



No-Load Insurance Planning, Design & Comprehensive Strategies

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Fee Advisors Network Newsletter

December 2008

~ Using Capital Leverage with an Expanded Arbitrage ~

By: Joseph W. Maczuga, LIC, CFIS

The following strategy can be very beneficial for an older client who: (1) has a need for stabilized or increased guaranteed cash flow, (2) has a desire to transfer wealth, (3) has charitable inclinations.

Capital Leverage

(1)
Client is in their 70's and has been taking a 5% conservative annual income stream (\$65,000) from their account that had been worth \$1.3 million. This account has fluctuated downward and is now worth \$1 million. This creates the dilemma of receiving a reduced cash flow of \$50,000 or increasing the annual distributions to a 6.5% factor, which will also invade capital.

To eliminate this conundrum, a suggestion is made to purchase a Single Premium Immediate Annuity (SPIA) with a Life Only option (which produces the highest annual cash flow). The negative to this approach is that, upon death, payments stop and any balance of monies left are kept by the annuity provider. To offset this, a \$1 million GUL policy is purchased on the life of the client which requires an annual premium of \$62,000.

Allocation of the \$1 million asset is as follows: \$62,000 annual premium for life policy is paid. Balance of \$938,000 purchase SPIA. Annual cash flow from SPIA is \$151,400. Exclusion Ratio (untaxed portion of SPIA cash flow) is 90%.

Result: Net annual guaranteed cash flow to client, after life premium and taxes, is \$83,400, or 8.34% of initial capital account (\$1 million).

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« « « « NETWORK UPDATE » » » »

Welcome New Members

Mark Smith (CA) Jerry Webb (IL)

Membership Information

Please visit our website at www.feeadvisorsnetwork.com for explanation of membership and information on membership benefits.

In Our Next Issue

To submit articles, letters-to-the-editor, or questions:

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Website

* Check out the [Network Affiliates](#) link on our homepage as it has been updated.

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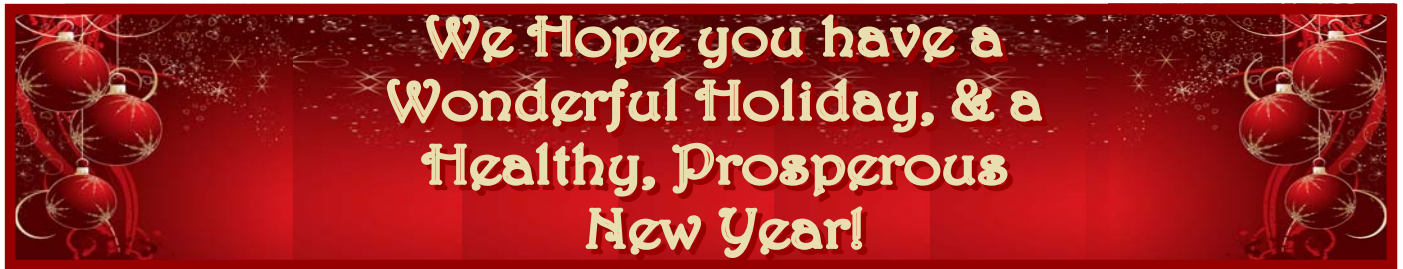
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(Using Capital Leverage Continued . . .)

(2)

Same case example as in #1, except that the client does not have a need for cash flow. Therefore, the annual cash flow of \$151,400 from the SPIA is fully directed to the purchase of the GUL policy. This provides \$2,345,000 of tax-free death benefit to the named beneficiaries/heirs. Under this scenario, the advisors has effectively increased the wealth transfer objective by 235%.

(3)

Variations of applicable conditions as stated in items #1 and #2.

Expanded Arbitrage

There is a dynamic that may expand capital leverage through the use of an arbitrage that is created on the basis that insurance companies look at mortality and life expectancies somewhat differently when quoting a lifetime payout on a SPIA and the rating table declaration for life insurance. By understanding this differential, an experienced underwriting staff can position a client that has some health issues in a way which we can obtain the best cash flow from an underwritten annuity against the best rating from the life company. Hence, a health issue becomes our catalyst in creating such an arbitrage, expanding the beneficial dynamics of capital leverage.

Working in conjunction with our Affiliate Sponsor, Schechter Wealth Strategies (who has an experienced and accomplished underwriting group), we can maximize the above referenced strategies. In addition, we can introduce structural design, or life settlement integration, that can increase the benefits of said strategies. For examples and/or more information, contact Joseph W. Maczuga at (248) 524-4140.

