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An economic and investment update

# THE FINANCIAL INSIDER

**Volume XXXVIII, Number II**



## 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:

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## Rules of the Road for Taking an Early Retirement

Have you ever entertained thoughts of taking an early retirement? Suppose you're age 55 and could take home a pension income that amounted to 60% of your pay if you retire now. If your income is high, it may seem that you would be able to retire in reasonable comfort. However, before calling it quits, weigh all of the facts *carefully* to be sure an early retirement makes financial sense for you. Here are eight rules to consider if you're thinking about taking an early retirement:

**Rule #1: Weigh the pros and cons of retiring now or in the future.** Retiring at age 55 with, hypothetically, 60% of your income may seem like a good deal at first. But if you wait until full retirement age, you will have another 10 years of full earnings under your belt, along with any pay increases from promotions, merit raises, and inflation. This will provide you with more money to save for retirement, and ultimately, it may boost your Social Security and pension benefits. Also, if you consider the difference in the percentage you will receive now and in 10 years for example, 60% if you retire now versus 80% if you retire in 10 years retiring now may not seem as attractive.

**Rule #2: Remember to factor inflation into your decision.** If you think you could manage on 60% of your income, remember that inflation will erode your pension. If you retire today and let's say you receive a pension income of $1,600 per month for life, in 20 years at a 4% rate of inflation, you'll have the equivalent of $707 in today's dollars.

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## Permanent Life Insurance: Offering Benefits at Any Age

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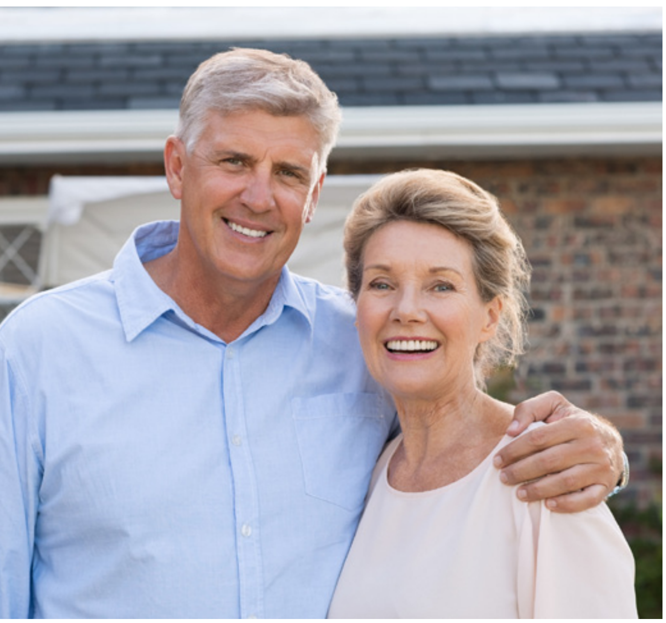
1) **Lifestyle benefits.** Building assets to generate sufficient income is a major concern of many people planning for retirement. As life expectancies increase, your existing assets must support you for an unspecified number of years. Permanent life insurance may help ensure that a surviving spouse 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** (approximately $11.2 million in 2018) may be subject 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. $

# 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 approximately $11.2 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 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.

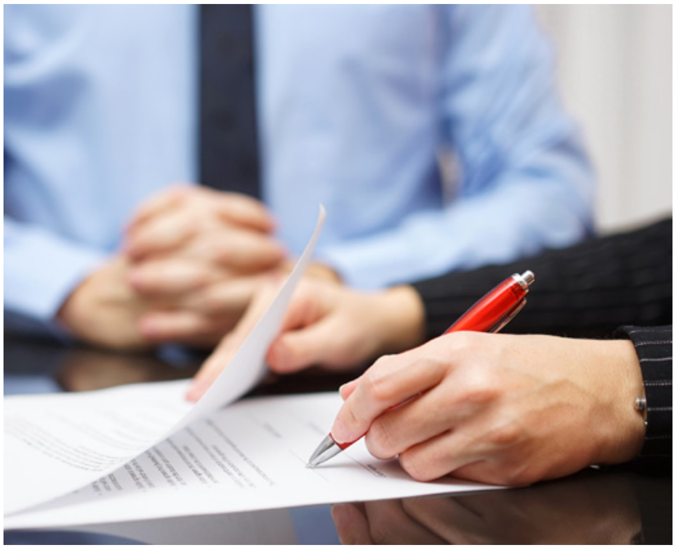
Again, entire policy benefits may be included in your estate unless all incidents of ownership are transferred more than three years before your death. In practice, the application of this rule is not always clear. Therefore, it is important to consult with your tax and legal advisors to ensure that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

