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An economic and investment update

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Permanent Life Insurance Offers Benefits at Any Age

With life expectancies on the rise, many Americans can expect to live 20 to 30 years in retirement. The Baby Boomer generation may be changing the perception of what retirement can look like, as they pursue their dreams and accomplish long-standing goals, such as exotic travel or new business pursuits. However, with so many dreams to fulfill and a growing number of retirement years to plan, an early start to retirement planning has never been more crucial. So, regardless of your age, it is important to begin planning today for your future financial independence and that of your loved ones.

As you create your retirement plan, you may find that the inclusion of **permanent life insurance**, also known as **cash value life insurance**, may be beneficial. Permanent life insurance can offer protection to your family during your working years when financial obligations may be greatest. This type of insurance can be a valuable long-term tool because the younger you are, the more affordable it may be. In addition, the longer the policy is held, the greater its potential future value may be. Here are some ways in which permanent life insurance may help safeguard your financial outlook in retirement:

1. Lifestyle benefits. As life expectancies increase, many retirees know their existing assets must support them for an unspecified number of years. Building assets to generate sufficient income is a major concern of many planning for retirement. Permanent life insurance may help ensure a surviving spouse will

(Continued on page 3)

What Your Children Should Know about Your Finances

Many parents may find it uncomfortable, or even believe it is unnecessary, to inform their children about personal finance matters. Yet, communicating openly with all your family members can help to reassure them about your financial and health care wishes. This may also ease the decision-making process for your family in many important areas.

As you age, informing your children of financial, estate, and medical arrangements that could affect the entire family helps everyone prepare and plan for the future. This does not need to include detailed facts and figures; however, you may want to consider sharing the following information with your adult children:

(Continued on page 7)

The Reality of Early Retirement

Is early retirement on your "wish list?" Do you envision a relaxing lifestyle in a warmer climate or the leisurely pursuit of a personal hobby? Unfortunately, retiring later than anticipated, rather than sooner, is becoming more and more commonplace. But, some people are still managing to retire early. You may be asking yourself, "How do they do it?"

The key is to be *proactive* in your retirement planning. Of course, the sooner you begin planning and saving, the better your chances are for early retirement. Keep in mind that a general rule of thumb is that you may need as much as 60% to 80% of your pre-retirement income to meet your expenses and maintain your desired lifestyle in retirement.

Redefining Retirement

There are multiple factors that are redefining how Americans approach retirement. Due to financial necessity, or sometimes too much leisure time, some retirees are re-entering the workforce. Many retired executives start their own part-time consulting businesses; others trade in their 70-hour workweek for a semi-retirement, in which they work less and spend more time with their families. Part-time work during retirement can be an important income supplement, especially if you plan to retire early from your full-time job.

Longer life expectancies are also changing the retirement landscape. Although your chances of a longer retirement are certainly greater if you retire early, relying solely on Social Security, for example, may be more difficult over time. This program was originally designed as a safety net, and not intended to provide perpetual income. Further, traditional pension plans have been generally discontinued by most companies, and replaced by employer-sponsored retirement savings vehicles, such as company 401(k) plans.

The shifting of the responsibility for retirement planning from *employers* to *employees* has put more of an emphasis on the importance of maximizing contributions to your workplace retirement savings plan and taking full advantage of the company match, if available. As a result of these factors, your retirement assets, as well as your personal savings, may have to work harder to meet your objectives, no matter when you retire.

An often overlooked aspect of retirement planning is managing your personal finances while in retirement. To help ensure enough assets for decades of retirement income, your money may have to continue working for you throughout your retirement years. Inflation, along with the amount of income withdrawn from your retirement plan, will have a direct effect on how long you will be able to meet your expenses. Therefore, personal savings will continue to be an overall part of your financial plan.

Budgetary constraints can also influence your lifestyle choices in retirement. In order to determine whether you will be able to maintain your current or desired lifestyle if you retire early, it can be helpful to estimate your retirement income and expenses. Unfortunately, these estimates are difficult to project, as you will need to consider everything from fitness center fees to out-of-pocket health care costs. In addition, you must factor in inflation and how your financial needs may change over time.

