

Perspectives - On Business

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Apathy Unacceptable

This issue is important to anyone who owns a company or professional practice, as well as anyone who works for one. COLI is a tough subject, yet worth understanding. I like Steve Leimberg's explanation:

What COLI is and How It Works:

COLI is an acronym that refers to corporate owned life insurance, although in a wider context it refers to contracts owned by a business even if the business is not in corporate form. In the classic COLI arrangement, a business purchases a high early year cash value type life insurance contract and borrows some portion of the cash value directly from the policy under a loan administered by the insurance company that issued the policy. Amounts borrowed are eventually repaid through a reduction in the death benefits when the insured dies. Alternatively, the business may borrow from a third party lender, perhaps using the life insurance contract as security for the loan, either formally or informally.

There are two significant news items about Corporate Owned Life Insurance (COLI) this week. On the surface it seems that one contradicts the other. As I see it, both indicate that one of business's most valuable survival tools is under attack.

- The Senate Finance Committee, out of the blue, passed an amendment that would tax COLI. This is discriminatory and would produce devastating results.
- After three decisions against COLI uses, the courts upheld Dow Chemical's use of COLI as legitimate. This is good news, but the fact is, the word on the three cases is more widespread.

Why this is Worth Understanding

Small business is the bedrock of the American economy. It provides more jobs and supports more families than the Fortune 500. The public must not be allowed to harbor the misperception that COLI is solely a tool of corporate greed, and often referred to as "janitor insurance", or "dead peasant insurance". Crafty people have tried to abuse it - and they get caught, and generally publicized.

Properly designed, COLI is a valid, useful and necessary tool to small businesses to help fund large capital obligations, like retirement plans and financing business transfers. It helps ensure that a business can survive transition such as a death or disability. Without it, breadwinners would lose their

livelihood because businesses could not endure the costs of transition, due to taxes already imposed.

If COLI were removed as an option, the IRS coffers would suffer in the long run. Unfortunately, we live in an era idealizing quick fixes. And this one looks politically expedient. Everybody loves a villain and it may as well be business.

Frankly, if I had to find \$87 Billion in a hurry, had an election coming up and had just given tax cuts that look like they are stimulating the economy...I would look to a place that the average citizen thinks little about. Business is amorphous and ambiguous - removed from the individual - unless you happen to own the entity and care about your employees. Or unless you work for one, and possibly aren't even aware.

The Dow case is very important in that it follows three cases where the courts supported the IRS claim that separate COLI plans were tax shams. I plowed through a detailed analysis of the case this weekend and will spare you the details. What you need to remember is that:

- Life insurance, as a method of transferring risk, is still a sound and legitimate method of financing certain costs, properly designed, documented and structured.
- Overly aggressive uses of any financial instrument makes that vehicle and your plan subject to IRS scrutiny and possible attack.

The cautious depend upon a team of good advisors for prudent advice implementing their financial plans. The fool hearted are drawn to the deal that seems too good to be true. Avoid the come-on, the alluring approach, of financial peddlers with the "greatest thing since sliced bread." Slick often leads to a slippery slope.

As for the Senate Finance Committee, are we going to just sit here and take this? If we silently allow them to proceed, we risk jeopardizing one of the most effective tools for financing the continuation of the business, and retirement for its owners and employees. The results, long term, would be devastating to business and employees, and hence, to the IRS coffers. To use my mother's colloquialism, they are cutting their nose off to spite their face.

Is the Senate really that dependent upon quick fixes or popular appeal? Are we too busy running our companies to inform our employees about the importance of this issue?

Truth, justice and the American way can prevail... as long as we don't take for granted that it will. When an otherwise valid idea gets abused or misused the IRS is obliged to pursue it, and those who make legitimate use of a time-honored technique get hurt.

We all need to get on board with this issue. Please make sure that those you know are educated on this topic. We can't afford to let this valuable tool get lost because people are confused, misinformed, apathetic or disinterested.

Pass the word.

Yours truly, Sandra

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Future Finances' Market Update

By Max Larsen

Monday, September 22, 2003

Stocks climbed again last week. The Dow has risen 21 of the last 28 weeks. The S&P 500 stock index has been in the black for 20 of 28 weeks, while the NASDAQ has gone up in 19 of 28. This is the seventh month of the market rally and many are wondering if stocks aren't a little over-bought and possibly over-valued.

The market exhibited some nice strength; especially considering it faced a couple of daunting distractions (Dick Grasso's sudden resignation as the NYSE's chairman and hurricane Isabel). Fortunately, a couple of the economic indicators helped counteract the bad news:

- The Federal Reserve decided to keep interest rates down, since inflation remains at a 37-year low, according to *The Wall Street Journal*. So we still have low interest rates and low inflation.
- The International Monetary Fund has revised its forecasts and now predicts the U.S. economy will expand 2.6% this year and 3.9% next year. These figures are up and put the U.S. in the number one growth position among G7 (the 7 major industrial countries).

The big hole in the economic data remains the jobs market, but last week's jobless claims (399K) were a relief after seeing claims jump above 400K for two consecutive weeks. Nonetheless, these data have a long way to go but it doesn't necessarily indicate bad news for stocks however. The reason is a lack of hiring employees allowing companies to accelerate their profits, benefiting from productivity gains, rising revenues and lower costs. Hopefully, the expanding U.S. economy will start adding jobs in the 4th quarter and beyond.

So, is the stock market over-bought and over-priced? In my opinion I believe some areas have gotten ahead of themselves. It's comparable to maintaining a balanced diet. We all know the USDA recommends apportioning your diet between breads, fruits, vegetables, milk, meat and fats. If you stick to just one

group, you're going to get sick. Likewise, if you don't change the mix as you age, you're going to get sick. Investments are no different - you need to apportion your investments between capital preservation, income, value, growth and aggressive growth. Diversification still wins the day!

Thanks to friends like you who refer new business to us, our practice continues to grow.

As always, your comments and reactions are welcome. Please feel free to share this newsletter with others you think may find it interesting or useful. We respect your privacy and will not share your address with others. Click [here](#) to send a comment, to subscribe, or unsubscribe.

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