

SPOTLIGHT

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As you face decisions that affect your financial future, knowledge can make a difference. We hope you find this newsletter both interesting and informative. We would also like to take this opportunity to say thanks for your continued support. If you have questions about the topics addressed in this issue or any other financial concerns, please feel free to call me at any time.

Choosing Your Pay

Lifestyle preferences only part of the equation.

A recent survey found that 47% of small-business owners were spending more time at work than they were six months earlier.¹ Hourly employees who clock more hours are paid for their extra effort. But should working harder mean the owner takes home more pay?

In most cases, it's not that simple. Successful business owners must consider more than their lifestyle preferences when deciding how much to pay themselves.

What Do the Books Say?

When profits are up, it's tempting to take home a larger piece of the pie, but it may also be a good time to assess whether reinvesting in better equipment or facilities, hiring new workers, or intensifying marketing efforts could eventually result in even larger future profits.

Similarly, it's a good idea to project the company's long-term costs such as materials, plant, labor, and



EXPERIENCE PAYS

Median small-business-owner salary by years of experience

Less than one year	\$36,000
1-4 years	\$52,515
5-9 years	\$62,272
10-19 years	\$70,372
20+ years	\$75,614

Source: PayScale.com, 2008

taxes and keep enough cash to meet these needs so that the owner doesn't have to dip into personal income or tap a credit line during a slow month.

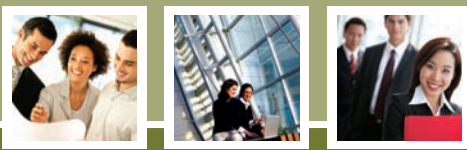
Retirement Savings

The way in which a business is taxed is usually determined by how it is organized. Business owners may be able to reap personal tax benefits by deferring a portion of their salaries to a tax-advantaged retirement program. Distributions

from tax-deferred retirement plans are taxed as ordinary income and may be subject to a 10% federal income tax penalty if taken prior to age 59½.

Obviously, you run a business to make money. By carefully choosing your pay now, you may be in a better position to address how the business can serve your personal financial situation in the years to come.

1) National Federation of Independent Business, 2008



MARKET VIEWS

Time for Forecasts

How the pros look at the future.

December has distinguished itself as a time when people reflect on the outgoing year and guess what the new year will bring. But on Wall Street and in Washington, forecasting is a year-round business. Executives, policymakers, business planners, money managers, and others who need to make assumptions about the health and direction of the economy take a keen interest in the latest predictions.

Who makes the forecasts that the financial world looks to, and how accurate are they?

The Big Three

Perhaps the most popular U.S. economic forecasters travel in a pack of three: the Congressional Budget Office (CBO), the *Blue Chip* consensus, and the White House. These groups typically make positively correlated

projections and have similar track records.¹

For example, if the CBO greatly overestimates gross domestic product (GDP) for a given two-year period, it's common for the *Blue Chip* consensus and the administration also to greatly overestimate GDP (see chart). This correlation suggests the presence of limitations within the common data on which these groups rely. However, the fact that most forecasters have a poor record of anticipating changes in the business cycle or in the labor-productivity growth rate indicates that common forecasting methods may have significant limitations.²

Necessary But Unproven

Economic forecasting is a respected practice and a necessary aspect of decision making, but it is also an

attempt at the impossible. There is no reliable method for predicting the future. All forecasts must be evaluated with this in mind. For example, few forecasters were able to accurately anticipate the business boom of the late 1990s, an event with repercussions that endure today.³

When comparing the accuracy of forecasters, it's useful to understand the different reasons they may have for making forecasts in the first place.

The CBO needs reliable economic projections in order to make accurate budget projections for Congress. In general, CBO projections are based on the assumption that the economy will continue to reflect historical trends and that fiscal policies will not change.