~ END ~

** WELCOME NEW NETWORK AFFILIATE SPONSORS **

RIA Registrar, LLC

RIA Registrar provides full service accommodation for those who are (a) looking at going independent and want to register as an RIA, and (b) those who are already a registered RIA but are interested in outsourcing all of their compliance requirements, records, filings, etc.

Contact Information:

Sheri Mushel, President / Phone: (800) 441-1219
E-Mail: smushel@riainfo.com / Website: www.riaregistrar.com

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The Gradient Group has three functional but separate components that may appeal to your current practice model or expansion of practice activity; Gradient Investments (money management), Gradient Advisors (seamless IAR integration), and Gradient Tax (three models for assimilating tax preparation or cooperative activity).

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Since both Sponsors are supportive of our mission statement and approach to our profession, take a moment and check out the programs being offered, or contact them for some discussion.

~ How a Broker Dealer Can Build a “Fiduciary” Model ~

By: John P. Napolitano, CFP®, CPA, PFS, MST, RLP®

The term fiduciary has been bantered about so much in the past few years. Many traditional broker dealers shy away from fiduciary thinking. They claim that they were born to process transactions and hire commission hungry salesman to generate their revenue. The difference between these old style firms and the ones that will survive the economic chaos now affecting our nation will be different. The new breeds are the creative firms of today who have adopted a fiduciary style of doing business.

A broker dealer with a fiduciary or RIA mentality understands that their advisors are most concerned with doing the right thing for their clients, and not maximizing compensation with any single transaction or relationship. The best are firms who insist that advisors put their clients' interest first, and also practice as registered investment advisors. In fact, the best broker dealer to tomorrow will need to have a terrific system for servicing the needs of registered representatives RIA entities as well.

For starters, BD firms will absolutely need to allow their registered reps to have their own and separate RIA entity. The only thing left to discuss about this is the pricing. Does the BD take a traditional 10% or more haircut just for the privilege of allowing the rep to maintain their own RIA? Not anymore. The BD firm has to offer real value and a valuable business partnership for the rep.

The firm must be prepared to offer just about any custody and clearing platform that the advisor wants. That may mean Fidelity, Schwab, TD Ameritrade, Pershing, etc. The BD firm will need to offer more than just an open platform for custody and clearing. The BD must offer some supervision of the RIA activities of their registered rep. Just how much supervision depends on just how large and active your RIA is. If you are trading alternative investments, hedge funds and options... expect the firm to be all over you. But if like many fiduciaries, your practice is heavily intoxicated with financial planning and some asset gathering, mutual funds, ETFs and separate account managers - their supervision should not be too onerous.

The firm needs to provide you with the services that you may (and probably should) outsource. Services such as performance reporting, reconciliations and trading are on the short list of things that I'd recommend any small to mid sized RIA delegate to a service partner. The BD of the future will be that service partner.

Beyond the ministerial and administrative side of the asset management business, the BD should be in a position to offer assistance at managing the portfolios. Trading software and platforms to research, guidance or even actual management of portfolios are all on the must have list for the BD of the future.

Until this market correction, most BD's gave only lip service to financial planning. They all talked about financial planning, and even sold financial products in the context of a financial planning environment, but never did they do a real comprehensive, independent financial review of every aspect of the clients' financial life. The BD of the future not only has to encourage their reps to act as fiduciary financial planners, but that BD will need to staff up with knowledgeable, experienced financial planners. These firms will have to advise, review and truly act as a partner in the financial planning process. They won't have to throw up silly roadblocks like some of the giant BDs of our past lives who won't allow you to advise on the clients closely held business or investment real estate portfolio. The future of financial planning also includes a heavy dose of life planning. It blows me away that some large BDs will not allow their reps to act as life planners. Every goal of the client, every asset of the client, and every resource of the client needs to be considered in the financial planning process, and no BD who expects to thrive under the fiduciary model can prevent that fact. It's simply great service that great clients will pay for.

The great BD of the future will be open to new ideas and receptive to allowing their firms to demonstrate individual preferences and styles regarding how they do business. Some may want to do things one way, while another in a different direction. Some will like variable annuities, and others will not. This will mean a whole new level of

(Continued on Page 6)

(How a Broker Dealer Continued...)

flexibility amongst these great BDs. They'll have to evaluate and do diligence on an ever increasing menu of products and money managers.

This also includes the insurance area. A great BD will allow life settlements, simply done in a fiduciary, transparent way disclosing all conflicts and specifically identifying compensation for everyone in the food chain of the transaction. This will also include a BD who is properly registered for variable life settlements.

