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QUARTERLY®



Philip J. Kavesh

WORKING WITH ATTORNEYS

NEW IRA INHERITANCE TRUSTSM

ANNUAL CLIENT SATISFACTION SURVEY

RETIREMENT PLANNING: Move Clients from Inertia to Action

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Pacific Quarterly is a periodic publication designed as a resource exclusively for financial professionals (registered representatives).

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Relationship Building

Working with Estate Planning Attorneys

by Teresa Minke



EVEN THOUGH THE MARKETING OF VARIABLE ANNUITIES IS BECOMING INCREASINGLY MORE COMPETITIVE, ONE AVENUE MANY FINANCIAL

PROFESSIONALS HAVE NOT EXPLORED IS WORKING WITH A LOCAL ESTATE PLANNING ATTORNEY TO HELP BUILD THEIR BOOK OF CLIENTS, THEREBY GENERATING MORE REFERRALS AND FUTURE INCOME.

One of the keys to establishing a successful relationship is working with competent and experienced attorneys. It is also very important that both parties provide appropriate disclosure to the client about the nature and terms of the relationship.

Getting Started

- Do your due diligence on any attorneys with whom you want to create relationships. Check out the attorneys' disciplinary record with the State Bar Association. Also, talk with CPAs or other professionals who have done business with that attorney.
- One or two good attorney relationships are all you need. Make sure that they are equipped to manage the 15 or 20 new clients a month you will be referring (or helping them bring in through joint marketing) and that they have efficient support staff. Refer one or two second-tier clients to the attorneys until you get good feedback about the attorneys.
- Groups to search for estate planning attorneys are: Wealth Counsel, LLC, The National Network of Estate Planning Attorneys and The American Academy of Estate Planning Attorneys.

- Remember, you want to become part of a professional team. Both you and the attorney will be referring business to each other. With written, prior permission from the clients, you can identify clients with estate planning needs and the estate attorney can uncover clients with financial planning needs.

First Impressions

- It is important that you do not sit in on the attorney's meeting with their client, and vice versa. If you are in the attorney's office to meet a client, have the attorney introduce you to the client as the financial professional, then bow out gracefully.
- Understanding your respective roles will make it easier for clients to understand them, too; the attorney should not answer any financial questions and you shouldn't answer any legal questions.
- Generally, it's a good idea for both the financial professional, as well as the attorney, to provide a complimentary initial consultation. When clients ask about compensation, provide clear and complete answers regarding only your own compensation; refer them to the attorney for answers concerning the



attorney's compensation (the attorney should do the same for you). Any splitting of fees or compensation between you and the attorney must be disclosed to the client up front.

- It's a huge mistake to try to sell at the first meeting. It's best to make a simple introduction and schedule a follow-up appointment.
- With permission from their clients, attorneys can help identify "hot buttons" of concern for you. For example, if clients are concerned about outliving their retirement income, the attorney can let them know that an estate plan is only part of their overall financial well-being, and that they also should consider a "financial physical" done by a financial professional to address their long-term income needs.

The Importance of Good Communication

- The bottom line about business is that it's all about personal relationships. So be sure to send a thank-you note or e-mail to the attorney for each referral and to stay in close communication with each other.
- Feedback and follow-up between you and the attorney is essential, whether it be good, bad or indifferent. For example, the "good" is if the client is happy with you, the "bad" is if the client is unhappy with you, and the

"indifferent" is when the client is "on the fence." That means the client is somewhat happy, but not happy enough to increase business or give referrals!

- You can be candid with each other and learn which practices most effectively address clients' needs.

Continuing the Client Relationships

- Financial professionals realize the importance of continuing client relationships with the next generation. Establishing a successful relationship with an estate planning attorney or two will put you in a better position to meet and perhaps build a relationship with a client's heirs.

Remember, in order to establish and maintain a successful business relationship with an estate planning attorney, it's important to work with a competent and experienced attorney and to be up front with them and with clients about your business relationship. A successful business relationship can help both you and the attorney build your practices, but meeting the needs of your clients must always be your priority! **PQ**

Source: Philip Kavesh received a J.D. from Dickinson School of Law, LL.M. in Taxation from the University of Miami School of Law and Bachelor of Arts degree from Haverford College. Mr. Kavesh is a California State Bar Certified Specialist in Estate Planning, Probate and Trust Law. He also holds the CFP® and ChFC designations. Mr. Kavesh holds several NASD licenses and may share in commissions or fees that are generated by the referrals he makes to financial advisors.

