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Financial Reform

What It May Mean for You

The Dodd-Frank Wall Street Reform and Consumer Protection Act is a sweeping piece of legislation that creates a new consumer protection agency as well as numerous new oversight provisions aimed at preventing the type of systemic failure that caused the near-collapse of the financial system in 2008. Here are a few of the bill's key measures and what they might mean for consumers and investors alike.

For Consumers

The bill creates an agency dedicated to consumer advocacy — the Consumer Financial Protection Bureau (CFPB). The CFPB's mission will be to write and enforce rules affecting a broad range of retail banking and lending products.

Specific areas over which the CFPB will have supervisory authority include:

- **Mortgages** — The bill offers a number of new consumer protections including a ban on bonus pay to predatory lenders who steer borrowers to high-priced and/or riskier loans, and a ban on prepayment penalties for certain types of mortgages. In addition, lenders must now verify a potential borrower's credit history, income and employment status — basic financial information that would seem to be an obvious requirement, but that often went unchecked prior to the subprime housing disaster.
- **Student loans** — Private student loans (which can include loans from universities and other educational institutions) are largely unregulated instruments that lack many of the safety nets that federal student loans provide. The reform bill empowers the CFPB with oversight of private student loan providers and gives students a dedicated resource for information about such instruments.

- **Credit and debit cards** — If you like using your credit or debit card to pay for just about everything, you are in luck. The reform bill allows merchants to set a \$10 minimum for credit and/or debit card transactions. If, however, you prefer to use cash, the bill gives merchants the option of offering a discount to customers who pay with cash as opposed to a debit or credit card.

- **Credit scores** — Consumers have long been able to obtain free credit reports each year from the three leading credit reporting agencies; but to obtain a credit score, you had to pay a fee. Under the new law, you will be able to see your score for free if you have been denied a credit card or received a poor mortgage rate. The company or lender who denied you credit would have to provide a copy of your score at no cost to you.

Another smaller but important piece of the reform bill that favors consumers is the permanent increase on FDIC bank deposit insurance to \$250,000. The increase (upped from \$100,000 at the height of the financial crisis) was originally intended to be a temporary measure.

(Continued on back)



Policy Matters

Using Insurance as an Estate Planning Tool

Tax laws, including estate tax laws, are currently in legislative limbo. How and when Congress will act to address the current situation is unclear, which makes planning difficult, but all the more critical.

If your estate is illiquid — if much of it is held in real estate or a business, for example — you may want to consider setting aside assets held outside of your estate to cover the tax bill. Life insurance may help accomplish that goal while preserving more of your wealth for future generations.¹

Just the Tax Facts

As long as you do not own the life insurance policy and did not retain control over it within the last three years of your life, the proceeds generally will not be treated as part of your estate and therefore will not be subject to estate tax.

One strategy for capitalizing on the tax benefits of life insurance is to establish an irrevocable life insurance trust (ILIT), which serves as both owner and beneficiary of a life insurance policy. A trust can help keep proceeds of the policy out of your estate, thus avoiding federal estate tax. In addition, when setting up the trust you can name one or more beneficiaries or trustees. Trustees can use the proceeds of the policy to pay estate taxes and settlement costs, while the remaining monies, if any, can be distributed to beneficiaries free of income tax.

If you already own a life insurance policy that qualifies for inclusion in your estate, you may be able to gift the policy to a beneficiary. If, however, the cash value of the policy on the date of transfer is more than the current \$13,000 gift exclusion

allowed per individual per year, the transfer may be subject to gift tax. (Like the estate tax, the gift tax has a sunset provision whereby the tax rates will revert to their previously scheduled levels in 2011 unless Congress extends them.)

It may be possible to circumvent the tax by naming more than one beneficiary. This would allow you to potentially transfer up to \$13,000 to each beneficiary without incurring gift taxes. Gifting your existing policy also triggers a three-year survival requirement — in order to avoid the gift tax, you must survive at least three years after gifting the policy.

Create a Plan That Works for You

Life insurance is just one of the many tools that could be used to help you pass your estate on to your loved ones more efficiently. Consult your financial advisor and/or a tax/legal advisor to determine which tools and strategies may be appropriate for you.

LPL Financial does not provide tax or legal advice. As with all transactions having tax implications, clients should consult their tax and/or legal advisors.

¹Life insurance policies are subject to substantial fees and charges. Death benefit guarantees are subject to the claims-paying ability of the issuing life insurance company. Loans will reduce the policy's death benefit and cash surrender value, and have tax consequences if the policy lapses.

Become an Economic Survivor

These Five Tips Will Help

While many economists believe that the worst of the recession is behind us, there are still some stubborn areas (like employment) that have yet to stabilize. But adopting the right mindset should help you be a survivor, regardless of economic conditions.

1. Keep it all in perspective – long term, that is.

Rather than focus on what is happening in the economy today, try to think about your own long-term goals. Continuing to save and invest systematically for a comfortable home, a financially secure retirement or a quality education for your children is one way to help stay positive about the future, and keep your mind off short-term realities.

2. Stay cool-headed about your investments.

When markets are extremely volatile as they have been in recent years, the first reaction for most of us is to panic: to buy when everyone else is buying — when prices are highest — and to sell on the downside — when prices are depressed. By allowing emotion to dominate your thinking, you run the risk of missing the market's best-performing days.

