

IN THE NEWS

Welcome to the October issue of *InSights*, a monthly e-newsletter that provides you a roundup of the most important financial services industry news. Each issue is divided into two sections, the “**Advisor Perspective**” and the “**Client Perspective**,” to give you vital information relevant to advisors *and* clients.

ADVISOR PERSPECTIVE

IRS Issues Guidance on the Economic Substance Doctrine

The IRS issued guidance recently on how it will apply the [economic substance doctrine](#), formerly a common-law rule that Congress recently made part of the Internal Revenue Code. The IRS states it will not issue letter rulings or other guidance on whether specific transactions qualify as having economic substance apart from their tax benefits.

The Dynasty Life Insurance Trust: Never Use a Regular ILIT Again

Because a life insurance death benefit is subject to estate taxes at the death of the insured, it is common for the insured to set up an irrevocable life insurance trust (ILIT) for the benefit of the intended beneficiaries as a means of avoiding estate tax at the death of the insured. A recent article by Steve Oshins in [Life Insurance Selling](#) suggests the ILIT should be drafted as a dynasty trust, which is an irrevocable trust protected from estate taxes for as long as applicable state law allows. With proper drafting, a dynasty ILIT can also be designed to protect the trust assets from the creditors and divorcing spouses of the trust beneficiaries.

Reverse Mortgage Guidance Issued

Bank, thrifts and credit unions received a new framework for providing clear and balanced information to consumers about the risks and benefits of reverse mortgages under [final guidance](#) issued by the Federal Financial Institutions Examination Council. The guidance is of importance to CPAs who may consider reverse mortgages as part of a prudent personal financial planning strategy for their aging clients, and to CPAs employed with lenders.

Analysis of the Expiration of the 2001-2003 Tax Cuts

The Tax Policy Center of the Urban Institute and the Brookings Institution published an [analysis](#) of the expiration of the tax cuts enacted in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) that will occur at the end of 2010 unless Congress acts to extend them. The report predicts that if the cuts do expire as scheduled, income taxes will rise sharply for most Americans.

The Misuse Time Bomb of Indexed Life Variable Loan Rates

With the right design and company, [indexed life insurance](#) may be one of the best retirement savings investments today. However, there is one major flaw in the way most agents present projections of future streams of income; consequently, an unwelcome reckoning may be coming.

Life Settlements in U.S. May Have High Fees, Lack Transparency, GAO Says

Cashing out life insurance policies may be risky for sellers and buyers because of inconsistent regulation, according to the [Government Accountability Office \(GAO\)](#). Senior citizens selling their policies may be charged excessive fees and get less than they should when selling their policies in the life settlement market. Investors who buy the policies may not receive enough information about the risks.

Insurance Outlook: Is the Worst Behind Us?

After enduring enormous stress through mid-2009, the overall health of the [U.S. insurance industry](#) has improved in 2010. Though the market turmoil forced many companies to take immense write-downs, the worst of the crisis appears to have passed.

Consumers Pile in to Life Insurance with Investment Aims

Buyers of life insurance in the second quarter moved toward purchasing more expensive policies that include an investment component, perhaps seeking safety amid turmoil in the stock market. Annualized premiums on whole life policies jumped 23 percent while universal life rose 11 percent in the quarter, according to data released Wednesday by [LIMRA](#). Individual life insurance premiums rose 7 percent overall in the first six months of the year, rebounding from the steepest six-month drop in almost 70 years in 2009.

New Life for Charitable Lids

Two recent court victories give formula clauses more power in estate plans. One common estate planning technique the Internal Revenue Service has opposed or blocked for years is “[charitable lid planning](#).” This technique relies on “defined value” and “value adjustment” clauses, or similar provisions, in wills, deeds or other transfer documents to cap the transfer taxes on estates, gifts or generation-skipping trusts at some predetermined amount.

