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Beating the Market’s Big Swings

How Alternatives, Innovative ETFs and Tactical Management Help

BY LAURENCE GREENBERG

In the turbulent wake of the financial crisis, many advisors and their clients are skeptical that simple allocations of stocks, bonds and cash are enough to see them through to the finish line. After all, stocks and bonds both took huge tumbles simultaneously, and with low interest rates following the recovery, most people’s cash holdings seemed to be treading water.

The market crash, combined with continued volatility, has been fueling demand for a wider array of alternative assets—from long-short funds, which can improve their returns by betting against stocks, to commodities, which tend to rise when stocks fall. In a survey conducted by Jefferson National, more than two-thirds of advisors, or 68%, have increased their use of alternative investments. And it continues to increase.

Know the “Alternatives”

Advisors have clear goals for using alternative investments. When surveyed, “Addressing Portfolio Correlations” ranked most important, selected by 61% of advisors. “Filling Portfolio Allocations” was selected by 52% and “Absolute Returns” was selected by 49%.

One alternative investment attracting attention from advisors is the managed-futures fund. These pools of money essentially trade futures contracts, which set prices for various kinds of commodities. They can either buy futures, or short them, betting that their prices will fall.

In a recent survey of investment advisors by Morningstar, managed futures stood out as the favorite alternative investment. Although past performance is no guarantee of future results, the Newedge CTA index of futures funds has more than doubled since 2000—while the S&P 500 has essentially been flat. And it continued rising during the worst of the crash. But managed futures can be expensive, often charging hedge

continued on page 16

L&HA: The American College gave you its President’s Award this year. In what capacities have you served the College?

EM: I received the President’s Award for my long term commitment to the College but also for my ability to help them advance the Penn Mutual Center for Veterans Affairs. That was a great honor to accept this award on behalf of all our associates here at Penn Mutual. I’ve had a long-standing relationship with the American College personally as has Penn Mutual. Before joining Penn Mutual, I served on the master’s faculty at the College and taught the leadership course. I held the newly endowed State Farm Chair for Women in Financial Services where I did extensive research around the issues women face about longevity and employment, family life, and financial matters.

L&HA: Why did Penn Mutual partner with The American College around the veterans initiative?

EM: In my 25 years in the industry, I have noted that service in the U. S. military is a common theme for the industry greats at the field leadership level as well as for our top producers. (That’s a personal observation, not scientific evidence.) We need to continued on page 22

IN PROFILE

‘Coming Home’

The Penn Mutual Life Insurance Company recently endowed the Center for Veterans Affairs at The American College. We spoke with Penn Mutual president and CEO Eileen McDonnell about this initiative to bolster the ranks of advisors and assist military veterans with new careers in civilian life.

Eileen McDonnell
The Role of Life Insurance in Non-Traditional Planning

Advising for diversity

BY CYNTHIA L. HEARING, JD, CLU, CHFC, CLTC

Today, there are many forms of non-traditional family arrangements where individuals have chosen to live together and combine their assets. Like their traditional counterparts, unmarried couples of the opposite sex and same-sex couples want to preserve wealth during their lifetime, pass on assets to their partners and build a secure future for their families. Unlike their traditional counterparts, they face distinct issues that require specialized financial planning, as they do not always benefit from the same spousal rights, tax incentives and legal presumptions.

Thankfully, for advisors who work with non-traditional couples, one of the best planning solutions – life insurance – is also one of the best ways to guarantee that these individuals are covered for future needs. And, even though some traditional estate planning strategies may not work for these clients, there are some that do. Therefore, it’s up to the financial professional to look to these other planning tools when developing a plan to protect his or her non-traditional clients and their families.

This article will discuss four such tools: Grantor Retained Income Trusts, Charitable Remainder Trusts, Charitable Lead Trusts and Wealth Replacement Trusts.

Grantor Retained Income Trusts
A Grantor Retained Income Trust, or GRIT, is an excellent estate planning tool for non-traditional couples. GRITs have been around for many years. Prior to 1990, they were commonly used by families to transfer assets to the next generation while minimizing gift taxes. However, this wealth transfer strategy was severely curtailed by the Revenue Reconciliation Act of 1990. Since then, GRITs have been used primarily in estate planning for traditional couples.

Non-Traditional planning
New family structures, such as GLBT and single-parent, have created new and non-traditional planning challenges.

Prospecting Today
Advisors are ranging way out of the box in pursuit of new clients, and pursuing more intimate approaches like a cup of coffee.

Evolving LTCi
As the product itself matures, the industry looks to redefine its approach. Still, price remains a determining driver.

Surviving Health Care Reform
A new playing field creates new opportunities for advisors.

Executive Planning
Can a business buy-out strategy be tax-deductible or tax-favored? Every small business owner wants to know.

In Profile: Eileen McDonnell

Notes & Quotes: Risk Roadmap

Marketing: Surviving Retirement

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Act of 1990 because it worked too well. The law amended the Internal Revenue Code to eliminate the use of GRITs between family members.

Since non-traditional couples are not considered married under federal law – even if they reside in states that recognize same-sex marriage, or in the case of opposite-sex couples, common-law marriage – they are not considered family members. Thus, GRITs remain an extremely useful tool for transferring wealth between non-traditional couples.

A GRIT is an irrevocable trust in which the grantor – such as the wealthier partner – transfers assets to the trust while retaining the right to receive all of the net income from the trust assets for a fixed term of years. The net income is distributed by the trustee of the GRIT to the grantor annually, or on a more frequent basis, pursuant to the trust agreement. At the end of the trust term, the remaining trust principal is either distributed to the beneficiaries (such as one’s partner) or may be held in trust for their benefit. Additionally, if the grantor survives the trust term, the principal of the GRIT is excluded from her or his estate for federal estate tax purposes.

Where does life insurance come in? It is generally advisable for the grantor to create an Irrevocable Life Insurance Trust (ILIT) to own a policy on her or his life. This will provide liquidity to pay any estate taxes that may be owed if the grantor does not survive the trust term. Remember, non-traditional couples do not benefit from the unlimited estate tax marital deduction at the first partner’s death, so adequate life insurance is critical to meet any estate tax liabilities (and other liquidity needs, such as income for the survivor).

Charitable Remainder Trusts and Wealth Replacement Trusts

A great option for non-traditional couples who face potentially significant estate tax exposure, but who also have specific philanthropic objectives, is a Charitable Remainder Trust (CRT). A CRT allows an individual to make gifts to a charity of his or her choice, while also naming someone to receive income from the donated property.

A CRT is an irrevocable trust with significant income tax advantages. It is often referred to as a “split-interest trust” because it has both charitable and non-charitable beneficiaries. A CRT also serves dual purposes: 1) To provide the donor and his or her partner with a stream of income – the income interest – for a certain term of years or for their lifetime; and 2) To have the balance of that asset – the remainder interest – eventually go to their favorite charity.

