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Financial Planning Strategies

A Financial Planning Update

Total Insurance Services

3175 Commercial Ave.
Northbrook, IL 60062
847-205-1777 Phone
847-205-1919 Fax
Check out our new and improved website at
http://www.totins.com/

Appraising Your Appraiser

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

Hiring an Appraiser

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

International Society of Appraisers (ISA)
www.isa-appraisers.org
1-866-481-1689

Appraisers Association of America (AAA)
www.appraisersassoc.org
212-889-5404

American Society of Appraisers (ASA)
www.appraisers.org
1-800-272-8258

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Life Insurance Solutions for Unmarried Couples

Unmarried couples face some unique financial and estate planning issues. While married couples typically use **life insurance** to provide funds to help replace income upon the death of a spouse, unmarried couples may have an even greater need for replacement income, since the surviving partner is ineligible for spousal benefits from Social Security and may also be ineligible for many **defined benefit pension plans**. In addition, both partners' estates may have a greater need for cash to help pay estate taxes, since unmarried couples are not entitled to the **unlimited marital deduction** for property bequeathed to one another.

With proper planning, life insurance may provide you with the cash you need to help meet your financial responsibilities as an unmarried couple. It may also offer a way to provide for your partner beyond

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

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

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

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

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

The Written Report

Keep in mind that at some point attorneys, judges, the IRS, estate executors, insurers, and trustees may grant decisions based on your appraisal. Therefore, it should be comprehensive and professionally prepared. The following key elements are usually included in an appraisal report:

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

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

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

Method of Valuation. An explanation of valuation methodology offers a basis for the appraiser's conclusion. In general, appraisers make assessments based on such factors as replacement value, fair market value (FMV), or comparable sales. For example, an appraiser who is determining the value of a work of art may consider the prices of similar works of art. The appraiser often includes a market analysis that references historical performance and may also project future value.

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

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

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Life Insurance Solutions for Unmarried Couples

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a **will**, which carries the potential to be contested by family members.

Income Replacement

There are two ways to structure life insurance to help provide replacement income. You can either **cross-own** policies or own **individual** policies with the other partner named as the **beneficiary**.

Cross-owning policies. Let's suppose that you each own a policy on your partner's life. When one partner dies, the surviving partner uses the death benefit proceeds to help provide income. Since the policy is owned by the surviving partner, not the deceased, it is not included in the deceased's estate and therefore, is not subject to Federal estate taxes.

To cross-own policies, you may need to demonstrate an **insurable interest**. Spouses are automatically assumed to have an insurable interest on one another. As an unmarried couple, be prepared to prove insurable interest with evidence of jointly owned assets, and possibly, copies of wills or **trust** documents.

Individual policies with the partner as beneficiary. In this scenario, you each own a policy on your own life, naming your partner as beneficiary. The surviving partner uses the death benefit proceeds to help provide income. However, since you each own your own policy, the proceeds are included in the deceased partner's estate and may be subject to estate taxes.

Cash to Pay Estate Taxes

Married couples qualify for a special tax break, the unlimited marital deduction, that allows them to transfer unlimited assets to each other during their lifetime, or at death, free of gift and estate taxes. Since unmarried couples are not eligible for this deduction, the value of any property you leave each other above the **applicable exclusion amount** may be subject to Federal estate taxes. Some states may also levy estate taxes. Life insurance provides cash that can be used to help pay estate taxes. You can either cross-own policies or create an **irrevocable trust**.

Cross-Owning Policies. With cross-owned policies, you each purchase insurance in the amount of the estimated taxes. As mentioned above, one advantage of this approach is that you each own the policy on your partner's life. Consequently, the proceeds are not included in your partner's estate.

Irrevocable Trusts. With irrevocable trusts, a **trustee** buys and owns the life insurance policy, and each insured furnishes the trust with the funds to pay the premiums. However, irrevocable trusts must be structured properly to avoid adverse tax consequences. They are costly to set up, and as the name implies, they cannot be revoked if circumstances should change in the future.

Life insurance has long provided a valuable solution for many married couples who may need cash to help replace income and pay estate taxes at the death of a spouse. As an unmarried couple without the legal protections of marriage, your need for cash at the death of a partner may be even greater. As with all insurance and estate planning concerns, be sure to consult qualified professionals to discuss your unique circumstances and to help ensure that all arrangements are structured properly. $

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Stay Current

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

Education: One of the Best Investments You Can Make

It wasn't long ago when an individual went to college, got an education, and embarked on one career that usually lasted a lifetime. Many companies provided on-the-job training, and little emphasis was put on the idea of going back to school to continually upgrade your skills or change careers. During a job interview, it was common to be asked where you saw yourself in five or 10 years. Many new graduates could see a fairly predictable career track ahead.

By contrast, today's workplace environment and economic climate are very different. Trying to keep up with constant change and global competition is challenging enough, let alone trying to project where you will be careerwise, and what job you will be in five or 10 years from now. Rapid technological changes are redefining many types of jobs and may eventually make some jobs obsolete.

On the other hand, new careers with plenty of jobs may open up in certain industries over the next decade. New fields, such as green technology, are quickly emerging. To maintain current employment and improve opportunities to land job offers in an unpredictable market, many workers and independent contractors will need to enhance and upgrade their skills regularly.

In an information-based culture, the more technological skills you have, the more attractive you may be to prospective employers. However, personal growth and development carry a price tag. While some companies provide certain forms of training, it may be unrealistic to think employers will bear the *entire* cost of talent development. As workers must now assume the responsibility for funding their own retirements through the shift from workplace defined *benefit* plans toward defined *contribution* plans, they may also have to fund their own long-term career development.

Changing the Mindset

The first step toward career development for the long term is to keep an open mind about continuing education. Rather than thinking of education as something that is over and done with after college graduation, you may have to look at education as an ongoing *process*. Professional success in the 21st century may require workers to become "sponges" with the unlimited ability to "soak up" new information and apply it quickly on the job.

It may help to think of "investing" in personal growth and development as akin to the business practice of investing in research and development (R&D). Just as businesses set aside a portion of their revenues to fund R&D that may lead to new products and more customers, consider setting aside a portion of your income to pursue activities (e.g., coursework, advanced degrees, professional or trade meetings, or relocation for a better work opportunity) that may enhance your job skills, career satisfaction, and earning capacity.

The best investment you might ever make is to begin setting aside funds for your continuing education. In the process, you'll be reinforcing the sense of responsibility required to control your own destiny and developing the resources necessary to carry out your vision for the future. You'll also be demonstrating to others, including your employer or other potential employers, that you are committed to improving your skills, receptive to change, and willing "to go the extra mile" to pursue professional success. $