**Peace of Mind . . .**
**Intelligent Planning.**

3361 Rouse Rd., Ste. 135
Orlando, FL 32817
888-679-9779
www.afadvisors.com

Registered Representative of and securities offered through Foothill Securities, Inc., member FINRA/SIPC. Advisory services offered through American Financial Advisors, Inc., a registered investment advisor. American Financial Advisors, Inc. and Foothill Securities, Inc. are not affiliated companies

An economic and investment update

# THE FINANCIAL INSIDER

**Volume XXX, Number VI**

'The opinions expressed herein are those of the author and are not necessarily the same as those of Foothill Securities, Inc. Foothill Securities, Inc. did not assist in the preparations of the enclosed report and makes no guarantee as to its accuracy or the reliability of the sources used for its preparation.'

## Choosing Your Place of Domicile

Increased mobility in today's society has changed the ways in which we live, work, and play. Compared to previous generations, it is now quite common for work and recreational activities to cross state lines, resulting in ownership of property and formal relationships in more than one state.

To this point, consider the terms **domicile, statutory residence**, and **residence**. At first, these terms may seem similar. However, understanding their distinctions can be important. Your ***domicile*** is the state where you maintain your permanent residence. It is the state to which you ultimately intend to return for prolonged periods. A person can have only one legal domicile at a time. A ***statutory residence*** is the place where you live and work, and therefore are subject to state income tax. If you are a statutory resident of one state, while claiming domicile in another, your state of domicile may also require you to file a tax return. Your *residence* is any place where you

***(Continued on page 3)***

## Review Your Retirement Strategies

As you approach retirement, many important decisions await you. If you have a qualified employer-sponsored retirement plan, whether it is a traditional pension or a defined contribution plan, such as a 401(k), you will have to decide how to manage the proceeds from the plan once you retire. Your choice may depend on the following considerations: your current financial situation and your projected income requirements; the health and life expectancy of you and your spouse; the anticipated inflation rate; and Federal and state taxes.

### Pension Payout Options

If you have a company pension plan, you will need to make some decisions about *how* you wish to receive your pension proceeds when you retire. Generally, you'll be given the choice between receiving an income for the rest of your life **(single life option)**, receiving an income for the life of you and your spouse **(joint and survivorship option)**, or receiving a **lump-sum** distribution.

Each option has potential advantages and disadvantages. For instance, a single life option may pay a higher income than a joint and survivorship option. However, if you take the single payout option, income will cease upon your death, whereas if you take the joint and survivorship option, payments continue for the life of both you *and* your spouse. With both payout options, you exchange your pension balance for periodic payments.

***(Continued on page 6)***

# The Advantages of Life Insurance for Key Employees

If you employ a key person who 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. Consider the following hypothetical case.

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

ZZ Plastics' owners realize the importance of Peter to the success of the company and have purchased a key employee life insurance policy. Such a policy can be of great benefit in the event of the loss of such a valuable employee.

## How Does the Employer Benefit?

A company such as ZZ Plastics may benefit from life insurance held by the company on key employees in the following ways:

- Proceeds from the policy can provide ZZ Plastics with funds to compensate for the loss that could result in the event of such a valuable employee's death. The company could then use the money to recruit a new employee with credentials/capabilities similar to those of Peter, 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 key employee.
- Permanent life insurance on a key employee could provide ZZ 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, ZZ 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 Employee Benefit?

While life insurance on a key employee can help protect ZZ Plastics against the premature death of Peter, 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, ZZ Plastics would enter into a contract with Peter to pay certain benefits upon his retirement. ZZ Plastics may also require Peter to promise not to compete (a **noncompete agreement**) with the company after his retirement. The contract is a separate plan and isn't 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 ZZ Plastics in the event of Peter's death and would also serve as a source of retirement income for Peter upon his retirement. ZZ Plastics would take out a life insurance policy on Peter; he would not be a party to this insurance contract. Then, at the same time, ZZ Plastics and Peter would both enter into the deferred compensation plan.

*(Continued on page 3)*

## Choosing Your Place of Domicile

*(continued from page 1)*

live. You may have more than one residence; in fact, many people do. The term "residence" itself has little or no legal significance.

