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## *Appraising Your Appraiser*

**a**n appraiser assigns value to your property and potentially minimizes your exposure to certain risks, such as tax penalties. An inaccurate appraisal could hinder your ability to receive a fair price for property, increase the likelihood of a tax audit, or result in an inequitable division of property or inappropriate insurance coverage. Your financial decisions may depend on your appraiser's research, analysis, and reporting.

### *Hiring an Appraiser*

Choosing a qualified professional involves time and preparation. Because appraisers tend to specialize in certain areas, such as antiques, coins, stamps, jewelry, silver, etc., you want to find someone with relevant expertise and a proven track record. For a referral, contact the following professional organizations:

#### **International Society of Appraisers (ISA)**

www.isa-appraisers.org  
1-866-481-1689

#### **Appraisers Association of America (AAA)**

www.appraisersassoc.org  
212-889-5404 x10

#### **American Society of Appraisers (ASA)**

www.appraisers.org  
1-800-272-8258

Other resources include libraries, museums, auction houses, and the Internet, as well as recommendations from friends and colleagues. Once you find someone with the necessary experience, conduct an interview to ensure his or her appraisal practices meet *your* standards, as well as the accepted standards in the field. Consider asking the following questions:

**1. What are your work experience and education qualifications?** Ask for references and review the candidate's résumé or curriculum vitae, making note of work history, both formal and continued education, and membership in professional organizations. Some professional organizations require that members pass examinations and comply with a code of ethics. Valuation should be based on standard appraisal principles and procedures acquired through formal training. Authenticating an item is just one aspect of the appraisal process.

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## Living Value: The Other Side of Life Insurance

Most of us think of **life insurance**—in its simplest form—as a means of providing funds to cover financial obligations, such as a mortgage, or to replace income in the event of the death of a family breadwinner. In general, the **death benefit** under a life insurance policy is often the most well-understood feature.

However, not all policies are the same. A **permanent life insurance** policy contains a cash value feature that allows cash to accumulate, which may be used to help supplement a number of financial objectives, including a retirement plan or a child's college education. In this way, permanent life insurance has a "living value" in addition to the traditional **death benefit** feature. Let's take a closer look.

### *The Value of Cash Value*

The cash value in this type of life insurance policy accumulates on a tax-deferred basis in the same way that money does in an Individual

Retirement Account (IRA). Because of this tax-deferred accumulation, there may be some income taxes due upon withdrawal. However, you are generally only taxed on amounts that exceed the *total* amount of premium payments you have made over the course of the policy.

One of the key benefits of permanent life insurance is that you can access the accumulated cash values through policy loans. Generally, the loan interest rate is stated in the policy and is comparable to traditional lending rates. Bear in mind that access to cash values through borrowing or partial surrenders can reduce the policy's cash value and death benefit, can increase the chance that the policy will lapse, and may result in a tax liability if the policy terminates before the death of the insured.

Another key feature of a permanent life insurance policy is that, unlike a traditional IRA or another qualified plan, you may make premium payments after age 70½, and

there are no rules that stipulate required withdrawals of cash values by age 70½. This feature may provide an opportunity to continue making premium payments and receiving the benefits of tax-deferred accumulation.

With a life insurance policy, there are few rules that limit the amount of premium payments. So, the higher the death benefit, the higher the premium will be. Some forms of permanent life insurance allow you to make premium payments in addition to what is specified under the terms of the policy. Paying additional premiums may increase the cash value, but could lead to adverse tax consequences. Normally, policies are written to avoid this possibility altogether. When considering an increase to your insurance coverage, be sure to weigh your options with the help of your professional advisors.

### *Dual Purpose Protection*

Life insurance serves many purposes. Through its death benefit,

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## Entrepreneurship and the New Retiree

For many people who are nearing retirement or recently left their job, retirement signals not the end of a career, but rather the beginning of a new phase—entrepreneurship. Baby Boomers, in particular, may view retirement as an opportunity to start a new chapter in life, and hope to use their hard-earned skills and knowledge to create their own independent businesses.

Regardless of personal motivation, there are many advantages that those age 50 and older possess when

starting their own business ventures. By retirement, mortgages have often been paid and children have graduated, or are soon to finish college. With fewer financial obligations (and perhaps a cushion from a lifetime of saving) the new retiree may have the opportunity to take his or her time in developing a strong business plan and concept. Retirees also have the ability to utilize the many business contacts and skills garnered over their working years to further product development, marketing,

and sales. This can prove extremely useful for those who wish to use their experiences in a particular field to strike out on their own.

Many retirees find the opportunities of their dreams during their "golden years." The chance to be one's own boss, experience the payoff of hard work, and take advantage of the limitless financial and personal growth potential, all combine to make entrepreneurship an exciting and educational adventure. ■

## Strategies for Asset Protection

Most people focus on increasing their financial resources but may not give enough attention to *protecting* those assets once they have accumulated. However, without adequate legal protection, the financial security you have worked long and hard to build could easily be threatened by an unexpected lawsuit.

In today's society, even individuals of moderate means, who have home equity, personal savings, or retirement accounts, could be at risk. Business owners and professionals, such as doctors, dentists, lawyers, and accountants, may be especially vulnerable to claims from customers, patients, clients, suppliers, employees, and lenders.