A CRT allows your clients to make a gift to the trust in return for a stream of income. The income stream can be a fixed-dollar amount (also referred to as a Charitable Remainder Annuity Trust or CRAT) or a fixed percentage of the assets in the trust (a Charitable Remainder Unitrust or CRUT). When the gift is made into the trust, a current charitable income tax deduction will be allowed based upon the present value of the remainder interest that will ultimately pass to the charity. Income earned by the trust is not currently taxable. Instead, the income tax recognition may be spread out over the number of years in which the income stream is paid.

The trustee sells the transferred assets at full market value with no current capital gains tax liability. The proceeds are then utilized to purchase an investment that will provide income for your client’s lifetime or for a period of years depending upon how the trust was designed. The income is paid on a yearly basis until the end of the trust term.

As with the GRIT, a CRT’s effectiveness can be enhanced in many cases with life insurance by creating a Wealth Replacement Trust (WRT), an ILIT that has significant estate tax and legacy benefits. It allows for the purchase of life insurance inside of the trust, thereby keeping the insurance proceeds out of the insured’s taxable estate. The beneficiary of the trust, however, is the insured’s partner so the insurance proceeds can “replace” the assets that were donated to charity using the CRT technique. The premiums for the insurance are paid using a portion of the income stream received from the CRT, resulting in no out-of-pocket expense. The overall result of this strategy is that the assets used to fund the CRT can be used to provide your clients with an income stream and to benefit their favorite charity, all without reducing the legacy ultimately left to the surviving partner.

Charitable Lead Trusts and Wealth Replacement Trusts

Like a CRT, a Charitable Lead Trust (CLT) is considered a “split-interest trust” since the interest is divided between both a charitable and non-charitable beneficiary. However, unlike a CRT, a CLT pays the charity a stream of income first. The income stream can be a fixed-dollar amount (also referred to as a Charitable Lead Annuity Trust or CLAT) or a fixed percentage of the trust assets (a Charitable Lead Unitrust or CLUT). When the charity’s interest ends, the remaining trust estate is paid to the surviving partner as the non-charitable beneficiary.

While CLTs come in many forms, one of the most common types is a testamentary CLT. A testamentary CLT is typically created by the wealthier partner’s Last Will and Testament or Revocable Living Trust at his or her death. Under the terms of the CLT, an income stream is paid to charity for either a term of years or for the life of a designated individual. There are rules to take into consideration regarding permissible measuring lives when a CLT is established for the life of one or more individuals. When the charity’s interest ends, the remaining assets in the CLT pass to the non-charitable beneficiary, such as the surviving partner.

Regardless of whether the trust is a CLAT or a CLUT, the client’s estate will receive an estate tax charitable deduction based on the present value of the charity’s lead interest. While the present value of the non-charitable beneficiary’s remainder interest will be included in the gross estate, it may be possible to “zero out” the CLT so that the estate-tax calculation of the remainder interest is zero.

How can life insurance enhance this planning tool? Remember that, with a CLT, the surviving partner does not receive any portion of the trust estate until after the charity’s interest ends. By purchasing life insurance inside of a WRT, your insured client can assure that her or his partner receives assets immediately at the client’s death, in addition to the “delayed inheritance” she or he will receive upon the charity’s interest terminating. In addition, this strategy allows the client to retain full control over assets during her or his lifetime without sacrificing the goal of making a significant charitable impact.

While it’s true that non-traditional couples face estate planning challenges that married couples of the opposite sex do not, as this article shows, a thoughtful financial professional can help his or her clients overcome most of these with proper planning – and life insurance can play a critical role in the process.
As a Branch Manager of a growing insurance and financial services distribution organization, I spend a good deal of time introducing agents to new ways to get in front of the right people at the right time every single day. Our business is based on one-on-one relationships with individuals, their families and businesses. However, one of the keys to success is to establish this trust within group settings.

For many, this strategy has revolved around dinner seminars or other more expensive and involved events, which incur the costs of mailings, food and space. Instead of this approach, I am encouraging my agents to get out of the seminar dinner box, to meet and share their expertise in front of groups of people in more intimate social settings, educational venues and through radio broadcast opportunities. Let me provide some specific successes.

**Coffee Shop Talks**

One of my agents, Tom Jones, an up and coming financial leader, is using the ABC Planning Workshop developed by Dave Vick, a principal with Dressander & Associates (an Independent Marketing Organization). He is President and CEO of Vick & Associates and well-known for teaching and training producers on marketing and sales techniques. Tom is experimenting with how to use the ABC’s of Conservative Planning with smaller, more engaged groups of qualified prospects. His goal is to establish a reputation for presentations that are low key, non-threatening and educational... a good way to learn about and take action on your investment portfolio.

Tom has implemented a series of “Coffee Shop” events for clients and their friends. He invites a number of clients to come to a local coffee shop for a short talk on how to manage risk in their investment portfolios using ABC Planning. He also requests that clients bring a friend, family member or colleague. Through an arrangement with popular spots locally, he secures enough room for up to 15 people, but the event is held in the public arena versus a private setting. Because it is held in public, and by design, others who just happen to be at the shop can listen to Tom’s talk. This further builds his reputation and brand in the communities he’s serving.

Tom treats his guests to coffee and snacks, and opens the session by breaking the ice with a trivia game and small prizes. He then spends about 20 minutes introducing the ideas of conservative investing behind the ABC Planning program. The rest is all Q&A, discussion and networking. Tom emphasizes the “no pressure” aspect to his practice as he collects names and email addresses of those who want to keep in touch. He offers free one-on-one meetings to address specific personal issue, one hour follow up consultations with individual attendees. These are focused on how the potential client can put the concepts of ABC Planning into their own financial lives.

Tom also asks for signatures from attendees who say “no thanks” to a meeting, but who want to be on a mailing list. This frees him to “drip” information through e-mail in a compliant manner. The kinds of communications he sends out varies from important financial news or tips to funny jokes about tax time to seasonal greetings such as spring planting ideas or St. Patrick’s Day recipes. The goal always is to create a rapport with people, to connect with them and build a strong relationship.

Generally, these events cost about $200, but they have more than paid for themselves in commissions and relationships with new clients. Tom is currently planning and implementing about 3 coffee shop talks a month at different venues and at different times (morning for retirees and early evenings for pre-retirees). He will add Dinner Seminars, which attract about 20-25 people and follows this up with “drip marketing” to invite people from this group to the coffee shop talks and other events. This strategy creates a cycle of inviting people and expanding the invitation list.

Tom’s clients have also been very helpful in giving him names of neighbors, family, friends and business contacts to invite. “Once you get your clients involved in these events, they show great loyalty and enthusiasm for finding qualified people for you to invite. They become partners with you,” explains Tom. “The key is to steer clear of any product push and to focus on being educational, brief, and personable. My goal is to have my clients tell their friends that they ‘gotta see my financial guy’.”

*continued on page 24*
Midland National's Guaranteed UL

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Essential Guaranteed® UL 2 maintained top rankings in the latest edition of Full Disclosure¹. Offer your clients the affordable, guaranteed death benefit protection² of EGUL2.

