.....15 Years and still rolling.....

Open MIC is open for anyone.

9:00: AM Pacific Thursday 800 504-8071 Code is 5556463

IF YOU WOULD LIKE TO FIND OUT MORE ABOUT US

CALL OR EMAIL

ANTHONY OWEN

888-74AGENT (24368)

tony@annuityagentsalliance.com

OR VISIT OUR WEBSITE

Annuity | Agent's Alliance
Real Help From Real Agents.

News Flash: Industry sources say:

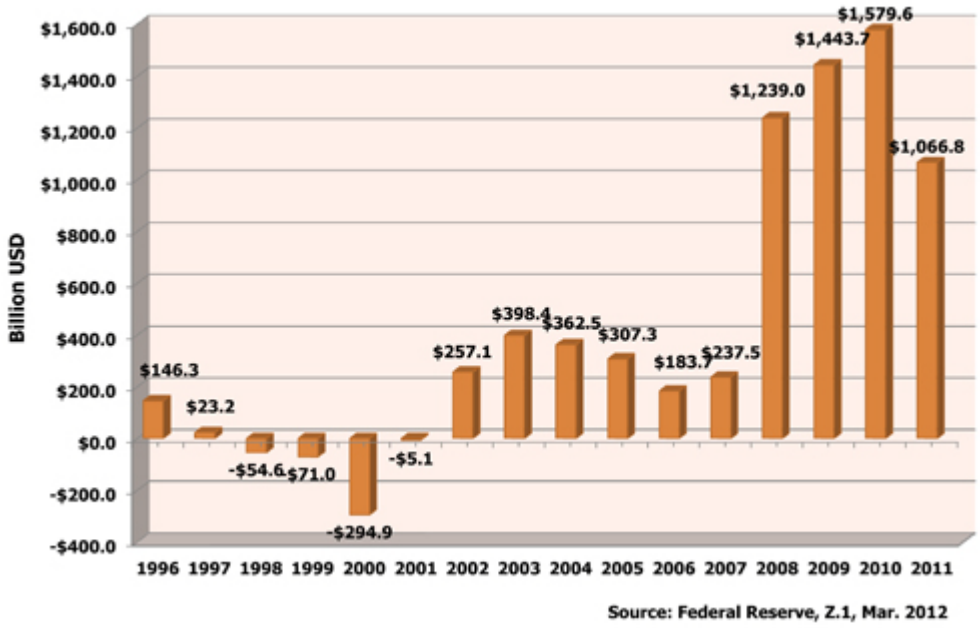
The success rate for a new agent to succeed three years in the insurance business is **11%**. The average income of an agent selling insurance with a career of at least 10 years is **$59,000.**

The single biggest reason for failure is lack of a repeatable marketing system.

Words of Wisdom

It ain't taxes hurting our country, it is the interest….
Will Rogers 1924.

US Treasury Sales per year



U.S. Treasury Issuance (as of 03/31/2012)
Uploaded 06/01/2012

Editorial

Treasuries are LOW yield and in HUGE demand

http://www.ft.com/intl/cms/s/0/41c91a82-cb7c-11e1-911e-00144feabdc0.html#axzz20iVu8ukD

Investors were record-sized buyers of 10-year Treasury debt on Wednesday at the **lowest yields** for a government bond auction.

In a historic Treasury auction result, the $21bn sale of 10-year paper arrived at the lowest recorded regular auction yield of **1.459** per cent, just above June's all time low of 1.44 per cent for the benchmark issue.

The auction result comes as figures show foreign holders of Treasury debt sitting at record levels of more than **$5tn**, while separate data from the Federal Reserve show holdings by other central banks standing at an all-time high.

The demand for 10-year notes suggests a significant buyer or group of investors expect **US interest rates will remain low or fall further for several more years.**

Ask yourself, who needs to buy these Treasuries? The answer is simple, those **who need to provide stability in their portfolio,**

"insurance companies".

What does this mean to us as annuity agents? It means that overall yields will be lower because of low and lowering caps. It means compensation will remain low, it means that the future of our products for the next few years is going to be income riders.

It means our competition (those offering safe money) are going to be hurting, remember the future of our industry is providing income.

What else?

Investor appetite for higher-yielding alternatives to top-tier government bonds has sparked a sharp rally in global corporate debt, pushing companies' borrowing costs to all-time lows.

Average yields on global corporate debt touched an **all-time low of 3.91%** on Tuesday, down from a **high of 4.75%** at the start of the year, according to a Bank of America Merrill Lynch Global Broad Market Corporate and High Yield index.

The risk associated with corporate bonds can be the ability to perform. Will corporate America be able to maintain in this economy?

Money market funds: on borrowed time

Why do money market funds still exist? In an era of rock-bottom interest rates, they are hard to justify,. **The average US fund offers investors a yield of just 6 basis points after fees,** according to Crane Data. And that is without the unlimited federal guarantees that come with non-interest bearing checking accounts, at least until the end of the year.

Low rates also mean these funds are poor earners for their sponsors. To compensate for often negative real yields, most have waived their fees – more than $5bn worth last year, estimates the Investment Company Institute. No surprise then that assets in US money market funds have fallen from their 2009 peak of $3.9tn to about $2.5tn.

JP Morgan Chase, Black Rock and Goldman Sachs have **restricted access** to some money market funds after the European Central Bank cut interest rates to historic lows.

If Interest Rates Rise, What Happens to Bonds?

Investors in longer-term Treasuries could see some rocky road ahead.