### Consider the Consequences

Your choice of domicile can affect your overall financial plan. First, consider property ownership issues. Not all states define property ownership in the same way. Some allow married couples to own property and income separately. In others—called community property states—married couples share ownership of all assets acquired *during* the marriage, though each spouse may own previously acquired property separately.

In addition, your choice of domicile can affect your state income tax. Your income may be taxed in your state of domicile, the state where you earned it, or both. If you change your domicile during the tax year and both your present and former domiciles tax income, you may have to file partial-year tax returns in both states.

Your domicile also determines the jurisdiction where your will is **probated**. If your domicile is unclear at your death, several states may be able to claim you as a domiciliary and tax your estate accordingly. Keep in mind that estate tax laws vary by state, and state laws may differ from Federal laws. In some states, your spouse may be taxed on a portion of his or her inheritance that, in another state, would pass to him or her free of state estate tax. Some states exempt smaller estates and certain property from the probate process. Other considerations may also apply.

### Establishing or Changing Your Domicile

Fortunately, there are steps that can be taken to establish your state of domicile. Your domicile is generally not determined by the length of time you spend in a state. You may establish a domicile the first moment you occupy a property, or you may spend years in a place and never call it your domicile. If you marry a person domiciled in another state, you may be able to claim your spouse's domicile as your own, even if you never visited that state.

If you have moved, your "true" domicile may hinge on the *number* and *significance* of the contacts you have in your former and present state. Consider the following significant factors:

- **Retention of "historical" home.** If you have moved, have you sold your long-time residence in a former state?
- **Business relationships.** In which state are your significant business contacts located?
- **Location of property.** Where is most of your significant real and tangible personal property located?
- **Social connections.** Where do you maintain political, civic, religious, and family connections?
- **Time spent.** Where do you spend the majority of your time?

While you may feel your *intent* is clear, it is most likely that your *actions* will be viewed as the evidence of your intentions. Consequently, simple acts such as changing your voter registration to the new locale, changing your automobile registrations and driver's license, formally resigning from organizations in your former state, and formally joining organizations in a new state may be viewed as evidence of your intent to change your domicile.

Your choice of domicile can affect your overall financial plan. For specific guidance applicable to your unique circumstances, be sure to consult your tax and/or legal professionals. $

## The Advantages of Life Insurance for Key Employees

*(continued from page 2)*

Therefore, ZZ Plastics would have indemnity protection until Peter'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 doesn't have to cover any specific number or class of employees. It may be particularly appropriate for companies that don't wish to establish qualified deferred compensation plans.

If you have employees that are vital to the successful operation of your company, consider taking the steps that ZZ Plastics took and purchasing life insurance as protection and incentive for key employees. $

# Family Foundations: Benefits beyond Charitable Giving

Many affluent individuals view the **family foundation** as a means for meeting specific philanthropic goals. For some, it also creates visible evidence of a donor's charitable intent. In addition, a family foundation may serve two unique purposes within the confines of familial walls. A foundation can assist a donor in maintaining the integrity of his or her charitable intent for many years into the future, as well as help to inspire the character, sense of community, and love of knowledge of future generations.

## Establishing a Philanthropic Legacy

A family foundation allows a wealthy donor to establish a set of ground rules for future charitable work, as well as provide heirs with incentives to carry forward the donor's (and family's) philanthropic legacy. However, this can only be achieved by carefully evaluating existing and potential family relationships and implementing proper planning.

Generation after generation, the grant-making agenda of *new* board members may begin to differ from that of the *original* donor. In addition, it is equally possible that the philanthropic vigor displayed by the original donor may be lost in future years. Hence, some donors choose to include at least one "outsider" seated on the foundation's board to provide stability and objectivity. However, the involvement of outside professionals can slowly move a family foundation toward the direction of a *public* foundation—something that the original donor may wish to avoid.

To alleviate these potential future problems, a donor can tie an incentive-based estate plan together with the family foundation. In doing so, the donor can create a family environment and attitude that is more consistent with the donor's goal of preserving the integrity of the foundation. Under such an arrangement, heirs are rewarded for overall participation and employment by the foundation, as well as the execution of the foundation's original mission.

## Family Involvement: More Than an Incentive

Wealth certainly provides many heirs with an additional means to help meet specific goals. However, one of the greatest challenges that some heirs will face in their lifetimes is learning how to handle inherited wealth. For some parents or grandparents, teaching a child to be willing to learn complex financial subjects and management skills is an equally imposing challenge. In addition to providing a means for gaining insight into the importance of charitable giving, a family foundation can create an ideal platform for heirs to hone their financial management skills.