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Risk Roadmap: Hedge Funds Strengthening Risk Management

WASHINGTON—A new study from the Managed Funds Association (MFA), BNY Mellon, and HedgeMark outlines new data showing that hedge funds are continuing to develop risk management practices that fit the needs of investors and fund managers alike.

“Today’s hedge funds are operating in a dramatically different environment than five or ten years ago, dedicating more resources to risk management and communicating more frequently with investors.”

The study, entitled Risk Roadmap: Hedge Funds and Investors’ Evolving Approach to Risk,” uses qualitative and quantitative data collected from the Chief Risk Officers (CROs) of leading global hedge funds, institutional investors, prime brokers, and other industry participants. The data demonstrates the industry’s increasing focus on risk management and transparency. According to survey results, hedge fund projects that five years from now 41% of investor reporting will be published daily or weekly, up from 22% today and just 12% in 2007.

“Today’s hedge funds are operating in a dramatically different environment than five or ten years ago, dedicating more resources to risk management and communicating more frequently with investors,” said Richard Baker, President and CEO of the Managed Funds Association. “Improvements to internal governance, independent transparency, quality and frequency of reporting can go a long way to strengthen the partnership between investors and fund managers. As the industry continues to evolve, we will see even more attention given to risk management, helping managers and allocators work together to navigate global markets.”

“Investors are increasingly taking a ‘trust and verify’ approach to a hedge fund’s reported risks and exposures. As a result, hedge fund managers have augmented their reliance on independent, third-party administrators and will continue to do so,” said Orla Nallen, Managing Director of Alternative Investment Services at BNY Mellon. “More fund managers are turning to third-party administrators not only for operational risk mitigation and transparency support, but also for services that help them expand into new markets and satisfy regional regulatory reporting, such as UCITS exposure and Form PF.”

“Risk has always been central to the investment process, but we are definitely seeing an increased focus on risk from both hedge fund managers and investors,” added Andrew Lapkin, President of HedgeMark. “For managers, it’s about protecting against unexpected losses and ensuring that the risks being taken are properly rewarded. Investors are particularly focused on many of the non-market risks including fraud, counter-party, liquidity and reputational risk – concerns that have been at the forefront of investors’ move to managed account solutions, only now we are seeing a greater focus on solutions provided by the highest rated providers and fund administrators.”

Couples Underestimate Life Insurance Coverage Needs When Youngsters Join the Family

NEW YORK—Marriage appears to be a catalyst for working men and women to obtain life insurance protection. However, when children enter into the equation, it appears that parents are not adjusting their life insurance coverage to accommodate this new life stage. MetLife’s 10th Annual Employee Benefits Trends Study found that about half of single working men and women without minor children have some amount of life insurance, a percentage that climbs to 72% for married workers without minor children but only increases marginally, to 75%, for married couples with youngsters. This is despite the fact that life insurance is provided by many employers as a workplace benefit.

“Getting more coverage is likely easier and less expensive than many people think. A healthy 35-year-old purchasing insurance through an employer may pay as little as a dollar a day, less than a cup of coffee in many places, for a half million dollars in term life insurance coverage.”

For those parents who do have life insurance coverage, it is important to make sure that the coverage amounts purchased before parenthood are still adequate. Of concern, the MetLife study found that workers both with or without minor children have, in general, only about three times their annual household income covered by life insurance. This amount may be inadequate with the addition of children as the number and age of dependents should be taken into consideration when determining the amount of coverage needed.

Why Having Adequate Coverage Matters

Having an adequate amount of life insurance coverage is critical when raising a child. According to the United States Department of Agriculture, middle income families with a child born in 2011 can expect to spend $235,000 over 17 years. This figure does not include college tuition, room, or board, which, according to the National Center for Education Statistics, in 2010 cost an additional $32,475 a year for a four-year degree at a private university or $14,870 a year for a public university. According to the MetLife study, only about two out of five working parents with minor children feel very confident in their ability to make the right financial decisions for their family, which may help explain their inaction when it comes to life insurance protection.
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Anyone who has taken an introduction to marketing course in high school or a marketing class in college has been introduced to the concept of the “Marketing Mix” illustrated by “The 4 Ps:”

- Price
- Product
- Promotion
  - [communication]
- Place [distribution]

The concept is dated but still applicable in explaining the levers available to a marketer of a given product. A product may be initially launched with a certain marketing mix but to sustain sales, the marketing mix may be changed over time to compensate for changes in demand and external factors.

An example is how we buy and consume music. I am so old that as a teenager, I would go to a music store and buy an album [as in vinyl], bring it home and listen to it on a record player. The record player was plugged into a power outlet along with a receiver and a pair of speakers. Today, we buy music by the song on the internet and it is stored on a portable electronic device or in the cloud. These changes came about because the physical aspects of the product changed. We no longer need the actual album and we are no longer restricted by the stationary nature of the equipment needed to “utilize” the product. Thus the distribution changed and so did the price. In other words, due to scientific progress, the product “music” holds almost none of the initial characteristics.

If we apply the same analysis to long-term care insurance, we discover that though there have been significant changes in external factors, Price seems to be the primary lever utilized to absorb these changes. Specifically, between 2003 and 2011, the premium for a 55-year old single individual increased by 50% assuming he/she bought coverage with no automatic benefit increase option. The same increase, assuming 5% compound, is an astounding 250%. If overall sales were not affected, that would not be a problem, but during the same period of time, new annualized sales went from $1B to $545M. We may have reached a point in time where some of the other levers have to give.

First, let’s take a quick look at the changes in external factors. As everyone knows, carriers did make mistakes with respect to lapse assumptions, and those were worked into pricing models during the mid-2000s. Morbidity and mortality had an effect as well, and that was compensated for, again, resulting in higher pricing for new products and increases on in-force blocks. Lastly, we have, during the past decade, experienced unprecedented and continuous low interest rates. And to make matters worse, we know that the Federal Reserve intends to keep those interest rates at current levels into 2015. It appears that to those whose only tool is a hammer, every problem looks like a nail. Adverse experience with respect to lapses, morbidity, mortality, and interest rates all resulted in higher premiums, and to some extent, higher premiums only.

Long-term care insurance, as the Product we know it today, was developed in the early-to-mid 1980s and it is basically the same product we sell today 25 years later. The components are: Daily Benefit, Benefit Period, Benefit Increase Option, and Elimination Period. As interest rates decreased, the Benefit Increase Option, and in particular 5% compound, became the cost driver. As an example, in 2003, a 55 year-old insured only had to pay 45% more for 5% compound. In 2011 he/she would have to pay 240% more for 5% compound. Carrier response from a product development standpoint, have been two-fold: First, most carriers have launched 3% compound, but though it is obviously priced lower than 5% compound, it does not fundamentally change the problem of guaranteeing an interest rate for an extended period of time. Second, two carriers have offered drastically different product solutions. One was Prudential’s Evolution product which unfortunately never gained much traction and Prudential has since left the industry. The other is John Hancock who offers two unique benefit increase options:

1. CPI compound, launched October, 2006, whereby an insured’s benefits are tied to the Consumer Price Index [CPI-U] and...
2. Benefit Builder, launched August, 2012, whereby an insured’s benefits are increased by a crediting mechanism similar to a dividend paying life insurance contract.