We have seen an epic "flight to safety" this spring. In April alone, $20.6 billion moved into bond funds, according to Lipper. In the same month, $12.7 billion left stock funds (which marked the 12th consecutive month of net withdrawals).[1]

The price of debt has really gone up, particularly U.S. and German sovereign debt. On June 1, the 10-year Treasury yield settled at **1.45%** after touching an all-time low of 1.44%. It has consistently been below 2% since April 26. Germany's 10-year notes were yielding around 1.2% during early June.[1,2,3]

The real yield of the 10-year TIPS has been negative since January 24. In fact, it has only finished in positive territory on two days since December 9.[4]

In the short term, few expect the current bond market climate to change. The question is ... what happens when it does?

Are bond investors going to pay for it? At some point, interest rates will rise again; bond market values will fall. When that happens, how many bond owners are going to hang on to their 10-year or 30-year Treasuries

until maturity? Who will want a 1.5% or 2.5% return for a decade? Looking at composite bond rates over at Yahoo's Bond Center, even longer-term AAA corporate bonds offered but a 3.5%-5% return in the first part of June.[5]

What do you end up with when you sell a bond before its maturity? The market value; if the federal funds rate rises 3%, a longer-term Treasury might **lose as much as a third of its market value as a consequence.** It wasn't that long ago – June 12, 2007, to be exact – when the yield on the 10-year note settled up at 5.26%.[2]

This risk aside, what if you want or need to stay in bonds? Some bond market analysts believe now might be a time to exploit short-term bonds with laddered maturity dates. The trade-off in that move is accepting lower interest rates in exchange for a potentially smaller drop in the market value of these securities if rates rise. If you are after higher rates of return from short-duration bonds, you may have to look to bonds that are investment-grade but without AAA or AA ratings.

If you think interest rates will rise in the near future (to the chagrin of many bond investors), exploiting short maturities could position you to get your principal back in the short term. That could give you cash which you could reinvest in response to climbing interest rates. If you really think bond owners are in for some pain in the coming years, you could limit yourself to small positions in bonds.

How exposed are bond funds to EU nations in trouble? According to Morningstar data from early June, global bond funds have an average exposure of 2.1% to Spanish, Greek, Italian and Irish bonds. There are exceptions: in early June, some bond funds had anywhere from 7-11% exposure, believing that the high yields of these bonds are still worth the risk. Some bond fund managers are seeking a short-term advantage by going long on Italian bonds and short on French or German ones, confident that Italy's austerity measures will prove healing.[1]

Appetite for risk may displace anxiety faster than we think. Why would people put their money into an investment offering a 1.5% return for 10 years? In a word, fear. The fear of volatility and a global downturn is so prevalent this spring that many investors are playing **"not to lose"** - but should interest rates rise sooner than the conventional wisdom suggests, **owners of long-term bonds might find themselves losing out in terms of their portfolio's potential.**

Citations.

1 - www.reuters.com/article/2012/06/04/us-europe-bonds-idUSBRE8530WE20120604 [6/4/12]

2 - www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yieldAll [6/6/12]

3 - news.investors.com/article/613935/201206061741/bond-prices-slide-as-talk-of-easing-hurts-safety-bid.htm [6/6/12]

4 - treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=realyieldAll [6/6/12]

5 - finance.yahoo.com/bonds/composite_bond_rates [6/7/12]

*******Look at this mess, look at these rates, what is the future? Long term held money allows insurance companies to blend their portfolio and the benefit to us is using these funds for income rider.

Like I said, pitch income and find the prospects who need and rely on income. Our future is as rosy as it gets when you think of the benefits our products can provide.

How would you like to be a financial planner looking for income options for your clients paying management fees....not me.....BB

Here is an article from Sheryl Moore echoing my views....

http://www.sheryljmoore.com/2012/05/the-atypical-annuity-purchaser/

Article by Sheryl J. Moore

April 30, 2012 •

If you had asked me 10 years ago to guess the average issue age for indexed annuities, I would have likely guessed age 35.

In reality, *AnnuitySpecs.com's Indexed Sales & Market Report* for fourth-quarter 2011 indicates that the average age of indexed annuity purchasers today is **65.**

.

Another retirement option

After all, a deferred annuity is just another retirement income accumulation vehicle. Is anyone *too young* for a certificate of deposit or bonds? Would you wait to propose a 401(k) to an individual until they were on the brink of retirement? You get my point. Deferred annuities are a tremendous tool for young savers who want the tax-advantaged benefits of annuities, in addition to an income that they cannot outlive. So, why aren't they buying them? You tell me.

I purchased my first annuity when I was in my 20s. I actually regretted the fact that I hadn't bought it years earlier. Why would I even explore retirement options if my employer was endorsing the 401(k)? It never occurred to me not to use a 401(k) plan as my retirement income vehicle.

Until the turn of the century.

I lost tons of money when the market collapsed in the 2000s. I didn't even know that you *could* lose money in a 401(k); I never read the prospectus. It was only when I complained about my losses that my boss suggested an indexed annuity may be more appropriate for me, based on my risk tolerance. Wow. That would have been great information a couple of years

prior. Nonetheless, **I rolled my remaining 401(k) into an indexed annuity that same year.**

Findings suggest that if young people were *educated* on their choices for retirement income vehicles, sales of annuities could easily surpass contributions to other retirement plans. And with the number-one fear of Americans now being **"outliving ones income"** that sounds like an opportunity to me.