### A Plan of Action

Here is some additional information that you may want to discuss in detail with your advisors: For new life insurance policies, insurance 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 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. $



# Perk Up Your Employees—They May Feel Better

Employers are looking for more ways to promote employee productivity and provide incentives for working toward company growth. As an employer, you may spend a lot of time focusing on salary, benefit plans, a positive work environment, and vacation schedules to perk up your employees. However, you may want to motivate your workforce by offering a menu of fringe benefits that can make a significant difference in the workplace environment and employee morale.

Here are five options that you may want to consider:

1) **Qualified transportation fringes.** Travel expenses can really add up, especially in heavily congested urban areas. Your employees may live near a transit line and commute to work, or they may drive to work and pay for parking. As an employer, you can provide cash reimbursement to your employees for transportation and parking, and your employees can exclude the payments from their gross income. Through 2018, the amount that may be excluded for qualified mass transit, van pools, and parking is $260 per month.

   Beginning in 2018, the Tax Cuts and Jobs Act of 2017 (TCJA) repeals the prior law on employer deductions for qualified mass transit and parking benefits, except as necessary for ensuring the safety of an employee. The new law does not affect the ability of employees to deduct mass transit and parking benefits, which they can continue through salary deferrals.

2) **Working condition fringes.** Not all fringes involve reimbursements or advances. Suppose your company sells products or provides services that require significant automobile travel. As a perk, you can provide a company vehicle (even with a driver) for business use. Consequently, your employee's car is spared the wear and tear. In addition, you can pay for an employee's business travel by airplane or train. Another fringe may be to offer employees the opportunity to work from home, when possible.

3) **No-additional-cost services.** If your business offers services to customers, you may be able to offer those same services to your employees. As long as there is no loss of income or additional cost to your business, you may offer the services to your employees free of charge. For example, an airline may offer a flight attendant the perk of flying for free on a "stand-by" basis. The flight is at no cost, and the employee is flying in an otherwise vacant seat. These types of fringe benefits may also apply to certain employees of hotels, cruise ships, and communication companies.

4) **Qualified employee discount.** For businesses that sell products or provide services to customers, why not provide an employee discount? If you sell a product, your employee discount would be the current sale price multiplied by your "gross profit percentage." If your business provides services, the maximum discount is limited to 20% of the current price for services offered to your customers.

5) **De minimis fringes.** Even some smaller perks may boost employee morale, reinforce productivity, or recognize special occasions. For instance, you may provide tickets to a theatre or sporting event, organize a dinner at a restaurant, or give out flowers or fruit baskets for outstanding service, employee illness, or family crisis. Your employees may appreciate your thoughtful gestures, as well as the positive recognition or compassion you have taken the time to express. Under the TCJA changes, employers will need to identify awards that are taxable fringe benefits and deduct payroll taxes.

Smaller fringes may also involve occasional perks *within* the workplace. For example, if you ask an employee to work overtime, you may provide money for meals and local transportation fare. Be creative and come up with other perks that your employees may appreciate.

Fringe benefits can play an important role in creating a positive work environment. They can help create a bond between you and your employees and increase employee loyalty. Would one or more of these fringes be appropriate for *your* business? A thorough review can help you find out. $

# Ten Tips for Creating an Effective Estate Plan

Whether your estate plan is simple or complicated, many details can undermine the effectiveness of your plan. But, there are also ways to ensure the effectiveness of your plan. Here are 10 steps to help remedy or avoid some common estate planning mistakes:

**Consider using a will to transfer property to children instead of owning property jointly.** Unlike a will, a transfer of an interest in your property is irrevocable, which may prevent you from changing the disposition if circumstances change before your death. Holding the title to your personal residence jointly can result in partial loss of the capital gain exclusion if it is sold before your death. Therefore, it's often recommended that you use your will to make any property transfers that will occur upon your death.

**Think before gifting property to your children.** Parents often regret having made outright gifts to a child if the child subsequently divorces, and the ex-son- or daughter-in-law is awarded an interest in the gifted property by a court. Or, under other circumstances, the property may be taken pursuant to a legal judgment against the child. These problems can be avoided through proper use of trusts or a business entity, such as an LLC.

