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Keep Your Estate Plan Flexible

Estate planning has become more difficult in recent years due to changing estate tax laws. Estate tax rates and exemption amounts keep changing, increasing to $3,500,000 this year. Next year, the estate tax will be repealed, but will be reinstated in the following year based on 2001 tax laws. All these changes can make it difficult to determine whether your estate plan should be revised due to new changes. Thus, it is increasingly important to build flexibility into your estate plan. Some points to consider include:

✔ **Find ways to incorporate changing exemption amounts in your estate plan.** Many estate planning documents indicate that trusts should be funded with assets equal to the estate-tax exemption amount or generation-skipping transfer tax exemption amount. Evaluate whether those amounts are still appropriate considering their current high levels. Those amounts may leave more than intended to certain heirs or may place so much in a credit shelter or other trust that your spouse may receive very little of your estate outright. You may want to set a cap on the amounts placed in trust, even if that means you won't fully utilize your exemption amounts.

✔ **Make sure you have enough solely owned assets to fund these trusts.** Once you have decided how much should be placed in trust, make sure you have sufficient assets titled in your own name. Assets owned jointly with your spouse or another individual may automatically go to that person, rather than to the trust, after death.

✔ **Consider adding a disclaimer provision to your estate planning documents.** This provision details what happens if one of your heirs disclaims his/her inheritance. That way, your heirs may control after your death how much should be placed in various trusts. For instance, a husband can leave all of his assets to his wife with the condition that any disclaimed assets go into a trust paying her income for life, then passing the principal to their children after her death. This gives the wife the opportunity to divide assets based on her needs and wishes at the time of her husband's death.

Continued on page 3

What Are PODs and TODs?

After your death, you may want your heirs to gain access to money in bank and investment accounts without going through the probate process. One way to accomplish that is to make one of your heirs a joint owner with rights of survivorship on the account. However, while you are alive, that heir can legally withdraw part or all of the assets without your knowledge, or the assets could be put at risk if that heir encounters credit problems. Also, after death, the assets will go directly to the joint owner, not to any other heirs.

A better solution may be to use payable-on-death (POD) accounts for bank accounts and transfer-on-death (TOD) registrations for investment accounts, which name beneficiaries for these accounts. While you are alive, the beneficiaries have no claim to the assets in these accounts. After your death, they gain immediate access to the accounts by showing identification and your death certificate.

With these designations, the assets will be distributed to the beneficiaries listed on the accounts, not according to your will's provisions. ❍❍❍

FR2008-1023-0351

How to Ensure You Have Enough Life Insurance

For some people, the prospect of buying a life insurance policy that pays out upon their death is too close a look at their own mortality. Yet, at the same time, none of us wants to leave our families financially insecure when he/she dies. That's why it's critical to have sufficient life insurance.

The most typical reason for purchasing life insurance is to ensure your spouse and dependents have sufficient funds to maintain their lifestyle. To determine how much is needed to do that, consider these questions:

1. What lifestyle do you want to provide to your spouse and dependents when you die? Review their needs in detail, taking a look at things like:

- ✔ What standard of living do you want to provide? Will your spouse and children live in the same house?
- ✔ How many and what kinds of automobiles will be needed?
- ✔ Will the family have to make different child care arrangements?
- ✔ If your spouse works, will he/she decide to stay home with the children?
- ✔ If your spouse stays at home, will he/she decide to return to the work force?
- ✔ What other financial help do you want to provide to your children?
- ✔ Do you want to pay for your children's college educations?
- ✔ Do you want to pay off a mortgage or other debt with insurance proceeds?
- ✔ What are your spouse's retirement plans? Is he/she counting on you for retirement income?
- ✔ Do you need to consider the support of elderly parents or other relatives?

2. How much will that lifestyle cost? Come up with an estimate of how much this lifestyle will cost. Include all of your current expenses that would remain the same as well as any new expenses you have identified, such as for child care. Remember to factor in hidden costs, such as providing for health insurance that was paid for by your employer. For large debts, such as a mortgage, determine if it makes sense to pay the loan off in full or to continue making monthly payments.

3. How much life insurance do you need? First, consider what other income sources your spouse and/or dependents will have. This could include your spouse's earnings, retirement plans, Social Security benefits, savings, and investments. Life insurance proceeds will be needed to provide the difference.

Your life insurance needs will change over time, so you should periodically go through this analysis. Please call if you'd like help assessing your life insurance needs. ❍❍❍

Dealing with Bond Price Fluctuations

There are two primary factors affecting bond prices — interest rate changes and credit rating changes. Interest rate changes typically will cause a bond's value to fluctuate more than credit rating changes.