Both of these products fundamentally address the interest sensitive nature of long-term care insurance and consequently tend to be competitively priced. So, problem solved? Nope. Why not? Because these types of products, including the

continued on page 20
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Surviving Healthcare Reform

New Playing Field Creates Opportunities for Health Insurance Brokers

BY JOSEPH BERARDO

The Supreme Court ruling to uphold the Affordable Care Act (ACA) has left many health insurance brokers looking for a new game plan, one that will effectively differentiate their services and land new business. This revolves less around selling a product, and more around finding solutions to complex business challenges.

In order to demonstrate relevance and mastery in the new marketplace, broker expertise must encompass knowledge of the federal law, understanding of the changing role of providers, appreciation of health population information management and awareness of the benefits of alternative insurance options. Specifically, brokers should be thoroughly conversant about self-insurance and able to articulate the advantages of a health plan management partnership.

Self-Insurance

With consistently rising fully-insured premiums, small to medium-size businesses (3-199 employees) are actively seeking alternative funding options that will allow for more:

- Expense Control
- Plan Design Flexibility
- Insight into Member Health Trends
- Effective Wellness Plans

Commissions are customizable in this market, and plan sponsors or employers can offer uniform benefits across state lines so all employees in a particular class are treated equally. Self-insured plans allow employers to pick and choose coverage to create their own benefit designs, such as making certain expenses ineligible or limiting benefit amounts.

A key concern for employers considering self-insurance is the chance that a catastrophic claim could result in losses beyond their resources. Partial self-insurance includes StopLoss insurance to alleviate the risks associated with catastrophic claims or group claims that exceed the contracted claim ceiling. There are two types of StopLoss:

Specific StopLoss insurance protects the employer in the case of a catastrophic claim from an individual.

Aggregate StopLoss insurance protects against claims that exceed the contracted amount for the entire group.

Key benefits of self-insurance include:

- Not subject to conflicting state health insurance regulations/as they fall under federal law (ERISA).
- Not subject to state health insurance premium taxes.

Offers control over insurance programs, and thereby improves cash flow.
- Reduces plan operating costs.
- Accessible claims reporting.

Finding a Healthcare Management Partner

With guidance from a healthcare management partner, health insurance brokers can develop marketing seminars to target prospects and demonstrate an ability to think outside of the box.

Also, a health plan management firm can play an important role in walking brokers through the complexities and nuances of self-insurance. They normally assume responsibility for:

- Maintaining eligibility
- Customer service
- Adjudicating and paying claims
- Preparing claim reports
- Negotiating, obtaining and renewing stop-loss placement
- Conducting enrollment information meetings
- Arranging managed care services

In particular, brokers should find a health plan management firm that offers secure data analytics for both remote and real-time care, while providing an inexpensive vehicle for coordinating online tools that identify at-risk members, their patterns and treatments for various ailments – from diabetes to heart conditions. Robust data analytics allow self-insured employers to evaluate employee information, including age, chronic illness, risk factors and gaps in care, and update medical conditions, compare previous costs to projected expenditures, and intervene with optimal prevention and wellness programs.

Meeting ACA Deadlines

The ACA’s tax credits for small companies, an individual mandate requiring citizens to carry medical insurance, and an employer mandate requiring minimal coverage collectively add up to more opportunities and the potential for increased sales through 2013. As more complicated provisions kick in during 2014, employers will increasingly need the indispensable guidance of their brokers when it comes time to purchase medical insurance.

Important ACA dates:
September 23, 2012 — The summary of benefits and coverage (SBC) requirement becomes effective, depending on whether or
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Thomas J. Harmon
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AARP represents retired people. But, who represents the generation of people ages 18 to 35 who NEWSWEEK in its double issue of July 23/30, 2012 referred to as Generation Screwed? I suspect that this group has fairly low voter turnout and as a result has been on the wrong side of a great deal of recent legislation.

Therefore, I hereby propose the formation of the AEIOU:

A Association for the
E Economically challenged
I Insurance discriminated against
O Over-educated and
U Under-employed

Starting in reverse order:

**Under-Employed**
The national average unemployment is about 8%. However, for this group, that number is about 50% higher, at 12%. But, that’s the UNemployed. What number really represents UNDERemployed, the number of bartenders and parking lot attendants with college degrees? Please don’t take any exception to these occupations, but is a college degree necessary?

I know this will sound unrealistic, but if you can’t find a job, why not create a job?

There is a lot of demand out there. Our population is getting older. They need a great many personal services that are simply not provided to them. I ask this generation to think about the needs of a generation of your grandmother and grandfather. Run errands for them. Run exercise classes for them. Run any kind of classes for them.

Help my generation fix all of our computer problems. Help us determine which apps are best for our electronic devices and guide us through how to install them and use them wisely. Become tutors for your parents’ generation.

**Over-Educated**
How many of this age group should never have gone to college in the first place? What is the return on investment for the cost of a college degree measured against the future earnings capacity? As a result, they are economically challenged (see below).

However, is college designed to help you make a living, or help you make a life? David McCullough in his John Adams biography described that John’s father studied science and war, so that John could study commerce and law, so that John’s children could studies the arts. That precisely describes my father, me, and my children. Should it matter that the cost of their private college education may be a burden to them and/or their parents? I suspect that the practical answer is, “YES!”

**Insurance Discriminated Against**
This group is required to buy health insurance under the new rules, or incur a tax penalty. Does it make sense for this group to pay income taxes at a higher marginal tax rate?

This group may start experiencing increases in their car insurance since many companies use credit rating as part of their pricing model. If you are out of work or under employed and have substantial student loan debt, your credit rating will be adversely affected.

**Economically Challenged**
One of my biggest concerns for the last several decades has been the high 5-digit or low 6-digit student loan debt BEFORE they try to get married or start a family. The NEWSWEEK article cites a statistic that one-third of this age group is putting off marriage and having a baby due to their economic condition. I got married at age 22 and by age 30 we had 3 children. This year, my children will be 30 (single), 31 (just got married this year), and 34 (single).

And, the personal bankruptcy statute was changed a few years back. They cannot declare personal bankruptcy in order to get out from under these loans.

This change in the personal bankruptcy law came on the heels of another change in the tax law increasing the “kiddie” tax age from 14 to 19, or 23 if still in school. Under the previous law, once a child attained age 14, their income from all sources was taxed at their own tax rate, not their parents’ (presumed to be higher) tax rate. By moving the age out further, more income is subject to higher income taxes making the cost of funding high school as well as college educations that much harder. It specifically discriminated against this age group, and especially those who continue their education. Why make it harder for them and their parents to fund college costs?

What is the possible logic of this? I guess the answer is, if you don’t vote, then we can punish you in order to cover the costs of reducing tax burdens for the wealthier taxpayers who vote.

