It’s Your Agent’s Job to Ask the Right Questions

The following is a true story. I handle the hull and protection and indemnity (P&I) insurance for an historic tall ship. You would recognize the name of this famous vessel.

Anyway, the president of the non-profit organization that operates the ship was reviewing the insurance coverage with me when he asked if I wrote directors and officers (D&O) liability coverage. I said I did, and that it was a specialty of mine in addition to ocean marine insurance.

I wanted to know why he was asking about D&O coverage. It isn’t something a client will usually ask about.

The gentleman said that his insurance agent was reviewing a renewal questionnaire of his D&O coverage. As they talked, the agent suddenly asked him: “You mean you actually operate your ship? You sail it?” The president of the non-profit group said that they did. The agent replied with a comment that would make the head of any organization cringe: “Oh my gosh, that changes everything. We may have a problem placing coverage.”

It turned out that the insurance agent never knew that the historic ship actually sailed and instead had simply assumed the vessel was simply a relic and was tied to the dock. It most certainly was not, having just returned from an extensive trip.

But there’s more. The president of the non-profit group drives a vehicle owned by the organization. His now ex-insurance agent had insured it as a private vehicle, not a commercially owned one. This meant that the organization head was, without knowing it, driving around without valid insurance. Imagine how he felt about that.

It’s your insurance agent’s job to ask the right questions that will ensure you have the insurance coverage you need for your individual line of work.

Never be afraid to question your agent. You pay dearly for insurance, so make sure your agent is earning the money you pay him. Insist that your agent explain the coverage you’re receiving and make sure he or she uses plain language that you can easily understand.

And never hesitate to ask any question or seek a clarification. Your insurance agent works for you, not the other way around.

This article appeared in the January 2011 issue of WorkBoat magazine, where Gene McKeever, marine insurance specialist, is a monthly columnist.

Weekly Market Update, Feb. 1, 2011

Treasuries were mixed last week, starting a little higher; rallying midweek with the State of the union address, the Federal Open Market Committee (FOMC) announcement, and the strong 2-year Treasury auction; and selling off late in the week. Read more now (PDF, new window).

Does Your Business Need a Snow and Ice Log?

Maintaining snow and ice logs can prove to be a valuable defense if your business becomes involved in a lawsuit resulting from a slip and fall accident.

Some of the benefits to keeping proper snow and ice logs include:

- Serves as written proof of how diligent you are at removing snow and ice from your property;
- Promotes proper maintenance of your property that may help prevent slip and fall accidents from happening and/or reduce occurrences;
- Functions as a valuable record-keeping tool, which allows you to match up snow removal bills of sub contractors who maintain your property during the winter months.

Download a Snow and Ice Log, courtesy of Hanover Insurance. (PDF, new window)

Snow Load Alert – Protect Your

Roof

As the next in a series of winter storms moves into the region, property owners and residents should be aware of the weight loads these storms may be creating, especially on flat roofs.

The unprecedented snow load on roofs in the Northeast has led to some building damage and collapse. Schools, churches, commercial and residential buildings, carports and awnings have been affected. Read more now in this PDF from Hanover Insurance.

Implications of the State of the Union Address for Financial Markets

On Jan. 25, 2011, President Barack Obama delivered the annual State of the Union address. The tone of the speech—and the overall feel of the event itself—reflected some significant changes from years past. Much of the president's softer approach likely can be attributed to the shift of power in the House of Representatives to the Republicans, the result of last November's election. The president certainly struck a balance, keeping his rhetoric more middle-of-the-road than conservative or liberal.

That softer approach was also reflected in the fact that many members of Congress actually crossed party lines to sit together, rather than remaining on opposite sides of the aisle.

This change, along with some refreshing and unexpected, albeit vague, proposals announced by the president, seemed to create a sense of renewed willingness among Congressional members to work together. And if that happens, it could impact the financial markets.

What might we expect in the coming days and months?

The president's emphasis on the need for greater fiscal responsibility from the federal government, coupled with a goal of deficit reduction and a more pro-business stance, could lead to the greatest potential impact on both equity and fixed income markets.

Equity markets. If we had to point the needle in one direction, we would say most of the initiatives discussed in the State of the Union address should be viewed as positives for equity markets. It appears that the loss of Democratic control in the House, as well as fresh faces on the president's economic council, have certainly gained his attention. The result is a more accommodative, pro-business central government that understands the country's need to regain its global competitive advantage and recognizes that, to get there, the U.S. needs to grow its economy and become more of a producer and an innovator, not just a consumer.

