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### *in this issue:*

Life Insurance and  
Estate Taxation

Retaining  
Business Records

Choosing Your  
Pension Payout Option

## Ways to Protect Yourself from Identity Theft

**I**dentify theft is one of the fastest growing crimes in the United States, with an estimated 9 million victims every year, according to the Federal Trade Commission (FTC, 2011). Identity theft is a type of fraud in which the thief uses your personal information to conduct transactions in your name. Thieves may, for example, use your identifying information to open or empty bank accounts, obtain credit cards, or take out loans.

Thieves can sometimes access your confidential financial details when companies that hold your information, such as your bank and credit card providers, lose customer data or have their systems raided by hackers. While these situations are out of your control, there are several steps you can take to help reduce the risk of having your personal details stolen and misused, as well as a number of ways to detect a theft early and minimize damage done to your credit. Consider taking these precautions to reduce your chances of becoming a victim of ID theft:

- Monitor your credit reports, checking regularly for any suspicious transactions. Under Federal law, each of the three major credit bureaus, Experian, Equifax, and TransUnion, must provide consumers with a free annual credit report upon request. You can access the reports through one website co-sponsored by the agencies, [www.annualcreditreport.com](http://www.annualcreditreport.com). A thorough review of these reports, also known as credit file disclosures, can reveal any unusual activity.
- While you can order all three disclosures at once, requesting one report at four-month intervals may be a more effective way to monitor your score. You are entitled to receive free reports more than once a year if you are unemployed or have been denied credit, insurance, or employment because of your credit score.
- Do not provide sensitive data in response to e-mail or telephone solicitations. If you are interested in an offer, take down the caller's contact information and verify that the company is legitimate before revealing your identifying information. You can bar telemarketers from calling you by registering your phone number with the Do Not Call Registry at [www.donotcall.gov](http://www.donotcall.gov).

*continued on page four*

## Life Insurance and Estate Taxation

**L**ife 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 their overall estates, potentially causing assets to exceed the **applicable exclusion amount** of \$5 million in 2011, 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 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 upon **incidents of ownership**. Policy proceeds cannot be excluded from estate taxation if you have held any incidents of ownership in the policy during the three-year period preceding your death.

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

Again, entire policy benefits may be included in your estate unless all incidents of ownership are transferred more than three years before your death. In practice, the application of this rule is not always clear. Therefore, it is important to consult with your tax and legal advisors to ensure that your actions are consistent with your desired objectives.

### Steps You Can Take

Here are some general guidelines you may want to discuss with your

advisors. For new life insurance policies, proceeds are not included in the estate of the insured when another person (often an adult child or an **irrevocable trust** created by the insured) is the initial applicant and owner of the policy, or when the insured never possessed an incident of ownership in 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 in 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.

### A Plan of Action

The above guidelines can help you develop a plan of action 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. ■

## Retaining Business Records

**h**ow long should you retain your business records? The answer depends largely on the relative importance of the records to your business operations and the risk associated with losing them. As a brief example, construction documents, audit reports, year-end financial statements, licenses, trademark

registrations, property appraisals, loan documents, in-force insurance policies, etc., should be retained indefinitely. Bank statements, customer invoices, payroll records, payment vouchers, purchase orders, accident reports and claims, etc., should be retained for at least seven years. Occupational Safety and Health

Administration (OSHA) logs should be kept for five years. And, employment applications and petty cash vouchers should be retained for three years. If you are unsure of an item's importance, be sure to consult with your professional advisors, including financial, legal, and tax professionals. ■

## Choosing Your Pension Payout Option

Many couples find themselves confronted with a dilemma as retirement nears. If you plan to receive your **pension** payout on a monthly basis (rather than in a lump sum), you must decide whether you want to receive a higher payment during your lifetime (the **life option**) or a lower payment that will span the lifetimes of both you and your spouse (the **joint and survivor option**).

As you choose between these options, you will need to consider the current and anticipated health of both you and your spouse, as well as your life expectancies. You will also need to assess your financial situation and income requirements. Here is a brief look at each of these payout options:

**Life Option.** With this option, let's assume you receive \$1,700 per month for your lifetime. This will be higher than the amount you would receive with joint and survivor benefits, say by \$475. If you live a long life, this extra \$475 per month will undoubtedly come in handy. On the other hand, once you die, payments to your surviving spouse, who may live for many more years, will stop. This could have a significant impact on his or her standard of living.