Remember, for those who wish to retire early, it is important to realize that certain tax penalties may apply for early withdrawals from retirement plans. Be sure that you review all of your options with a qualified financial professional.

Despite a changing economic climate, early retirement remains a possibility. By planning ahead and maximizing your retirement plan contributions and personal savings, you may increase your chances of reaching your early retirement goals. $

Cover All Bases with Policy Ownership

While many of us think of **life insurance** planning in relation to *type* and *amount* of coverage, a more complete analysis also includes **policy ownership**. In many cases, the proceeds of a life insurance policy may be unnecessarily included in your estate—unless you plan ahead.

Without insurance, many estates fall below the level at which they will be subject to Federal estate taxes. Under the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (2010 Tax Relief Act), the Federal estate tax is reinstated in 2011, with an applicable exclusion amount of $5 million. Estates that exceed this amount are subject to Federal estate taxes at a maximum tax rate of 35%. The proceeds of life insurance can increase the value of your estate to

(Continued on page 5)

Permanent Life Insurance Offers Benefits at Any Age

(continued from page 1)

be financially sound with tax-free income from the death benefit provided by the policy. Additionally, couples may choose to access the cash values to supplement retirement income or to pursue a lifelong goal. However, any cash value that is not repaid will reduce the policy's death benefit amount.

2. Burial expenses. End-of-life medical and burial expenses can be significant. Unfortunately, without life insurance coverage or any pre-planning in place, surviving family members may have to pay these expenses from their own assets. The proceeds of a life insurance policy can be used to help cover these expenses.

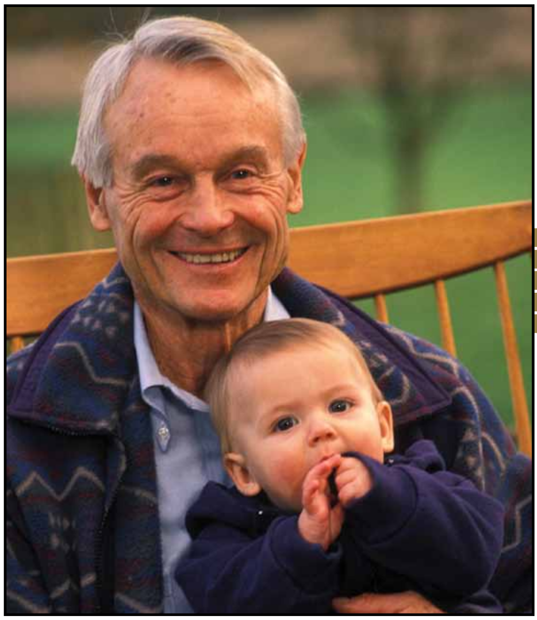
3. Estate protection. Many people are concerned about the legacies they will leave their heirs. Permanent life insurance can create an instant estate for the named beneficiary. It can also provide funds to help cover the cost of estate taxes. Asset transfers to beneficiaries other than a spouse that exceed the **applicable exclusion amount** ($5 million in 2011) may be subject to substantial estate tax, and insurance policy proceeds may be used to help pay these taxes. With proper preparation, you and your loved ones can help ensure that family heirlooms and property remain in the family and will not have to be sold quickly to pay estate taxes.

How It Works

Provided that policy premiums are paid on time, a permanent life insurance policy can provide coverage for your entire lifetime. In fact, for certain policies, benefits include premiums that may never increase, benefits that never decrease, and a policy that cannot be canceled regardless of changes in your health.

Permanent life insurance policies offer death benefits that are free of income tax, as well as a tax-deferred cash value component. This means that a portion of premium payments to a permanent life insurance policy is used to build cash value, which can be borrowed, often on a tax free basis, for a variety of uses. Retirees may use cash values to help cover educational expenses for younger generations, supplement retirement income, pay for travel, start a new business venture, or even purchase a second home.

It is important to note that distributions of cash value will have an impact on the policy. Distributions under a policy (including cash dividends and partial/full surrenders) are not subject to taxation up to the amount paid into the policy (cost basis). However, if the policy is a Modified Endowment Contract, policy loans and/or distributions are taxable to the extent of gain and are subject to a 10% tax penalty. Access to cash values through borrowing or partial surrenders can reduce the policy's cash value and death benefit, can increase the chance the policy will lapse, and may result in a tax liability if the policy terminates before the death of the insured.