For example, the chart to the right shows that missing just the five top-performing days of a recent 20-year period would have cost you more than \$16,000 based on an original investment of \$10,000 in the S&P 500.¹ You never know when the market is going to shoot up, so staying invested and not giving in to panic can really make a difference.

3. Rein in expenses.

This seems like an obvious suggestion, yet research shows that cutting back on discretionary spending is one of the most difficult money management tactics to master.

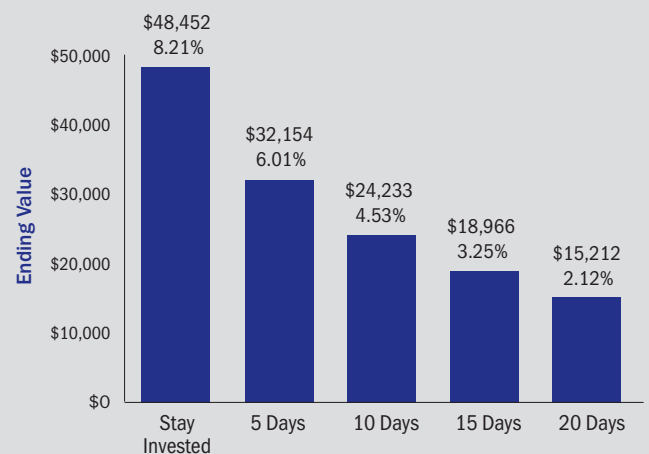
You needn't slash all of the pleasure out of your budget to make a difference, however. Start by making a list of all non-fixed expenses you incur in a week (things like gourmet coffee drinks, eating out, spa treatments, etc.), then find ways to cut those costs by 10%.

4. Refresh your job skills.

Review your résumé with an objective eye and determine where it could use some added muscle. If you haven't learned new skills in a while, consider training opportunities at work or in your community.



Staying Calm – and Invested – Can Pay Off



¹ Source: Standard & Poor's. This chart shows how a \$10,000 investment would have been affected by missing the market's top-performing days over the 20-year period from January 1, 1990, to December 31, 2009. Stocks are represented by Standard & Poor's Composite Index of 500 Stocks, an unmanaged index that is generally considered representative of the U.S. stock market. Past performance is not a guarantee of future results.

Investing in stocks includes risk, including loss of principal. It is not possible to invest directly in an index.

5. Turn adversity into opportunity.

The changes that have occurred in the economy in the past few years may present opportunities to create value. For instance, if the soft real estate market has discouraged you from selling your home, consider refinancing at today's historically low mortgage rates or making upgrades that could pay off when the housing market rebounds.

While the economy is bound to swing up and down over time, if you have the discipline to stay focused on the parts of your financial life that you can control, the short-term bumps in the road will seem much less troubling.

Investors Tap Social Media for Investment Advice, Strategies

Research confirms that wealthy individuals as well as retail investors are using social networking sites not just as a way to stay in touch with family, friends and professional contacts. Increasingly people are using such online venues as a way to obtain and exchange information on advisors, funds, fees and strategies.

One study conducted by the exclusive Institute for Private Investors (IPI) found that 38% of its members are active participants on social media sites, including LinkedIn, Twitter and Facebook, as well as blogs and online forums. (*The IPI study polled 1,100 private investors and 140 professional firms from 18 countries.*)

Similar research published recently by the Spectrem Group looked at retail investors' use of social media as a way to obtain financial information and investment strategy advice.



The study, *Social Media and the Investor*, indicated that about one-third of Facebook users would consider going with a financial advisor recommended by a Facebook friend; half of those under age 35 would consider doing so.

According to the Spectrem report, LinkedIn seemed to carry the most credibility among users interested in financial matters. Nearly three-quarters (73%) of respondents who used LinkedIn said they would consider joining online groups to discuss economic and investment topics. (*The Spectrem study was based on responses from 500 financial decision-makers in households with at least \$50,000 in annual income who spend at least one hour per week on financial websites.*)

Financial Reform (Continued from page 1)

It is also important to note that one of the key missions of the CFPB is to offer consumer education and financial disclosure information. What does that mean to you? Expect to receive a lot more information — and to fill out a lot more paperwork — when you apply for a loan or open a bank deposit account. In general, the process should be much easier to understand, but expect things to take longer.

For Investors

The reform bill introduces the possibility of leveling the playing field when it comes to the type and quality of advice investors receive from their financial professionals. Currently, only certain investment

professionals, such as certified financial planners and investment advisors are held to the “fiduciary standard” — a standard of care that puts a client’s interests ahead of their own when they give financial advice. Stockbrokers and other financial professionals typically follow a more relaxed set of rules that allow them to recommend investments that are deemed “suitable” given an investor’s particular situation.

The fiduciary standard also requires investment advisors to provide a certain level of transparency to their clients around fees, commissions and any potential conflicts of interest that could affect their ability to serve in their clients’ best interest.

While the bill takes steps toward establishing an across-the-board standard for all to follow — it does not seal the deal. Instead, it instructs the Securities and Exchange Commission to first conduct a six-month study to determine if and where regulatory gaps exist and whether establishing such standard operating procedures is appropriate.

Like any legislation this ambitious, many of the Dodd-Frank Act’s provisions will take years to be fully implemented. Talk to your advisor about how the coming changes may affect you and your financial future.