As proactive and holistic financial planners, these BDs will also need to be able to provide top shelf support for the life insurance, disability insurance and long term care insurance markets. That's where no-load insurance comes into play. What could be a better way to prove that you truly work for your client, than to include true no-load insurance options for their insurance based solutions?

Believe me, it isn't going to be easy for these firms to move in this direction. I know this first hand. I started my BD a few years ago, and with over 50 reps and nearly \$10 million in revenues, it has been a long, slow climb to becoming a leader in this new space for broker dealers. Welcome to the fiduciary BD space.

~ END ~

John P. Napolitano, CFP®, CPA, PFS, MST, RLP®, is Chairman and CEO of U.S. Wealth Management, LLC, a company he founded to create a culture that did not exist in the marketplace. U.S. Wealth Management only works with financial professionals passionate about wealth management and willing to belong to a professional coaching program. The vision for U.S. Wealth is to be a leader in the hybrid RIA-Broker Dealer model for financial professionals. Napolitano is also editor-in-chief of [The Paragon Advisor](#), a practice management and business development newsletter featuring the top consultants to the financial services industry such as Dan Sullivan, Ron Carson, Bob Veres, Bill Cates, George Kinder and a host of others.

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If you are interested in ordering the tele-seminar hosted by Integrated QSG and presented by Joe Maczuga that was held on September 25th, please click on the following link:

<http://www.bigmoneyart.com/SecureCart/SecureCart.aspx?mid=05A77A68-DE09-4DF0-A75C-56930C29AEC4&pid=4b754b45905672560bdddefe406c0ccc&bn=1>

If you are interested in listening to the follow-up Q&A tele-seminar with Joe Maczuga held on October 8th, please click on the following link for the replay:

<http://www.instantteleseminar.com/Default.asp?eventid=4490733>

~ END ~

~ A Different Kind of Asset Protection ~
Incorporating Personal Excess Liability Insurance into Your Planning

By: Ted Tafaro / Exceptional Risk Advisors

A teen driving to school struck a cyclist, an executive with an annual income of \$2 million. The cyclist sustained a head injury, punctured lung and internal bleeding. He sued for medical bills and loss of his executive income. A settlement ultimately was reached for \$3 million.

Accidents happen every day, and it only takes one to put personal assets at risk. Many assume that their homeowners, automobile or boat insurance policies will provide adequate liability protection should they need it. However, each of these policies typically has a maximum claim pay-out of between \$300,000 and \$500,000. If the judgment exceeds one's coverage limits, he/she can be on the hook for the remainder. This means assets you manage could be at risk.

As a trusted advisor, it behooves you to address personal liability risks with your clients, particularly with those who have a net worth in excess of \$5 million.

What to Look For

Insurers who cater to the high net worth segment can offer up to \$100 million in liability coverage on a single policy to safeguard against claims of property damage and personal injury. Some carriers also facilitate background checks on domestic staff to further enhance protection.

When entering into a discussion about personal excess liability insurance, there are three key considerations:

Coverage Breadth

Make sure the policy provides broad, worldwide protection. One desirable example is "drop down" coverage. If a particular coverage feature on the excess policy is excluded from the primary policy, the excess limits can "drop down" to cover the loss. This feature helps eliminate potential gaps in insurance protection. In addition, be sure to confirm that personal injury is covered as many carriers restrict this important coverage feature.

Legal Representation

Many insurance providers typically assign a lawyer to defend a liability lawsuit; the policyholder is left out of the process entirely. Look for a provider that allows your client to weigh in on the choice of legal representation. Equally important, of course, is to ensure that the pool of attorneys is a reputable one.

Defense Costs

Some insurance providers include defense costs within the policy limits, which can quickly deplete coverage. Be sure that defense costs are covered *outside* of the limits, so legal fees won't erode protection.

For more information, or to learn how to partner with our firm for detailed client insurance portfolio reviews, call us at (866) 512-0444, or visit our website at www.exceptionalriskadvisors.com.

~ END ~

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Having the right risk management advisor to develop and manage a client's insurance portfolio is as important as choosing the right insurance company. Exceptional Risk Advisors can help you make that choice!

~ Premium Financing and Index Life in an ILIT ~

By: Errold F. Moody Jr., PhD, MSFP, LLB, MBA, BSCE

This is a real life analysis of a recent attempt by a New York firm to sell an \$11,500,000 policy with an AIG Index Life inside an Irrevocable Life Insurance Trust using Premium Financing. While the illustrations are not included in this material, the references will be obvious.

Be advised that this is not all inclusive with every detail of the research.

