

The MFAC Report

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LIFE INSURANCE (How Much and What Kind)

By Karen Cho, CPA/PFS

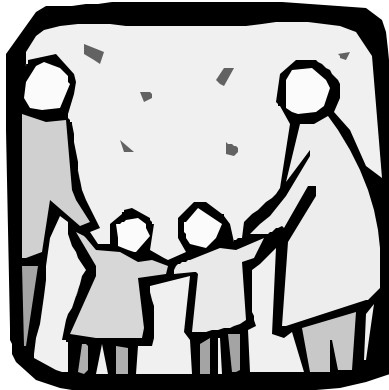
When someone is faced with the question of whether or not they need to purchase life insurance they have to determine the goal or needs for the purchase, how much to purchase; and the type of insurance that is appropriate for their needs and circumstances.

First, one must consider the purpose of life insurance. Is it needed to replace income, provide for the education of children, provide liquidity for estate tax purposes, secure an obligation such as alimony or child support, to retire debt such as a mortgage, etc?

The next step is to determine how much life insurance is needed. Going through several what-if scenarios will aid in this process. It's important to understand that there is no right or wrong determination. It is a personal decision for each family. A prospective purchaser should consider the survivors' needs without the income of the deceased and for how long that income replacement is desired. In some cases permanent (cash surrender value) insurance might be appropriate, while in others term insurance may be the best choice. Duration of the need for life insurance should also be factored into the decision.

You may want to discuss, with a trusted advisor, the amount of life insurance you are contemplating purchasing. If you determine that income replacement will be needed for a long time remember to factor in future inflation. Many insurance company and financial web sites provide financial calculators to help

you arrive at a rough sense of your potential life insurance needs. However, remember that these calculators will have biases that are built in by their creators. A relatively simple way to determine how much life insurance to purchase is to prepare a "needs analysis," using a simple formula: Short-term needs + long-term needs - resources (assets) = how much life insurance you might require. You might also want to prepare a new needs analysis every three to five years to make sure that your determinations are still valid.



Once you have an idea of how much life insurance to purchase the next step is to determine what type of insurance is appropriate for your circumstances. While there are many variations, there are two principal types of life insurance. The first is term life insurance, which covers you continuously for the period of time (or term) that you choose, after which the coverage ends. These policies tend to be relatively inexpensive. If choosing term insurance you may want to consider guaranteed

renewable policies or level premium term policies for predetermined periods, such as 10, 15, 20, etc. years. The second type is permanent (or "cash value") life insurance. There are a number of types of these policies. As the sellers of most life insurance policies earn hefty commissions, consulting with a fee only advisor should be considered so that you can be assured there are no product biases.

Premiums vary from insurer to insurer, so ask for proposals from a number of companies. Also, make certain that the insurance company that you settle upon is highly rated as the death benefit may not be paid for decades. You want to try to ensure that they will be there when the death benefits are needed.

We can assist our clients in the evaluation of all aspects of life insurance purchases so don't hesitate to contact us for any help that you may require.

We're always looking for a few new good clients. Your referrals will be appreciated.

Tips and Alerts

THE COLLEGE YEARS

By Janet Gardner

Here are a couple of tidbits that might help you to deal with the costs of a child in college:

1. **Michelle's Law** – Was enacted to permit continuation of health insurance for full-time college students so that they do not lose their coverage should they need a medical leave of absence from school. The student's physician makes the determination if the medical leave is necessary. For a calendar year plan, the effective date is January 1, 2010.

2. 529 Plans (Qualified Tuition Plans)

- In 2009 and 2010 eligible students will be able to use 529 funds to purchase computer equipment and services. These items can also be used by the beneficiary's family during the years the beneficiary is enrolled in college. There is one limitation. The funds cannot include expenses for computer software designed for sports, games, or hobbies unless the software is predominantly educational in nature.
- Do not overfund a plan. If there is more money than necessary in the account and no family member to designate as the new beneficiary, there's a risk of needing to take a non-qualified distribution resulting in taxes and penalties.



Tax Notes

I'm Subject to What? Use Tax?

By Tom Trent, EA

We know what sales tax is, but what is "use tax?" Simply stated, if you buy items from out-of-state or over the Internet, in many cases the seller is not required to collect state sales tax. When that happens and you consume, give away, or store, an item that would have been subject to sales tax, had you bought it in-state, **you owe use tax to your state of residence**. For California, the use tax rate for any location is the same as the sales tax rate. However, if you paid sales tax to another state, you are allowed to deduct that amount (up to the California use tax amount) from the use tax owed for that item.

Use tax is nothing new and it isn't unique to California. Virtually every state that levies a sales tax also has a compensating use tax. Use tax has been around a long time (California enacted their law in 1935). But as California scrambles to collect tax revenue, we are seeing stepped up enforcement of the use tax.