**Joint and Survivor Option.** If you were to select the joint and survivor option, suppose you receive \$1,225 per month (\$475 less than with the life option). If you die before your spouse, payments to your surviving spouse will continue for his or her lifetime. This may help provide critical income for your surviving spouse, especially if he or she outlives you by many years. However, if your spouse dies before you, you cannot change your payout option, even though your reason for choosing the lower monthly benefit to protect your spouse's long-term income is no longer applicable.

### *The Best of Both Worlds*

Deciding between these options may leave you and your spouse feeling as though you are betting on each



other's lives. But, you need not be locked into an "either-or" situation. With proper planning, you may be able to have it both ways—a higher monthly benefit now *plus* continuing income for your surviving spouse should you die first.

In structuring this approach, you would select the life option and use a portion of the higher monthly benefit to purchase a permanent **life insurance** policy on yourself. If you should die first, your surviving spouse can manage the insurance proceeds to help create monthly income, as needed. On the other hand, if your spouse should predecease you, you can cancel the policy and continue receiving the higher monthly pension benefit.

This strategy requires *disciplined* money management to achieve the desired results. First, your life insurance policy may lapse if the premiums are not paid. Second, a lump-sum death benefit must be properly managed to yield the anticipated

income. Third, by waiving the spousal provision, your spouse may lose other pension-related benefits, such as cost-of-living adjustments or company-sponsored health insurance.

Finally, the issuance of a policy at a reasonable premium (which would depend on your age and health) is not guaranteed. Therefore, it is important to apply and verify that you qualify for the appropriate amount of life insurance prior to making the pension payout selection. If the premium consumes too much of your monthly payout, this strategy may not be feasible.

### *Consider All Your Options*

When choosing between the life option or the joint and survivor payout option for your pension, coupling the life option with a life insurance policy may be appropriate. There are many factors to consider, including your age, your spouse's age, your health, your actual pension benefit, and the insurance premium costs. It is always important to analyze your situation carefully with the assistance of a financial professional to help determine which approach may work best for you. ■

## ways to protect yourself from identity theft

*continued from page one*

- Filter unwanted e-mail by installing anti-spam software on your computer. For further protection, turn your computer's firewall on and be sure to install a reliable anti-virus software program that includes automatic updates. Always use a secure browser when conducting online financial transactions.
- Invest in a mailbox with a lock or rent a P.O. box. Thieves have been known to intercept confidential correspondence and offers from financial services companies in the mail. Be sure to store sensitive information in a secure place in your home, especially if you travel frequently, have unfamiliar visitors or people working in your house.
- Destroy records containing private financial information by shredding, and do not dispose of credit card receipts or ATM statements in public trash receptacles. Identity thieves "dumpster dive" to obtain the details they need to commit fraud.
- Protect your accounts with passwords or access numbers that cannot be easily deduced. Avoid using your Social Security number, your birth date, your phone number, your mother's maiden name, your children's names, or a series of consecutive numbers. Never carry your Social Security

number or passwords with you, and consider changing all of your passwords periodically.

- Before disclosing identifying information to businesses, employers, or other entities, remember to ask how the information will be stored and handled.



- If your license or another form of identification is stolen, contact the appropriate agency immediately to cancel the document and order a new one.
- Keep track of your credit and ATM cards. Check your credit card and bank statements thoroughly for any suspicious purchases or withdrawals.

If you have reason to believe your identity has been misused, report the theft immediately to the fraud department of one of the three major credit bureaus and ask them to place a "fraud alert" on your file. The alert will prompt creditors to call you before allowing a new account to be opened in your name or an existing account to be altered. Calling just one bureau is sufficient, as the company you contact will report the problem to the other two bureaus. After placing the fraud alert on your file, you will be entitled to request one free copy of your credit report from each of the credit bureaus, even if you have already received reports that year.

Also, immediately contact creditors or other companies with accounts in your name that may have been affected by the fraud, instructing them to close the accounts immediately. The next step is to file a report of the theft with the police in the community where the crime was committed. Finally, file a complaint with the FTC, which maintains a database used by police and other law enforcement officials for identity theft investigations. Be sure to keep detailed records of your communications with creditors and other authorities regarding the theft.

To learn more about identity theft, visit the FTC website at [www.ftc.gov](http://www.ftc.gov). ■

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