Overview

Premium financing is the use of an outside source of funding to purchase, generally, a large life insurance policy. The policy needs to grow the internal cash value so that, at the date of the death, the accumulated value is greater than the loan due, and accrue an adequate amount of insurance as well (otherwise why bother). The insured needs to put up collateral for the initial premium and may be required to put up additional assets at subsequent annual valuations.

The insurance is a form of a universal policy with internal growth as the major factor, since it must keep pace- and exceed- the increase of the loan. Because of the need for growth, advisors looked to variable types of policies (using current fixed interest rates would not allow sufficient growth due to the costs of insurance et al). The current type is the index life policy which bases its return on selected stock indexes. From here the insurance company can simply use one index or various combinations. It therefore can make the research cumbersome at best.

As regard to the loan, the interest rate can be tied to numerous indexes. In this instance, it was based on an annual review of the one year LIBOR rate plus 95 basis points. Obviously all sorts of combinations can be offered, but they are moot in the great scheme of things (to follow).

Most policies under the premium financing concept do not use the standard universal policy with simple interest rate growth. In such cases, the costs of insurance and other policy costs would not allow sufficient growth to offset the loan. Therefore, one tends to see a variable product or, more recently, a form of an index life product.

The Loan

The agents presented a loan that stated it was guaranteed for life. True, but a fabrication nonetheless. The loan could continue for life. But the lender had an obvious caveat that if, at any time, the cash value was insufficient to cover the outstanding loan, the insured had to come up with additional capital to secure the loan and/or make additional payments directly on the policy. So while the loan could "last forever", the underlying security had to exist. If not, a default existed and a call went out to the insured to belly up to the bar; otherwise, they 'foreclosed'. In such instance, there would have been substantial gift taxes due. So the insured would have to pay back the loan plus provide additional gift taxes at around a 50% rate.

The agents were using a 6.15% effective loan rate for the next 50 years. They had done a statistical review of the past 20 years of LIBOR, Monte Carlo and more to support the rate. I thought that a higher rate of 6.5% was more reflective of a long time frame- but in the great scheme of things, this is also moot.

Indices

Here is where the entire illustration fell apart.

The indexes in a life policy (or annuity) can take many forms and may involve more than one index- as with this case. For the policy in question, the company had, quite obviously, done backdated research in their selections of which index and what percentage of each would be utilized.

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(Premium Financing Continued...)

The policy included the following:

- 1) S&P 500 (<http://finance.yahoo.com/q/hp?s=%5EGSPC&a=00&b=3&c=1950&d=10&e=6&f=2008&g=m>),
- 2) Hang Seng (<http://www.hsi.com.hk/>), and
- 3) Dow Jones Euro 50 STOXX (http://www.stoxx.com/indices/index_information.html?symbol=SX5E)

They would look at all three indexes, drop the lowest return, take the returns of other two indexes at a 75/25 split, and statistically showed that the portfolio earned 17.53% on an annual basis. They then multiplied that by a 60% participation rate.

Returns

The use of the 17.53% is 'legal' since it is a factual number based on past history. But it is illogical in the extreme for it to be allowed. First, back testing like this is cherry picking what index would produce the best in perfect hindsight. Secondly, nobody ever did this in the past. Further, nobody will do this in the future. If so, every pension fund, every advisor, and every consumer would opt for this strategy.

There is not a professional advisor anywhere that would suggest a 17.53% return for each of the next 50 years. Going forward, most professional advisors anticipate single digit returns for several year- potentially a reversion to the mean to offset the excessive returns from the 1990s.

Pursuant to the 60% rate, the illustration used a 10.52% return for the cash value. I obviously requested other rates more reflective of current economics- and that was before the current credit fiasco. And, while there are various illustrations that could be run at all sorts of rates, it ended up irrelevant. The AIG contract allowed any adjustment to the participation rate at their discretion. They were starting at 60% but there was no restriction from dropping to 50%, 40% or whatever.

Summary

In essence, there were so many moving parts that it was impossible to determine a reasonable expectation of success. There certainly was no reliance on the 17.53% annual return. And no matter the return, the contract allowed changes to the participation rate at a whim. Maybe the agents had done the homework on loan rate, but it was tertiary to all the other variations.

Premium financing strategies are offered by insurance agents that are clueless to the real world of current economics and real world rates. The sole focus on validating the LIBOR rate was all that was reviewed- probably all that they could review. But it was the other areas that truly determined the viability of the product over time. Unless the advisor is fully versed in reviewing past statistical data and coupling it with current economics, they will undoubtedly face some law suits later on.

~ END ~

Errold F. Moody, Jr., PhD, MSFP, LLB, MBA, BSCE, is a licensed Life and Disability Insurance Analyst in the state of California, RIA, and author of *No Nonsense Finance* (published by McGraw Hill). Errold is a member of the Fee Advisors Network and serves as a case analyst and fiduciary advisor board member of our firm -- **180 TOLI** operational arm.