Incentives for increased research and development for corporate America, as well as a reduction in the corporate tax rate—one of the highest in the developed world—could impact the markets. The rationale behind these initiatives is to drive both economic and job growth in the U.S. While a drop in tax rates could be immediately beneficial for corporate earnings, it is unclear whether any proposed programs will in fact be successful. The potential for trickle-down growth is there, but it will eventually boil down to what makes it into the final bill.

Fixed income markets. The impact of the president's speech on the debt markets may be a little harder to read in the short term. The State of the Union address, the Federal Open Market Committee (FOMC) announcement on interest rates, and the World Economic Forum in Davos, Switzerland, all happened to occur in the same week, and they all could influence the market.

Treasuries rallied before and after the president's address, largely due to a well-received 2-year auction, the strongest in the last 10 auctions, as well as the president's comments about putting a freeze on spending. Capping the deficit is a popular topic these days, and the fixed income markets responded positively to the news. A reduction in the deficit also has the potential to make Treasuries more attractive not only domestically but also internationally, as China and Japan, for example, may be more prone to purchase Treasuries backed by a fiscally responsible government. On the other hand, it could have a negative impact on the eurozone, as investors seeking minimal risk may be more likely to return to a U.S. dollar-denominated Treasury instead of investing in countries that are at risk of default (i.e., Spain, Portugal, Italy).

Another market-mover, the FOMC announcement on the afternoon of January 26 actually reversed the previous day's rally, as policymakers decided to keep interest rates low for an extended period. The Fed stated that while it continued to see some improvement in economic conditions, job and real estate markets remained depressed. In addition, the quantitative easing program—through which the Fed is purchasing Treasuries in an effort to stimulate growth—is likely to reach its $600 billion limit, which could contribute to ongoing volatility in the fixed income markets.

The third potential market-mover, the World Economic Forum, also kicked off on January 26. This annual event brings together business and political leaders from around the world. This year, topics will include issues like world trade, currency rates, government debt, and inflation. Investors will be watching closely for information regarding the economic health of the global economy.

Because the president's State of the Union address provided little actual detail as to how the various initiatives will be accomplished, it's still too early to tell how the markets will ultimately respond. But if the president is able to take steps to curb spending and reduce the deficit, while increasing investment in research and development, it could add up to a positive environment for the equity and fixed income markets—and for investors.

Allen Insurance and Financial offers Securities and Advisory Services through Commonwealth Financial Network®, the firm ranked "Highest in Independent Advisor Satisfaction among Financial Investment Firms" by J.D. Power and Associates.

This was authored by Jim McAllister and Fred DeBaets, senior research analysts at Commonwealth Financial Network.

Tom Chester now a CERTIFIED FINANCIAL PLANNER™ Professional

Thomas C. Chester, CFP®, AIF®, CPFA®

Thomas C. Chester, financial advisor at Allen Insurance and Financial, has achieved the designation of CERTIFIED FINANCIAL PLANNER™ Professional.

The CFP® designation has become the most recognized in the financial planning community. Requirements include meeting stringent education and experience standards and a rigorous 10-hour exam. Chester joins his colleague Michael Pierce as the second CFP® on the Allen Insurance and Financial staff.

Chester, of Lincolnville, graduated from the University of Massachusetts-Lowell with a bachelor of science in business administration and a concentration in marketing. Before joining the Allen Insurance and Financial, he was a financial advisor at Bancnorth Investment Planning’s local office. His previous work experience includes Eaton Vance Wealth Management in Boston.

He has expertise in the fields of life and health insurance and is an Investment Adviser Representative of Commonwealth Financial Network, a Registered Investment Adviser.

He is a past officer at the Camden-Rockport-Lincolnville Chamber of Commerce, past president of the West Bay Rotary Club and a past trustee for the Watershed Community School.

Weekly Market Update, Jan. 24, 2011

Most equity markets lost ground during the holiday-shortened week, with only one of the major domestic indices—the Dow Jones Industrial Average—posting a positive return. Read more now (PDF, new window).

Weekly Market Update, Jan. 18, 2011

Last week’s auction for the 10-year Treasury note saw the highest demand since the debt yielded 4 percent back in April. The bid to cover was 3.30 percent, the second highest since April, as institutional investors and foreign central banks were very active in the auction. Yield on the 10-year fell to 3.36 percent, while short yields were little changed, at 0.60 percent. Read more now. (PDF, new window)

A Quick Guide to the Key Provisions of theTax Relief Act of 2010

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 was signed into law on December 17, 2010. Without this compromise legislation, income and estate tax rates for most Americans would have increased. But this reprieve is only temporary, as most of the new tax provisions expire at the end of 2012. Here’s a quick guide to the key provisions.