**Ensure your assets pass according to your wishes upon your death.** Many types of assets can pass to your heirs or others based upon beneficiary designations (e.g., life insurance, IRAs, brokerage accounts). The provisions of your will cannot change a beneficiary designation. Remember to account for items you've already designated when you create your will. Review your will, as well as all other beneficiary designations, when formulating your estate plan.

**Know your estate's true value for Federal estate tax purposes.** Many people are unaware of the fact that life insurance proceeds are included in their taxable estates if they own the policy. This could increase their total estate value to more than the amount sheltered from estate tax by the estate tax exemption which doubled in 2018 with the new tax law to approximately $11.2 million.

**Check changes in the law regarding state death taxes.** Many states have "decoupled" their death tax from the Federal estate tax, which means your estate could be subject to death tax in a state, even if no Federal estate tax is due. However, with proper planning, this may be avoided. The laws of each state where you own property should be carefully reviewed to determine potential state death taxes and how to reduce them.

**Review the portability provision of the estate tax exemption.** Estate tax exemption may be transferred between spouses, so that if one spouse dies and does not use the full exemption amount, the remainder can be used by the surviving husband or wife, if he or she also dies. For estate planning purposes, this means that husbands and wives do not have to split assets between them, or be concerned about who holds the title on various assets. Yet, this does not eliminate the need for planning.

**Maximize income tax basis "step-up" benefits at death.** Consider holding low-basis/high-value assets to be given at your death, since the basis for capital gain computation purposes will be increased to fair market value at death. If the asset is given away, the basis remains at the property's original cost. However, the combination of stepped-up basis and a higher exemption in 2018 will reduce income and transfer taxes.

**Specify your desired funeral arrangements.** A pre-arranged funeral may relieve family members from additional stress upon your death. You can also prepare for the costs of a funeral.

**Plan for a potential disability.** Consider establishing advance directives, powers of attorney, and designated trustees, since costly and time-consuming court proceedings may be required in order to appoint a guardian or conservator to act on your behalf if you become incapacitated.

**Review and update your estate plan regularly.** Changes in the law and in your personal situation make it important to periodically review and update your estate plan so that it continues to reflect your wishes.

Early and thorough estate planning can help you reach your financial goals and help ensure that your wishes will ultimately be implemented. Be sure to consult with your tax, legal, and financial professionals. $

## Rules of the Road for Taking an Early Retirement

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**Rule #3: Prepare for longevity.** The longer you live, the more money you'll need in retirement. Due to increased longevity, an early retirement plan must include a budget to meet the financial needs of several decades beyond the normal retirement age of 65.

**Rule #4: Evaluate other retirement income resources.** If you already have a sizable nest egg, or if you expect to collect a pension from a previous employer, the amount of your *current* employer-sponsored retirement plan

may not be as robust. If so, perhaps you can exit the labor force earlier because you have other sources of retirement income.

However, don't expect Social Security to provide most of your retirement income. The Social Security Administration (SSA) projects that benefits will replace about 40% of the average worker's preretirement income and retirees may need 70% or more of preretirement earnings to live comfortably (SSA). Also, since the future of Social Security and **Medicare** is uncertain, you may have to provide more funds for future health care expenses.

**Rule #5: Evaluate the economics of part-time work.** If you decide to leave your present job, will you be securing employment elsewhere until you permanently retire and start collecting your pension? Keep in mind that it may be difficult to find another equally high-paying position. Although the prospect of part-time work may make it possible to consider an early retirement option, be sure you can depend on a reduced part-time income until full retirement.

**Rule #6: Be aware of the early retirement impact on Social Security benefits.** If you are under full retirement age and continue working after you begin collecting Social Security benefits, you may have to "give back" a portion of your benefits. In addition, if you continue working after you begin collecting Social Security, a portion of your Social Security benefits might be taxed. You can determine how much of your benefits will be included in your gross taxable income with a calculator found online at the Social Security Administration's website, www.ssa.gov.

**Rule #7: Take an early retirement before downsizing or layoffs occur.** Is there a chance your company will lay you off if you do not elect to leave on your own? Many companies now lay off high earners as part of their cost-cutting measures. If your company is experiencing financial difficulties and downsizing appears imminent, you may get a better deal through early retirement than through the company's severance package.