~ Let's Start an Epidemic ~

By: Joseph W. Maczuga, LIC, CFIS

During a recent discussion I was having with Barry Flagg of TheInsuranceAdvisor.com, he introduced the subject of a book entitled The Tipping Point: How Little Things Make a Big Difference (by Malcolm Gladwell and sells at Barnes and Noble for \$14.99 or \$13.49 on-line). Barry explained the concept of social and business behavior and how conditions reflect the same dynamics of epidemic like outbreaks of an infectious disease.

As taken from a published Q & A session with the author, I found the following to be of interest:

The Tipping Point is an examination of the social epidemics that surround us. It's a book that presents a new way of understanding why change so often happens as quickly and as unexpectedly as it does. For example, why did crime drop so dramatically in New York City in the mid-1990's? How does a novel written by an unknown author end up as national bestseller?

Epidemics behave in a very unusual and counterintuitive way. Think, for a moment, about an epidemic of measles in a kindergarten class. One child brings in the virus. It spreads to every other child in the class in a matter of days. My argument is that it is also the way that change often happens in the rest of the world. Things can happen all at once, and little changes can make a huge difference. That's a little bit counterintuitive. As human beings, we always expect everyday change to happen slowly and steadily, and for there to be some relationship between cause and effect. And when there isn't -- when crime drops dramatically in New York for no apparent reason, or when a movie made on a shoestring budget ends up making hundreds of millions of dollars -- we're surprised. I'm saying, don't be surprised. This is the way social epidemics work.

If you talk to the people who study epidemics--epidemiologists--you realize that they have a strikingly different way of looking at the world. They don't share the assumptions the rest of us have about how and why change happens. The word "Tipping Point", for example, comes from the world of epidemiology. It's the name given to that moment in an epidemic when a virus reaches critical mass. It's the boiling point. It's the moment on the graph when the line starts to shoot straight upwards. What if everything has a Tipping Point? Wouldn't it be cool to try and look for Tipping Points in business, or in social policy, or in advertising or in any number of other nonmedical areas?

I'm convinced that ideas and behaviors and new products move through a population very much like a disease does. This isn't just a metaphor, in other words. I'm talking about a very literal analogy. One of the things I explore in the book is that ideas can be contagious in exactly the same way that a virus is.

It draws from psychology and sociology and epidemiology, and uses examples from the worlds of business and education and fashion and media. If I had to draw an analogy to another book, I'd say it was like Daniel Goleman's Emotional Intelligence, in the sense that it takes theories and ideas from the social sciences and shows how they can have real relevance to our lives. There's a whole section of the book devoted to explaining the phenomenon of word of mouth, for example. I think that word of mouth is something created by three very rare and special psychological types, whom I call Connectors, Mavens, and Salesmen.

One of the things I'd like to do is to show people how to start "positive" epidemics of their own. The virtue of an epidemic, after all, is that just a little input is enough to get it started, and it can spread very, very quickly. That makes it something of obvious and enormous interest to everyone from educators trying to reach students, to businesses trying to spread the word about their product, or for that matter to anyone who's trying to create a change with limited resources. The point is that by the end of the book I think the reader will have a clear idea of what starting an epidemic actually takes. This is not an abstract, academic book. It's very practical. And it's very hopeful. It's brain software.

Changes that happen really suddenly, on the strength of the most minor of input, can be deeply confusing. People

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(Let's Start an Epidemic Continued...)

who understand The Tipping Point, I think, have a way of decoding the world around them.

After review of these points, consider the fact that there are only a few, a small percentage of those in our profession, who understand the need for fiduciary compliance in the totality of the financial planning process. Although some like Barry, or Steve Winks, or Bob Veres, or Ben Baldwin, etc. have more widespread influence, all of us, including the members of the Network, are an elite group in the sense that we can start an epidemic in our profession.

This is why we have spent time and resources to develop or identify fiduciary tools for policy inventory audits (Audit-Pro - available through the Network), policy performance and back testing analysis (our Life Analyzer), policy suitability research (courtesy of TheInsuranceAdvisor.com), etc. – so that those who “get it” have the basis to “spread it”. But in order to spread it, you have to come into contact with people – you have to infect them with an understanding through education and transparency as to why our way is better. Word-of-mouth is a powerful method to spread the infection (similar to an “airborne” reaction).