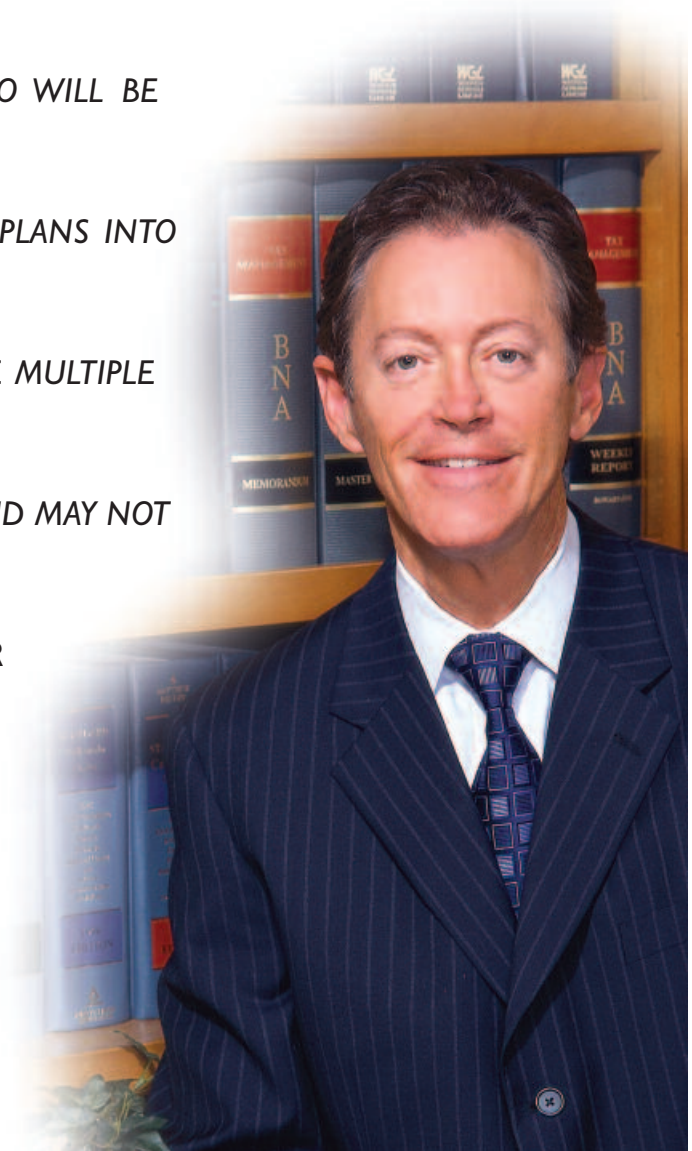


Capture More Large IRAs

Using the New IRA Inheritance TrustSM

by Philip J. Kavesh, J.D., LL.M. (Taxation), CFP®, ChFC

HIGH-NET-WORTH RETIREES WHO WILL BE ROLLING THEIR COMPANY RETIREMENT PLANS INTO IRAS (OR HAVE ALREADY DONE SO), HAVE MULTIPLE SOURCES OF INCOME IN RETIREMENT AND MAY NOT NEED THEIR IRA DISTRIBUTIONS AS THEIR PRIMARY RETIREMENT INCOME SOURCE, BASICALLY HAVE THE SAME PLANNING OBJECTIVES FOR THEIR IRA ROLLOVER.





First, they want to “stretch-out” the income taxation of Required Minimum Distributions (“RMDs”) they and their beneficiaries will take, helping to compound their family’s wealth, tax free, inside their IRA for as long as possible. Second, they want “protection” of their IRA, once inherited, from their beneficiaries’ spouses, divorces, lawsuits, creditors and other similar third-party attacks.

Assuming a positive market over the long term, proper RMD stretch-out planning can produce some staggering results. Let’s assume Mom is age 65, has a total of \$250,000 in her IRA that grows at an annual rate of five percent, and begins taking minimum distributions at age 70½. If she continues to take only RMDs, when she passes away at age 80 the IRA inherited by her child will be worth approximately \$341,191.

