











## Financial Fraud: Be on the Lookout

Many of us grew up in a world where it was customary to be friendly, courteous, and trusting. Unfortunately, assumptions concerning these standards of conduct can sometimes get us into trouble. Con artists offering a variety of too-good-to-be-true investment “deals” are banking on the willingness of trusting individuals to seal their shady scams with the proverbial handshake. Unfortunately, many people experience financial difficulties, thus making them more vulnerable to financial fraud.



With the multitude of contact options, ranging from the phone to the Internet, scammers have virtually an unlimited number of opportunities to obtain another individual's personal information. Common scams include e-mailed chain letters that promise a pyramid of payoffs that always fall apart once the victim has bought into the system. Another is one in which a foreign prince, doctor, or chief e-mails the victim and claims to need assistance transferring his riches to an American bank account. The victim may be promised as much as 30% of the transferred millions and is asked to pay the perpetrator a fee to prove his or her honesty.

Fake charities are another common scam. Kind-hearted donors may be swindled into paying ridiculous sums to a cause that benefits only the con artist. Phone calls and postal mail can be used to offer individuals the chance to “win” the lottery or claim a sweepstakes prize. In the end, these supposed winnings only end up causing financial loss and heartache. Topping off all of these scams are fraudulent investment opportunities wherein the victim may be promised fantastic returns on capital from “lucrative” oil and gas leases, rare coins and metals, etc. The list is endless.

Too often, these scams go unreported because of the shame victims experience once they realize they have been had. And that's

just what scammers are banking on. The FINRA Investor Education Foundation teamed up with WISE Senior Services and the AARP to study economic fraud. In a 2006 report entitled, “Off the Hook Again: Understanding Why the Elderly Are Victimized by Economic Fraud Crimes,” several discoveries were made that can be applicable to people of all ages. One focus of the report was the psychological tactics typically used by cons to increase their success rates and decrease their chances of being reported. Victims may be led to believe that their only option is the one being presented in the scam, or the scammer may befriend the victim knowing that people are less inclined to ask friends hard-hitting questions. Another ploy is a request for help from the scammer, which taps into the victim's sympathy. Or the scammer may claim famous investors are also buying into the property, or the product is in such high demand and so rare that the victim is lucky to have even heard about it in the first place.

Con artists may also use their assumed authority to coerce victims into letting the con make the decision for them; offer no-risk, guaranteed results; intimidate the victim by playing on his or her fears; or procure more and more payments by telling victims they are committed to the investment and must continue to invest in order to not lose the sums they have already paid.

On paper, these tactics might sound entirely transparent; in reality, they are often extremely effective. Anyone can become a victim, regardless of age. The FINRA study also revealed that fraud techniques may be tailored to the psychology of the individual. Financial education alone may not be enough to put an end to fraud, since one of the study's major findings indicated that fraud victims are more financially educated than non-victims and more willing to listen to sales pitches. In addition, victims are more likely to have experienced negative life events, such as job loss, divorce, or the death of a spouse.

Anyone approached with a “must-act-now” deal should take the time to walk away and do some research. Be skeptical, question why the offer is being made to you, and contact the Better Business Bureau to learn more. Don't waste time listening to cold-call sales pitches, and make sure to get second opinions from friends and family before taking action on any “hot” deal. In the end, follow the old adage: If it sounds too good to be true, it probably is. To learn more, visit [www.consumerfraudreporting.org](http://www.consumerfraudreporting.org). \$

## Preserving Your Business Legacy with Survivorship Life

*(continued from page 2)*

estate. Suppose their estate is currently valued at \$12,000,000. With the appropriate **trusts** and proper **asset ownership**, Peter and Angela can each transfer \$5,000,000 (in 2011) to their heirs free of Federal estate taxes. If this initial step is taken, their combined taxable estate is reduced to \$2,000,000 (\$12,000,000 – \$10,000,000). However, under current law, with a top estate tax rate of 35%, their heirs may still face a significant estate tax bill. Further, this liability may increase over time, as the business and their other assets appreciate. In addition, it is



important to keep in mind that Federal estate taxes may be changed in the future if Congress passes new legislation.

