



The Strategic Advisor

Strategies for Success

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Strategic Wealth Advisors LLC

Richard C. Hanseen, CPA,
PFS
Founder
7881 West Charleston
Blvd.
Suite 220
Las Vegas, NV 89117
702-362-3123
richard@wealthadvising.com
www.strategicwealthadvisers.com

It is my pleasure to be able to provide information that can aid you in building your financial future. I hope you enjoy the content and find it helpful.

If I can be of assistance please feel free to call. We can discuss any of your concerns without obligation.

We wish you well as you travel the road to financial independence.

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Will the Estate Tax Stay Repealed for 2010?

In 2001, a law was passed that gradually phased out the federal estate tax through 2009, and repealed it altogether in 2010. That law,

however, "sunssets" or expires in 2011 and reinstates pre-2001 tax law levels (with an exemption of \$1 million and a top tax rate of 55%). Since 2001, the economic and political climate in the United States has changed significantly. The federal budget deficit has ballooned, the financial markets have been in turmoil, and most importantly, power has shifted to the Democrats. So, the question is: just how likely is it that 2010 will be an estate tax-free year?

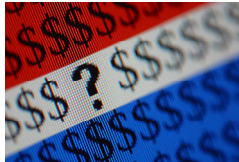
Chance of repeal?...virtually zero

Of course, anything can happen, but President Obama has made it clear that he believes the estate tax should continue in some form or other. And in the Senate, Finance Committee Chairman Max Baucus has firmly stated "...repeal isn't going to happen." With increased Democratic majorities in both chambers of Congress, it seems highly likely that some action will be taken soon to head off the one-year sabbatical scheduled for 2010.

Future of the estate tax

Several bills have been introduced in Congress in the intervening years since 2001, some calling for full repeal, others for reform. Reforms that have been proposed include:

- Raising the exemption and/or lowering the tax rates
- Making the exemption "portable" between spouses (allowing surviving spouses to use any unused portion of the deceased spouse's exemption)
- Replacing the estate tax with an inheritance tax (transferring the transfer tax burden to heirs)



- Replacing the step-up in basis rule with a carryover basis rule (also transferring the tax burden to heirs in the form of capital gains tax)

President Obama has endorsed the following reforms:

- Freezing the estate tax at 2009 levels (\$3.5 million exemption and 45% top rate)
- Indexing the exemption for inflation
- Disallowing or limiting valuation discounts

Planning for continued uncertainty

All indications point to the estate tax remaining for the foreseeable future. While the uncertainty that continues to surround the exact components of the estate tax may tempt some individuals to do nothing or wait and see, it may be wiser to review your plans now to ensure that they can withstand the winds of change.

Creating a flexible estate plan is the key to avoiding the pitfalls of future tax law changes, as well as changes that may occur in your personal life. A flexible estate plan uses language and provisions in wills and trusts that maximize the ability to pass estate assets free of estate taxes. And other tools, such as disclaimers and powers of appointment, can allow heirs or trustees to respond to circumstances existing at the time of your death.

Beyond tax

Remember that dealing with estate taxes, no matter what the future may hold, is just a piece of your estate plan. An experienced financial professional can help you identify strategies that may help you achieve your overall estate planning goals.

Is Your Insurance Company Safe?

The recent financial difficulties of some of the largest and oldest insurance companies may have you wondering about the financial strength of your insurer. Here are some sources of information that you can use to help you determine whether your insurance policy is safe.



The standards used by each ratings service differ, and the ratings ultimately reflect the service's opinion of the financial strength and claims-paying ability of the insurer--it is not a guarantee of future performance.

It's in the ratings

There are several rating services that review, evaluate, and rank insurance companies based on their financial strength and claims-paying ability. The primary players in the ratings game are A.M. Best (www.ambest.com), Standard & Poor's (www.standardandpoors.com), Fitch (www.fitchratings.com), Moody's (www.moodys.com), and The Street.Com (formerly Weiss, www.thestreet.com).

The standards used by each ratings service differ, and the ratings ultimately reflect the service's opinion of the financial strength and claims-paying ability of the insurer--it is not a guarantee of future performance. So you should consider your insurer's ratings from at least two or more services to determine its financial strength.

State regulation

Insurance companies are heavily regulated by the states in which they are headquartered. Generally, each state requires that an insurer has sufficient reserves to pay all of its claims. In addition, states require that companies file updated financial reports that often are available to the public through the state's insurance department. Check with your state's department of insurance for information about the company maintaining your policy.

