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Executive Compensation ■ Succession ■ Wealth Transfer Planning

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Permanent Life Insurance: Offering Benefits at Any Age

With life expectancies on the rise, many Americans can expect to live 20 to 30 years in retirement. For many people, the perception of retirement may lead to thoughts of pursuing passions and accomplishing 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 valuable in the long term, 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. Building assets to generate sufficient income is a major concern of many people planning for retirement. As life expectancies increase, your existing assets must support you for an unspecified number of years. Permanent life insurance may help ensure that a surviving spouse will 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** ($11.18 million in 2018) may be subject

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Taking Annual Gifts to the Next Level

You've probably worked a lifetime to build an adequate nest egg, live in a comfortable home, and accumulate an array of other assets. You may also realize that your finances could create unfavorable estate tax consequences. Perhaps you already have the compulsory legal documents, such as wills, trusts, etc. in place, and know that giving away assets may help reduce the size of your taxable estate. But, even though many people make occasional gifts to their children or other family members, few actually take advantage of the benefits offered through a **regular gifting program**.

Gifting Made Simple

Current tax laws allow you to give away $15,000 ($30,000 if married) in 2018 to as many people as you wish *without* incurring any gift taxes. This **annual gift tax exclusion** can be an effective means for gradually passing wealth to future generations. In fact, systematically making such a gift can create a rather sizable long-term result.

Let's look at this scenario: Suppose 60-year-old Mark starts a gifting program for his newborn grandson, Todd. Each year, Mark makes a gift of $15,000. After 25 years, Todd will have accumulated $375,000, assuming 0% growth. In addition, suppose Debbie, Mark's wife, age 60, also chooses to make a $15,000 gift to Todd, bringing the total annual gift to $30,000. In this case, Todd will have accumulated $750,000 in 25 years (assuming 0% growth). In this win-win situation, the couple helps Todd accrue a nest egg, while, at the same time, lowering the value of their estate. This strategy may help Debbie and Mark minimize their estate tax liabilities.

One Step Beyond

Using the annual gift tax exclusion to fund a **life insurance** policy creates the potential to turn gifts into a substantial death benefit. Once again, suppose Mark (the donor) sets up an **irrevocable life insurance trust (ILIT)** for the benefit of Todd. The ILIT then purchases life insurance on Mark. Upon Mark's death, the life insurance death benefit proceeds are payable to the ILIT. Since the policy is owned by and payable to the ILIT, there are no **transfer tax** consequences to Mark's estate.

Life insurance may provide an ideal mechanism for leveraging annual gifts. In the short term, it offers an immediate death benefit that generally outweighs the total premium outlay (gifts). While over the long term, life insurance offers a unique opportunity to potentially leverage annual gifts into a significant benefit for selected beneficiaries. This can be achieved by taking advantage of the tax-deferred buildup of policy values, which in some cases may indirectly increase the life insurance policy's death benefit over time.

The use of a regular gifting program may be advantageous to individuals seeking to gradually reduce the size of their estates. In addition, it affords these individuals the opportunity to pass wealth to children, family members, and others with reduced tax consequences. For specific guidance, be sure to consult your qualified tax and legal professionals about your unique circumstances. ■

Shielding Your Insurance from Estate Taxes

Life insurance, which can help to provide for your heirs in the event of your death, can be an important estate planning tool. It can provide funds to loved ones when they need it most and help meet your family's financial obligations. One issue overlooked by many people, however, is that life insurance can add significant wealth to an overall estate, potentially causing assets to exceed the 2018 **applicable exclusion amount** of $11.18 million, the amount that can be sheltered from estate taxes. Fortunately, with proper guidance, it is possible to keep your life insurance policy proceeds out of your estate and to also provide immediate funding for short-term financial needs.

You may already know that the inclusion of life insurance policy benefits in your taxable estate is contingent partly on **incidents of ownership**. Policy proceeds cannot be excluded from estate taxation if you have held any incidents of ownership on the policy during the three-year period preceding your death.

In general terms, an incident of ownership is the right to exercise control over the policy or to receive an economic benefit from the policy, including any powers to *surrender* the policy, to *pledge* the policy as collateral, or to *assign* the policy and any reversionary interest equal to 5% or more of the value of the policy before death. An incident of ownership also exists on a policy if

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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 non-guaranteed 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.