Heirs can be involved in a family foundation as volunteers, employees, and/or board members. As a volunteer or employee, an heir can gain valuable business management skills, as well as witness firsthand the positive impact charitable giving can have on the community. Heirs who are selected to become board members may further delve into the decision-making and grant-making process, which can foster greater accountability and further expand knowledge of financial matters.

If the donor already has several grown children who are regularly involved in the family foundation, he or she may consider making all of them board members. If this is logistically impractical, it may be wise to establish a rotating seat on the board. For instance, every two years, a different child could occupy a seat on the board.

Additionally, one might suspect that the age of a younger heir might limit his or her overall participation in the foundation. On the contrary, many donors welcome the opportunity to start heirs early when it comes to financial and philanthropic education. How young is too young? That depends on each individual set of circumstances. Generally, twelve- and thirteen-year-olds are certainly not too young to volunteer some of their time and begin to gain an understanding of charity.

In fact, it is fairly common for many donors to encourage their entire families to participate, to some degree, in their foundation's activities. To enhance the learning experience, some

*(Continued on page 5)*

# Your College Grad: The Boomerang Effect

In recent years, many baby boomers have witnessed a growing trend: Their college-aged children are moving back home after they complete their education. In part, the return of these so-called "boomerang" children to the nest may be due to the high cost of living and a competitive job market. Yet, parents who may have already spent a considerable amount of money sending their children to good colleges, and helping with other expenses, are justifiably concerned about this turn of events.

## The Pull behind the Trend

While no one knows how long this trend will last, it seems reasonable to assume that it may continue as long as the prices of starter homes and condominiums are out of line with the spending and saving habits of today's young adults. After college, many young adults find themselves struggling to stand on their own feet financially. While this may be due to the job market and high cost of housing in some parts of the country, in other cases, it may be because these grown children have become accustomed to spending rather than saving and lack the necessary financial self-sufficiency to live on their own.

## The Push toward Financial Self-Sufficiency

Parents who wish to see their children leave the nest and make it on their own may consider establishing new ground rules. As rule number one, adult children may be asked to contribute cash or services in lieu of rent to the household. At the same time, they may also be expected to save a significant portion of their earnings for a down payment on a home, to furnish a first apartment, or to establish a business.

Parents can help their children achieve financial self-sufficiency by helping them set financial goals and then working with them to monitor their progress in meeting those goals. An incentive plan can help further this effort: Perhaps for every dollar an adult child saves, his or her parents may wish to contribute a certain percentage.

For parents who are too emotionally involved to teach their adult children good financial habits, a trusted professional advisor can perform a valuable function as a neutral, outside party in counseling young adults on how to loosen the "ties that bind" and pursue financial independence. $

# Family Foundations: Benefits beyond Charitable Giving

*(continued from page 4)*

donors have initiated creative methods for promoting life skills development, in addition to more traditional foundation activities. For instance, a donor could set up a contest in which each heir is responsible for managing $10,000 of the foundation's assets. After a specified period of time, all portfolios can be analyzed and discussed. Or, when younger, school-aged heirs are involved, a donor could establish an essay contest asking each heir to write about a charity they would wish to benefit. Again, all essays, when complete, can be reviewed and discussed. In both cases, modest prizes can be awarded to heirs whose portfolios yielded positive returns or whose essays were well written and topical. The benefits of such programs can be immeasurable for the participant, the donor, and ultimately, the foundation.

## A Lifetime of Dividends

Without question, philanthropy is extremely important to many affluent individuals. At the same time, many wonder how they can instill in their children and/or other heirs a similar passion for philanthropic pursuits. In addition, many affluent individuals may be concerned about how they can teach future generations to handle wealth. When properly established, the family foundation can provide the means to accomplish these goals. $

## Review Your Retirement Strategies

*(continued from page 1)*

If you prefer to maintain control over your pension assets during retirement, you might consider taking a lump-sum distribution. You can choose to receive the pension proceeds net of income taxes or roll them over into a **traditional Individual Retirement Account (IRA)**, where they will continue to grow through tax deferral. (Required minimum distributions (RMDs) must commence at age 70½.) Either choice with the lump-sum distribution allows you to actively manage your own retirement assets.