Many permanent life insurance policies also offer nonguaranteed dividend payments, which can be paid when the insuring company's expenses are lower than originally projected. Dividends can be used for a variety of purposes, including as a source of income or as a means to buy additional coverage or to cover existing premium payments.

Permanent life insurance policies may offer a variety of benefits to you and your family throughout your lifetime. In addition to the knowledge that your designated beneficiary(ies) will receive the proceeds of the policy upon your death, you may also have the ability to access the cash values before that time. A permanent life insurance policy can be an important component of an ongoing, long-term financial strategy at any age. $

Determining the Value of 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 past business performance and how the business might fare in the future.

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 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, due to the belief 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 method used 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 upon 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.

(Continued on page 5)

Cover All Bases with Policy Ownership

(continued from page 2)

a level where it will become subject to Federal estate tax.

Fortunately, you can prepare for the possibility of Federal estate taxes. There are two ways to keep insurance proceeds out of your estate:

1. Transfer ownership of your insurance policies to someone else, generally your **beneficiary(ies)**.
2. Transfer the policies to a **trust**.

Either option, if executed properly and in a timely manner, can decrease your Federal estate tax. You may not have to change ownership of a policy that names your spouse as the ***sole*** **beneficiary** because the **unlimited marital deduction** allows your spouse to inherit the policy proceeds without estate taxation. However, you may benefit from transferring your policy out of your estate if the purpose of the insurance is to help pay estate taxes or provide for heirs other than your spouse.

The paperwork involved in changing insurance policy ownership is relatively simple. You do have to sign away all rights to your policies, however, making this decision *absolute* and *irrevocable*. Also, you cannot change your beneficiaries, and in the case of policies with **cash value**, you no longer have the right to borrow against them or surrender them for their cash value.

Keep in mind that if the transfer is done within three years of your death, the policy proceeds are generally still considered part of your estate, regardless of ownership. Therefore, proper planning is necessary to help ensure that you achieve your desired results.

Ownership of an individual insurance policy can generally be transferred to anyone who is old enough to handle money. Depending on your particular circumstances, it may be advisable to transfer a policy directly to a beneficiary or, in the case of a minor, to a **trust** that is designed for the benefit of a child.

Before signing away insurance, it is important to carefully review the consequences. Gifting insurance may have **gift tax** consequences if the transfer is to anyone other than your spouse. In 2011, the **annual gift tax exclusion** is $13,000 per gift to any single donee and $26,000 for gifts made jointly by a married couple.

For those in higher tax brackets, one useful technique to shelter large policies from estate taxes—and to protect the interests of minor beneficiaries—may be to transfer ownership to an **irrevocable life insurance trust (ILIT)**. When you die, the **trustee** named by you can distribute income to your beneficiaries or, if necessary, use the proceeds to pay estate taxes. For specific guidance, be sure to consult with your qualified tax and legal professionals.

The decisions you make regarding policy ownership are no less important than the decisions you make regarding what type of policy and how much insurance you need to fulfill your overall objectives. So, when planning your insurance strategy, make sure to cover all the bases. $

Determining the Value of a Closely Held Business

(continued from page 4)

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 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.

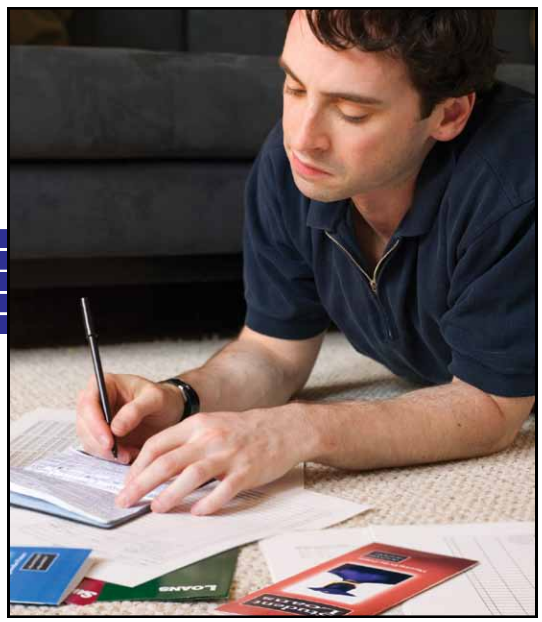
Wherever possible, each area must be reduced to specific numerical values. The IRS cautions against averages to prevent the appraiser from simply averaging factors, such as book value, goodwill, and capitalized earnings, and then coming up with a figure. Courts generally agree with the IRS in not giving 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 complex and involves many variables, be sure to consult with qualified professionals. $