About the Author

Sheryl J. Moore

Sheryl Moore is President and CEO of Moore Market Intelligence, an indexed product resources in Des Moines, Iowa. She has over a decade of experience working with indexed products and provides competitive intelligence, market research, product development, consulting services and insight to select financial services companies.

She may be reached at sjm@indexedrockstar.com .

Contact Information:	
Name:	Joe Prospect
Email:	joeprospect@xxxxmail.com
Evening Phone:	(210) 555-5555
Best Time to Call:	Weekend
Request Information:	
Category:	401 k rollover
Where do you need this product or service?	Buda, TX 78610
What advisory services are you looking for?	Retirement Planning
What is the size of your current portfolio?	$100,000 - $250,000
What do you need help with?	Financial planning & investments
Additional Details:	Retiring in 6 months, need to move 401 k

Notes to agent: Joe is retiring in 6 months and searching for income options, he is 59 years old. He has $200,000 in his 401 k and more in an IRA which is invested at Edward Jones. He is married and his wife does not work. He would like to obtain rates and options.

HOOK: His wife is from Maryland and went to the University of Maryland.

Annuity.com
Planning. Safety. Retirement.

The Scrubbed Lead Program

The strongest brand in the business just gotten stronger!

- Leads are verified by phone
- Leads answer "qualifying questions"
- Leads are 100% exclusive
- Average age: 62 years old
- Average investment amount: $128,000
- No pre-payment & no contracts

Only $195 per lead!

How does it work?

1. A consumer fills out a form or calls our 800 number, requesting information or guidance on annuities. Our leads come from the Annuity.com website, Google & Yahoo Search, other financial websites, radio and television.

2. Every lead is then **called by one of our trained phone staff**. During the phone call, the following information / data points are collected:

   - The type of annuity they are interested in
   - The amount & location of their money to invest
   - Their time frame for a potential annuity investment
   - The best time they can be reached by phone
   - Any additional information / notes we are able to gather…

3. The lead is then delivered to you in real-time (by text & email). When you follow-up, the prospect will be expecting your call.

How do you get started?

Sign-up at Annuity.com (via the For Agents section), using our Self-Service Wizard. You can create your account, set-up your geographical area, set your weekly lead limits and set-up your lead notification. The process takes about 5 minutes…

Still have questions? Contact us at: support@annuity.com

Annuity.com
Planning. Safety. Retirement.

Frequently Asked Questions

What is the difference between a Premium and Scrubbed lead?
The primary difference is that a scrubbed lead has been contacted and asked a variety of questions pertaining to their interest in purchasing an annuity. These notes are passed on to the advisor with the understanding that the lead is anticipating a follow up call with customized rates and quotes.

Is a Premium lead a lower quality lead than a Scrubbed lead?
No, the origin of the lead is the same. We have very strict standards on how quickly we receive and call on a leads request for Annuity Rates and Quotes. If we did not have a caller available to speak with the prospect (and "scrub" them) within 5 minutes, we would then qualify this lead as Premium. The quality and origin of both types of leads are exactly the same. The difference is whether we do the initial legwork for you or not.

Do Scrubbed Leads agents get priority over Premium Lead agents?
Whenever possible we try prioritize the scrubbed lead agents first. This does not mean that if you are a Premium Lead agent you will not get leads, as we do not have agents covering every zip code taking unlimited numbers of leads, nor do we have call center agents standing by 24/7 to scrub leads.

Are leads truly exclusive?
Yes. Our leads are sold to one agent, and one agent only. Also, we do not re-sell the lead at a later date as many lead providers do. Once you pay for a lead, it is for you to follow-up and cultivate.

How many leads will I receive in my territory?
This is a very common question and the very simple answer is "it depends." It depends on the size of your territory, the lead volume in that territory, and whether there are other advisors who may overlap with you in your territory. As a company we monitor where our advisors are located and will increase our lead efforts in areas where we have multiple lead buyers. The good news is you only pay for a lead once you've received it.

How do you handle more than one advisor in a territory if the leads are exclusive?
The leads are distributed on a round-robin basis. For example, if there are 2 advisors purchasing Premium Leads and covering the same territory, they will be distributed on an alternating basis, taking into account their maximum weekly lead count

When will I get my first lead?
This is another common question and one that does not have a definitive answer. It will depend on the size and density of your territory as well other advisors who may also share your territory. Our goal is to get you quality leads over quantity.

What is your return policy?
You may submit your request to reject a lead via your online lead management system. We will accept your request if the lead turns out to be another advisor, a student, a disconnected or fax number. There will always be additional gray areas and we will handle these on a case-by-case basis.

Is there a lead minimum?
There are no lead minimums, no prepayments and no contracts.

Still have questions? Contact us at: support@annuity.com

Hello Partners,
You can still get above 3% on a five year MYG. With the fed holding rates until 2013 you have to wonder if they will go up anytime soon and for clients not looking for income that just want to park their money MYGA's are still a very compelling option.

SENTINEL SECURITY LIFE INSURANCE COMPANY Personal Choice Annuity 5	B++	2,500		03/27/12	1-5	3.20	3.20		0-80: 2.25 81-90: 1.50
GUGGENHEIM LIFE AND ANNUITY COMPANY Preserve MYGA 5*High-Band*[MVA]		249,999		07/01/12	1-5	3.05	3.05		0-80: 2.50+ 81-85: 1.88+ 86-UP: 1.25+ see notes
LIBERTY BANKERS LIFE Bankers Elite 5[MVA]	B-	10,000		06/15/12	1-5	3.00	3.00		0-UP: 2.25
GUGGENHEIM LIFE AND ANNUITY COMPANY Preserve MYGA 5*Low-Band*[MVA]		10,000 Q:5,000		07/01/12	1-5	2.90	2.90		0-80: 2.50+ 81-85: 1.88+ 86-UP: 1.25+ see notes

Thanks for the biz!