What is different between a health epidemic and our professional infection is this: with a health epidemic, people flee from those who have it, whereas there are those in our profession that are drawn to the center, or cause of the infection – Fee Advisors Network. Our Network is one of the smaller professional organizations in the financial services profession, but we have been leaders in challenging the mind-sets and old paradigms of our industry, with the focus on risk management.

We have been blessed with loyal, long-time members who believe in our mission and objectives, like Giles Almond (2001), Bragg Comer (2001), Dan McConlogue (2001), Nick Orphan (2001), Roger Smith (2001), Chris Currin (2002), William Mierkiewicz (2002), Guy Cumbie (2003), Ann Dotson (2003), Brian Fricke (2003), K.E. Hurlock (2003), Marna hart (2004), and Rob Hoxton (2004) to name a few.

We have also had the benefit of newer members that have added to our base and aggressively taking our message out to the public for the purpose of spreading the infection, like Wayne Firebaugh, Jeff Little, Will Carter, Jeremy Lowe, Hector May, Tim McCarthy, Errold Moody, Rob O'Dell, Chuck Prudhome, Jeremy Portnoff, Mark Smith, and Tom Wise, to name a few.

Consider, if each member infected two other professionals, our epidemic would triple in contagious infections. And, if each member presented our philosophy and approach to 4 clients or prospective clients, the epidemic would spread and affect those who design and provide products and services.

Let there be little doubt as to how the insurance industry, regulatory agencies, and professional organizations will react to this epidemic. First, the insurance companies will try to contain it. They have too much time and money involved with the development of their commission-based channels of distribution. Commissions are not evil, but the environment of enhanced remuneration and perks to market product is diametrically opposed to full disclosure, transparency, fiduciary process and client welfare.

Second, the regulatory agencies will pass out placebo pills while restricting any meaningful areas of change as they are designed to perform and react after the damage is done. There are so many examples of this that space limits a listing of such activity. But one current example drives home the point: The following comment was made by SEC Director of Investment Management Andrew J. Donohue in a keynote speech at the American Law Institute-American Bar Association Conference on Life Insurance Products in Washington, D.C., November 13 and 14: *“Many comments about proposed Rule 151, which would classify indexed annuities as regulated securities, argue that state regulation of indexed annuities is effective in protecting investors, recognizing in particular the states' role in overseeing suitability of sales and disclosure regarding annuities, as well as insurer solvency.”*

Overseeing suitability? What suitability? Disclosure?... Caveats hidden in volumes of content that the client never reads, but signs just to get through the process of massive documents.

(Continued on Page 12)

(Let's Start an Epidemic Continued...)

One of the under discussed loopholes with an indexed annuity (now referred to as a fixed indexed annuity,,,"a Rose by any other name...") is that there is NO suitability required with the sale of these products. Hence, the insurance companies can take in millions without consideration as to the suitability of placement. Ergo - NO responsibility. States have made an effort *in overseeing suitability of sales*...i.e. – no more “free luncheons” for seniors, but this is the typical band-aid effect after the damage has been done. The truth of the matter is that Mr. Donohue appears to be couching his statements in order to have an “out” when the SEC makes its final decision.

Third, every professional organization has a deficit and reluctance to risk management under fiduciary guidelines and will wear a white mask so as not to get infected. This is something we will drill deeper into in our next newsletter.

Remember the start of an epidemic in our industry when some pioneers in the early 1990's moved to managing assets for a fee? Once the virus was firmly established, the epidemic spread as a straight upward line (Tipping Point) where this is now the norm with most planners functioning under the symptomatic pattern.

In closing, we are the epic center of infectious attitudes for the benefit of the client. Don't allow yourself to be contained, but instead, embrace contamination...and spread it. In years to come, they will look back and say “this is where it started”.

~ END ~

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~ What Every Advisor Should Know About Life Settlements ~

By: Jamie Mendelsohn & Jon Mendelsohn

ASHAR GROUP, LLC
Life Settlement Specialists

The New York Times reported that insured's ceased paying premiums on 19.8 million policies in 2005 (representing \$1.1 trillion in Death Benefit). The insurance industry as a whole only paid Death Benefits on 2.2 million policies in 2005.

For individuals 65 and older, a life insurance policy may represent an untapped asset that they are likely totally unaware of. Until recently, the owner of an unneeded or unwanted policy had three options: "surrender" the policy back to the company that issued it for its cash surrender value (if any), 1035 exchange, or allow it to lapse. Now there's a fourth and potentially better option in the secondary market, also known as life settlements. Advisors are in an ideal position to introduce their clients to life settlements, but they must first understand the life settlement proposition.