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Surviving Healthcare Reform

continued from page 12

not a plan has an open enrollment period and its timing. Significant sanctions are to be imposed for failure to provide the SBC.

January 1, 2013—
- Effective date for reporting the cost of employer-provided coverage.
- ACA limits employee contributions to Flexible Spending Accounts (FSA) to $2,500.
- Increase in Medicare taxes for “highly compensated” employees.

March 1, 2013—Employers must give employees written notice of the existence of health insurance exchanges in their state.

January 14, 2014—“Play or pay” mandate. Businesses with more than 50 employees face penalties if health coverage is not offered to full-time employees or the coverage offered is “unaffordable” or “not comprehensive.”

State Exchanges
The ACA will allow states to organize their own health insurance exchanges. With 22 million people expected to buy insurance through the exchanges and a “conservative” $15 per person per month commission for private brokers, the health industry can expect to see an estimated $4 billion annually. The state-based marketplaces are expected to be up-and-running by 2014.

Brokers can also find opportunities in working with the nonprofit insurance pools funded by the new legislation. These co-ops will be looking to identify third-party administrators and other services, so brokers are well positioned to serve as a guide.

Medical Loss Ratio
The medical loss ratio (MLR) provision requires insurers to spend 85 percent of large group revenue and 80 percent of individual and small group revenue on healthcare and quality improvement efforts. Health insurers are citing this provision as a reason to slash producer commissions, or eliminate them altogether. Self-insured programs are not subject to the MLR requirements. Clients and their brokers are free to build in a fixed amount of compensation per employee in order to stabilize commissions, even if total plan costs decrease. This creates a win-win proposition for both small companies and brokers, who are fairly compensated for the value they add.

Going forward, health insurance brokers who present a broader set of financing options to their customers will set themselves apart from the competition, and allow their customers to customize their programs like never before.

Despite the extensive changes ahead, by staying current, agile and open to new modes of business, brokers can flourish in this new and challenging environment.

Joseph Berardo, Jr. is CEO and President of MagnaCare. He can be reached at jberardo@magnacare.com

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Beating the market’s big swings

continued from page 3

fund-like prices—as much as 2 percent of assets, plus up to 20 percent of the profits each year.

Innovative ETFs
Alternative ETFs have made it much cheaper to buy into non-correlated assets like commodities. Over the past four years, the number of ETFs and mutual funds that focus on alternative assets has more than doubled, according to Morningstar, and the assets they manage have tripled, to $138 billion. ETFs can provide extremely diverse exposure, including everything from broad-based indices, sector-specific indices, international indices and even country-specific indices, as well as bond indices and commodities.

Recently, the industry has developed more actively managed ETFs, inverse ETFs and leveraged ETFs. For example, BFP Capital Management, a pioneer in defensively-oriented, quantitative-based ETF strategies, has launched the BCM Decathlon Series to provide clients with a unique, tactical global allocation investment program, using a quantitative engine to track and rank 107 hand-picked ETFs, pursuing hyper-efficient portfolios that rapidly adapt to changing market conditions. “We find that investors are not necessarily risk-adverse but rather loss-adverse, desiring lower volatility and greater flexibility,” said David Haviland, Portfolio Manager, BFP Capital Management.

Another approach is to embed risk management into the investment options by combining ETFs with hedged assets. One unique example is TOPSTM Protected Portfolios, launched in partnership with Milliman, a recognized authority in risk management. According to Michael McClary, Chief Investment Officer at VIA/TOPSTM, his firm’s approach is to use ETFs with a tactical hedging component that has the potential to reduce volatility and protect capital. “Our equity exposure may go from 85% down to 40% and back up pretty rapidly,” he said. “We’re very reactive to the market.”

Invest Like Harvard
In some ways, Main Street investors are finally tapping into the opportunities that have always been available to institutional investors. Hedge funds, university endowments and corporate pension funds have benefitted from a much wider range of asset classes and esoteric strategies. But for many advisors and their clients, entry into this new financial landscape can be very complex.

Some advisors and their clients have found it easier to tap into alternatives by using third party investment advisors (TPIAs) who specialize in more esoteric strategies. Bill Woodruff, President, Bandon Capital Management, is an RIA and a TPIA who has honed his expertise in the alternatives arena. Woodruff and his team run an investment management firm dedicated, as they say, “to the democratization of alternative investment strategies.”

“While alternative strategies typically have been the domain of ultra-high net worth investors and large institutions like Harvard and Yale, Bandon is one the few firms dedicated to providing these non-correlated, absolute return strategies in a structure that makes them accessible to investors of all sizes,” said Woodruff. Bandon provides strategies that include Hedged Equity, Directional Interest Rate and Absolute Return Core.

Taking on Tactical
Big swings in the market have also generated demand for new approaches to portfolio management. For some advisors and their clients, this turmoil has raised questions about the benefits of buy-and-hold. A clear majority of our advisors polled—roughly 2 to 1—believed that changing their asset management strategy was key to navigating the volatile market.

While the buy and hold approach worked so well in a steadily rising market, volatility has wreaked havoc on the portfolios of millions of investors, who have watched their holdings twist and turn by the day, if not by the hour. But not everyone has been sideswiped by the rapid pace of change. Today, many fund companies and advisors have adopted a systematic trading strategy—often called “tactical management.”

And some data suggests that the tactical management can do quite well. According to results from the market experts at Strategic Insight, over the past five years global tactical allocation funds returned almost 20 percent. That is nearly four times the average return of funds like large-cap growth. Two of the biggest tactical funds—the $24 billion PIMCO All Asset and $15 billion PIMCO All Asset All Authority—stayed positive through much of 2011, blew past rivals and outpaced the broad market.

The advantage, analysts say, comes not just from speed, but from flexibility. Whereas traditional funds generally stick to one or two asset classes, tactical managers can turn on a dime, pull out of equities, and put the money into commodities, emerging-market debt or derivatives as the market signals its shifts. This broader range of asset classes might include anything from currencies and commodities, to cash and dividend-paying stocks, while others focus on the best opportunities in the bond market. Some strategies focus on darting in and out of different assets to boost returns, whereas others are more focused on limiting losses.

According to Strategic Insight nearly $17 billion was allocated into global tactical allocation funds, even as $54 billion was flooding out of traditional U.S. stock funds, through the first 10 months of 2011.

A “Bull Market” for Trading Strategies
Dedicating nearly 3 decades to studying the market and managing investments, Steve Blumenthal, Founder, President and CEO of CMG Capital Management, believes that investors’ portfolios should always include a diversified blend of tactical management and absolute return strategies—risk managed investment strategies with the ability to profit in both up and down markets.