### Enter Survivorship Life

Here's where survivorship life insurance enters the picture. The next step for Peter and Angela is to create an **irrevocable life insurance trust (ILIT)** that purchases a survivorship life insurance policy in an amount equal to the anticipated estate tax liability. The ILIT is the owner and beneficiary of the policy, and the trust is written for the benefit of Peter and Angela's heirs. Because the trust is "irrevocable," it remains outside of their estate. Therefore, the policy's proceeds are not subject to estate taxation. Policy premiums are paid through tax-free gifts that Peter and Angela make to the trust using the **annual gift tax exclusion** (\$13,000 per year, per donee or \$26,000 for gifts made by both husband and wife in 2011). When the surviving spouse dies, the death benefit proceeds are available to Peter and Angela's heirs to help pay estate taxes.

### Mission Accomplished!

By using survivorship life insurance, in conjunction with the appropriate legal documents, Peter and Angela are able to fund their potential estate tax liability. By addressing the issue of estate taxation *now*, Peter and Angela have taken an important step toward preserving the *future* of their family business. \$

## Strategies for Estate Conservation

*(continued from page 4)*

However, if you leave everything to your spouse, you essentially forfeit the use of your exemption and risk having some assets taxed at the death of your spouse (assuming his or her estate is not consumed and continues to grow), since your surviving spouse can only use his or her **own** exemption. The use of **trusts** can help minimize this problem for large estates.

**5) Use the annual gift tax exclusion.** In 2011, an individual can give away up to \$13,000 per year (\$26,000 in the case of joint gifts made by husband and wife) to an unlimited number of recipients tax free. For individuals with large estates, a regular gifting strategy using this annual exclusion may be an attractive way to transfer appreciating assets, which would

otherwise have the potential to increase estate taxes if left in the estate.

**6) Consider life insurance.** Life insurance is often used as a funding method for estate taxes. However, proceeds of life insurance policies are generally includable in your gross estate for purposes of calculating estate taxes. Consider using an **irrevocable life insurance trust (ILIT)**, which removes the insurance from your estate and therefore potential estate tax exposure.

By preparing in advance, your wishes for property distribution can be executed upon your death. Be sure to consult with your qualified tax, legal, and financial professionals to help ensure your strategies are consistent with your objectives. \$

## Steps for Successful Business Cash Flow Management

(continued from page 1)

movement of funds, typically on a monthly basis, over the course of a year. Your **profit and loss statements** and your **balance sheets** can be great resources for this information. With a detailed cash flow statement, you're ready to analyze your situation and make projections.



### Cash Flow Analysis

Understanding your cash inflow and outflow patterns can help you make the most appropriate money management decisions. As you analyze your inflow resources, study the ways in which **accounts receivable** and **credit** affect your cash flow. Accounts receivable are sales that represent a *promise to pay*, rather than immediate cash. When you extend credit, you are essentially making a loan. It is important to understand your financial capacity to provide credit, as well as to establish policies that help you collect what is owed on time. Mismanaging either one of these inflows could lead to negative cash flow.

As for your predictable outflows, you may find that, by staggering payments, you can free up cash for others. For example, seasonal businesses may find that rescheduling payments can help ease cash flow during slower months. Other businesses may find that carrying less inventory helps cash flow.

There are several warning signs that may hint at cash flow problems. Consider the following five indicators:

1. Difficulty meeting payments
2. Excessive or obsolete inventory
3. Inability to make economical purchases due to lack of cash
4. Outstanding receivables
5. Excessive short-term debt

Planning ahead may help you maintain positive cash flow and avoid problematic shortfalls.

### Preparing a Budget

In addition to helping you with your daily money management decisions, a **cash flow budget** can help you plan for future growth and expansion. Your budget can be as basic or as detailed as you need it to be, providing monthly breakdowns of cash inflow and outflow, or weekly or daily projections. Based on your analysis of your past cash flow, consider making a plan for the next year.

In order to estimate your future inflow, you'll need to forecast next year's sales. Using last year's figures may help you. Remember to factor in any relevant variables, such as economic trends or developments in competition.

As you predict your outflow, be sure to account for your operating expenses, accounts payable, and loans. The more accurate you can be, the easier it can be to predict shortfalls and find solutions. Keeping good records and thoroughly evaluating your financial history may make it much easier for you to project your needs.

In addition to providing you with the information you need to make sound business decisions today, a detailed cash flow analysis and budget can help you plan for tomorrow. Successful money management lays a strong foundation for profitability and growth. All in all, smooth cash flow is good for your business. \$

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