Anthony R. Owen
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Big Truck Questions

Questions for the Owen's Brothers from the Crew

Q: Do your prospects make a big deal about the FIA caps? If so how do you get around how low they are?

Iowa broker steals a bundle

Peregrine Financial losses farmer money....how about a little dose of safety and security instead of greed. Wonder how this can happen with so many insurance companies based on Iowa?...BB

http://bottomline.msnbc.msn.com/_news/2012/07/17/12794193-iowa-broker-says-he-spent-most-of-missing-money?lite&gt1=43001

Where was FINRA on this?....BB

NBA players now using annuities

http://www.huffingtonpost.com/2012/07/12/nba-retirement-funds_n_1669312.html?utm_hp_ref=business

Because of the need for long term safety and security, the new NBA contract calls for a mandatory investment in annuities by NBA players

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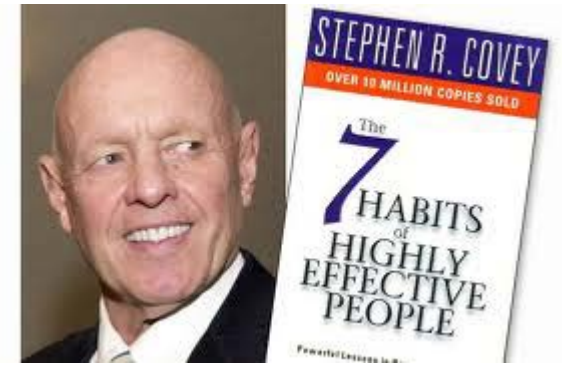
Stephen Covey passes



http://today.msnbc.msn.com/id/48198048/ns/today-books/?GT1=43001

Stephen Covey, the author of the best-selling book "*The Seven Habits of Highly Effective People*" died early Monday morning at 79 years old, according to The Associated Press.

I have read and re-read this book, has terrific stuff in it. So sorry to hear of his passing....BB

ABC of Annuities

http://www.chicagotribune.com/business/sns-201207111730--tms--retiresmctnrs-a20120711-20120711,0,1128505.story

Basic annuity stuff....but at least it is in mainstream media

---

FINRA called colossal failure

"73 years after its creation, the only rational conclusion is that Finra is a **colossal failure and should be dismantled."**

The next day, he tweeted: "Beautiful weather in DC today does not obscure the devastation to small businesses and consumers which would occur if **FINRA oversees RIAs."**

FINRA spokeswoman Michelle Ong **declined to comment**.

http://www.investmentnews.com/article/20120715/REG/307159991?utm_source=issuealert-20120715&utm_medium=in-newsletter&utm_campaign=investmentnews&utm_term=text

Get them fighting amongst themselves and they might leave us alone.....I think they had an operating loss of almost $100 million last fiscal year....Hmmmmm.....BB

In their defense....well not really...but anyway...here is a great link on variable annuities from FINRA....I use it all the time.....BB

www.finra.org

go to www.finra.org and add variable annuity to the search tool....tons of stuff.....BB

Speaking of FINRA.....

http://www.investmentnews.com/article/20120715/REG/307159981?utm_source=issuealert-20120715&utm_medium=in-newsletter&utm_campaign=investmentnews&utm_term=text

FINRA issues warning on risks of ETNs

Swings by Credit Suisse, Barclays notes have triggered scrutiny

The **Financial Industry Regulatory Authority Inc**. issued an investor alert last week about the risks of exchange-traded notes, following an investigation sparked by manic swings of Credit Suisse and Barclays ETNs.

ETNs are complex products and can carry a raft of risks," Gerri Walsh, Finra's vice president for investor education, said in a statement. "Investors considering ETNs should only invest if they are confident the ETN can help them meet their investment objectives, and they fully understand and are comfortable with the risks."

ETNs typically get lumped the same category as exchange-traded funds, but in fact, the two vehicles are quite different. Unlike ETFs, which hold a basket of stocks or bonds that trade intraday on an exchange, ETNs are simply promissory notes written by banks to deliver the returns of an index, and don't actually hold anything.

US city bankruptcies: beached boys

http://www.ft.com/intl/cms/s/3/f83fe902-cb7d-11e1-911e-00144feabdc0.html#axzz20iVu8ukD

San Bernardino, Stockton Mammoth Lakes....who will be next?

What is the actual result? Bond holders will be discounting that is for sure....their bonds will now be worth less that they once were.....here come the predators. (Wall Street)

Buffett says more to come

http://www.bloomberg.com/news/2012-07-13/buffett-says-muni-bankruptcies-poised-to-climb-as-stigma-lifts.html

Warren Buffett the billionaire chairman of Berkshire, said municipal bankruptcies are **set to rise** as there's less stigma attached after three California cities opted to seek protection just weeks apart.

(This could have massive affect on ratings (agencies) and the municipal bond market, these bankruptcies could move the entire public funding system.....BB)

The City Council of San Bernardino, California, a community of about 210,000 east of Los Angeles, decided July 10 to seek court protection from its creditors. The move came just weeks after Stockton, a community of 292,000 east of San Francisco, became the biggest U.S. city to enter bankruptcy. Mammoth Lakes, California, also sought the shelter this month.