A TPIA and fee-only RIA, Blumenthal is convinced that it’s crucial to invest differently during long-term secular bear markets than during long-term secular bull markets. “Active management is about capital preservation, as much as achieving above average returns. It’s about non-correlation to the general equity and fixed income markets for enhanced diversification,”

continued on page 25
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American General Life Companies
NEW YORK, NY—Grandparents in the U.S. are increasingly providing vital support for American families and have taken on the role of a financial safety net for their children and grandchildren, in some cases to the detriment of their own finances, according to Grandparents Investing in Grandchildren: The MetLife Study on How Grandparents Share Their Time, Values, and Money. It was conducted by the MetLife Mature Market Institute in conjunction with Generations United, a multi-generational advocacy organization.

According to the study, Americans feeling pressure of the slowed economy and high unemployment, are turning to their parents and grandparents for support. Two in 10 (20%) grandparents surveyed are living in multi-generational households and 13% of grandparents provide care for at least one grandchild.

Sixty-two percent of grandparents have provided financial support to grandchildren in the past five years, averaging $8,289, primarily for investments and education. Forty-three percent of those surveyed attributed the economic downturn as the reason for monetary support; 34% are helping despite their belief that such assistance is having a negative effect on their own finances.

The study also notes grandparents are making added use of technology to interact with their grandchildren, albeit reluctantly in some cases. Though they prefer face-to-face communication and the traditional phone call, 12% are using Skype, 31% use e-mail and 24% use Facebook. None reported communicating via Twitter. The majority of grandparents living within 50 miles of their grandchildren see their grandchildren in person at least a few times a month.

“The good news is that both in person and via technology, grandparents are forming deep connections with their children,” said Sandra Timmermann, Ed.D., director of the MetLife Mature Market Institute. “The bad news, however, is that grandparents are making financial sacrifices that could cost them when they find themselves short of the savings they need to support themselves in retirement. There is a need to balance what they’re giving with what they can afford to give. It’s recommended that grandparents seek financial advisors and education resources to guide them through the process of giving.”

“Because grandparents can play such an integral role in the lives of their grandchildren, it’s incumbent on parents, the generation in the middle, to encourage and facilitate greater interaction among the generations, whether face-to-face or virtual,” Timmermann continued.

WINDSOR, CT—Total annuity sales in the second quarter 2012 improved four percent from the first quarter 2012, reaching $57.0 billion, according to LIMRA’s second quarter 2012 U.S. Individual Annuities Sales survey, which represents data from 95 percent of the market.

However, second quarter 2012 annuity sales were eight percent lower than the second quarter of 2011. Year-to-date, total annuity sales dropped eight percent compared to the first half of 2011, to reach $111.8 billion.

“The current economic conditions remain challenging for most insurers, driving overall annuity sales down,” said Joseph Montminy, assistant vice president, LIMRA annuity research.

“While variable annuity sales did perform five percent better than in the first quarter of 2012. VA sales equaled $38.6 billion in the second quarter and recorded $75.4 billion for the first six months of 2012.
American Workers Waste Months’ Worth of Grocery Costs Due to Poor Benefits Choices

COLUMBUS, GA—New research reveals that 56 percent of employees estimate they waste up to $750 because of mistakes made with insurance benefits elections, which could represent up to four months of an individual’s critical grocery budget. In fact, nearly 1-in-4 respondents (24 percent) say they chose the wrong level of insurance coverage or benefits options they didn’t need, and only 16 percent of employees feel confident they aren’t making mistakes during the enrollment process. These new findings are part of the 2012 Open Enrollment Survey of the Aflac WorkForces Report (AWR), an online survey of 2,500 U.S. consumers conducted in July 2012 by Research Now and released by Aflac, the No. 1 provider of supplemental and guaranteed-renewable insurance in the United States.

Common Mistakes
The Open Enrollment Survey found that consumers are on auto pilot when it comes to the benefits selection process and aren’t even aware of the options they have. Reported mistakes of American workers include:

- More than 6-in-10 consumers (61 percent) are only sometimes or not at all aware of changes to their policies each year.
- 89 percent say they simply elect the same benefits options every year.
- Almost half (47 percent) rarely or never exceed deductible costs.
- Only 16 percent contribute the right amount to flexible spending accounts.

“Workers cannot afford to be in the dark about benefits options,” said Audrey Boone Tillman, executive vice president of Corporate Services at Aflac. “Consumers today need every dollar they have, with many clipping coupons and looking for ways to save. It’s critical that employees understand their benefits options during open enrollment to ensure that they don’t make mistakes that cost them money.”

To see the complete study results and learn more about how people can better protect themselves and their families against the unknown, visit AflacWorkForcesReport.com.

New York Life Named One of 25 “Best Companies for Multicultural Women” by Working Mother

NEW YORK, NY—New York Life has been named one of Working Mother’s 25 “Best Companies for Multicultural Women.” The magazine honors 25 companies in the June/July issue to promote the interests of women of color in corporate America. New York Life was recognized for hiring, retaining and advancing multicultural women.

“The Best Companies for Multicultural Women value the power of a diverse workforce and work hard to make sure their pipelines are filled with talented women of color,” said Jennifer Owens, director of the Working Mother Research Institute. “Even beyond mentoring and networking programs, these companies are reaching out to professional and school groups and sponsoring recruitment events to attract the best multicultural female talent.”

“We are honored to once again be recognized by Working Mother as a Best Company for Multicultural Women,” said Joanne Rodgers, vice president and chief diversity officer, New York Life. “Workplace diversity is something we foster because we recognize that harnessing the wealth of talents and perspectives of people from different backgrounds is not only crucial to our success as a company, it’s a part of our culture. We are proud of our longstanding history for attracting, developing and retaining a diverse employee population, and we will continue to provide comprehensive resources to support their growth and development.”

New York Life was recognized by the magazine for employing hallmark methods to ensure the advancement of multicultural women, including:

- Career counseling and guidance from senior leaders to female multicultural employees to help orchestrate career plans, gain access to key assignments and enhance their knowledge of what it takes to advance;
- Executive diversity groups to grow knowledge of inclusion practices;
- Regional conferences to actively seek out female professionals and underrepresented minorities; and
- Diversity and inclusion goals built into managers’ performance objectives.
continued from page 10

...between 2003 and 2011, the premium for a 55-year old single individual increased by 50% assuming he/she bought coverage with no automatic benefit increase option. The same increase, assuming 5% compound, is an astounding 250%. If overall sales were not affected, that would not be a problem.

Marketing which developed into professional association marketing which was the forerunner for employer group marketing. Granted, the IBMs of the world were early movers into offering their employees long-term care insurance, but for companies with < 500 employees, long-term care insurance was virtually non-existing as a benefit 10-15 years ago.

So if we look at where we have been and where we are today, it looks something like this: Long-term care insurance was insufficiently priced with respect to lapse assumptions, mortality and morbidity. That was compensated for in higher premiums; Price. Continuous historic low interest rates for the past half-a-decade and for at least another 3 years, brings us to a crossroads.

Changes in Promotion and Place have already had their positive impact on the industry, so the question really is: “Do we…”

1. go down the road of yet higher pricing on the existing product platform?

2. develop drastically different products?

