

Perspective & PositioningSM



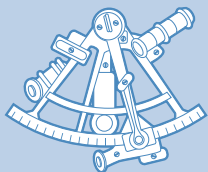
Strap Up – The Race to the End of 2012 Has Begun!!

How Long Will the Planning Window Be Open?

By Vernon Holleman, III, CLU

Inside this Issue:

- Life Insurance Planning & The 2010 Tax Act page 2
- Firm News page 2
- CLASS Act Summary page 3
- Planning Ideas to Keep in Mind page 4
- Real Life page 4



THE HOLLEMAN COMPANIES

Four Generations of Financial Security Leadership

Perspective & PositioningSM is a publication of The Holleman Companies and is designed to bring important industry and planning news and ideas, as well as firm updates to our clients, the professional advisor community, and friends. This material was created to provide accurate and reliable information on the subjects covered. It is not intended to provide specific legal, tax or other professional advice. The services of an appropriate professional should be sought regarding your individual situation. Neither The Holleman Companies nor M Financial offer legal or tax services.

About The Holleman Companies

The Holleman Companies is an insurance advisory firm focused on helping clients obtain life, disability, and long-term care insurance for business succession planning, wealth transfer/estate planning, benefit liability funding, and personal financial security. Securities are offered through M Holdings Securities, Inc. a registered broker/ dealer, member NASD/ SIF. The Holleman Companies is independently owned and operated. Please go to www.mfin.com and click on "Disclosure Statement" at the bottom of the home page for further details regarding this relationship.

Just when we all swore we were out of the predicting business, at the same time getting more and more comfortable with the idea of a \$5mm exemption being permanent, the President includes a \$3.5mm exemption level and a return of the 45% estate tax rate in his latest budget. Although his budget is certainly nothing to plan for, as the merry-go-round on the Hill is just getting started, this is yet another example of the importance of focusing our clients on the estate planning opportunities that are currently on the table in 2011 and 2012.

Further details on the Administration's Budget – it proposes a return to 2009 estate, gift and GST tax levels as it did in previous years, *without* reunification. The budget also offers the three "revenue raisers" in the estate planning area that will be familiar to you: limit on valuation discounts, GRATs, and basis reporting. A new addition this year is the proposal for making portability permanent and a proposed "federal rule against perpetuities" that would terminate a GST trust on the 90th anniversary of its creation.

This firm has been helping Washingtonians service and acquire life insurance since 1934. There has never been a better time in our history to capitalize on the tax benefits, liquidity, and leverage of life insurance. Most of the reason boils down to

the ease of acquisition for large amounts, which often required complexity that many could not tolerate. In contrast, today—having up to \$5mm per individual to gift is, indeed, a game-changer. Most estate planning attorneys and financial advisors I have spoken with are already in third or fourth gear helping clients plan. Some got calls as early as January 1st from clients ready to gift. This will only grow, fifth gear will be here soon – and don't plan any trips for the year-end of 2012!

As much as we all wanted long term clarity, this really is much more fun – isn't it? We know the financial demands on the government have never been higher, which makes estate tax repeal a doubtful proposition. We also now know where the President wants to see the estate tax, and that his give-up on this at year-end '10 was, in part, to get the bigger deal done. So, early in 2011 we now know that this two year window, to make gifts up to \$5mm per individual, could prove to be very special indeed. Our clients, and yours, get to benefit from the current law. We look forward to working with you to help your clients maximize whatever objectives they have, as life insurance is a particularly good financial tool and asset class given the planning dynamics. Let's get to work! ■