Federal Student Loan Update

Many families find they must borrow at least *some* money to help pay expenses for their college-bound children. Student loans can provide a significant share of a student's total financial aid package. Although many college graduates often find themselves entering the job market burdened with thousands of dollars in college loan debt, a Federal program may help ease that burden by offering attractive rates.

As of July 1, 2010, changes have been made to the Federal Student Loan program. As a result of the Health Care and Education Reconciliation Act of 2010, no further loans will be made under the former Federal Family Education Loan (FFEL℠) program. All new Federal student loans come directly from the U.S. Department of Education under the **Direct Loan program**.



The Federal Direct Student Loan program, which began in 1994, allows students to borrow *directly* from the Federal government. The Direct Loan program simplifies the process and offers a variety of repayment options with generally, 10 to 25 years to repay the loan depending on the selected repayment plan.

The actual amount a student can borrow each year depends on the year of college, dependent or independent student status, and other factors, such as income and other financial aid awards. Typically, a college's financial aid office determines the types of loans a student is eligible for, and the amount he or she may borrow.

These are the 2011–2012 maximum **annual** loan limits and **aggregate** (or total) loan limits available for *subsidized* or *unsubsidized* Federal student loans:

- $5,500 is the maximum annual amount a first year student is eligible for, no more than $3,500 of which can be subsidized.
- $6,500 is the maximum annual amount a second year student is eligible for, no more than $4,500 of which can be subsidized.
- $7,500 is the maximum annual amount a third or fourth year student is eligible for, no more than $5,500 of which can be subsidized.

It is important to note that the actual loan amounts available to a student may vary depending on the applicant's individual circumstances.

Loan Interest and Fees

Direct Subsidized Student Loans do not charge interest until repayment has begun. Repayment begins six months after a student ceases to be enrolled at least half-time (including leaves of absence). The interest rate on Direct Subsidized Loans for undergraduate students on or after July 1, 2011 is 3.4%. For graduate and professional degree students, the fixed rate is 6.8%.

As for Direct Unsubsidized Loans, interest accrues and must be paid or capitalized during periods of enrollment in school and/or deferment. The interest rate for all borrowers whether undergraduates or graduate school students on or after July 1, 2011 is 6.8%.

For loans disbursed after July 1, 2010, the U.S. Department of Education has set a loan origination fee of 1.0%, which is a percentage of the amount of the student loan.

If you are currently facing college expenses for your child or will be shortly, you may want to consider taking advantage of Federal loan programs to help fund postsecondary education.

For more information, contact the Federal Student Aid Information Center at www.federalstudentaid.ed.gov or the College Board at www.collegeboard.com. $

What Your Children Should Know about Your Finances

(continued from page 1)

- **Life Insurance.** Life insurance is typically purchased to provide a death benefit to help cover final expenses, estate taxes, outstanding mortgages, other liabilities, and lost income. Knowledge of the existence and location of life insurance policies can be of the utmost importance to children when settling their parents' financial affairs in a timely manner.

- **Other Insurance.** Be sure to inform children of any other insurance policies that you may have, including health, disability income, and long term care insurance. If you are age 65 or older, make sure your children have a basic understanding of **Medicare** coverage and are aware of any health insurance policies that exceed the coverage provided by Medicare. Older adults can greatly benefit when their children understand and follow appropriate procedures, as well as submit any necessary forms on deadline.

- **Wills.** Preparing a will allows you to avoid leaving the disposition of your estate up to your particular state and its probate laws. To help ensure that your assets are distributed according to your wishes, both you and your spouse should prepare wills, review them regularly, and make necessary updates as circumstances change.

