COASTAL FINANCIAL
PARTNERS GROUP

Flight to Certainty: How a new financial services firm helps business-owners rise to the challenges of the "new normal"

While many businesses have succumbed to the financial crisis, new ones have emerged. Coastal Financial Partners Group was launched in late 2009 by a group of experienced financial service professionals focused on the financial needs of professionals, small business owners and their key executives.

Insurance is expected to be a critical growth driver in 2010 and beyond as many investors are realizing just how integral sound protection solutions are to their overall financial plans. The recent financial crisis – and the slow recovery from it – may help reinforce with advisors and their clients that insurance solutions are uniquely capable of protecting against life's uncertainties. "The public has become increasingly alert to the notion that life insurance, annuities and other financial protection products can insure individuals against living too long and not living long enough," explains Jerry Vanderzanden, co-founder of Coastal Financial Partners Group and an Investment Advisory Representative of Lincoln Financial Securities Corporation.

Most believe that there is a flight to quality during recessionary periods when many people question the strength of financial institutions. This phenomenon entails consumers moving accounts or buying new products only from the highest-rated companies. "In managing through this unprecedented crisis, what we are really seeing is something deeper: a *flight to certainty*," notes Vanderzanden.

Uncharted Territory

"My business owner clients are very concerned that record government spending and growing deficits will lead to higher taxes and worry that their existing qualified retirement plans won't produce enough after-tax income for themselves and their valued employees," says Leo Thomas, Coastal's head of Benefit and Compensation Planning and a Registered Representative of Lincoln Financial Securities Corporation. "They are highly motivated to take action to protect their assets. I ask business owners and their key executives a simple question – do you think your taxes are going up? Only a few years ago, the responses were mixed. But now? Everyone's answer is an emphatic *yes*."

"Raises, bonuses and traditional pension plans can only take you so far and they no longer create the long term ties that bind key individuals to your company," explains Thomas. "Regrettably, we believe that few business owners and managers are aware of the array of affordable and flexible plans that offer substantial opportunities to financially reward and retain key employees as well as business owners."

While qualified retirement plans allow for tax deductible contributions, non discrimination rules reduce their effectiveness for highly compensated owners and key employees. Plus, the retirement benefits are generally taken as taxable income. When such clients expect a future of rising income taxation, the obvious answer is to seek out tax efficient designs or even designs that feature tax free retirement income as a supplemental strategy to consider.

The process starts by thoroughly evaluating each client's personal and business plans by reviewing items such as wills, trusts, financials, life insurance policies, retirement and savings plans. Says Thomas, "This usually uncovers opportunities to increase planning certainty and tax efficiencies through estate and benefit planning."

Better Bonus Plans

"The drawback of most employer-paid bonus plans is that once the money is paid, the key employee can take the dollars and run to a competitor," Thomas says. "For companies looking to reward and retain executives with a greater measure of control, a "golden handcuff" bonus plan – one with a restrictive endorsement – offers an alternative that can be attractive and easy to implement." Typically, the insurance policy is owned by the executive and the death benefit is available to protect the family immediately but access to policy cash values that grow tax deferred are limited while the employer is paying the annual premiums.

"In addition to strategies utilizing qualified and nonqualified retirement plans, an often overlooked benefit plan for some professionals and small businesses is a Section 79 plan," adds Brad Etheridge, co-founder and head of sales. Similar to executive bonus plans which also provide personally owned life insurance policy for key executives, the use of cash value life insurance within a Section 79 plan assumes that there is first a need for valuable death benefit protection, though it can be structured to provide a tax-free resource for retirement as well. "It is viewed as a simple employee benefit plan that can get and keep key employees without the complex administration, valuation, and actuarial requirements of a qualified plan," adds Etheridge.

He notes that these can be used as stand-alone plans where qualified plans would be prohibitively expensive, or they can be layered on top of any plan the client may already have in place. Section 79 is group term plan can be used in these situations to supplement a defined-contribution plan in providing both supplemental retirement income and significant tax deductions for the executive and the business.

The Return of Split Dollar

This is an ideal employee benefit especially in times when employers need to be creative in retaining key employees. Although many industry observers expected these plans to fade in popularity when regulations emerged several years ago to curtail designs known as "equity split dollar" plans, they have in fact thrived and have benefited from the clarity of the regulations. There remain many variations of split dollar. One interesting example, though, loan regime split dollar, is particularly attractive now due to historically low Applicable Federal Rate (AFR) rates.

A loan regime split-dollar arrangement is structured so that the insured employee owns the policy. The annual premiums are paid by the employer and premium payments are treated as demand loans. Interest on demand loans adjusts each year. Typically the loan is a formal written document with a collateral assignment of the policy to the employer. Upon death of the employee or termination of the split-dollar arrangement, the employer recovers the outstanding loan balance. Recovery can be from the death benefit, cash value of the policy or the employee paying off the loan from other resources. The demand loan can be structured with no stated interest and a collateral assignment of policy benefits. Since an interest rate is not provided, it will be assumed to be the AFR for the specific type of loan. The imputed loan interest will be treated as compensation to the employee. The imputed interest will then be treated as being paid back from the employee to the employer, as loan interest income to the employer.

The loan regime split-dollar arrangement allows employers to provide a benefit to key employees at a relatively low cost to the employee while interest rates remain low. Employers have a great deal of flexibility in structuring the split-dollar arrangement and can choose who will be covered, the terms and the benefit levels without restrictions found in other benefit arrangements. In addition, the use of a demand loan gives the employer the ability to quickly call the note if needed.

Many executives utilize split dollar plans to create wealth for their family and heirs. Business-owners also use the plans to cover estate taxes or to fund business succession arrangements.

Guarantees Matter

During a time when individuals' portfolios have experienced significantly depressed values, life insurance products have become their strongest assets. When investors and small business owners witness a substantial depletion of their assets amid a consensus view of higher taxes for a prolonged period, protecting wealth and income becomes imperative. Consequently, the guarantees* and tax-advantaged attributes featured by many insurance products become extremely attractive. Annuities, life insurance, disability income insurance and Long Term Care insurance offer a natural resiliency during uncertain times.

* It is important to note that guarantees are subject to the claims-paying ability of the insurer.

About Coastal Financial Partners Group

The Coastal Financial Partners Group team specializes in helping clients protect their wealth from higher taxes and uncertain times.

We assist our clients in the creation and preservation of wealth in both their business endeavors and personal lives. With this in mind, we evaluate research and analyze each unique situation in pursuit of innovative, yet practical strategies.

By not being committed to any specific solution or combination of solutions, we become our client's single source for developing wealth strategies. Our dedication to working in harmony with our clients other advisors is central to our goal of achieving results that meet or exceed expectations.

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