### Defined Contribution Plan Proceeds

If you're a participant in an employer-sponsored defined contribution plan (such as a 401(k)), you must begin taking RMDs by age 70½. Depending on the rules of your company plan, you may also have the option of taking a lump-sum withdrawal net of income taxes or rolling over the proceeds into an IRA. Either of these options requires you to actively manage your retirement assets, and there may be tax consequences. Therefore, it is important to consult with your qualified financial and tax professionals to ensure that your savings decisions are consistent with your objectives.

### Shortfall Planning

As you approach retirement, regularly reevaluate your financial strategies to help ensure that you will meet your retirement funding goals. For many individuals, retirement plan assets and Social Security alone will not meet retirement income needs. Therefore, personal savings are important to long-term success. Before you begin your personal retirement savings program, be sure you are maximizing contributions to your tax-advantaged, employer-sponsored plan.

As you can see, there are a number of choices available and decisions to be made regarding the distribution of proceeds from your employer-sponsored retirement plan. If you are not sure which strategies are best for meeting your particular goals, seek the advice of your professional advisors. It's never too early to start! $

# Making the Most of Annual Gifts

If you're like most individuals, you've probably worked a lifetime to build your own American dream—an adequate nest egg, a comfortable home, and an array of other assets. Then, at one point or another, you may realize that your finances could create unfavorable estate tax consequences. So, you take care of the compulsory legal documents—wills, trusts, etc.—and learn along the way that giving away assets may help reduce the size of your taxable estate. Even though many individuals make occasional gifts to their children or other family members, few actually take advantage of the benefits offered through a *regular gifting program*.

### Gifting Made Simple

Current tax laws allow you to give away $13,000 ($26,000 if married) in 2010 to as many people as you wish *without* incurring any gift taxes. This $13,000 **annual gift tax exclusion** can be an effective means for gradually passing wealth to future generations. In fact, systematically making such a gift can create a rather sizable long-term result.

Consider this hypothetical example: Suppose 60-year-old Joseph starts a gifting program for his newborn grandson, Alex. Each year, Joseph makes a gift of $13,000. After 25 years, Alex will have accumulated $325,000, assuming 0% growth. In addition, suppose Joseph's wife Helen, also age 60, also chooses to make a $13,000 gift to Alex, bringing the total annual gift to $26,000. In this case, Alex will have accumulated $650,000 in 25 years (assuming 0% growth). With this win-win scenario, Joseph and Helen help Alex accrue a nest egg, while, at the same time, lowering the value of their estate. This strategy will help Joseph and Helen minimize their estate tax liabilities.

*(Continued on page 7)*

# E-Learning: An Option for the Busy Professional

Many people struggle to balance their personal and professional lives, as they juggle parenting and domestic responsibilities with a full-time, high-pressure career and even caring for aging parents. Finding the extra time to enhance your education or pursue a higher degree, until recently, may have seemed virtually impossible.

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, CD-ROMs, and online discussion groups are utilized to deliver, facilitate, and enhance learning. Some online courses are "synchronous," meaning all students are 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, finishing the course as quickly or as slowly as they like.

Rather than the traditional classroom experience, e-learning offers the busy professional a far more flexible way to achieve educational goals and remain competitive in the workplace. Ideal candidates for e-learning include those who are self-directed and self-motivated with the ability to multi-task. In addition, 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. Those who are unsure about their ability to use such technology can seek online schools with readily accessible help desks and other technological guidance.

According to a report by the U.S. Department of Labor's Bureau of Labor Statistics (BLS, 2009), based on data from the Current Population Survey, advance degrees contribute to higher earnings and lower unemployment rates. The average weekly earnings in 2008 for workers with a college degree ($1,012) were found to be significantly higher than for those with only a high school diploma ($618). And those with a master's ($1,233) or doctoral ($1,561) degree earned even more. Similarly, the unemployment rate for high school graduates was over double the rate for college graduates, at 5.7% and 2.8%, respectively.