Bankrate article is pathetic

http://www.foxbusiness.com/personal-finance/2012/07/16/who-gets-my-annuity-money-if-die-too-soon/

Who gets the money form an annuity if I die prematurely? This answer is awful and it originated as a Bankrate article.....and you wonde3r why people do not understand our wonderful products....BB

Selling Life Insurance Has Never Been Easier

New LIFE and LIMRA Study Examines Changes in Insurance Planning Attitudes and Behaviors

WINDSOR, Conn. and ARLINGTON, Virginia, July 27, 2011 — It has long been said that life insurance is a product that is sold, not bought. Yet a new study finds that Americans' preferences for purchasing life insurance are shifting towards direct buying methods. While two thirds of consumers (64 percent) still prefer to buy life insurance from an insurance or financial professional, that number is down from 1996, when 8 in 10 (80 percent) preferred to buy the product face-to-face. Today, more than one in four adults (26 percent) prefer to purchase life insurance direct via the Internet, mail or over the phone.

"'Obviously, the Internet has fundamentally changed consumers' buying practices over the past 15 years," said Marvin H. Feldman, CLU, ChFC, RFC, president and CEO of the LIFE Foundation. "Recognizing the growing consumer interest to use the Internet to conduct research and buy life insurance, life insurance companies and agents have developed and implemented innovative strategies to engage and serve consumers through their websites and social media platforms that are more convenient for the customer."

Not surprisingly, younger consumers showed the most interest in purchasing life insurance through the Internet. Among those ages 25-44, a prime group for purchasing

life insurance, 31 percent said they would prefer to buy direct, with three in four citing the Internet as their preferred means of direct buying.

Online Life Insurance Sales are Simple and Fast

- **Internet Growth**
- **Tech-Savvy Consumers**
- **Saving Time**
- **Benefits**

Annuity.com has all the tools and training in place to make the Life insurance process Simple and Fast for you so you are not leaving any commissions on the table. Check out www.annuity.com/agenttools

Here is a testimonial from a new agent that is purchasing the Life Leads through Annuity.com:

Before I came across Annuity.com I was working about 70 hours a week and driving about 1500-2000 miles a week to my appointments. Now with your lead system and online applications process and training, I am able to work half the time and am making twice as much $$$.

Last Thursday I took my grandkids down to the beach and brought my cell phone and lab top with me and was able to take three applications while

enjoying the day with the grandkids. Thanks Guys you made selling life insurance fun again for me!!!

Rich C. California

Plan of action

- **Email Shaun at shaun@annuity.com or call at 208-297-7818 and request the agent set up kit.**
- **Schedule a one on one webcast with Shaun to go over the online sales process.**
- **Lock in your exclusive territory for the Life Leads.**
- **Get on the Tuesday webcast starting in August.**

Annuity.com Life Division:

Shaun Ebben:

Call Anthony Owen for more info: 888-742-4368 ext 1

every day

Beginning in August, we will have agent webinars specific to life insurance conducted by different home office and field marketing experts on simple and complex uses of life insurance, more later this month.....

www.annuity.com/agenttools

Dave is on vacation this week....

On December 17, 2010, the "Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010" (TRA 2010) became law. TRA 2010 establishes the federal gift, estate and generation skipping transfer (GST) exemption amounts and tax rates until it expires on December 31, 2012. Thereafter the exemption amounts and tax rates change dramatically unless

Congress changes the law. The table below summarizes the exemption amounts and tax rates in effect from 2009 to 2013.

Year	Gift Tax Exemption	Estate Tax Exclusion	Tax Rate
2009	$1,000,000	$3,500,000	45%
2010	$1,000,000	$5,000,000	35%
2011	$5,000,000	$5,000,000	35%
2012	$5,120,000	$5,120,000	35%
2013	**$1,000,000**	**$1,000,000**	**55%**

Caution: The link contains the complete article, be sure you completely understand all details. Be careful with this information and do not give specific advice unless you are authorized and licensed to do so....BB

http://www.producersweb.com/r/pwebmc/d/contentFocus/?pcID=f8208240e705223c5860afde3b277ec8

A perfect storm for gifting: Top reasons why your clients should act now

By Julius Giarmarco

Giarmarco, Mullins & Horton, P.C.

2012 provides an unprecedented opportunity (a perfect storm, in a good sense) to transfer wealth to future generations gift and estate tax free.
The federal estate tax is only vulnerable to lifetime gifts and or testamentary transfers to charity. Thus, in order to transfer wealth free of estate tax taxes to family members, high-net-worth individuals must make lifetime gifts. For the reasons discussed below, 2012 provides an unprecedented opportunity (a perfect storm, in a good sense) to transfer wealth to future generations gift and estate tax free. **(high net worth is not really applicable, with limits lowering, many prospects in our target market can be liable....BB)**

Bush tax cuts expiring

The Tax Relief Act of 2010 increased the 2012 gift tax exemption to **$5.12 million per person and lowered the top gift tax rate to 35 percent.** However, on January 1, 2013, the estate and gift tax exemptions are scheduled to return to **$1 million and the top gift and estate tax rates are scheduled to increase to 55 percent.**

Most Republicans (including Governor Romney) favor repealing the estate tax. On the other side of the aisle, for the president's 2013 budget, he has proposed a $3.5 million estate tax exemption, a $1 million gift tax exemption and a top tax rate of 45 percent.

Obviously, the fate of the gift and estate tax exemptions will rest with the election results, but anyone who dies after 2012 has no assurance he/she will be permitted to transfer $5.12 million tax free at death. Therefore, high-net-worth individuals are well advised to use their gift tax exemption in 2012 while it is still available.