I believe the answer is yes & no to both. How is that for clear messaging? What I mean is that we as distributors should promote lower benefits on the existing product platform while remaining open-minded toward new product design solutions. From a producer standpoint, the problem with the relatively low premiums up until the early 2000s was that we became hooked on unlimited benefits and 5% compound. Why did we sell it? Because we could! The result is that we know what our vastly over-insured clients from 10+ years ago have for coverage, and we wish we could the same thing for the people we meet today. But we can’t. At least not for the same premium. So what can we as producers and distributors do? We can protect them and their family’s financial, emotional, and physical well-being by offering them more average benefits while at the same time encourage and work with carriers on products and delivery systems that are designed for the segments of the industry where we have experienced significant sales growth over the past decade: The small-to-medium sized employer group market place, the affinity market place, and the financial advisor market place.

Henrik Larsen, MBA, CLTC, is VP, Marketing of Advanced Resources Marketing, a national distributor of Long-Term Care insurance based in Boston, Mass. He can be reached at 800.269.2622 or hlarsen@armltc.com
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October Profile: Eileen McDonnell

continued from page 3

solve how you grow the advisor base when we have had a multi-decade slide. With our troops coming back from deployment, we are bringing a highly educated, skilled military back into a high unemployment rate. Our industry will be a great fit for them. That’s the vision for the Penn Mutual Center for Veterans Affairs.

L&HA: I understand the first scholarship recipients have been chosen.

EM: We are providing up to 50 scholarships this year alone, and there will be more going forward. I’ve had a chance to meet two of our first designees, Joseph Voellm from the Virginia area and Kuan-Yin Hamlet from New York. Both are Wounded Warriors.

L&HA: Are these veterans coming in with any prior experience in financial services?

EM: Most recipients are new to financial services. Others have had some prior interest in the industry or are making transitions from other parts of financial services. Candidates often have 15 or 20 years experience coming out of the military. This bodes well because the average age of advisors is somewhere in their late 50s, while the Census shows the average U. S. worker is 37 years old. That’s a 20-year gap of relevance for the life insurance industry as an employer. Veterans represent a tremendous opportunity with the skills and experience they bring.

L&HA: Supporting the men and women of our armed forces seems to be consistent with Penn Mutual’s values.

EM: We want to educate veterans, but we also want to move them into gainful employment. These folks will be welcomed into the industry and exposed to many facets so they can then make a decision about which company they want to affiliate with. The first scholarship recipient will be mentored by a recently retired, Penn Mutual managing partner. We know this veteran will have a greater chance of success if he has a mentor from the start.

Our home office and field force are excited and energized about giving back to those who have given so much to our country. Here’s another example. At our meeting last year for top producers in Washington D. C., one of the opportunities we offered was a volunteer experience. A group went out to the Lincoln Cottage Soldiers’ Home and did the spring cleanup. We had afternoon tea with residents and passed out gifts.

L&HA: Penn Mutual is sponsoring the Maurice L. Stewart Lecture Series at The American College. Maury has been quoted as saying, “You get into the life insurance business, and then the life insurance business gets into you.” Have you found that to be true?

EM: To me it’s not a job; it’s part of who I am and what I stand for. This is an industry that most people come into by accident, but they stay in it because they develop a tremendous passion for the business. I am always advocating for what we stand for, really trying to educate people around the value that life insurance, in particular permanent life insurance, should be playing in their lives.

Maury was a very successful field leader in our company for many years and this lecture series will focus on leadership development. Maury is now retired and is an executive consultant with Penn Mutual. Many of the principles that made him successful are ageless and timeless. He is an important member of my team.

L&HA: Penn Mutual seems to be a company of possibilities and values. Is this rare in corporate culture and does it come down from the top?

EM: Tone at the top matters, but I walked into an organization at Penn Mutual that was optimistic and that believed in all the possibilities permanent life insurance has to offer through a lifetime. Over the last three years we have doubled the number of producers we have and tripled net income by refocusing on the basics. In early 2008 when I came on board Penn Mutual was a financially strong organization but the time was right to take it to the next level. In September, the bottom fell out of the economy. I stood in front of our field leaders and told them Penn Mutual was not going to participate in the recession. We would focus on the things we could do within our control, and if we played to our strengths, the other things would work themselves out. We’ve been heads-down around that going into our fourth year.

L&HA: What do you see coming down the pike for the industry and Penn Mutual?

EM: The future is bright. According to LIMRA, 80 percent of people surveyed about life insurance ownership, those that have personal experience either from a death benefit perspective or utilization of cash value, are feeling confident about life insurance and the life insurance companies they work with. That bodes very well and it tells us we need to do a better job of telling those stories. It’s not a matter of IF it’s a matter of WHEN. We’re going to have to deploy different methods. The rate of change brought on by today’s digital environment will prod the industry to rethink how we define relationships and how we connect with our customers. That’s an exciting next chapter for the industry.

Ms Ellis is features editor for LIFE&Health Advisor. She can be reached at cellis@lifehealth.com
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Prospecting Out of the Box

continued from page 6

Educational Workshops at Local Venues & Networking with Chambers of Commerce
Bob Nash, an experienced agent in our branch, is building his brand through booths at expos in senior communities and other events. His booth features simple materials on financial topics of interest as well as raffles and drawings to secure names and contact information. In addition, he is creating a series of educational seminars, again using the ABC Planning approach, which he will hold at local churches and libraries and invite people he meets from the expos. The educational program is spread out over 3 evenings with about 2 hours of content shared at each session.

He charges a small fee to attend and access the materials, but gives that fee back to the church or library as a donation which makes the local venue more invested in the success of the event. And, when a participant pays a fee there is an implicit acceptance of the value expected. People who pay for something -- even a small amount -- show up! The people involved at the venues post announcements in their bulletins, newsletters and flyers which shows their support and gets the word out. It also adds a great deal of credibility to Bob and his services.

Bob attributes a large part of his success to his active relationship with the Chamber of Commerce. He networks with members several times a month both at lunch meetings and after hours events. He also volunteers his talents as a musician by playing guitar at the annual barbeque. His goal is to be in front of groups of people regularly-- giving him the opportunity to talk about what he does, offer timely financial education, and share his personality. It’s never about product. It’s always about service and relationships.

Try a Radio Ad Campaign
Our branch approach to supporting agents in finding qualified prospects is to help them implement a number of activities that will keep them in front of larger groups of people in different ways and through different media. Recently, one of our strong and experienced agents, Rajini Saggar, tried a proven radio campaign to collect leads and increase activity. One of the leads from the campaign led to a wonderful new relationship and resulted in significant life and long-term care insurance protection sales with another opportunity for using annuities to meet the couple’s retirement goals.

After spending about 20 minutes on the phone with the husband who responded to the ad, Rajini spent more time listening than speaking. Using friendly but probing questions, she let the prospect share information on net worth, age, occupation, retirement, their three children and initial needs such as long term care and retirement. She learned that the couple had two life insurance policies. One covered the wife for $1 million and one policy covered the husband for $500,000. Intrigued by why the wife had more coverage than the husband, Rajini suggested that they meet and since the couple’s home was not far from her she offered to meet them there. The husband suggested they meet at her office to “save her gas”, signally to Rajini that this potential client was thoughtful – just the kind of person she likes to work with.

