



LIFE AND DISABILITY
INSURANCE PLANNING



ESTATE PLANNING



INSURANCE ANALYSIS



WEALTH TRANSFER
STRATEGIES



LONG TERM CARE



RETIREMENT
PLANNING



BUSINESS PLANNING



NON-QUALIFIED
DEFERRED
COMPENSATION



ANNUITIES

The Importance of Insurance Policy Reviews

An often quoted statistic is that, based on today's life insurance rates, 85% of existing trusts could obtain a 40% reduction in premium costs for the same amount of insurance, or conversely, obtain 40% more death benefit for the same premium cost. The year 2000 study from which those values are derived is actually much more involved than that statistic might indicate. However, it is clear from the survey that many trusts could obtain significant cost savings.*

As medical improvements and better health habits contribute to longer life expectancies for most people, mortality charges have been reducing over the years. This means that insurance costs have actually lowered for both term and permanent life insurance with many top rated insurance carriers. Unfortunately, these improvements to the mortality and expense costs in the life insurance marketplace are typically not reflected in existing policies, but in newer policies, as the carriers introduce new products.

Combining the improvements in mortality rates with the poor economic conditions over the last few years have made it prudent to review life insurance. The recent and historic low fixed interest rates and equity market volatility that we have experienced can

drastically affect the underlying cash value in a permanent policy.

The life insurance industry has undergone many changes in the last decade. Over the last 10-15 years in particular, both the expense and mortality costs for life insurance policies have dropped. New, more efficient policies are introduced to the marketplace as the marketplace adjusts to a more competitive environment brought on by mergers, acquisitions, and demutualization within the industry, and increased customer sophistication.

All life insurance policies should be periodically reviewed to gauge actual policy performance against original expectations and to make sure that the policy will reach the intended goals.

The purpose of a policy review by Gilbert-Krupin is to check the "condition" of the current insurance portfolio and see if it is on track to meet the original expectations. Our goal is to provide an understanding of the current insurance along with providing any strategies that may enhance the overall value. For instance, we can offer alternatives that may result in a savings or provide more benefit for the same cost. There is no cost for the service.

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Welcome to Our Newsletter!

With over 80 years of combined experienced, Gilbert-Krupin is committed to providing the best service and most comprehensive insurance planning. We are dedicated to providing cutting-edge ideas and the best strategies possible to help ensure our clients achieve their goals.

Roth 401(k)s Debut in 2006

Beginning January 1, 2006, a new kind of retirement plan will debut in the workplace. The Roth 401(k)—which combines features of the traditional 401(k) plan and the Roth IRA—offers employees another way to save for retirement on a tax-favored basis.

The Roth 401(k) shares many characteristics of the traditional 401(k) plan, but with some key differences. One important difference involves the tax treatment of employee contributions to the plan. While employees contribute to a traditional 401(k) plan with pretax dollars, contributions

participant first began contributing to the plan. Distributions also may be taken at the termination of employment or for hardship, but unless they meet the requirements to be considered “qualified,” the earnings portion of the distribution will be subject to tax.

For 2006, the limit on the annual amount that can be contributed to a Roth 401(k) will be \$15,000 (\$20,000 if the employee is age 50 or older). These limits greatly exceed those for Roth IRAs (\$4,000; \$5,000 if age 50 or older). Even though Roth 401(k) contributions are made after tax, they are considered “elective deferrals.” Thus, if the employee also makes elective deferrals to another plan (such as a traditional 401(k) plan), the \$15,000 limit would be a combined limit for the contributions made to both plans. Contributions to a Roth 401(k) also are subject to the same non-discrimination test (the actual deferral percentage, or ADP test) that applies to pretax contributions to a traditional 401(k) plan.

High earners can make contributions to a Roth 401(k). For them, this favorably distinguishes Roth 401(k)s from Roth IRAs, because married couples with more than \$160,000 (and singles with more than \$110,000) in adjusted gross income cannot contribute to a Roth IRA.

Given that pretax contributions to a traditional 401(k) receive an immediate tax break, are employees likely to be interested in a Roth 401(k)? For certain employees, Roth 401(k)s can make a lot of financial sense. These include individuals who expect to be in a higher tax bracket at retirement than they are now; individuals who believe that tax rates will rise in the future; and individuals who prefer certainty, as the Roth 401(k) account value more accurately indicates its “spendable” amount (since most distributions are tax-free). On the other hand, individuals who are close to retirement and expect to need the account within five years might be better off investing in another retirement vehicle, as would those who want the tax break on their contributions up front.

The Roth 401(k) was enacted as part of a tax measure that sunsets—expires—after 2010. Thus, Congress must act within the next few years if Roth 401(k)s are to become a permanent retirement tool. Despite this uncertainty, 35% of surveyed employers are considering a Roth 401(k), according to a January 2005 survey completed by benefits consulting firm Hewitt Associates. This perhaps reflects employers’ desire to offer as many tools as possible to help employees meet their growing responsibility for financing their own retirement.

to a Roth 401(k)—like those to a Roth IRA—are made after tax. Like a traditional 401(k), any earnings are not currently taxed, but unlike a traditional 401(k), Roth 401(k)s offer the advantage of continued freedom from taxation for earnings when withdrawn, so long as the distribution is “qualified.”