THE HOLLEMAN COMPANIES

5550 Friendship Boulevard, Suite 580, Chevy Chase, MD 20815
www.hollemanco.com • 301-656-8689

Life Insurance Planning & The 2010 Tax Act

by Jeff W. Webb, CLU, ChFC

Life Insurance Audit Program

With the temporary reduction in projected estate taxes, existing life insurance that was intended to offset estate taxes should be reviewed. We believe that this coverage should be maintained due to the uncertainty of where we will end up after 2012. Clients may wish to temporarily divert any premiums being paid for this coverage (particularly for trust owned policies) to other life insurance coverage that may be structured for other needs including wealth accumulation, retirement, or charitable gifts. Our audit program will assist clients to determine if life insurance premiums may be skipped, or deferred during the next 2 years and what impact this might have on the existing coverage. It is important to keep in mind that some states have “decoupled” from the Federal estate tax and will still impose state estate taxes based upon their own exemptions and tax rates.

Funding Life Insurance Trusts

The reunification of the estate and gift tax combined with the increase in the exclusion from \$1 mill to \$5 mill creates new funding opportunities for existing and new ILITs. Clients will want to consider taking advantage of the additional \$8 mill (combined spousal exclusion over the prior \$2 mill) to move assets to a trust in 2011 and 2012. This can be done on a loan basis (for flexibility in light of uncertainties beyond 2012). AFR's for grantor loans are still very low. For those clients in the past who could not purchase an adequate amount of life insurance due to the prior gifting limits, this is an ideal time to take advantage of leveraging their gifts through new life insurance acquisitions.

Personally Owned Life Insurance

Single and married clients with estates under the \$5 mill and \$10 mill limits may see an opportunity to increase the wealth they pass on to children and grandchildren free of federal estate tax. They may decide to purchase life insurance equal to the difference between their net worth and the applicable exclusion amounts. They could now potentially own the new coverage and not trigger estate taxes. Personal ownership



would give them maximum control and not require gifts of cash to pay premiums.

Private Split Dollar Plans and Premium Financed Life Insurance

Clients with private/family split dollar plans or AFR plans should review these arrangements to determine if it makes sense to terminate the agreements in light of the increased exemption. The same holds true of existing commercial premium financed life insurance.

Life Insurance Purchased Through Qualified Plans

In the past, one of the concerns of purchasing life insurance inside a qualified plan was that it would be includable in the estate. Under the new limits, this may be an ideal time for certain clients to consider this option. Higher limits make it easier for clients to have their ILITs purchase life insurance from qualified plans.

Private Placement Life Insurance

Clients previously interested in private placement life insurance outside of their taxable estate but limited by the old exemptions, may now be able to take full advantage of this type of coverage. Combining private placement life insurance with large exempt gifts to a trust (defective or non-defective for income tax purposes) shields future income and appreciation limiting the donor's tax liability in the future or eliminating the trust's tax liability if a non-grantor trust. ■

Firm News

Holleman Earns CLU

Vernon achieved his Chartered Life Underwriter (CLU) professional designation in early November from The American College in Bryn Mawr, PA. This is the highest level of education a financial representative can achieve on the topic of life insurance-related planning and products. It is an eight-course, college-level curriculum that requires sixteen hours of supervised examinations. We believe deeply in the work of the American College and feel this designation demonstrates not only a higher level of knowledge, but a commitment to both our industry and our clients.

Vernon was also recognized as one of eighteen top insurance advisors in the Washington area by *Washingtonian Magazine* in their November issue.

Golleher Earns CLTC

Connie became certified in long-term care insurance in August 2010. The CLTC program is the long-term care insurance industry's only professional designation and focuses on providing the tools necessary to assist our clients and their advisors with this important planning.

Knight Kiplinger Podcast

At the end of 2010 Vernon interviewed Knight Kiplinger for the Holleman Business Succession Forum interview series. This was the first son or daughter of someone Vernon had already interviewed (Austin Kiplinger was interviewed in the spring of 2010). The

continued on page 4

CLASS Act Summary

by Connie Golleher, CLTC

Community Living Assistance Services and Support (CLASS) Act is a voluntary, federally administered, consumer-financed long-term care (LTC) insurance plan. It provides assistance to those who participate in the plan and pay premiums. Premiums must be paid for five years and the participant has been actively at work for three of those years – before benefits will be paid.