Historically low interest rates

Loans **—** Because of historically low interest rates, 2012 presents a unique opportunity for donors to transfer wealth to children and more remote descendants. The simplest technique is to lend money (or sell assets on installments) to a grantor trust for the benefit of family members in exchange for a promissory note.

GRATs — A grantor retained annuity trust (GRAT) is another way to transfer wealth utilizing the current low interest rates. GRATs allow for the transfer of assets to family members at a nominal gift tax value. The grantor transfers assets to an irrevocable trust that pays the grantor a fixed annuity for a set term of years. The annuity is designed to return to the grantor the entire amount of the gift plus interest. The interest for a GRAT is the IRC Section 7520 rate which is 120 percent of the mid-term AFR (1.2 percent for July, 2012). To the extent the assets in the GRAT appreciate more than 1.2 percent (the hurdle rate), the assets remaining in the GRAT at the end of the term pass to the remaindermen (usually the grantor's children or a trust for their benefit) free of transfer taxes.

CLATs — Lastly, a charitable lead annuity trust (CLAT) is a method for charitably-minded donors to transfer assets to both charity and to family members in a tax efficient manner. A CLAT is an irrevocable trust that pays one or more charities a fixed annuity for a set term of years. In return, the grantor receives a gift tax charitable deduction. At the end of the term, any assets remaining in the CLAT pass to the remainder non-charitable beneficiaries (usually the grantor's children).

President Obama's budget proposals

As mentioned above, President Obama's proposed budget for 2013 (issued on February 13, 2012) would permanently restore the estate tax system that was in effect in 2009 — a **$3.5 million exemption** with a top tax rate of 45 percent. **Perhaps more importantly, the gift tax and GST exemption would be reduced to $1 million**, bringing an end to the unification of the gift and estate tax exemptions. Other proposals include:

Grantor trusts — In a major rewrite of the estate tax provisions, any individual who is taxed as the owner of a trust for income tax purposes will have to **include the trust assets in his or her gross estate for federal estate tax purposes.** And distributions from such grantor trusts to beneficiaries during the grantor's lifetime would be subject to gift tax. These rules would apply to trusts created on or after the enactment date and to any contributions made after the enactment date to grandfathered trusts.

Although the proposal appears to be targeting installment sales to intentionally defective grantor trusts, the implications are far greater. For example, most irrevocable life insurance trusts (ILITs) are grantor trusts under IRC Section 677(a)(3) (because trust income can be used to pay premiums on a policy insuring the life of the grantor or the grantor's spouse); or under IRC Section 677(a)(1) and (2) (because trust income may be distributed to the grantor's spouse without the consent of an adverse party). Thus, if enacted, **the proposal could result in the proceeds in an ILIT being subject to estate taxes.**

Dynasty Trusts — Dynasty trusts are also **under attack**. Under the president's proposal, the generation-skipping tax exemption would be limited to 90 years. Thus, distributions from trusts established in states that allow trusts to continue in perpetuity (like Michigan) or for a very long time (like 360 years in Florida) would be subject to generation-skipping taxes after 90 years. Trusts created before the enactment date of this proposal would be grandfathered.

Valuation discounts — Valuation discounts obtained through the use of family limited partnerships and family limited liability companies allow donors to "leverage" their $13,000 annual gift tax exclusion and $5.12 million gift tax exemption. Although lacking in details, the president's proposal would **scale back** the use of such discounts retroactively to October 8, 1990 (the effective date of IRC Section 2704). These proposed changes add further urgency for high-net-worth individuals to make discounted gifts in 2012.

Conclusion

The confluence of an historically high (though temporary) estate and gift tax exemption, historically low interest rates and economic events depressing asset values has created a rare opportunity for proactive estate planning and represents a major window of opportunity for high-net-worth individuals to avoid estate taxes. In short, 2012 presents the greatest opportunity for wealth transfer planning to date.

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Standing on the edge of a fiscal cliff

http://www.investmentnews.com/article/20120715/REG/307159992?utm_source=issuealert-20120715&utm_medium=in-newsletter&utm_campaign=investmentnews&utm_term=text

With Republicans and Democrats battling over tax and spending cuts, the fiscal cliff looms larger than ever for advisers, clients

By **Andrew Osterland**
July 15, 2012 6:01 am ET

As the U.S. economy inches closer to the edge of the so-called fiscal cliff, financial advisers are bracing themselves — and their clients — for another wave of uncertainty and tumult

The combination of federal tax and spending policy changes that will automatically take effect Jan. 1 if Congress doesn't act would decrease the budget deficit next year by approximately $600 billion — or roughly 4% of gross domestic product.

It also is likely to send the economy into the tank.

“I think "fiscal cliff' is a pretty good description of what we face,” said Brett Fykes, a senior partner at GenSpring Family Offices LLC. “If all the tax cuts

expire and the spending cuts go into effect at the same time, it's going to hurt an already weakening economy."

However serious the damage to the economy, the changes are apt to make life more difficult for financial advisers.

Mr. Fykes already has made the issue a topic of discussion in his regular client reviews and said that as the deadline grows closer, people are asking more questions.

"Our clients are certainly attuned to this now. They want to know how to position their portfolios based on the potential outcomes," he said. "The fiscal cliff is one of the things top-of-mind when it comes to thinking about portfolio allocations these days."

Mr. Fykes is recommending a little more cash, high-quality fixed-income securities and more alternative assets until the situation becomes clearer.