A revolution has occurred in the workplace that requires Americans to have more education and greater skills. As technology continues to advance, professionals need as much education and training as possible in order to remain competitive in the job market. The number of institutions offering courses and degrees taught via e-learning technologies is constantly growing. E-learning can offer you a way to pursue your educational goals, while still balancing your personal and professional responsibilities. $

## Making the Most of Annual Gifts

*(continued from page 6)*

### One Step Beyond

Using the annual gift tax exclusion to fund a **life insurance** policy creates the potential to turn gifts into a substantial death benefit. For instance, take another look at Joseph. Suppose Joseph (the donor) sets up an **irrevocable life insurance trust (ILIT)** for the benefit of Alex. The ILIT then purchases life insurance on Joseph. Upon Joseph's death, the life insurance death benefit proceeds are payable to the ILIT. Since the policy is owned by and payable to the ILIT, there are no **transfer tax** consequences to Joseph's estate.

Life insurance may provide an ideal mechanism for leveraging annual gifts. In the short term, it offers an immediate death benefit that generally outweighs the total premium outlay (gifts). While over the long term, life insurance offers a unique opportunity to potentially leverage annual gifts into a significant benefit for selected beneficiaries. This can be achieved by taking advantage of the tax-deferred buildup of policy values, which in some cases may indirectly increase the life insurance policy's death benefit over time.

The use of a regular gifting program may be advantageous to individuals seeking to gradually reduce the size of their estates. In addition, it affords these individuals the opportunity to pass wealth to children, family members, and others with reduced tax consequences. $

# How Much Can You Earn and Still Receive Social Security?

Retirees are often ready, willing, and able to start new careers that may earn them significant incomes. However, some individuals may feel that it is not worthwhile to work for wages, only to have to "give up" some of those earnings in the form of higher income taxes. As frustrating as that may sound, it is important to understand the fundamentals of Social Security income and taxation so you can make your retirement years more "golden" and less "taxing."

## Income Limits: Paying to Work?

The first factor you must consider is your age and the so-called Social Security "give-back." If you are age 62 or older, under the **full retirement age** (65–67 depending on your birth year), and receiving reduced Social Security benefits, you must "give back" $1 for every $2 earned above $14,160 in 2010. If you attain full retirement age in 2010, your benefits will be reduced by $1 for each $3 earned over $37,680 in months prior to full retirement age. Upon attainment of full retirement age, there is no limit on your earnings, and Social Security benefits are not reduced.

## How Much Is Taxable?

A second factor affecting your Social Security benefits is the potential income taxation of those benefits. Let's assume you are working and you also receive a check from the Social Security Administration (SSA) each month. You must first determine how much, if any, of your benefit is included in your **gross taxable income**. The first step in estimating this is to add up the following items: your wages, taxable pensions, interest, dividends, and other taxable income; all tax-exempt interest; any exclusions from income; your net earnings (net income less net losses) from self-employment; and *half* of your Social Security benefits.

This total is then compared to a first-tier threshold of $25,000 for a single taxpayer or a married taxpayer who is filing separately and lived apart from his or her spouse for the entire year, or $32,000 for a married taxpayer filing jointly. For a married taxpayer filing separately, who lived with his or her spouse for any period during the year, the first-tier threshold is $0.

For illustrative purposes, suppose your total applicable earnings are $27,000, and you are married and filing jointly. Since the total does not exceed the applicable threshold amount of $32,000, then *no* portion of your Social Security benefit is taxable. However, if the total exceeds the applicable threshold amount, further calculation is needed to determine the amount of your benefits that are taxable. You can refer to IRS Publication 915, *Social Security and Equivalent Railroad Retirement Benefits*, for more information, or consult your financial or tax professional.

As you can see, performing these calculations is no simple task. Thus, it is important for anyone who is thinking about receiving Social Security benefits while still working to understand the potential tax consequences and plan accordingly. As with all tax planning matters, it is important to consult a tax professional to help ensure your planning decisions are consistent with your overall goals. $

**The information contained in this newsletter is for general use, and while we believe all information to be reliable and accurate, it is important to remember individual situations may be entirely different. The information provided is not written or intended as tax, legal, or financial advice and may not be relied on for purposes of avoiding any Federal tax penalties. Individuals are encouraged to seek advice from their own tax or legal counsel. Individuals involved in the estate planning process should work with an estate planning team, including their own personal legal or tax counsel. Neither the information presented nor any opinion expressed constitutes a representation by us or a solicitation of the purchase or sale of any securities. This newsletter is written and published by LIBERTY PUBLISHING, INC., BEVERLY, MA COPYRIGHT 2010.**