Financial Regulatory Reform: What You Need to Know

The [Dodd-Frank Wall Street Reform and Consumer Protection Act](#), which became law in July, will: create new regulations for companies that extend credit to consumers; exempt small public companies from Sarbanes-Oxley section 404(b); make auditors of broker/dealers subject to PCAOB regulation; and change registration requirements for investment advisors.

New Bank Rules to Benefit Investors

Under the new [Basel accord](#), banks will now have to hold common equity equal to 7 percent of their total assets, a massive increase from the international standard of 2 percent (and the U.S. standard of 4 percent). This move should help reduce the likelihood of bank failure and help the global economy.

Two Life Insurance Bills Set for Hearings in Pennsylvania

[Legislatures](#) are set to discuss disclosures relating to viatical settlements and a bill designed to address the inappropriate misrepresentation of credentials and insurance products.

The 1099 Fracas and Income Tax Evasion 101

There is a huge gap between what businesses owe and what they paid in taxes, as illustrated by the \$245 billion dollar difference in 2001. The new Affordable Care Act includes a provision that requires small businesses to send a [1099](#) tax form to any vendor they purchase at least \$600 in goods in services within the taxable year. Health reform critics say this provision will cost the businesses time, money and jobs.

High-fee Passive Advisor Hypocrisy

Many index-fund favoring advisors, touting the benefits and low cost of exchange-traded funds, are sticking their clients with [high fees](#) for their passive investment approach.

CLIENT PERSPECTIVE

America's 21st Century Business Model

A recent [Forbes](#) article suggests the U.S. will thrive based on its innovative business culture driven increasingly by a diverse pool of immigrants.

Eight Money Trends Shaping Seniors' Lives

A recent [Yahoo Finance](#) article discusses eight trends that many economic experts believe will shape money matters for people in or nearing retirement.

Locking in Income for a Lifetime

As more workers enter retirement relying on cash from a 401(k) plan or similar account instead of a company pension, [fears are growing](#) that some could mismanage their money and outlive their savings.

More Go Without Life Insurance

Nearly a third of U.S. households have no life insurance coverage, the highest percentage in more than four decades, according to research firm [LIMRA](#). About 35 million U.S. households neither own their own life-insurance policies nor are covered under employer-sponsored plans, up from the 24 million, or 22 percent of households, without coverage in 2004.

Low Interest Rates Are Good for Borrowers but Not for Savers

Consumers and businesses are capitalizing on [record-low interest rates](#), but savers are suffering on the flip side of the reduced rates. Retirees and others are seeing their incomes hindered by the low rates, a side effect of the monetary policy meant to spur economic growth.

Majority of Workers Doubt They Will Have Enough Money to Retire

Nearly two-in-three American workers say they have strong doubts that they eventually will be able to stop working and retire, according to a new StrategyOne [survey](#).

How to Play the Tax Wars

Congress will have to tackle a mountain of tax decisions in the coming weeks. A recent [Wall Street Journal](#) article considers how American taxpayers can effectively plan to deal with the uncertainty surrounding the future of those taxes.

Billionaires Join Gates and Buffett in Charity Pledge

Microsoft co-founder Bill Gates and billionaire investor Warren Buffett have enlisted 40 other wealthy families and individuals in a [pledge](#) to donate at least half of their fortunes to charity. After a six-week campaign, Buffett released the first list of billionaires who signed the "giving pledge."

The New Threat to Your IRA: An IRS Crackdown

The IRS is planning on searching out [violations](#) of rules regarding individual retirement accounts, something its been haphazardly enforcing.

How to Prioritize 401(k) and IRA Contributions

Reviewing the benefits of your 401(k) plan and IRA may make it easy for you to [decide](#) how to divide your retirement contributions. This article explains the review steps to determining your contribution amounts.

Why Tax Hikes for the Wealthy Are Inevitable

There are a few compelling reasons to think that [tax hikes](#) for the wealthy are inevitable. Consider popular support, the small portion of population the hikes would affect and our current economy, and it's easy to see why.