Lawsuits can be expensive and time-consuming. Even if you think you are in the right, you may be forced to pay a settlement, due to the steep costs involved in fighting a lawsuit. Also, regardless of whether you win or lose, you generally must pay for your own defense. However, with proper planning, there are some simple and inexpensive options to help protect your assets from the threat of litigation.

### Life Insurance

In many states, **life insurance death benefits** and **cash values** are exempt (in whole or in part) from

the claims of creditors of the insured. However, the exemption for life insurance cash values may depend on the ability to prove that there has been no attempt to defraud a creditor.

### Qualified Retirement Plans

Consider maximizing your contribution to your qualified retirement plan. In order to be tax qualified by the Internal Revenue Service (IRS), qualified plan assets may not be assignable. According to U.S. Supreme Court interpretation, this means that account balances in a qualified plan are protected from bankruptcy. The Bankruptcy Abuse Prevention and Consumer Protection Act (BAPCPA) of 2005 strengthened this legal principle by explicitly extending bankruptcy protection to retirement savings held in Individual Retirement Accounts (IRAs). Non-rollover assets of up to \$1 million held in tax-deferred retirement accounts, including IRAs, are protected under BAPCPA in the event of personal bankruptcy. There is no exemption limit on amounts rolled over to IRAs from qualified plans, including 401(k)s. Funds held in SEP IRAs and SIMPLE IRAs also gained unlimited protection from creditors under the legislation and are not included in the \$1 million IRA limit.

### Primary Residence

Most states provide some kind of asset protection for a primary residence. The key may lie in *how* the residence is titled. One form of titling, called "**tenants by the entirety**," is recognized in some states and can help shield property owned by a couple from the creditors of a spouse in certain circumstances.

### Trust Funds

In some cases, a "**spendthrift**" clause in a trust will prevent creditors from accessing trust fund assets. However, this protection almost never applies to so-called "**self-settled trusts**." Although you cannot typically set up a trust for yourself, unless you cede all control and benefits, it may be possible to establish a trust to benefit designated family members.

### The Bottom Line

When planning your estate, it is important to not only build wealth but protect your accumulated assets from the threat of lawsuits and potential claims of creditors. Asset protection planning can be complicated; therefore, it is important to engage the assistance of qualified legal and tax professionals. ■

## living value: the other side of life insurance

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life insurance aims to help protect and secure your family's future in the event of your death. At the same time, life insurance with a cash value feature may provide you with the

opportunity to use the benefits of your policy during your lifetime. In this respect, life insurance can be a ready source of cash to help supplement an array of financial needs. A

review of your current coverage with an insurance professional may help demonstrate how permanent life insurance can fit into your overall financial objectives. ■

## appraising your appraiser

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### 2. What is your area of expertise?

Make sure your candidate's expertise matches your needs. However, finding one person who is an expert in *all* areas may be difficult. The International Society of Appraisers recognizes over 220 areas of specialization. For items that exceed an appraiser's expertise, ask if the appraiser would be willing to consult with other qualified professionals.

### 3. How much will the appraisal cost?

Appraisers may charge per hour, per diem, per item, or a flat rate. Other charges may include reimbursement for additional expenses, including travel and photographs. Consider avoiding any proposal that includes a "contingency fee" based on a sale or a fee which is based on a percentage of the valuation. Generally considered unethical, these types of appraisals could have tax consequences for you; the Internal Revenue Service (IRS) rejects all appraisals performed with these conditions.

**4. How do you report your findings?** An appraiser typically prepares a signed, written report that documents the valuation of an item, including his or her evaluation methodologies and credentials.

### *The Written Report*

Keep in mind that at some point attorneys, judges, the IRS, estate executors, insurers, and trustees

may grant decisions based on your appraisal. Therefore, it should be comprehensive and professionally prepared. The following key elements are usually included in an appraisal report:

**Statement of Purpose.** As discussed earlier, an appraisal has a variety of uses, which may include helping you assess your insurance needs or substantiate a tax deduction. The purpose of your appraisal and its expected use should be clearly noted.

**Description of Property.** This includes a physical description that details such features as the size, weight, color, age, material composition, origin, and condition of the appraised item, as well as the method of acquisition (often helpful for tax purposes). The appraiser also attests to an item's authenticity and notes the date it was viewed.

**Statement of Disinterest.** The appraiser should verify that no conflict of interest exists. If the report has been prepared for tax purposes, the appraiser must provide a tax identification number and also disclose if the IRS has ever disqualified him or her. The appraiser also needs to include an explanation of the applicable fee structure.

**Method of Valuation.** An explanation of valuation methodology offers a basis for the appraiser's conclusion. In general, appraisers make assessments based on such

factors as replacement value, fair market value (FMV), or comparable sales. For example, an appraiser who is determining the value of a work of art may consider the prices of similar works of art. The appraiser often includes a market analysis that references historical performance and may also project future value.

**The Provenance.** In some instances, particularly with artwork, a history of ownership may be included. Further documentation, if applicable, might chronicle noteworthy exhibitions or publications.

**Statement of Value.** The report should clearly state a dollar amount representing the valuation of the appraised item, and it should be signed and dated by the appraiser. It is also standard practice for the appraiser to include his or her credentials, either with a résumé or curriculum vitae.

### *Stay Current*

In order to keep pace with the potential for changing market values, consider reviewing an appraisal every three years. As your financial strategies change, make sure you base your decisions on the most up-to-date and accurate information regarding the value of your possessions. What you cherish as "priceless" may have a price tag that can help you plan for your financial future. ■

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