similar ordeal. Jimmy has found a unique and economical strategy to help ensure that his estate has sufficient cash to handle his future estate tax liability. It's called **survivorship life insurance**.

Also called "**last-to-die**" or "**second-to-die**," survivorship life insurance covers the lives of *two* individuals, but pays only one **death benefit** upon the death of the second insured. It often costs less than a single policy on either insured because the insurance risk is spread over two lives, rather than one. An individual may even qualify for survivorship life insurance if he or she is otherwise considered medically uninsurable. For these reasons, survivorship life insurance may offer individuals like Jimmy, and his wife Sue, a viable means to help cover their estate tax liability.

First Things First

As part of their estate conservation strategies, Jimmy and Sue may want to first minimize the size of their combined taxable estate. Suppose their estate is currently valued at $12,000,000. With the appropriate **trusts** and proper **asset ownership**, Jimmy and Sue can each transfer $5,490,000 (in 2017) to their heirs free of estate taxes. If this initial step is taken, their combined taxable estate is reduced to $1,020,000 ($12,000,000 – $10,980,000). However, under current law, with a top estate tax rate of 40%, their heirs may still face a significant estate tax bill. In addition, this liability may increase over time, as the business and their other assets appreciate.

Enter Survivorship Life

Here's where survivorship life insurance enters the picture. The next step for Jimmy and Sue is to create an **irrevocable life insurance trust (ILIT)** that purchases a survivorship life insurance policy in an amount equal to the anticipated estate tax liability. The ILIT is the owner and beneficiary of the policy, and the trust is written for the benefit of Jimmy and Sue's heirs. Because the trust is "irrevocable," it remains outside of their estate. Therefore, the policy's proceeds are not subject to estate taxation. Policy premiums are paid through tax-free gifts that Jimmy and Sue make to the trust using the **annual gift tax exclusion** ($14,000 per year, per donee or $28,000 for gifts made by both husband and wife in 2017). When the surviving spouse dies, the death benefit proceeds are available to Jimmy and Sue's heirs to help pay estate taxes.

Mission Accomplished!

By using survivorship life insurance, in conjunction with the appropriate legal documents, Jimmy and Sue are able to fund their potential estate tax liability. By addressing the issue of estate taxation *now,* Jimmy and Sue have taken an important step toward preserving the *future* of their family business. $

Gearing Up for the Golden Years

Will you have enough money for your retirement? This is a major concern facing many Americans, as retirement looms closer on their financial horizon. If you're facing a retirement shortfall, you're not alone. Many American households may retire on less annual income than they may need to live comfortably during their "golden years."

Guidelines for retirement planning recommend that you may need at least 60% to 80% of your pre-retirement income to maintain your current lifestyle. The following steps may help you get a clearer view of your retirement finances, and may help you identify any needed adjustments to your savings strategy:

1) **Project a retirement budget**, taking your current standard of living into consideration. How will you meet future medical expenses, housing costs, travel, and entertainment? Answering this question can give you a target for your budget.

2) **Review your financial assets** to see if they will meet your retirement needs. Be sure to consult your qualified financial planning professional annually to determine if your assets are on track for the retirement lifestyle you envision.

   Remember to include *all* your resources on your balance sheet. Some of these untapped sources may be:

   Home Equity. If you sell your home, the Internal Revenue Service (IRS) allows you to keep up to a certain dollar amount of capital gains tax free, which you can then use to boost your retirement savings, provided you have owned and occupied the residence as a principal resident for an aggregate of at least two of the last five years before the sale.

   Highly-Appreciated Non-Income-Producing Assets. With careful financial planning, you may be able to convert non-income-producing assets, such as stocks or real estate, into income-producing assets.

   Valuable Collectibles. Specialty items, such as estate jewelry, antiques, and stamp, coin, or doll collections, may be converted into cash, but only if you're willing to relinquish them at some point. Evaluate what these valuables may be worth to you in your retirement years and seek the services of a professional appraiser, if needed, for an accurate appraisal of items.

3) **Consider moving to a more affordable locale** that could potentially free up additional retirement capital by lowering your cost of living.

4) **Consider delaying your retirement.** Each additional year you wait to retire will help reduce your budget shortfall. In addition, working longer will give you an added opportunity to increase your savings.

The way to handle a potential retirement shortfall is to plan carefully and begin acting *now*. Once you have determined your strategy with a financial planning professional, implement it. If you start now, your golden years may turn out just as you have planned. $

Is Your Student Budget-Wise?

Your child may soon be ready to take his or her first step on the journey toward independence: college enrollment. Cautionary words about life away from home have all been spoken. However, one area that many parents may overlook or hesitate to bring up with students amid the excitement and chaos of preparing for college is personal money management.