A distribution is qualified if it is made after the individual has reached age 59-1/2 (or on account of death or disability), so long as at least five years have passed since the par-



Ensure the Future Prosperity of Your Family: Prepare a Family Business Succession Plan

The old saying that “if you fail to plan, you are planning to fail” certainly applies to transferring family-owned businesses from one generation to the next. Studies show that 60 to 70 percent of all family-owned businesses have no succession plan in place.¹ It is likely no coincidence the percentage of family-owned businesses that don’t survive the transition from founder to the second generation is also 70 percent, according to the Family Firm Institute. The most common causes of these business failures are taxes and family disputes, both of which can be minimized with early and thorough succession planning.



Emotions can run high when it comes to choosing who will take active control of the family business and alternately, who will be compensated and in what amount. However, avoiding these critical decisions and not accepting the inevitability of a business transfer is almost certainly a recipe for failure.

Transferring assets to the next generation is much simpler than transferring a business. It is necessary to consider your family members wisely and make decisions about who, in actuality, would best run the business based on their skills rather than just

the familiarity of your relationship. To do otherwise is to put the business at serious risk. It is feasible to transfer ownership equally but it is usually impossible to equally transfer management.

‘The earlier the better’ is a solid piece of advice when it comes to planning for succession. Financial planners often suggest that their clients build an exit strategy into their initial business plan. Planning early not only ensures that you make the most levelheaded decisions, but also allows those who will take over, opportunity to ease into their new role.

To avoid emotional surprises to family members, it is suggested that you involve them in the succession planning discussions. The legal and tax issues associated with succession planning can be complex, so lawyers, accountants and financial professionals should be consulted both to ensure it is conducted correctly and also to explore the most cost effective solutions. Lawyers in this specialty can advise you on effective tax strategies, specialty partnership options, such as family limited partnerships, and the development of buy-sell agreements so that your successors receive the maximum value upon transfer. All aspects of the transfer plan should be documented to ensure clear expectations and serve as a basis for resolving future differences.

A final recommendation is to remain flexible and keep an open mind both before and after the transfer. It may be possible that the talents of family members might actually help evolve the company into exciting new enterprises.

1 2002 MassMutual/Raymond Institute American Family Business Survey

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With the new regulations in place, every businessperson should take immediate and full advantage of this unique opportunity. LTC coverage allows you to protect your assets from the devastating impact of an illness or accident that incapacitates you. At the same time, the cost is tax-deductible each year, and the policy’s benefits are received on a tax-free basis!

Why is the government being so “generous?” Simply stated, the federal government recognizes that with our aging population, a growing number of people will need custodial care each year. Since the federal government is already struggling with the existing Medicare Program, even considering adding LTC to this program (Medicare), on any basis, is out of the question. What can be done?

The opportunity to have the cost of LTC deducted as a legitimate business expense for every type of business entity is a tremendous attraction, and one that should not be overlooked.

Tax qualified long-term care policies are a tangible benefit for every business, proprietor, and family. It isn’t often that the government does something like this. You should act promptly!

¹Sole proprietors, partners and S-corporation owners can deduct 100% of eligible long term care premiums (see IRS Publication 535) paid by their business as a self-employed health insurance deduction on IRS Form 1040.

The information noted here is not meant to be interpreted as specific legal or tax advice, and employers are encouraged to seek their own legal and/or tax counsel.



Long-Term Care Is a Tax-Deductible Business Expense

As a businessperson, how would you respond to this statement?

"Suppose you could set aside a sum of money each year that currently would be 100% tax deductible. At the same time, the maximum protection for your assets is provided for in case of an accident or illness that incapacitates you and requires custodial care for a long period of time. Furthermore, whatever benefits become payable to you would be income tax free!"

A typical response might be, "How much can I set aside and when can I start?"

Under the old HIPAA regulations of 1996, certain long-term care (LTC) policies that conformed to the IRS rules were considered "qualified" for tax deduction purposes. Obviously the tax advantages of "qualified" plans were a strong incentive. However, most of the benefits went to "C" corporations under the old guidelines.

Under the revised tax regulations, all types of business entities, such as Sub "S" Corporations and Partnerships

now can include premiums paid into a LTC policy under the "Medical Expense" category on their business tax returns.

Prior to these new regulations, only "C" Corporations enjoyed the maximum 100% deduction for tax qualified LTC. Limited deductions were available for Sub "S" Corporations, Partnerships, Sole Proprietorships, and LLCs, provided they conformed to certain guidelines. Under the revised tax regulations, any business entity that purchases long-term care insurance for its employees can now deduct 100% of the cost as a business expense.¹ As a starting point, the tax incentives of these new regulations encourage business owners to purchase this coverage. As a further incentive, owners can be "discriminatory" (selective) about whom they will and will not cover. While selective discrimination for health benefits is completely contrary to all existing regulations, the government's need to get people to provide their own long-term care protection supercedes all other tax considerations.

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