Important financial information

While financial ratings are important, there are other sources that provide financial information about your insurer. For instance, the National Association of Insurance Commissioners (NAIC) is an organization representing the insurance departments of all 50 states. You can access their information by going to www.naic.org. An important statistic contained in the NAIC's financial report of each company is the assets to liabilities ratio.

This statistic compares the insurer's total assets to its total liabilities. For example, a favorable assets to liabilities ratio may be \$108 of assets for each \$100 of liabilities.

Comparing companies

Many insurers subscribe to the Standard Analytical Service, Inc., an independent organization that compares insurance companies based on financial statements filed with state departments of insurance. Many insurers publish the Standard's reports on their websites.

The reports compare insurers based on a few important statistics. One such statistic compares the ratio of an insurer's bonds, stocks, cash, and short-term investments to liabilities. A higher ratio of liquid assets to liabilities may indicate the company's ability to cover unforeseen emergency cash requirements if they arise.

Another statistic compares an insurer's surplus assets to life insurance in force. A high ratio of surplus to life insurance in force provides evidence of a company's ability to meet its claims obligations.

If you claim benefits from your policy during a period of extraordinary claims activity, will your insurer be able to satisfy your claim? The chances are better if the insurer has a high ratio of assets, including capital, to policy reserve liabilities. A high surplus ratio may indicate a company's ability to meet its claims obligations even during a period of high volume.

If the worst happens ...

If your company experiences severe financial difficulties, it might be taken over by the state's insurance department. Generally, claims continue to be honored as long as premiums are current. If the company lacks sufficient assets and reserves to pay all claims, the state's guaranty association will either pay claims directly or transfer the policies to a financially stable insurance company that will honor the claims. The National Organization of Life and Health Insurance Guaranty Association (NOLHGA) provides information on state guaranty associations and insurance companies that have failed or are in danger of failing (www.nolhga.com).

What You Don't Know Can Hurt You

You've probably heard the saying, "what you don't know can't hurt you," but when it comes to your finances, ignorance is not necessarily bliss. It's easy to make bad financial decisions when you lack sufficient information or you are misinformed. By the time you realize your mistake, it's usually too late to correct it. Here are several common mistakes that can be avoided with just a little bit of forethought.

Naming the wrong insurance beneficiary

Life insurance has many benefits. Among them is the fact that death benefits are generally paid directly to the beneficiary you name in the policy without passing through probate. But what happens if the beneficiary you name is unable to accept the death benefit, because he or she is a minor, deceased, or incompetent? In these circumstances, unless you've named an alternate beneficiary, the life insurance proceeds will be subject to all of the expenses and delays associated with settling an estate through probate.

What can you do before it's too late? Review your life insurance beneficiary designations at least annually to be sure the proceeds will pass to the proper beneficiary without the involvement of probate. Also, consider adding at least one contingent or alternate beneficiary in case the primary beneficiary is unable to receive the proceeds.

Selecting the wrong pension option

If you're lucky enough to have an employer-sponsored pension for your retirement, the distribution choices you make usually can't be changed, regardless of whether your circumstances change. Before making your choice, get all of your plan's options from the plan administrator and review them with a financial professional who can help you crunch the numbers. Estimate your retirement income needs, then determine what the best strategy is for you and your family.

What can you do before it's too late? If you're married you're required to take a joint and survivor option, unless your spouse waives his or her rights to your pension. If you elect the single life option, your payments will be larger, but at the expense of a future spousal benefit. If you choose the single life option, make sure

you have plenty of other income or life insurance to replace the pension for your surviving spouse.

Owning assets jointly

Owning assets jointly often can be a good strategy to avoid probate or minimize estate taxes. However, this form of asset ownership also has disadvantages. The joint owner has equal rights to the jointly owned asset, meaning he or she can withdraw from a joint bank or brokerage account or sell his or her interest in the asset without your consent. In addition, adding someone's name to an asset may be considered a gift, subject to possible gift taxes. And, owning assets jointly exposes those assets to the creditors of your joint owner. Finally, with respect to long-term care planning and Medicaid qualification, adding a joint owner can negatively affect your Medicaid eligibility.

What can you do before it's too late? Consider the ramifications of joint ownership carefully before implementing this strategy. If your intent is to leave the asset to the joint owner, alternatives such as payable on death accounts, trust designations, or life estates may accomplish your goal and protect your interest in the asset at the same time.