QUALIFYING CRITERIA FOR CLIENTS

A life insurance policy can become unneeded or unwanted for many reasons. Prior to sale, the insured should consider the continued need for coverage, impact to estate plans, availability of insurance, cost of comparable coverage and tax implications. Some of the possible reasons for relinquishment of an existing policy are:

- ◆ Estate Sized has changed.
- ◆ Original need for the policy no longer exists, or more cost-efficient coverage is available.
- ◆ Key executives retire or businesses are sold or closed.
- ◆ Policy premiums have become too expensive.
- ◆ Policy face amounts between \$250,000 and \$100 million meet market criteria.
- ◆ Life Expectancy between 25 months and 20
- ◆ The insurance policy must be beyond the two-year contestability period.

CASE SCENARIO

The insured had a \$5,000,000 life insurance policy. She purchased the policy for estate planning purposes, but after an insurance audit identified that she could have a similar policy with much less premium outlay, her advisor suggested she have the current policy evaluated. Instead of surrendering the policy for \$206,069, she obtained an offer for the policy of \$1,016,000.

Client:	Female, age 80
Policy Face:	\$5,000,000 UL
CSV:	\$202,069
LS:	\$1,016,000

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- ◆ Using the **Tax Preparer Referral Program** model, you'll partner with tax preparers or CPAs to build affinity relationships. By partnering with a tax professional, you will open the door to new prospects, have a better understanding of your clients' financial situations, and increase your sales per client.
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~ RIA Registrar, LLC ~

RIA Registrar provides comprehensive registration, compliance and regulatory legal services for registered investment advisors (RIA). Our registration services are turn-key and specific to your desired business model and state/SEC filing. We don't provide a simple template; we put all pieces of the puzzle together to complete your filing and provide all required documentation.

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You focus on generating revenue and running a profitable financial practice while we oversee your firm's administration by providing the following services: RIA Firm Maintenance, Books and Recordkeeping, Marketing and Media Review, Compliance Calendar, Training and Education. Maintain your independence without worry.

~ Testimonials ~

~ 1 ~

Hi Joe,

I'm writing this message to offer feedback as to my experience with your network, which I joined last month.

I have been a CPA since 1976 and have had my own RIA firm since 1997. I am a personal financial specialist (PFS) which is an AICPA designation for their self administered financial planning specialty. Although I learned enough about insurance to pass the AICPA PFS examination, I never intended to give insurance advice, but planned on referring that service out to experts. Prior to discovering the Fee Advisors Network, my insurance referral network was to commissioned insurance agents, and I was never very happy with that, due to the possible conflict of interest.

I found out about you via Bob Veres' Inside Information newsletter. The timing of his mention of you was great because I had just been approached by a client who needed to make a decision about whether to continue a policy that had been provided by an ex-employer and who wanted to recover the premiums paid for the policy in the past. You provided an excellent analysis of the policy and made recommendations to my client that were supported by clear thinking and explained in a very comprehensible way. You had indicated that you could work "through" me or communicate directly with my client.

I was very happy to find you and your network as a "fee only" resource for insurance analysis and products, and was very pleased to see that upon joining the network that I might also learn what I need to know to become an insurance consultant, with the network backing me up. I may not actually do that, due to my time limitations, but either way, I've found my insurance resource.

Thank you very much for your knowledge and professionalism. You've been exactly what I needed on this particular client case.