CLASS Act became effective in January 2011 but participants will not be able to sign-up until 2012 or 2013. Those eligible to enroll are all Americans, who are actively-at-work; ages 18 and older, and not living in a nursing home (or other institution). Participants cannot be excluded from enrolling due to pre-existing conditions such as having a physical disability or other health issues. The actively-at-work requirement includes part-time workers and those who are self employed.

People who want to enroll will be able to through their employer if the employer decides to participate in the plan. Premiums can be payroll deducted like many other benefits. Any person who chooses not to participate can “opt” out. Neither employees nor employers are required to participate.

The plan will pay a cash benefit, no less than (on average) \$50/day. The benefit cash amount will be pegged to an assessment of a person’s need for help due to a physical or cognitive limitation. A benefit payment scale, still to be developed by the Secretary of HHS, will result in higher cash benefits for people with greater need for help with basic activities of living such as bathing, eating, dressing, and mobility. The cash benefit amount will increase annually to keep up with inflation. There is no lifetime limit on the benefits. When a participant has a qualifying level of disability and begins receiving benefits, benefits continue until the person no longer has a qualifying disability. Over a lifetime a person could have several separate instances of qualifying for benefits.

Not so surprising highlights from an industry survey:

1. Lack of awareness is widespread, and reactions to CLASS provisions are

mixed, with only 35% of employers and 8% of consumers being aware of the program.

2. Employers expect to take a wait and see approach before offering the CLASS Act, and 73% are likely to compare private insurance with the CLASS program before deciding what to offer employees.
3. 56% of employees who are not currently offered LTC insurance believe their company will likely evaluate the government’s plan and consider participating.

CLASS Scenarios

Retirement Planning

Peter, age 61, works for a medium size firm and he plans to retire in 2 years. His employer is planning to participate in the program and Peter will begin paying into CLASS this year.

- **Under CLASS**
CLASS requires that the employee earn wages for at least 3 year before being eligible to access benefits. Therefore, Peter would not be eligible to receive benefits. In order to qualify, he would need to work for an additional year, disrupting his retirement plans.
- **With Private LTC Insurance**
A private LTC insurance policy enables a policyholder to be eligible to obtain benefits after an elimination period, usually 90 days. In addition, private LTC insurance is not contingent upon being employed.

Benefit Eligibility

Mary, age 55, begins to experience early on-set Alzheimer’s disease. She has paid into the CLASS program for 3 years.

- **Under CLASS**
In order to receive benefits, Mary must continue to pay into the CLASS program for 2 more years. If Mary’s disability makes her unable to work and make payments,



she will have paid into the program but will not be eligible to receive benefits.

- **With Private LTC Insurance**
If Mary had a privately-owned LTC insurance policy, she would need to satisfy the elimination period, usually 90 days, in order to be eligible for benefits.

Fast facts of the CLASS Act:

- It is a National, voluntary plan.
- The plan provides a modest benefit of at least \$50 per day.
- It may pay up to \$75 depending on the loss of abilities.
- There is a five year vesting period before benefits can be paid.
- Employers have the option to participate; employees may opt out.
- Although most provisions are “effective” Jan. 1, 2011, people will not be able to sign up until the Secretary of Health and Human Services develops the details of the plan which will be no later than Oct. 1, 2012. So, it is likely that people will be able to sign-up some time after that in 2012 or more than likely 2013.
- It does NOT call for a tax to fund coverage. It will be funded only by the premiums paid by participants, which can be increased at any time to keep the plan solvent.
- It does NOT provide disability insurance or any income replacement – it covers only care for help with things like bathing, eating, dressing, etc.
- It does NOT provide a benefit amount sufficient to cover the high expense of long term care.