As interest rates rise, a bond's price adjusts down, while the bond's price will increase when rates decrease. Simply put, bond prices and interest rates move in opposite directions. Also, bonds with longer maturity dates are more vulnerable to interest rate changes, since interest rate fluctuations will impact the bond for a longer time period. One of the reasons longer-term bonds typically pay higher interest rates is because there is more risk that interest rates will change during the bond's life.

Credit ratings also influence a bond's price. When a bond is issued, rating agencies assign a rating to give investors an indication of the bond's investment quality and relative risk of default. Typically, higher-rated bonds pay a lower interest rate than lower-rated bonds. After the bond is issued, the rating agencies continue to monitor it, making changes if warranted. A bond's price tends to decline when a rating is downgraded and increase when a rating is upgraded. The price change brings the bond's yield in line with other bonds with similar ratings. However, these price changes are typically minor if the rating changes by only one notch. Certain downgrades are more significant, such as a downgrade that moves a bond from an investment-grade to a speculative rating, a downgrade of more than one notch, or a series of downgrades over a short period of time. In those situations, you should review whether you want to continue to hold the bond. Be aware, should you sell, the price you receive may be more or less than your original purchase price or par value.

Please call if you'd like to discuss this topic in more detail. ❍❍❍

Estate Plan

Continued from page 1

✔ **Review your gifting strategies.** You may still want to continue gifting strategies to utilize your annual gift tax exclusion ($13,000 in 2009 or $26,000 if the gift is split with your spouse) and your lifetime gift exclusion amount. For those with estates large enough to be subject to estate taxes, these strategies remove assets from your taxable estate without paying any gift taxes. When using your lifetime exemption amount of $1,000,000, look for ways to maximize your tax-free gift. For instance, individuals who transfer noncontrolling interests in businesses, farms, real estate, and other assets during their lifetime may be able to assign a discount to the gift's value. By gifting assets to certain types of trusts, such as grantor retained annuity trusts, you can place an asset in trust now, retain use of the asset for a period of time, and assign a discounted value to the gift.

✔ **Consider making charitable contributions during your lifetime.** While charitable contributions made upon death are free of estate taxes, that may not be a consideration due to higher exemption amounts. Charitable contributions made during your lifetime will still lower your taxable estate, and you receive an income tax deduction currently.

✔ **Reevaluate your life insurance needs.** Since the estate tax will only be repealed for the year 2010, you may still want life insurance to help your heirs pay estate taxes. Even if you die in the year 2010, any inherited assets will not receive a step-up in basis, perhaps leaving your heirs with a large capital gains tax burden.

✔ **Review how specific assets are distributed.** In 2010, inherited property will have a basis equal to the lesser of the decedent's adjusted basis or the property's fair market value at the decedent's date of death, with three exceptions: 1) $1,300,000 of basis can be added to assets. 2) Unused capital losses, net operating losses, and certain built-in losses can increase this cap. 3) An additional $3,000,000 of basis can be added to assets inherited by a surviving spouse. Due to these exceptions, you may want to specifically allocate assets with low bases to your spouse and assets with higher bases to other heirs to ensure the step-up in basis is maximized.

✔ **Go over your entire estate plan at least every three years.** No matter how much flexibility is built into your estate plan, you should still thoroughly review your plan every three years or so. Even if there are no major changes in the estate tax law or your personal situation, such as a marriage, death, divorce, or birth, gradual changes in your situation, such as an increasing net worth or a decline in your investment portfolio, may make changes to your estate plan necessary. ❍❍❍

Painful Lessons about Retirement Saving

First, the stock market declines in 2000 and over the past year or so have removed substantial gains from individuals' net worths. Now, the decline in housing values has reduced people's net worths even more. For instance, the Center for Economic and Policy Research estimates that the average net worth of individuals between the ages of 45 and 54 is 25% less than is was in 2004, due to declining home prices. For individuals facing retirement in the near future, it has been a double whammy for their retirement savings. What lessons can be learned from these events?

✔ **Don't overload on hot investments.** By the time the average individual notices that a particular investment has become hot, it's often too late to take advantage of that knowledge. Many individuals invested in technology stocks just as they were peaking. Scared by stocks, many then started investing in homes and real estate. Instead of focusing on one hot area, make sure your investments are diversified among a variety of investments that you are comfortable holding.

✔ **Gains do not equal savings.** As stock and housing values went up in value, it caused a phenomenon called the "wealth effect." Because the increases in value made people feel wealthier, they felt less need for saving and more comfortable spending. While that fueled the economy for several years, it also meant that many individuals cut back on saving for retirement.