Mark Smith, CPA/PFS

~ 2 ~

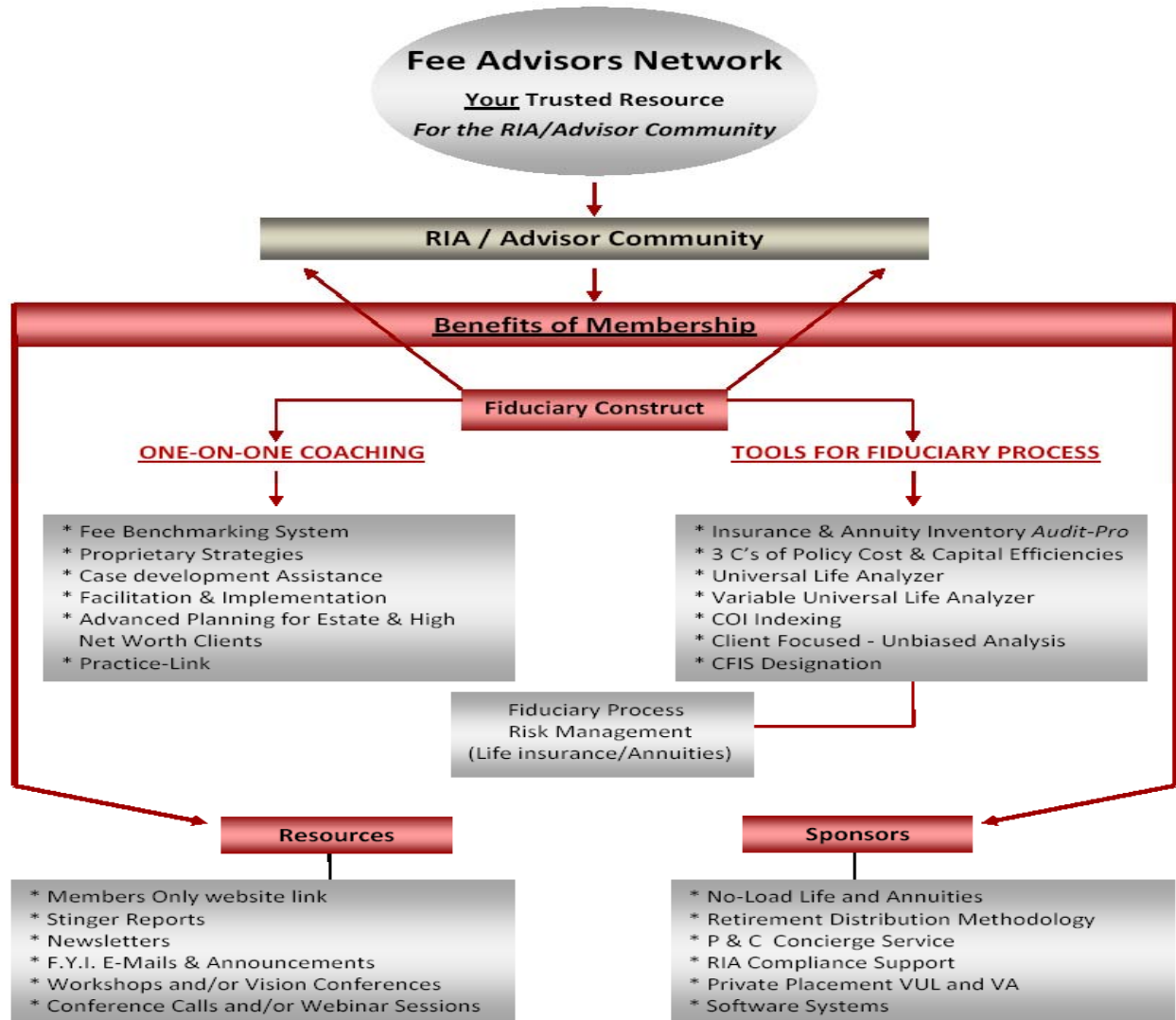
I have been working with Joe Maczuga and the Fee Advisors Network on two relatively large insurance cases with relatively large fees associated with the policies. By working with Joe and the Network, I have been able to educate my clients on the benefits of the various policy types under consideration and why the one I have selected is the most appropriate. I have been able to act in a true advisory capacity.

Commissions are not a major issue. The client is presented with a fee based choice and several commission based choices. I explain the nature and amount of the fee and how it compares to the commission model of compensation. The client is given a choice - pay the fee and generally purchase greater protection and cash value or rely on the commission model. It is the client's choice in how they want to compensate me for my services. It puts me in the position of being a fiduciary by educating the client and allowing him some choice in the process.

The process has also given me a better understanding of how the various life contracts work and what is appropriate for a given situation.

Timothy McCarthy, CPA/PFS, CLU

*When you need to outsource . . . don't just outsource!
 Having a trusted resource and forming a relationship is more than just having a referral contact – so consider the total environment, for the benefit of your clients and your practice.*



~ Timing is Great for 401(k) Rollovers ~

"Statement shock" is hitting hard as clients receive quarter end reports for their retirement savings. Is there an antidote? Contrary to popular belief, your clients may not have to keep all of their retirement savings in their employer-sponsored retirement plans, such as a 401(k) plan, until they retire. One solution could be an **in-service distribution** that is rolled over directly into an IRA.

Add to this the opportunity to put the IRA in an Ameritas No Load Variable Annuity with Guaranteed Lifetime Withdrawal Benefit Rider, issued by Ameritas Life Insurance Corp., that can help you protect this potential retirement income from market downturns and the opportunity to create a guaranteed stream of income your client can't outlive. Variable annuities also offer professionally managed investment options, guaranteed death benefits and payment options to help meet your client's needs.

Learn more about how an in-service distribution could be a part of your planning strategy by requesting this **case study** by calling an Ameritas Advisor Services professional at 800-829-7028 or email them at direct@ameritas.com. And, learn more about how we can help you guarantee your clients have income for life.