Underinsured homes

Imagine this scenario: you just suffered through a terrible fire that destroyed your home and most of its contents. You get an estimate on the cost to rebuild your home and file a claim with your homeowners insurance carrier. To your shock, you find that they are not going to cover the entire cost to rebuild. You thought your policy covered the full replacement cost of your home. However, the policy actually provides extended replacement cost, which offers up to 120% of the policy's face amount--not enough to cover all of the costs to rebuild your home.

What can you do before it's too late? Review your policy at least annually and make sure the face amount is enough to cover the cost to rebuild your home should the unthinkable occur. That means you need to know the approximate cost to rebuild, including any additions and improvements you made to the home. Also, take into consideration increasing costs of materials and labor.

You could make financial decisions that turn out to be wrong because you lack sufficient information or you were misinformed altogether.



Other common mistakes

- *Failing to provide for financial loss due to a non-work related disability*
- *Miscalculating how much life insurance you need*
- *Owning too much company stock in your employer-sponsored retirement plan*
- *Underestimating how long your retirement may last*
- *Overestimating the annual rate of return you'll earn on your investments*
- *Trying to save for your children's college education at the expense of saving for your retirement*



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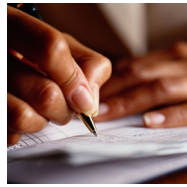
Richard C. Hanseen, CPA,
PFS
Founder
7881 West Charleston
Blvd.
Suite 220
Las Vegas, NV 89117
702-362-3123
richard@wealthadvising.com
www.strategicwealthadvisers.com

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Ask the Experts



How much of your company's stock should you hold?

No matter how good a company you work for, you should think carefully about how much you should have invested in it. Yes, there are

companies whose employees have become wealthy from company stock that was part of their compensation. But there also are stories about employees of companies such as Enron, Bear Sterns, and Lehman Bros.--people who believed in their employers but learned the hard way that allowing one company--especially a current employer--to dominate their investment or retirement portfolio can have devastating consequences.

According to the most recent Employee Benefit Research Institute statistics (Issue Brief No. 308, August 2007), company stock represents an average of 11% of 401(k) plan participants' assets (though that percentage is less than in previous years). However, few mutual fund managers would allow a single stock--any stock--to represent that much of a fund's portfolio. And a corporate pension plan is actually

prohibited from investing more than 10% of its holdings in the company's own stock.

Ironically, the better your company's stock has performed, the greater the chance that it may have grown to dominate your portfolio. However, even if your company is a good one, working at a company means you've invested your "human capital"--your earning ability--in that firm. If you also have a large portion of your investment capital there, your financial well-being is even more dependent on a single company. If a company's stock is suffering, it might react by cutting jobs company-wide. If yours were one of them, both your human and investment capital would be hit.

And don't forget to consider whether an equity mutual fund you hold also may have invested in your company's stock. You can find out a fund's holdings by checking its annual and semiannual reports. You can use the information to estimate your total exposure to your employer's stock.

What issues might company stock options raise at tax time?

If stock options are part of your compensation package, a significant market downturn can mean special financial pain.

In many cases, people who receive options to buy their company's stock find that during a downturn, the stock's market price is lower than the option's exercise price. Since few would choose to exercise an option that requires paying more than the market price, the option is said to be "underwater"--a situation that was widespread last year. If your options are underwater, it's worth checking to see if your company has considered asking its shareholders to approve repricing the options, or exchanging them for a smaller number of options with a lower exercise price. Some companies are taking such steps to try to retain valued employees.

If you exercised options to purchase your company's stock in 2008, you may face a more complex problem. The type of option and when you exercised it can raise a number of issues at tax time. If you own nonqualified stock options, you'll generally owe ordinary income tax on the difference between the exercise price and the stock's market value as of the date you exercised it. That amount is considered compensation and, if you're an

employee, should be listed on your W-2 form.

If you exercised incentive stock options (ISOs), tax is ordinarily deferred until you sell the stock that you acquired. However, unless you sold the stock in the same year that you acquired it, you have to factor in the alternative minimum tax (AMT). For AMT purposes, when you exercise an ISO, income is generally recognized to the extent that the fair market value of the shares when acquired exceeds the option's exercise price. This means that a significant ISO exercise in one year can trigger AMT liability, even though no income is actually received. This application of AMT could be a real problem if you exercised the options in early 2008 and later saw the value of the stock you received dramatically decline in value. If you are subject to AMT as the result of an ISO exercise, you'll be entitled to a resulting AMT credit that can be used in future years.

The Emergency Economic Stabilization Act of 2008 included some relief for taxpayers who exercised ISOs prior to 2008, and makes it easier to claim unused AMT credit. However, it will be of little help if you exercised ISOs in 2008. For more information, talk to a tax professional.