✔ **Excessive debt just makes things worse.** Whether it's a margin loan used to purchase stocks or a mortgage used to purchase a home, the dangers of too much debt become readily apparent once the value of the assets underlying those loans decreases. For many homeowners, it has become difficult to justify struggling to make a mortgage payment they can barely afford on a home that is decreasing in value.

Please call if you'd like to review your retirement plan and find ways to increase your savings. ❍❍❍

Is Your Life Insurance Coverage Enough to Protect Your Mortgage?

Fact: *22% of families with dependent children admit they will have immediate trouble meeting everyday living expenses, and another 26% can cover expenses for only a few months if a primary wage earner dies.* (All facts are from LIMRA International's Facts About Life 2007.)

Think about your mortgage payments/rent, car payments, student loans, utilities, childcare, medical and dental bills. Will your family be able to meet financial obligations without your income?

No one wants to burden loved ones with an uncertain financial future in the event of an untimely death. Protecting your family with life insurance can help ensure that they do not face the added burden of financial pressures, should the unexpected happen. It just makes sense to take the steps you can to help protect your family.

Protective ValueChoice℠ Term is a renewable and convertible term life insurance policy that offers fully guaranteed level premiums for the initial premium periods of 10, 15, 20, 25 or 30 years.

Sample of ValueChoice Term Series Premium Rates:

$250,000 COVERAGE, SELECT PREFERRED NON-TOBACCO, MONTHLY PREMIUMS										
ISSUE AGE	10-YEAR POLICY		15-YEAR POLICY		20-YEAR POLICY		25-YEAR POLICY		30-YEAR POLICY	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
30	9.41	8.97	10.72	10.50	13.35	12.47	20.35	16.85	20.57	17.50
40	11.38	10.72	13.35	13.13	20.13	17.72	30.85	24.50	32.38	25.38
50	24.72	21.44	36.54	24.72	46.16	33.04	69.13	51.19	76.35	51.41
60	66.72	43.54	85.54	54.69	118.79	78.32	310.41	199.07	N/A	N/A
$500,000 COVERAGE, SELECT PREFERRED NON-TOBACCO, MONTHLY PREMIUMS										
ISSUE AGE	10-YEAR POLICY		15-YEAR POLICY		20-YEAR POLICY		25-YEAR POLICY		30-YEAR POLICY	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
30	14.44	13.57	17.07	16.63	22.32	20.57	36.32	29.32	36.75	30.63
40	18.38	17.07	22.32	21.88	35.88	31.07	57.32	44.63	60.38	46.38
50	45.07	38.50	68.69	45.07	87.94	61.69	133.88	98.00	148.32	98.44
60	129.07	82.69	166.69	105.00	233.19	152.25	616.44	393.75	N/A	N/A
$1,000,000 COVERAGE, SELECT PREFERRED NON-TOBACCO, MONTHLY PREMIUMS										
ISSUE AGE	10-YEAR POLICY		15-YEAR POLICY		20-YEAR POLICY		25-YEAR POLICY		30-YEAR POLICY	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
30	23.63	21.88	28.00	27.13	38.50	33.25	63.88	51.63	64.75	54.25
40	30.63	28.88	39.38	37.63	60.38	48.13	102.38	79.63	116.38	84.00
50	83.13	69.13	126.00	84.88	167.13	115.50	240.63	181.13	292.25	184.63
60	241.50	157.50	321.13	201.25	452.38	299.25	1200.50	758.63	N/A	N/A
Premiums effective as of August 1, 2008										

For more information, please contact:

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What Is a Unitrust?

Many trusts are designed so that one beneficiary receives income from the trust during his/her life, with the remaining assets distributed to the other beneficiaries after the first beneficiary's death. Often, the trust document stipulates that the first beneficiary is to receive all current income from the trust. The trustee may feel obligated to emphasize investments that generate income, such as bonds or dividend-paying stocks. The problem with this approach is that the trust principal may not grow much over the years, so that the ultimate beneficiaries' inheritance is not maximized.

A new type of trust is gaining popularity, called a total return trust or unitrust. The trust document instructs the trustee to invest for total overall return. Then, instead of paying out current income annually, the trust might pay a certain percentage of trust assets, a specific dollar amount, or a payout indexed to inflation.

The intent of this trust is to maximize the payout to beneficiaries. The beneficiary receiving annual payouts from the trust may find his/her payouts increasing over the years as the trust assets grow. The beneficiaries who ultimately receive the trust assets are likely to receive a larger inheritance when total return is emphasized. ❍❍❍

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