Note: Guarantees are based upon the claims-paying ability of the policy issuer. Life insurance policies contain exclusions, limitations, reductions of benefits, and terms for keeping them in force. Your financial professional can provide you with costs and complete details. ■

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you have any power to act as a fiduciary of a trust that holds insurance on your life if you established the trust, if you transferred the policy or consideration for the policy to the trust, or if you could have exercised any fiduciary power over the trust for your own benefit. However, your estate may not include your life insurance proceeds merely because you planned to purchase the insurance or gifted money used to pay premiums within three years prior to your death.

A Plan of Action

For new life insurance policies, insurance proceeds are not included in the estate of the insured when another person is the initial applicant on, and owner of, the policy, or when the insured never possessed an incident of ownership on the policy.

If you want to keep life insurance proceeds on existing policies out of your estate, you need to transfer any incidents of ownership on the policy to another person at least three years before your death. In addition, make sure that your estate is not the beneficiary of the policy *and* that the policy beneficiary is not required to use policy proceeds to pay estate claims and expenses.

Keep the above in mind as you develop a plan for keeping your life insurance proceeds out of your estate. Remember, before you take any action that might affect your policies, consider carefully all of the alternatives and seek professional counsel on how to best achieve your specific objectives. ■

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Tips for Conducting Effective Job Interviews

Recruiting talented and dedicated staff is crucial to the success of any growing or established company. Yet, despite the obvious importance of bringing the right people on board, many businesses invest too little time and effort into recruiting employees who not only have the right qualifications, but who also represent a good fit for the company's culture and are likely to thrive in the position.

To help maximize the chances of attracting the best candidates, while minimizing employee turnover and improving employee satisfaction levels, consider the following tips when preparing for and conducting job interviews:

Outline the job description. Before posting the job advertisement and selecting candidates for interviews, you may want to prepare a detailed outline of the tasks and responsibilities associated with the job that can serve as a guide throughout the recruitment process. Keep in mind that a candidate who worked successfully as an office administrator for one firm may not be able to handle the duties assigned to the same job at another organization. If there are any discrepancies between the job description and the qualifications outlined in the resume, be sure to make a note of these gaps and plan to discuss them with the candidate during the interview.

Review resumes well in advance. Interviewers who are still glancing over a job candidate's resume and cover letter after the meeting has already begun are unlikely to ask thoughtful questions, and may not make a positive impression on the job candidate. Ideally, make time to read each resume well ahead of the interview, noting questions that arise and any concerns you wish to explore further with the candidate.

Avoid scheduling back-to-back interviews. While it is often more convenient for the interviewers to book meetings with a number of candidates in a block of time, scheduling several interviews in a row also has its disadvantages. Crossing paths in the waiting room with other candidates can be awkward and discouraging for jobseekers. A tight schedule can also make it difficult to give candidates additional time if needed. Worst of all, there may be confusion about which candidate said what, after interviewing assembly style.

Train in behavioral interviewing techniques. Hiring managers may believe that interviews consist of primarily asking candidates about their previous job experiences and transferable skills in order to make a decision. However, interviewers may not be familiar with behavioral questions, which are designed by Human Resources professionals to reveal more about the candidate's attitudes, priorities, and analytical abilities than a résumé or LinkedIn profile offers. For example, rather than simply requesting that candidates outline their responsibilities in previous positions, interviewers may want to ask jobseekers to describe some past high-pressure employment situations and how they were resolved. Recruitment professionals can help interviewers learn how to pose these types of questions effectively and how to interpret the responses.

Look beyond the pedigree. Beware of hiring decisions based on the rank and prestige of the candidate's undergraduate institution, graduate school, or previous employers. While candidates who attended top-rated schools are certainly attractive, a candidate who performed well at a lesser-known college could be just as qualified and may prove to be a better fit for the company's culture.

Remember the small talk. Engaging job candidates in a few minutes of informal conversation is hardly a waste of time. Chatting with jobseekers can reveal much about their personal interests, attitudes, and circumstances. Candidates who are unable to comfortably engage in light conversation may have the technical knowledge necessary to do the job, but could lack the social skills to successfully interact with clients and co-workers.

Finding the right individuals for your staff can make a difference to your business. Be sure to prepare in advance to maximize your chances of success. ■

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