A recent California law requires all "qualified purchasers" to register with the State Board of Equalization (BOE) to report and pay sales **and use** tax. Everyone, not just a qualified purchaser, is subject to use tax. The difference is that individuals and certain small businesses are exempt from registration and filing with the BOE. Those taxpayers can continue to pay any use tax owed on their California income tax returns.

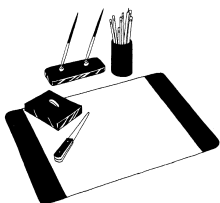
A qualified purchaser is **any business** with at least \$100,000 in annual gross receipts, this includes entertainment loan-out corporations, proprietorships, etc. It doesn't matter if you don't hold a seller's permit; if you file any business tax return and report at least \$100,000 in gross income, you will be subject to registration and reporting, even if you don't owe any use tax. The BOE is sending letters to those businesses. If you receive a letter, you must complete the contact information and mail it to the BOE. They will then register the business and send you an account number and log-in information so that you can e-file your return. The 2009 return will be due April 15, 2010.

Taxpayers who were subject to, but did not report, use tax for 2007 and 2008, must file returns to report and pay the tax.

From The Corner Office

Investing in “The New Normal”

By Mitchell Freedman, CPA/PFS, AIF®



Pacific Investment Management Company (PIMCO) is a bastion of fixed income investing. Bill Gross, the founder of PIMCO and its CEO, Mohamed A. El Erian, have been using the term “The New Normal” when discussing the outlook for investments. *El Erian, who is credited with coining the phrase (or at least popularizing it), has said, “For the next 3–5 years, we expect a world of muted growth, in the context of a continuing shift away from the G-3 and toward the systemically important emerging economies, led by China. It is a world where the public sector oversteps as a provider of goods that belong in the private sector...It is also a world in which central banks and treasuries will find it difficult to undo smoothly some of the recent emergency steps. This is particularly consequential in countries, such as the U.K. and U.S., where many short-term policy imperatives materially conflict with medium-term ones.”* Effectively, El Erian is saying that in the short to intermediate term there will be more opportunity in

emerging economies than in the U.S., Japan, Germany, and other established foreign economies. El Erian’s comments are a profound and telling statement about where we may be going and how investors should consider structuring their portfolios in the intermediate term.

At MFAC Financial Advisors, Inc. we have retained our tenets of being asset allocators and not market timers. We continue to believe that investors should have highly diversified portfolios in order to reduce risk and achieve reasonable portfolio returns. Nevertheless, the economic events of the past several years have caused us to create asset class shifts in order to both protect our clients’ wealth and to hopefully have our clients participate in reasonable wealth enhancement opportunities, with lower risk, in “The New Normal.”

Here are some of the things that we have done over the last year and continue to do as we monitor economic events. Due to high volatility, plunging equity values, which despite substantial recovery are still well below the highs of several years ago, uncertainty as to the conditions for eco-

nomie recovery, and an expectation of lower equity growth in a much more de-levered world, we have shifted a measurable portion of clients’ investments from equities to fixed income investments. We have increased exposures to high yield and investment grade bonds. We have shifted more fixed income investments to both foreign and emerging market bonds as well. We have moved away from U.S. Treasuries and moved into U.S., foreign, and emerging market Treasury Inflation Protected Securities (TIPS). As for equities, we have decreased our exposure to U.S. stocks and increased our exposure to foreign and emerging market stocks. We have continued our exposures to gold and precious metals, although we have been recently taking some of the gains off the table. Over the past several years we have had increased exposure to healthcare, technology, and energy which we are continuing and have recently increased and broadened our exposure in commodities. We have also begun including a specific allocation to BRIC (Brazil, Russia, India, and China) equities in order to participate in the expected growth of the economies of these emerging economic giants.

Heard In The Hall

The new voice that you may hear on our telephone is Alejandra (Alex) Aguilar, our first new employee since the move to Westlake Village.

On September 1, 2009 Mitch Freedman was featured on WebCPA.com in an article titled, “Social Networking: It’s Twitter Time.” On September 18th he was interviewed for a CalCPA Financial Empowerment Podcast titled, “Social Security – Maximizing Benefits.” You can access this podcast by going to: www.calcpa.org/Content/Files/Podcasts/FinEmPodcast137.mp3. On July 16th Mitch, Karen Cho, and Tad Jakes attended the California CPA Education Foundation Personal Financial

Planning Conference in Los Angeles. Mitch attended The All-Star Financial Group meeting in Chicago on August 14th and 15th. He also attended a California Jump\$tart Board of Directors meeting in Los Angeles on August 25th. On September 2nd he attended a CalCPA State Personal Financial Planning Committee meeting in Oakland.



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Visit us on the Web @ www.mfac-bizmgmt.com

E-mail: newsletter@mfac-bizmgmt.com

Telecopier: 805-494-7371

805-409-0250

Telephones: 818-905-0321

Westlake Village, CA 91361

3027 Townsgate Road #205

MFAC FINANCIAL ADVISORS, INC.
AND
MITCHELL FREEDMAN
ACCOUNTANCY CORPORATION

The MFAC Report

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