**Rule #8: Understand the potential tax consequences of early retirement.** If you opt for early retirement, in some cases you may incur a 10% Federal income tax penalty for early withdrawals from a qualified retirement plan. Keep in mind that withdrawals taken from an **Individual Retirement Account (IRA)** before age 59½ may also be subject to a penalty.

Early retirement may be a long-held dream and a financial possibility. But, before calling it quits, assess your situation carefully. You will have to live with the effects of your choice for the rest of your life. Take the time now to make sure it will be a smart decision in the long run. $

# Managing Your Benefits When Changing Jobs

Starting a new job can be exciting. But, as you look forward to your new opportunity, consider carefully how you will manage your employer-provided benefits while transitioning from one workplace to another.

When you leave a job, your employee benefits generally end, unless you elect to continue them. While you may receive benefits from your new employer, they will most likely differ from your previous employer's benefits package. So, if there are any benefits you want to take with you, for example, accumulated savings in a 401(k) plan or similar retirement account, you will need to decide how to manage those funds before you exit.

## Insurance Conversions

Your new employer may not offer **health insurance**, or there could be a waiting period before health coverage begins, which sometimes can be from 30 to 90 days. To avoid becoming uninsured, even for a short period of transition, explore the possibilities of continuation or conversion under your former employer's health insurance.

Under a Federal law known as the Consolidated Omnibus Budget Reconciliation Act (COBRA), you are permitted to continue as a member of your previous company's health plan for up to 18 months after termination of employment, unless you are terminated for cause. Under COBRA, you are responsible for paying the entire premium, including the employer's contribution to the insurance, making COBRA premiums generally expensive. However, premiums may be less than you would pay for an individual policy. To continue coverage under COBRA, you must advise your employer that you are electing COBRA coverage.

COBRA continuation rights may not apply if you work for an employer with fewer than 20 employees. But, you may be able to convert your group health insurance policy to an individual policy without having to undergo a separate application for individual coverage. There may also be "interim" or "short term" policy options that could provide coverage for a couple of months for people between jobs. Or, you may need to secure individual health insurance coverage with a new provider that is not tied to your place of employment.

You may also have the option of converting other types of employer-sponsored insurance into individual policies. Depending on the group plan, you may be permitted to convert **life insurance**, **disability income insurance**, or **long term care insurance**. Be sure to talk with your benefits administrator about all your options.

## Retirement Plan Rollovers

If you have a retirement savings account in your current employer's 401(k) plan or comparable account, you will have the choice of reinvesting, transferring, or cashing in the funds.

To keep your retirement savings on track, you may want to consider rolling over the funds into another qualified retirement savings account, such as a rollover IRA. There are two ways to roll over funds. With an indirect rollover, your former employer makes the distribution payable to you, less 20%, which is withheld for Federal taxes. You must then reinvest the distribution into an IRA or other qualified plan within 60 days. In order to achieve a tax-free rollover, you must reinvest the full distribution amount, which includes the 80% you receive in cash, as well as 20% from your own funds to cover the amount that is withheld. Your withheld funds are refunded after you file your tax return, provided your rollover occurred within the 60-day time limit. Failure to reinvest the 20% withheld may result in income tax and a tax penalty if you are under the age of 59½.

To avoid the 20% withholding requirement, you may request a direct rollover to an IRA set up in your name or another qualified plan. Be aware that not all qualified plans accept this type of transfer. Because this method is considered a distribution option, spousal consent and other similar participant and beneficiary rules of protection may apply.

Another option is to roll over your funds from your previous employer's retirement plan into your new company's plan. In some cases, however, it may make sense to leave the funds where they are. Ask both employers about restrictions on these options, as well as any tax implications.

You have the option to take the funds in your 401(k) account as a cash distribution. For most people, however, this is not the best choice. After cashing in, you owe taxes on the funds, and you may also be required to pay a 10% tax penalty if you are under age 59½. Further, you forfeit the long-term benefits associated with tax-deferred earnings, making it more difficult to build the financial resources for your retirement income.

Your decisions regarding benefits when changing jobs can have a great impact on your financial future. Before making such important decisions, be sure to discuss your circumstances with the benefit administrators at both companies and consult your professional advisors. $

# Insurance Claims: An Inventory is Invaluable

Try closing your eyes and listing your living room furnishings or the contents of your jewelry box. If you have trouble coming up with a complete tally, imagine how hard it would be when you are distraught after a fire or burglary.

