

Estate plans' cloudy times

The Congressional Joint Select Committee on Deficit Reduction (the Super Committee) failed at its task of finding \$1.2 trillion in debt savings over the next 10 years. Now the process known as sequestration, which triggers automatic spending cuts, is slated to kick in on Jan. 1, 2013. The cuts must be split



INDUSTRY EXPERTISE

Edward Dougherty

evenly between defense and other programs, and raising taxes is not imposed by the process. And with next year's elections, the stage is set for more legislative inaction.

Regardless of the 2012 election results, if Congress fails to pass legislation and the Bush tax cuts expire, taxes will increase across the board in 2013. So with

just over one calendar year before the tax cuts are slated to expire, some observers believe this is one of the best times in a generation for estate planning. Others make the case that there are too many unknowns to make estate decisions that are irreversible. Here are some facts to consider before you decide.

Some observers believe this is one of the best times in a generation for estate planning.

Last December, the Middle Class Tax Relief Act reinstated the estate tax after it had lapsed. The estate-tax exemption (the amount in an estate not subject to estate tax) was raised to \$5 million per person and \$10 million for married couples. The exemption was expanded further by making it portable. In other words, what the first spouse doesn't use upon his or her death of the \$10 million, the surviving spouse can utilize (although one must file an estate tax return within nine months of the first spouse's death to do this). A tax rate of 35% would then be applied to assets over that limit.

If giving assets to children, grandchildren or a charity is a priority, then the Middle Class Tax Relief Act could serve as a short-lived charitable gift from Congress and a great way to help reduce the tax liability on an estate. Here's why: In addition to the estate-tax exemption, Congress unified the new estate-tax laws with a more generous gift-tax law. Individuals can gift up to \$5 million during their lifetime, or at death, and do so on a tax-free basis. For example, an individual who uses \$3 million for gift-tax exemptions while living, will at death have \$2 million remaining for an estate-tax exemption.

These exemption levels and the use of portability last through 2012. As the law stands, once we turn the calendar into 2013, we revert back to \$1 million

ESTATES, PAGE 27

HOT TOPIC



Retirees on volatile ride

Retirement accounts' low returns prompt investors to seek alternative approach

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CONTRIBUTING WRITER

The stock market's recent, sharp volatility and the low yields in the bond market are prompting weary investors to rethink traditional methods to build retirement savings.

Individual investors — particularly baby boomers nearing retirement — have had plenty of reasons to ditch the traditional portfolio model of increasing fixed-income securities as their working years come to an end. With interest rates at record lows, bonds offer little reward.

Adding to investment worries is an increasing anxiety about retirement finances. A recent Wells Fargo & Co. national survey finds 25% of respondents expect to work until age 80 to have enough money to retire.

After stocks were hammered in the financial crisis of 2008 and whipsawed again this year by fears of excessive U.S. and European debt levels, soon-to-be retirees feel the need to find investments with reliable returns. A growing portion of Americans are shifting some of their retirement savings into alternative, nontraditional assets in hopes of surpassing the investment returns they believe they can otherwise achieve with stocks, bonds and mutual funds.

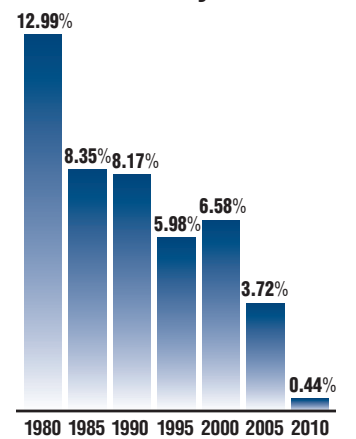
But where should they go? And what investments offer the promise of acceptable returns? Some money managers see clients willing to venture into self-directed IRAs, which provide a vehicle to invest in high-risk, high-reward assets.

Local investment managers report little interest in those funds, which invest in real estate, precious metals, closely held stock, limited liability companies, limited partnerships and promissory notes. Instead, local managers say a crucial part of their strategy is an emphasis on blue-chip stocks.

"This question comes up with every week with clients," says Kelby Brown, senior vice

INDUSTRY INSIDER

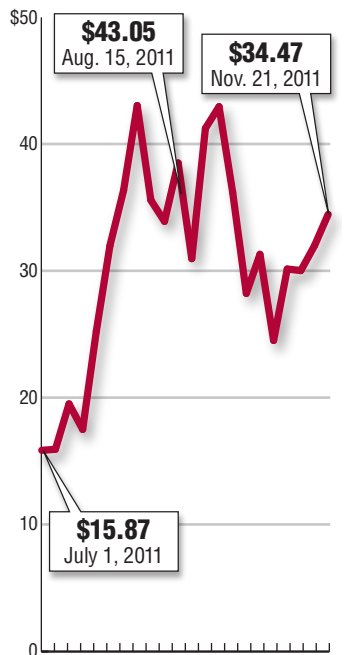
Six-month CD yields



Source: ForecastChart.com

STOCK MARKET VOLATILITY

Closing prices for the Chicago Board Options Exchange's market volatility index.