Typically, students do most of their day-to-day spending on a spontaneous basis, where overspending is the norm, rather than the exception. During a school year, the average college or university student will spend nearly $5,000 for books, supplies, transportation, and personal expenses while at school (*Trends in College Pricing 2016*, The College Board). However, there is often room for economizing, and the first place to look is food and entertainment, especially when ordering pizza with a smartphone is just a "touch" away.

Sooner or later, the conversation about living arrangements takes place. While many students believe it costs less to live off campus than in a dorm, they may be misinformed. In college towns with a high demand for off-campus housing, accommodations within walking distance of the campus can be expensive. Some landlords may require a one-year lease—a period longer than the school year.

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Is Your Student Budget-Wise?

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If a student does choose to live off campus, he or she can save money by sharing housing and eating in.

There are steps you can take to help your student understand the financial picture. Consider the following:

- Before your child leaves for college, sit down and discuss both of your expectations.
- Explain when checks or money transfers can be expected, the amount that will be received, and any rules concerning use of the funds.
- Consider providing a lump sum each semester, with guidelines on *how long* the money must last, and allow your child the freedom to make day-to-day financial decisions.

Whether students rely on parental subsidy, use their own money, or combine funds, most have savings and checking accounts. Therefore, it is important for them to know how these accounts work. Their ability to balance an account and spot any errors is important.

Many undergraduates tend to keep their checking accounts in hometown financial institutions. However, managing finances long-distance can create challenges. Verifying a balance quickly with an out-of-state bank can be difficult and time-consuming. In addition, trying to get money to college students in different locations can be frustrating. Even with the convenience of online banking, it may be a good idea for your child to open a smaller account on or near campus.

While some parents may hesitate to promote the use of credit cards, especially for a student who has difficulty managing money, others may believe a credit card can help provide a useful backup, especially in an emergency. A credit card can be helpful for car rentals, plane fares, and train tickets.

Ideally, college students will be able to take full responsibility for each semester's spending. Life becomes easier for parents whose college-age children can manage their own finances, and students can learn valuable life skills in the process. $

Living Value: The Other Side of Life Insurance

Many of us think of **life insurance** as a means of providing funds to cover financial obligations, such as a mortgage, or to replace income in the event of the death of a family breadwinner. In general, the **death benefit** under a life insurance policy is often the most-well-understood feature.

However, not all policies are the same. A **permanent life insurance** policy contains a cash value feature that allows cash to accumulate, which may be used to help supplement important financial goals, such as funding a child's college education. So, permanent life insurance has a "living value" in addition to the traditional death benefit feature. Let's take a closer look.

Cash Value

The cash value in this type of life insurance policy accumulates on a tax-deferred basis in the same way that money does in an Individual Retirement Account (IRA). Because of this tax-deferred accumulation, there may be some income taxes due upon withdrawal. But, you are usually only taxed on amounts that exceed the *total* amount of premium payments you have made over the course of the policy.

One of the key benefits of permanent life insurance is that you can access the accumulated cash values through policy loans. Typically, the loan interest rate is stated in the policy and is comparable to traditional lending rates. Keep in mind that borrowing or partial surrenders can reduce the policy's cash value and death benefit, increase the chance that the policy will lapse, and may result in a tax liability if the policy terminates before the death of the insured.

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Living Value: The Other Side of Life Insurance

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Another key feature of a permanent life insurance policy is that, unlike a traditional IRA or another qualified plan, you may make premium payments after age 70½, and there are no rules that stipulate required withdrawals of cash values by age 70½. This feature may provide an opportunity to continue making premium payments while receiving the benefits of tax-deferred accumulation.

With a life insurance policy, there are few rules that limit the amount of premium payments. Therefore, the higher the death benefit, the higher the premium will be. Some forms of permanent life insurance allow you to make premium payments in addition to what is specified under the terms of the policy. This may increase the cash value, but could lead to adverse tax consequences. Normally, policies are written to help avoid this possibility.

Dual Purpose Protection

Life insurance can serve many purposes. Through its death benefit, life insurance helps to protect and secure your family's future in the event of your death. At the same time, life insurance with a cash value may provide you with the opportunity to use the benefits of your policy during your lifetime.

Be sure to review your options with the help of a qualified insurance professional to see how permanent life insurance can help meet your overall financial objectives. $

Strategies to Sell Your Home

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mortgage lender. A serious buyer will be happy to provide the requested information. You may even ask buyers if they have obtained a "pre-approval" or "pre-qualification" letter from a bank or mortgage company, to ensure that the funds they are offering for your house would be available for them to borrow.