Rajini’s natural approach to keeping things simple, but being prepared with a nice package of information for what the couple seemed to be interested in, served her well. She learned that the husband had more insurance than what he had revealed on the phone, and he was interested in increasing the amounts for himself and his wife.

In addition, she worked with them to deliver long-term care insurance coverage, which they both felt was important to have. She also reviewed their current annuity coverage, but advised them to keep their contracts until they matured to avoid any surrender costs. “I believe my approach of going slowly and looking at one need at a time was refreshing and appealing to this couple. They saw that I was not after a quick sale,” she explained.

Rajini, who has built a large client base over the last 20 years, typically only works from referrals, especially from the many doctors and medical professionals she has cultivated. Yet, the idea of trying new marketing strategies such as the radio campaign and the coffee shop seminars appeals to her business philosophy of “make a friend, make a family” with a goal of helping as many people as possible.

No matter where you are in your financial service career, there is always room for growth, innovation and marketing “outside of the box”. The key is to increase your activities in ways that get you in front of people who will benefit from your expertise and services. Conducting smaller, more casual coffee shop seminars instead of more formal dinner events or making connections to prospects working with local libraries, houses of worship and Chambers of Commerce through educational workshops are great opportunities to build your brand and meet people who need you. And, even if you are highly experienced and focused on referrals, sometimes trying something different, such as a radio campaign, can pay for itself many times over by meeting just a few more qualified people.

Aamir Chalisa is Branch Manager at Futurity First Insurance Group, Chicago, IL. He can be reached at aamirchalisa@ffig.com
Blumenthal says. But after more than 27 years advising both individual investors and other advisors, Blumenthal has learned that “Most investors—and even many advisors—don’t have the DNA to trade. They don’t have the time, the patience, or the expertise. So at CMG, it’s our job to bring the due diligence, the experience, and the trading discipline to help our clients.”

According to a recent survey by Jefferson National, more than 75 percent of advisers said they believed a tactical approach could outperform a passive strategy over the long term. And Blumenthal clearly agrees. “It’s important to increase portfolio weightings to include strategies that can make money in a volatile environment,” says Blumenthal. “For now, it’s a ‘Bull Market’ for active trading strategies and a ‘Bear Market’ for buy-and-hold.” The approach won’t always lead to big scores, he says, “but it should help limit the losses.”

Beating the Market’s Big Swings: A Step By Step Approach

1. Allocate a Portion to Alternatives. Some investors and advisers are putting as much as a third of their portfolios in alternative assets such as commodities and real estate. While past performance is no guarantee of future results, some studies suggest that an allocation of just 10 percent can be enough to significantly improve a portfolio’s overall performance.

2. Alternative ETFs. The number of alternative ETFs has more than quadrupled in the past four years. But, while lower in cost, many advisers and consumer advocates caution that this type of ETF can be very volatile.

3. Managed Futures. By allowing investors to bet on commodity prices, managed futures fared well in the crash. But management fees can be high, with managers often collecting 2 percent annually plus a share of the profits.

4 Turn to TPIAs. Many advisors and their clients access alternative assets and tactical strategies through third party investment advisors (TPIAs) who bring added due diligence, experience, infrastructure and trading discipline.

5. The Power of Tax-Deferral. While alternative strategies and tactically managed portfolios can be tax-inefficient and produce short term capital gains, minimizing taxes through low-cost, no-load tax-deferred vehicles can help. Research confirms the performance potential of “tax-inefficient” investments, alternatives and actively managed stock funds can be improved by as much as 100 bps.

Laurence P. Greenberg is President of Jefferson National, innovator of a tax-deferred investing solution based on the industry’s first flat-insurance fee variable annuity with more than 380 funds, including more than 60 alternative investments. For more information, please visit www.jeffnat.com or call 1-866-WHY-FLAT (866-949-3528).
When working with business owners on their retirement or business succession strategies, the biggest question always seems to be, “Can I deduct the costs of what I am paying”. A strategy that combines the concept of “162” Executive Bonus Planning with succession planning strategies may give these owners more comfort. It is possible that the business succeeding is not paramount for the owner to still get their buyout money.

Along with that feeling of comfort, the cost to this type of strategy may be tax-deductible to the business, as well as provide tax-favored distributions to the owner that can potentially increase the value of those distributions. The strategy begins with commitment and contributions.

This hypothetical example has owner, Bob, age 61, wanting to design a business succession strategy for his $2 million company. Bob is planning to work 7 more years. There are 4 key employees who are interested in buying Bob’s company when he intends to retire. The issues are:

- How are the employees able to purchase the business?
- How does Bob get his money?
- If the employees do not continue to make the company prosper after Bob is gone, is his payout in jeopardy of completion?

To start, a $2 million executive bonus type plan using life insurance is created for Bob, but Bob does not own the policy, which is the normal scenario in bonus plans. The 4 key employees commit to purchase the business from Bob at a pre-determined time. An agreed upon value with updates and adjustments is established by Bob’s legal and tax advisors. Bob is the insured on the life insurance policy and the 4 employees are the owners and beneficiaries. A Buy-Sell document is drafted by Bob’s legal and tax advisors to restrict cash value access from the life insurance policy, except for business buyout purposes, and the death benefit is to be used to buy the business from Bob’s family/estate if a pre-mature death occurs.

The business pays a bonus to the employees for a total of $170,000 per year ($42,500/year for each employee) for 7 years into the plan, using an Index UL policy (see the attached John Hancock illustration). This allows cash value growth potential within the policy. Investment results in the illustration are based on historic returns. The employees pay the tax on the bonus which gives them “skin in the game” so to speak. These bonuses are tax-deductible to the company and, if possible, the company may also put money aside in a tax-deferred investment for future buyout use.

In year 8, the 4 employees take over the business. If the tax-deferred instrument was utilized, that value is paid to Bob and the company supplements that with a payout equal to $200,000. Bonus Plan payments are stopped after 7 years and in year 8, the employees are required to make payments to Bob for the next 12 years of $150,000, totaling $1.8 million. If desired, a formula may be used to add interest on Bob’s payments over the payout time. They use distributions from the policy, which are tax-free to the employees, thus allowing for more of a distribution going to Bob. Bob will realize capital gains tax on the annual distributions.

This plan gives Bob a payout that is not dependent on the company’s success or failure after the employees take over. It utilizes tax-deductible contributions as well as tax-favored distributions to allow for greater annual payouts.

*(Past performance is not an indication or guarantee of future results.*

Paul Giandomenico is a financial representative with Centinel Financial Group, LLC with offices in Bourne and Marshfield, Massachusetts. He has been working with business owners and professionals on executive benefits design and business succession strategies since 1992. Paul can be reached at 781.837.9921 or by email at pggiandomenico@jhnetwork.com.
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