Firm News, continued from page 2

interview is a wonderful follow-up and filled with important lessons on how Kiplinger has continued to be in business after 90 years. The podcasts can be heard, or transcripts downloaded, at www.hollemanco.com. The next Podcast will air in early spring.

Pension Mitigation Strategy article published by Employee Benefit News (EBN) in September

As a follow-up to the article Vernon and Jeff wrote for EBN in their March issue,

EBN published a follow-up, this one written by Vernon and Michael Devlin of BCG Terminal Funding Company. This article focused on companies acquiring annuities inside their pension plans to match benefit liabilities and reduce risks. The article, and much more, is available on our website.

"Advisors Guide to Life Insurance"

Due to the commitment to ethics and our high level of sophistication, M Financial, of which Holleman is a member firm, was asked to write "The Advisors Guide to Life Insurance" – a great reference book, published by the American Bar Association,

that hit the presses in early 2011 and is now available. It covers every subject on life insurance you can imagine. Please call if you would like a copy.

Trusts & Estates Magazine to publish an article by Vernon in the spring

The article will cover the fiduciary responsibilities of trustees of life insurance trusts - including the tasks a Trustee must perform, the pro-active work he/she must do to protect the Trust beneficiaries and the best practices for servicing the policies in the Trust. Keep an eye out for it. ■

Planning Ideas to Keep in Mind

Take Advantage of Low Interest Rates

Do not fail to examine the options for loaning assets to a Trust to acquire life insurance – these can come from a parents or child, one's self, another Trust, an existing life insurance policy, among others. Given the low AFRs (mid term in Feb was 2.33%) a tremendous amount of leverage can be acquired.

1035 Life Insurance to LTC

Don't forget that it is now an option to use the 1035 change law to transfer, tax-free, from Life Insurance to LTC – Connie can help you explore this.

Retiree Life – Move It!

For companies with Retiree Life Insurance Programs – it is an excellent time to examine shedding the liability to an insurance carrier – many times companies are paying premiums on retirees who have already died, not to mention they are a real administrative burden.

Private Placement Annuity

Now available through M Financial Member Firms, underwritten my Sun Life. This PPVA is unique to the marketplace – it is a very attractive place to grow Hedge Fund assets without tax. Vernon can help

you understand more on this exciting new option.

New Underwriting Advantages

Several carriers are making moves to ease the hassle of underwriting – both currently, and in the future. For example, Nationwide, for certain face amounts, will wave blood work for a saliva swab – ideal for those needle phobics. Another example of this is Pacific Life's automatic face amount increase program, where predetermined amounts of additional life insurance automatically increase the death benefit at certain age intervals. ■

REAL LIFE

Rx for Marriage Sanity: Regular Date Night

by Vernon W. Holleman, III, CLU

The perfect prescription for keeping couples with families happy, healthy, and sane!

I remember it like it was yesterday – we confirmed that Tina was pregnant with our third child in September of 2002. The older of our two children had turned two the April prior and our younger daughter was eight months. Frankly, with a two and (roughly) a half year old and an eight month old – we were so far in the twilight zone we had no idea what we were currently into, much less in for! Fortunately, Tina's doctor knew better. She got out her Rx pad

and in huge, capital, letters wrote: "Date Night!!!" She also had some ground rules – do it weekly, no matter what it costs, and no talking about the kids – period. You must continue to pro-actively find time for each other, or you will get lost in all that child rearing brings. Was she ever right about that! To our credit, we took her advice. We were fortunate that our budget allowed and, although the day of the week has moved a few times (Wednesday to Tuesday, back to

Wednesday, and now back to Tuesdays), we follow her Rx well over forty weeks a year. Sure, we break the no talking about the kids, but try to restrict that to the drive to dinner. We do see a movie now and then, but usually not. This Rx has given us dedicated time to be with each other on a routine basis. Like my article about the In-Town Overnight (Winter 2010) – married couples have to be pro-active in today's world – I hope this idea is one you will adopt. ■