Wells Fargo bows index for hedge-fund holdings

Wells Fargo & Co. has launched the Wells Fargo Hedge Fund Manager Holdings Index. It measures the performance of the 100 largest positions in equities and related securities by hedge funds and managed accounts.

Investors can use the index to evaluate their portfolios by seeing how well hedge funds are performing in the market.

"Aggregating hedge-fund holdings and illustrating the performance through an index will bring greater transparency to the sector," says Dan Forth, head of strategic indexing at



Forth

Wells Fargo.

It can be viewed on Yahoo Finance under the symbols ^HEDGE and ^HEDGEPIX. On Bloomberg, the symbol is HEDGE:IND.

YIELD, PAGE 24

ESTATES: Washington's fiscal woes could lead to revamp of tax breaks

FROM PAGE 19

exemptions and the estate-tax rate jumps back up to 55%.

Another estate-planning opportunity resides in low interest rates. Parents can make loans to their children or fund a trust at a low cost. One example is a grantor-retained annuity trust. This allows the appreciation on assets that are placed into the trust (above a predetermined rate) to pass on to the beneficiaries without being subject to estate or gift taxes. That predetermined rate is 1.4%, not a high hurdle. One should seek the counsel of an estate-planning attorney for the intricacies that are involved with such a trust.

Low interest rates can play a key role in tax-minimization strategies. Business owners also may find the current laws favorable for passing their interest in a business into the hands of the next generation of family ownership. This is especially true if the business owner is married and the couple can jointly use the \$10 million lifetime-gifting exemption. For a business valued in excess of that amount, the couple could sell remaining shares using intrafamily loans, again at favorable interest rates.

The current IRS interest rate on an intrafamily loan of less than three years is 0.19%. For a longer loan, such as nine years, the rate is 2.67%.

Federal spending cuts are slated for 2013, but there's talk of cuts coming earlier. On the block are the exemption levels for estate and gift taxes.

So it's uncertain whether the exemptions will remain intact through 2012. Planning is more difficult because of

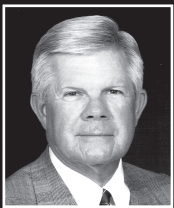
the wide range of possible changes being tossed around.

At one end of the spectrum is a total repeal of current limits, reducing the estate- and gift-tax thresholds back to 2009 levels. They are a \$3.5 million exemption for estates, and a \$1 million lifetime exemption for gifting. At the other extreme is the possibility of a return to the original \$1 million estate-tax exemption with an estate-tax rate of 55%, coupled with a restriction or repeal of many favored estate-planning techniques. That could affect grantor-retained annuity trusts and the discounts for family transfers, among other options.

Despite the uncertainty, estate-planning efforts should be aimed at accomplishing personal goals, not solely on the basis of saving on taxes. Giving money to children or a charitable cause, or keeping a business in the family, should be the underlying reasons for any planning. But it may prove wise to begin putting some planning strategies in place to get things started. This could allow for additional flexibility going forward and a rapid expedition of a strategy, if needed, based on future legislation.

As you may have gathered, tax rules and regulations are complicated and change frequently. You should talk to a qualified tax adviser for a professional opinion before implementing strategies mentioned here.

Edward Doughty is a certified financial planner and managing director at Epic Capital Wealth Management, a SouthPark-based financial-planning firm.



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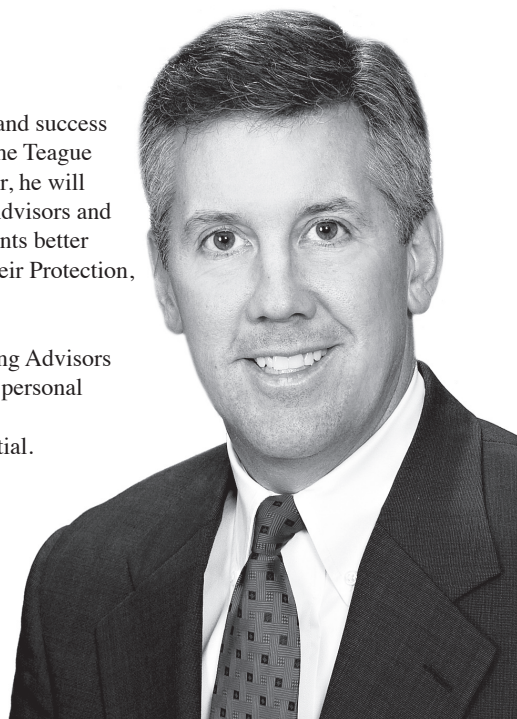
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