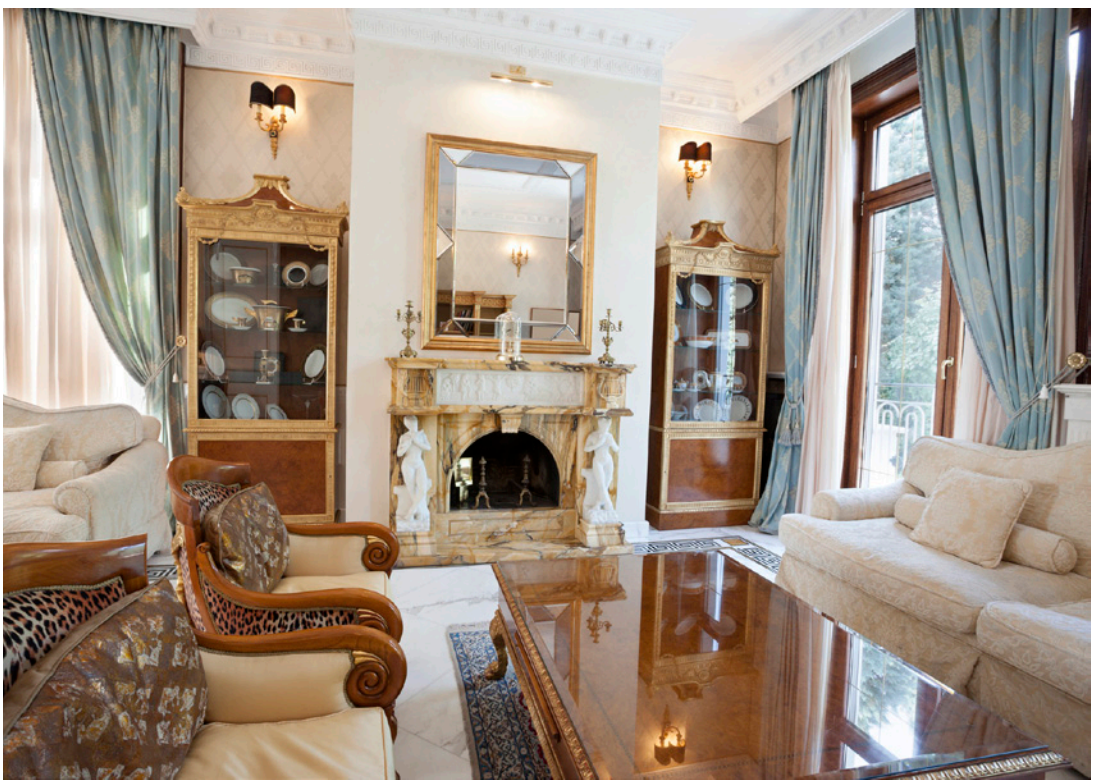
Developing an inventory of your household valuables is the most prudent step you can take to both save your money and provide yourself peace of mind. An inventory not only guarantees the completeness of any insurance claim you submit after a burglary or a fire, it may also ensure a smoother claims process.

Your claims are less likely to be questioned when based on such inventories, especially if you submit photographs, receipts, and appraisers' statements for valuable items. You should leave a copy of your inventory of household valuables with your insurance agent or in your safe deposit box.

What are the elements of the inventory? Key components are the date you bought each item of value in your possession and the purchase price.

A graphic description of each object, including age, brand name, size, model number, and other relevant details is critical. For sterling silver tableware, note the manufacturer, pattern, and number of place settings. If your possessions are extensive and of particularly high quality, consider filming them and recording your verbal descriptions of them.

If an appraiser has estimated the value of any of your possessions, you should record the figure and the appraisal date, reviewing the appraisal for precise, explicit descriptions. Highly generalized descriptions will not back up a claim.



For some property categories it is acceptable to lump together a number of articles and attach a single estimated value. This is a particularly wise approach with clothing. Unless you have closets full of designer clothes, there is no sense spending time and energy describing everything in your wardrobe.

Proper documentation is a key element of your inventory. Receipts and bills of sale should be saved with backup copies in a secure location, such as a safe deposit box.

The task may appear unnecessary and time-consuming, and you may never need your inventory records during your lifetime—and it is hoped that you won't. However, if you do, the time you spent will have incalculable value. $