Individual income tax rates: Rates will remain at the 2010 levels for 2011 and 2012 for all taxpayers, including couples with income over $250,000 and single taxpayers with income over $200,000. The lowest marginal tax bracket will remain at 10 percent and the highest will stay at 35 percent.

Capital gains and qualified dividends: Long-term capital gains and qualified dividend rates will remain at a maximum tax rate of 15 percent for 2011 and 2012. Taxpayers in the 10-percent and 15-percent brackets qualify for a 0-percent tax rate on all or some of their capital gain income. This provision is good news to taxpayers who rely on dividend income; without Congressional action, dividends would have been subject to tax rates as high as 39.60 percent in 2011.

Itemized deductions and personal exemptions: Taxpayers will use their itemized deductions and personal exemptions regardless of their income. Repeal of the itemized deduction and personal exemption phaseouts will continue through 2012. (For some taxpayers, several itemized deductions are not recognized under the Alternative Minimum Tax calculation.)

Marriage penalty: The standard deduction for married couples who file jointly will continue to be double the deduction for single filers through 2012.

Alternative Minimum Tax: The 2010 and 2011 AMT exemptions were increased, resulting in a reduction of the impact of the AMT on middle class taxpayers. More significantly, certain nonrefundable personal credits can be used to offset AMT liability for 2010 and 2011. These include the Child Tax Credit, Child and Dependent Care Credit, Nonbusiness Energy Property Credit, and others.

Charitable IRA: For tax years 2010 and 2011, taxpayers over age 70½ are permitted to make a tax-free transfer of up to $100,000 from their IRAs to qualified charities. Transfers intended to qualify for the 2010 tax year can be made as late as January 31, 2011. Making a transfer from your IRA can satisfy some or all of your required minimum distribution.

Payroll tax reduction: In 2011, payroll taxes will be reduced 2 percent. Because the tax act was passed so close to the start of 2011, expect some delay before the reduction is reflected in your paycheck.

Energy-efficient improvement credit: Expenses paid for energy-efficient furnaces, water heaters, insulation, windows, doors, and other qualified property may qualify for a credit through 2011, although the maximum lifetime credit is reduced to $500 for 2011. If a credit was taken in a prior year, no further credit is available.

Other deductions: The expanded student loan interest and Coverdell education savings deductions were extended through

2012. State and local sales tax, higher education tuition, and teacher’s classroom expense deductions were extended only through 2011. Please note: Although it is not a deduction, you can still exclude from income up to $5,250 of employer-provided educational assistance for higher education.

Other credits: Tax credits directly reduce your tax liability and are potentially more valuable than deductions. The refundable Child Tax Credit, the expanded Child and Dependent Care Credit, and the American Opportunity Tax Credit (formerly the Hope Credit) have been extended through 2012.

Business tax extenders: Several business-related tax provisions scheduled to expire in 2010 were extended. If you are a business owner, contact your tax advisor as to provisions that may affect you.

Estate and gift taxes: Based on the expiration of previous legislation, there was no estate tax for taxpayers who died in 2010. There was also no automatic “step-up in basis” that brought an heir’s basis in his or her inheritance up to fair market value. So, in 2010, some beneficiaries realized a higher income tax impact when they sold the inherited assets than they would have paid in estate taxes. Congress attempted to fix this inequity by giving executors the choice of tax treatments. Executors for decedents who died in 2010 have the choice of:

1. A $5 million exemption and a 35-percent top estate tax rate or

2. No estate tax, but a cap on an income tax basis increase for estate assets.

The lifetime gift tax exclusion for gifts transferred in 2010 remains $1 million. For deaths after December 31, 2010, the estate tax returns. The new act reunifies the gift and estate tax exemption and increases it to $5 million per taxpayer, with a maximum tax rate of 35 percent. This means that you can potentially give away $5 million during your lifetime without tax impact. The generation-skipping tax exemption will also increase to $5 million. Remember that, for lifetime gifts, you can apply a $13,000 per donee annual exclusion to your gifts before you tap into your unified credit exclusion. Married couples can double the annual exclusion and gift $26,000 per donee.

A new provision added to the tax code is the portability provision, which permits a spouse to apply the unused portion of a deceased's spouse's $5 million exemption to increase the surviving spouse's available exemption. In light of the new estate provisions, 2011 is a good time to have your estate planning documents reviewed by your attorney to ensure the language is flexible enough to adapt to your goals.

This material has been provided for general informational purposes only and does not constitute either tax or legal advice. Investors should consult a tax or legal professional regarding their individual situation.

Weekly Market Update, Jan. 10, 2011

The 10-year Treasury ended last week at 3.38 percent—below its recent high of 3.48 percent but still well above its November lows.

Equity prices pushed higher in the first week of the new year. [Read more now.]