If that child is age 45 and likewise takes only RMDs each year, by the time the child is 80 he or she will have taken RMDs totaling about \$786,030 and still have more than \$139,000 remaining in the IRA. In other words, Mom’s original IRA of \$250,000 — with proper RMD and investment planning, as well as favorable market performance — may be worth more than \$1 million to her family!

To help achieve this kind of result, it may be preferable to designate a trust rather than child (or other individual) as beneficiary. The trustee could then assure proper stretch-out of RMDs. However, even if the IRA owner is

not concerned about his beneficiary properly doing the stretch-out, using a trust as IRA beneficiary may still make good sense for other reasons.

A trust may greatly enhance protection against loss of the inherited IRA to a spouse in divorce, or to lawsuits and creditors, or even to the beneficiary’s (or spouse’s) poor spending habits. A trust may also preserve a beneficiary’s needs-based government benefits, such as supplemental (or disability) income and Medicaid.

Unfortunately, IRS rules have made it difficult for a trust to provide protection and at the same time take advantage of the maximum RMD stretch-out based on each trust beneficiary’s own life expectancy. This is why many IRA experts have recommended against using a trust as an IRA beneficiary; however, the author has designed a new type of trust that allows for distribution flexibility, when the trust is named as the beneficiary of the IRA. The author is one of the first attorneys to receive a favorable Private Letter Ruling (PLR 200537044) from the IRS on this type of trust. Although private letter rulings may not be cited as precedence and may only be relied upon by taxpayers who have requested the ruling, this ruling does provide us with insight to how the IRS views a particular issue.

The trust designed by the author, the IRA Inheritance TrustSM, is serviced marked. Using this trust, along with a specially designed beneficiary designation form, permits each primary beneficiary to use his or her own life

expectancy and maximize the income tax stretch-out of RMDs. Also, this trust offers enhanced protection of the IRA from beneficiaries’ spouses, creditors, lawsuits and other threats.

This trust represents a huge marketing opportunity for financial professionals. High-net-worth prospects have been attracted by the tremendous benefits summarized, simply by emphasizing the two keywords: “stretch-out” and “protection”. As a general rule of thumb, if the prospect (and his or her spouse) has \$200,000 or more in IRAs (including company retirement plans that will be rolled over into IRAs so they can qualify for stretch-out) and it is assumed the prospect’s beneficiaries will outlive him or her by at least 10 to 15 years, properly implementing the IRA Inheritance Trust could mean *millions* more to the prospect’s family, depending on the performance of the market.

The financial professional should concurrently review the IRA’s investments and consider repositioning them to emphasize growth. Variable annuities with both “living benefit” and “death benefit” features may be particularly attractive. They may permit a conservative IRA owner to take advantage of potential growth in the stock market by investing in equities. And, if the IRA owner purchases a guaranteed minimum withdrawal benefit for an additional cost, they may have the ability to step up and lock in a higher contract value if the market goes up. This could give the client the ability to withdraw a higher amount if he or

she needs more than the RMDs in the future. It can also protect the client’s principal if the market drops. Death benefits protect the beneficiaries by avoiding the cost and delays of probate and providing a separate guaranteed protection — usually no less than the total of the investments into the contract. If your client purchased additional protection, they could even lock in the highest anniversary value — and this value wouldn’t go down when the market is down.

Life insurance may help “super leverage” the trust’s results. The client may name grandchildren as trust beneficiaries rather than children. In our earlier example, if a grandchild age 20 inherits the IRA, its potential future value can be more than five times greater (assuming five percent growth) — more than \$5 million! Life insurance can “replace” some or all of what the child would have otherwise received.

Of course, financial professionals and their clients should consult with competent attorneys and tax advisers before implementing a sophisticated device such as the IRA Inheritance Trust.SM **PQ**

Please note: Guaranteed minimum withdrawal benefits and step-ups lock in contract value and do not raise contract value. Be aware that IRAs and qualified plans are already tax-deferred. Therefore, an annuity should only be used to fund an IRA or qualified plan to benefit from the annuity’s features other than tax deferral, such as lifetime income options, guaranteed death benefit options and the ability to transfer among investment options without sales or withdrawal charges.

Source: Philip J. Kavesh, J.D., LL.M. (Taxation), CFP®, ChFC is a principal of Kavesh, Minor & Otis, Inc., a law firm in Torrance, Calif., specializing in estate planning. He regularly presents training programs for insurance agents, financial professionals and attorneys on the technical and marketing aspects of the IRA Inheritance Trust.