  Although specific contents can be kept private, it is important to disclose the existence and location of wills to several family members or a trusted legal advisor. Keep in mind that bank safe-deposit boxes may be temporarily sealed at death, so you may want to choose an alternate location for this key document. For example, the original will may be left with your legal advisor for safekeeping.

- **Trusts.** Trusts can help protect your estate from unnecessary taxation or mismanagement. Make sure to discuss pertinent terms with those who will be involved. As children reach adulthood, it is common for parents to select a responsible son or daughter to act as **trustee** in the event of the parents' death.

- **Living Will.** This document specifies your preferences regarding the administering or withholding of life-sustaining medical treatment. Under many state statutes, a patient must be considered "terminal," "permanently unconscious," or in a "persistent vegetative state" before life support can be withdrawn. Be sure to provide copies of living wills to anyone who may be involved with the health care of you or your spouse, and keep the originals in a safe, readily accessible place.

- **Health Care Proxy.** This legal document allows you to appoint a person to act as an agent on your behalf to make medical decisions, should you become incapacitated. It is important to file a copy of the health care proxy with your primary doctor and your hospital, if possible. In addition, be sure that the individual appointed as your agent retains a copy.

- **Durable Power of Attorney.** With a durable power of attorney, an individual or financial institution may act as an agent to oversee your legal and financial affairs, even if you become incapacitated. Grown children need to be informed of the steps that have been taken to ensure the competent direction of your finances, should the need arise. However, their actual *involvement* in your financial matters may be limited, according to your wishes. A power of attorney automatically terminates upon the death of the principal.

- **Assets and Debts.** It can be beneficial for your children to know that you have compiled a list of your assets and debts, even if you choose not to show them the list. An asset list updated regularly may include information on your bank accounts, real estate holdings, pension payments, annuities, business agreements, brokerage accounts, boats, cars, artwork, collectibles, jewelry, or other valuables, and insurance policies. A debt list may include information on your current mortgages, consumer indebtedness, personal loans, and business obligations. For both lists, be sure to identify where the paperwork and associated files for each item can be found.

Planning for a worst-case scenario may help your loved ones through an unforeseen tragedy. Initially, preparing these lists and the associated documentation may appear to be a daunting task. However, once completed, both you and your adult children may experience a sense of relief in the knowledge that thoughtful planning was discussed and implemented according to your wishes. $

Your Taxes and Identity Theft

Identity theft is one of the fastest growing crimes in the United States, with an estimated 9 million victims every year, according to the Federal Trade Commission (FTC, 2011). Identity theft is a type of fraud in which a thief uses your personal information to conduct transactions in your name. Thieves may, for example, use your identity to open or empty bank accounts, obtain credit cards, or take out loans. In addition to fraud directly concerning your finances, thieves can use your information to commit crimes that may affect your taxes.

Types of Fraud

With your identifying information, an undocumented worker or other individual may use your Social Security number on job applications and employment paperwork. The employer would then report the thief's W-2 wages earned to the IRS using your information, and as a result, when you file your tax return, it could appear to the IRS that you did not report all of your income.

An identity thief may also file a tax return using your name and Social Security number in order to obtain a refund. When you later file your return, the IRS will see that you already filed and received a refund; therefore, the return you submitted would be considered a second copy or duplicate.

Protecting Yourself

If you receive a notice from the IRS that leads you to believe that your personal information has been used to commit tax fraud, contact the IRS by phone or in writing as directed in the notice. Possible indicators that you may have been the victim of identity theft include statements that you received wages from an employer unknown to you or that more than one tax return was filed in your name. IRS tax examiners can then work with you and other agencies, such as the Social Security Administration, to resolve these discrepancies. It is important to note that the IRS will not initiate a request by e-mail for taxpayer information in this, or any other, situation. If you do receive such a request, it may be an attempt from identity thieves to obtain your tax information.

In addition to other precautions you may take to protect your identity from thieves, the IRS recommends that you exercise caution when choosing someone to assist you with tax preparation. Because this person will have access to your personal financial records, be sure to research their credentials and experience. Avoid preparers who guarantee results, base fees on a percentage of the amount of refund, or claim they obtain larger refunds than other preparers.

Identity theft can be a financially and emotionally devastating ordeal. For more information about identity theft and what to do if you become a victim, visit the FTC's website at www.ftc.gov. $