If you need assistance, a "hybrid" real estate company may prove a lower-priced alternative to traditional full commission brokers. These companies generally charge a flat fee—based on the asking price of the house—to screen prospective buyers, arrange appointments, suggest a price, and negotiate with buyers. However, showing the house would be the owner's job.

If you decide to sell your home on your own, remember the following tips:

1) **Price It Fairly.** Compare your house to others in your neighborhood that have recently been sold, and factor in any improvements or unusual assets.

2) **Advertise.** Use more than just a "For Sale" sign on your lawn. Circulate brochures, run ads in the local newspapers, and post notices on bulletin boards and real estate websites.

3) **Screen Buyers.** Before accepting an offer, ask the buyer to provide a financial statement or obtain mortgage pre-approval or pre-qualification.

When should you decide to discontinue selling the home on your own? Assuming a house is properly priced and in a reasonably active market, a homeowner attempting to sell without professional assistance should allow for a predetermined time period without a written offer. If you find you want or need to move more quickly, consider using a hybrid real estate company or a professional broker.

Selling a home on your own can be a great deal of work, but you may save thousands of dollars that would otherwise be "lost" to real estate commissions. On the other hand, while the prospect of improving your financial position may be tantalizing, the task may be too time-consuming or otherwise beyond your expertise. Professional real estate assistance, whether from a service or a broker/agent, may "save" you more than you realize as you prepare to sell your home. The decision of whether you should sell your house by yourself or with professional assistance is complicated. However, doing a little research and arming yourself with some information can help you decide the best strategy for you and your situation. $

Credit Card Errors: "Writing a Wrong"

If you were to discover a billing error on your credit card statement, the first thing you would probably do is call to notify the creditor. But, to avoid having to pay the maximum $50 liability (in the case of a stolen or lost card), you must *write* to the issuer restating what you said over the phone to the creditor.

Even if this concerns only a straightforward billing error, be sure to follow the same procedure. To be covered under the Fair Credit Billing Act, you must report the error in writing within 60 days of the postmark on your statement.

Steps to Take

1. Phone the creditor immediately.
2. Write to the creditor and send the letter by certified mail to the address listed on your statement for billing inquiries (which may differ from where you send your payment) with a return receipt requested.
3. In the letter, include your name, account number, the amount and date of the error, and the reason why you believe it is an error.
4. Include copies of sales slips or other documents that support your position.
5. Request evidence of the credit card charge (often just a photocopy of the charge slip).
6. Keep copies of all documentation for yourself.

The law requires the creditor to investigate your error claim and inform you in writing that they are doing so, within 30 days. The creditor must resolve the matter within two billing cycles or a maximum of 90 days of receiving your notification of the error. While the investigation is in progress, you do not have to pay the amount in question or any interest on it. The disputed amount cannot be reported to a credit agency as delinquent. However, be sure to continue paying any remaining charges.

In Case of a Dispute

If the merchant who has billed the amount in question argues that it is a valid charge, you can continue to dispute the charge by requesting documents to support the merchant's claim of validity and making your case to the issuer again. If the creditor rules that the merchant's assertion is valid, they must provide a reason. The charge will then be put back on the statement, at which time you will have 10 days (or your normal grace period) to either pay or protest the charge in a written statement.

At this point, if you have not paid the disputed amount, the charge can be reported to credit agencies as delinquent. However, you can request that a notation be added to your credit reports that there is an ongoing dispute. You have the right to request information about who has received notification of the delinquency. When the dispute is finally resolved, all who have been previously notified of the delinquency must be notified of the resolution.

The Federal Trade Commission (FTC) works for the consumer to prevent fraudulent, deceptive, and unfair business practices in the marketplace and to provide information to help consumers spot, stop, and avoid them. To file a complaint or to learn more about consumer issues, visit www.ftc.gov or call toll-free at 1-877-FTC-HELP. $

Employee Life Insurance May Hold the “Key”

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

- Proceeds from the policy can provide XYZ 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 Alfred, 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 XYZ 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, XYZ 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 XYZ Plastics against the premature death of Alfred, 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, XYZ Plastics would enter into a contract with Alfred to pay certain benefits upon his retirement. XYZ Plastics may also require Alfred 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 XYZ Plastics in the event of Alfred's death and would also serve as a source of retirement income for Alfred upon his retirement. XYZ Plastics would take out a life insurance policy on Alfred; he would not be a party to this insurance contract. Then, at the same time, XYZ Plastics and Alfred would both enter into the deferred compensation plan.

Therefore, XYZ Plastics would have indemnity protection until Alfred'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 XYZ Plastics took in the example and purchase life insurance as protection and incentive for your key employees. $

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