ECONOMY COULD SUFFER

What is clear is that unless Democrats and Republicans can agree to extend at least some of the Bush-era tax cuts or postpone some of the spending cuts mandated by the Budget Control Act passed last year, the economy will suffer.

"The macroeconomics behind the fiscal cliff issue is horrendous," said Allen Sinai, chief global economist with consultant Decision Economics Inc. "It's unthinkable that this might actually happen."

The full effect of the policy changes that could kick in at year-end would nominally reduce the federal budget deficit by $607 billion next year, according to estimates by the Congressional Budget Office. Tax increases would account for about two-thirds of that, with increases in marginal tax rates and the expiration of the payroll tax reduction the biggest elements.

Estate and gift tax provisions would change, and capital gains and dividend tax rates would increase. All told, the tax changes set to take effect would pull $399 billion out of the private economy next year.

On the spending side of the equation, the deal struck at the 11th hour last year to raise the debt ceiling mandates spending cuts of $1.2 trillion over the next 10 years — half of it in the defense budget. Of those cuts, $65 billion worth goes into effect next year.

Along with the expiration of emergency unemployment benefits, reduced Medicare payments and other spending cuts, they would bring the total reduction in government spending to $208 billion.

Alan Ungar, an adviser with Critical Capital Management Inc., said that he is concerned about the level of government debt but even more concerned about the fiscal cliff we're approaching.

Implementing big tax increases and big spending cuts simultaneously isn't the way to deal with the issue, he said.

“We can't bring back fiscal responsibility without attacking entitlements, and we can't do it without raising revenue. But the experience in the eurozone is evidence that extreme austerity does not work,” Mr. Ungar said.

It is the large potential tax increase that upsets clients most.

“Our clients are generally pretty angry about this, but that's been a common state of mind for them over the last few years,” said Rick Kahler, a registered investment adviser and president of Kahler Financial Group

Many of his clients are business owners, and for those with C corporations, he recommends that they pay out most of the company's retained earnings to themselves as dividends before Dec. 31 if it looks as if Congress isn't going to act. That way, they can take advantage of the 15% dividend tax rate, which is set to rise next year to up to 39.4% for those with the highest income.

“It could be a huge savings for them,” Mr. Kahler said.

Matt Olver, a wealth adviser is similarly preparing his wealthier clients to make changes if the politicians don't act.

“The higher-income clients are obviously the ones most concerned,” he said. “We're taking a wait-and-see attitude for the time being.”

Ric Edelman, chief executive of Edelman Financial Group Inc., expects that he will be doing a lot more substantial tax planning for clients if it appears that the tax changes will go into effect.

HARVEST GAINS

It could end up being the year to harvest tax gains, given the potential increase in the capital gains rate, he said.

“There could be a massive number of transactions toward the end of the year,” Mr. Edelman said.

However, he expects that Congress will take steps to moderate some, if not all, of the tax changes before year-end.

And even if it doesn't, Mr. Edelman doesn't expect calamity.

“There's a lot of Chicken Little going on now about the state of the economy. Even if Congress and the White House don't extend the tax cuts, it's not the Armageddon people claim,” Mr. Edelman said,

“We're not talking about Pearl Harbor,” he said. “We're talking about annoying, disruptive taxes that would interfere with the economic recovery.”

Joel Isaacson, head of an eponymous RIA firm, is equally sanguine.

“There are always scary things out there that can take down the economy,” he said.

Mr. Isaacson, too, expects that the political parties will compromise to avoid sending the economy over the cliff.

"We just have to be prudent about raising taxes and bringing spending down to let the economy stabilize," he said.

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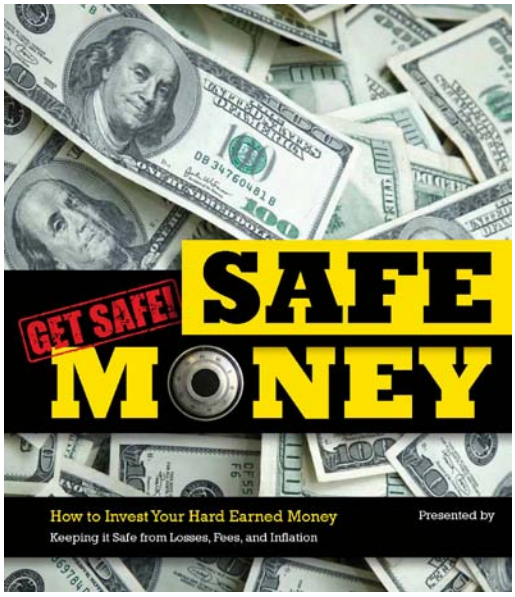

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- **Decide**

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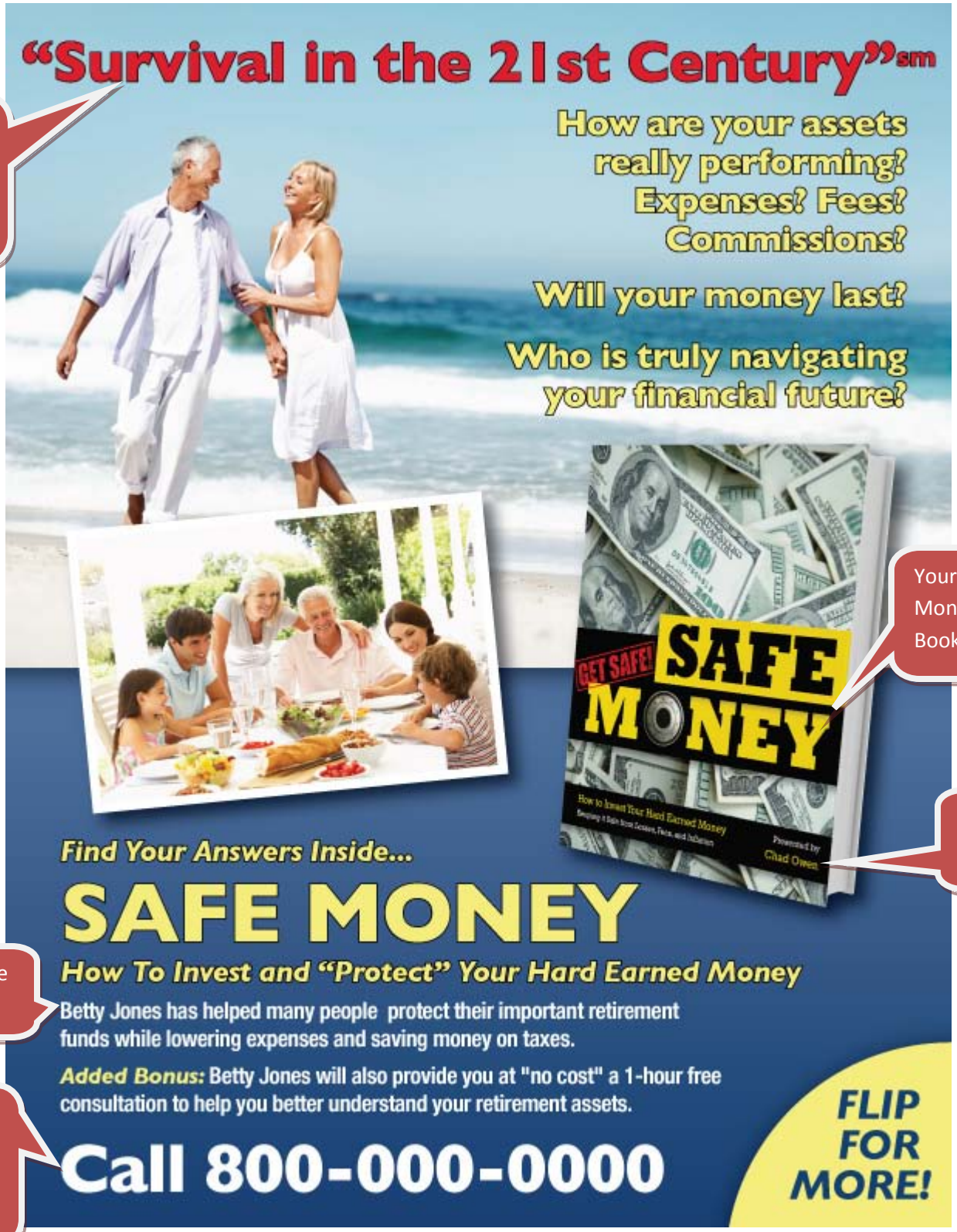

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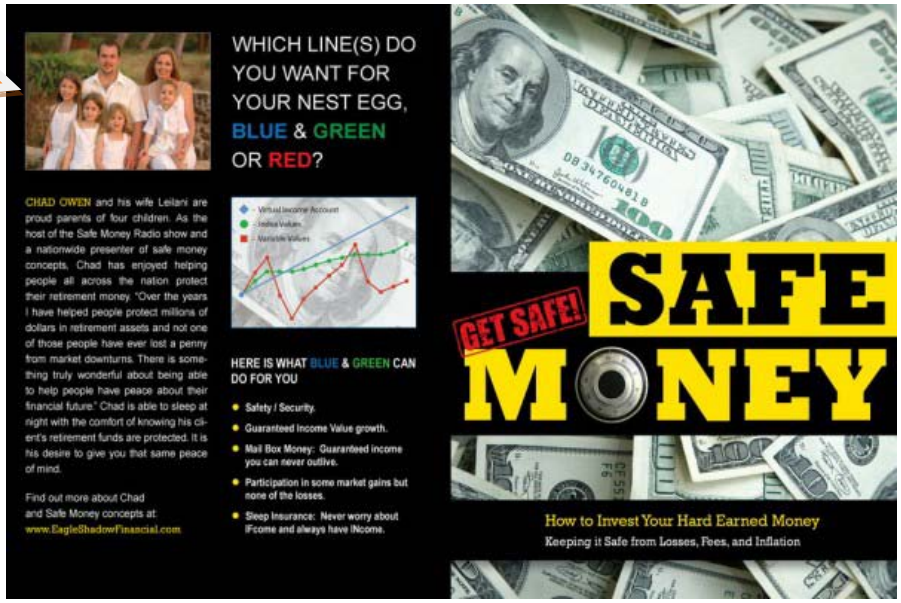

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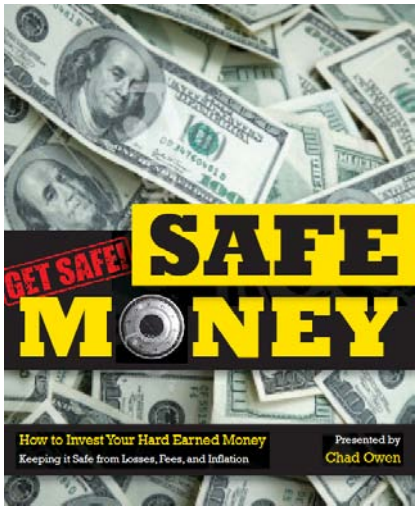

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