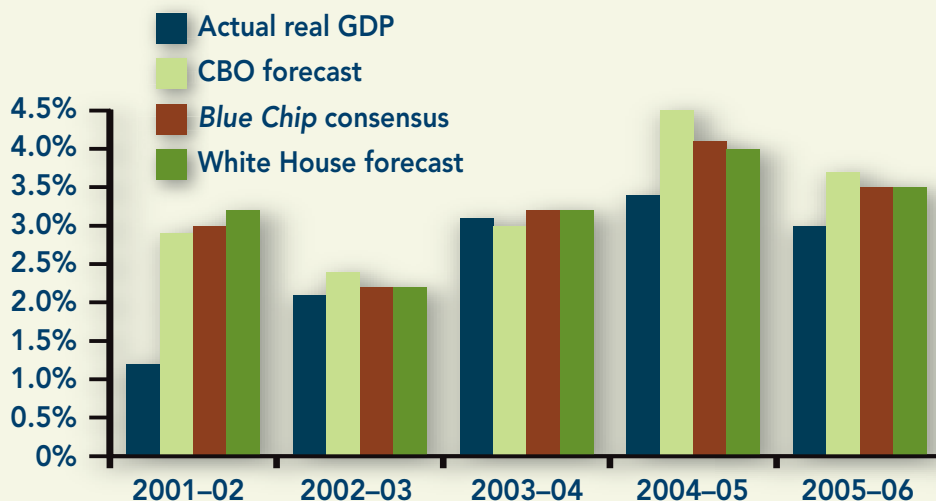
The administration bases its forecasts on the projected economic effects of its own policy proposals, usually in order to demonstrate their merits to Congress and other policymakers.

The *Blue Chip* consensus is provided by a publishing company that regularly polls about 50 private-sector economists, who may base their opinions on a variety of unstated assumptions. The *Blue Chip* consensus has an incentive to be accurate because it sells the forecasts to subscribers in the form of monthly newsletters.

Economic forecasting is an important part of business, but the future is elusive. Forecasts have limitations that should be considered when making decisions about your portfolio.

HOW DID THEY DO?

Actual and forecasted two-year percentage growth rates in real gross domestic product



Source: Congressional Budget Office, 2007

1-3) Congressional Budget Office, 2008

Trust in the Future

Uncertainty surrounding estate tax points to importance of conservation.

In 2009, one of the most favorable estate-tax provisions of our lifetimes will become law: The first \$3.5 million of an estate will be exempt from the federal estate tax, up from the \$2 million exemption that has been in effect since 2006. Only the scheduled full repeal of the estate tax in 2010 will exempt more estates from a levy that American taxpayers say is the most unfair federal tax.¹

But as the George Harrison song says, “All things must pass.” All things except, apparently, the estate tax. The scheduled reduction and repeal of the federal estate tax are temporary. Under current law, the estate tax will return to its pre-repeal levels in 2011 with a \$1 million exemption amount and a maximum 55% tax rate.

It’s unclear whether the current law will be allowed to run its course or Congress will intervene. If Congress does take action, it’s also not clear whether it will increase or decrease the estate tax. This means the outlook for the estate tax may be more uncertain than at any other point in our lifetimes. Fortunately, use of a properly structured trust can help reduce exposure to estate taxes and help preserve assets for heirs.

Estate Taxes and Probate

Assets placed in an irrevocable trust are typically not considered to be part of an estate and thus are not included in any estate tax calculation. After the trust grantor dies, the designated trustee distributes the trust assets directly to the beneficiaries in a private and timely manner. One drawback to an irrevocable trust is that the grantor must permanently relinquish ownership of any assets that are placed in the trust, although the grantor and trustees may continue to benefit from the assets.

Assets placed in a trust typically don’t go through probate. Probate is an often costly and time-consuming legal process that typically takes place when individuals leave titled property behind, regardless of whether they had a valid will. Moreover, the contents and activities of a trust are private, unlike a will, which is typically made public after probate.



REST IN PEACE

Two-thirds of U.S. adults favor the complete elimination of the federal estate tax.



Source: Tax Foundation, 2007

Coordinate Strategy

A trust can be used to coordinate an entire estate conservation strategy, helping to reduce confusion and avoid property going to beneficiaries in disproportionate amounts. Certain trusts can be structured to manage the finances of a special-needs child, preserve assets for minor children until they reach an appropriate age, or enforce conditions that heirs must meet before receiving an inheritance. The use of trusts can involve a complex web of tax rules and regulations. You should consider the counsel of an experienced estate planning professional before implementing such strategies.

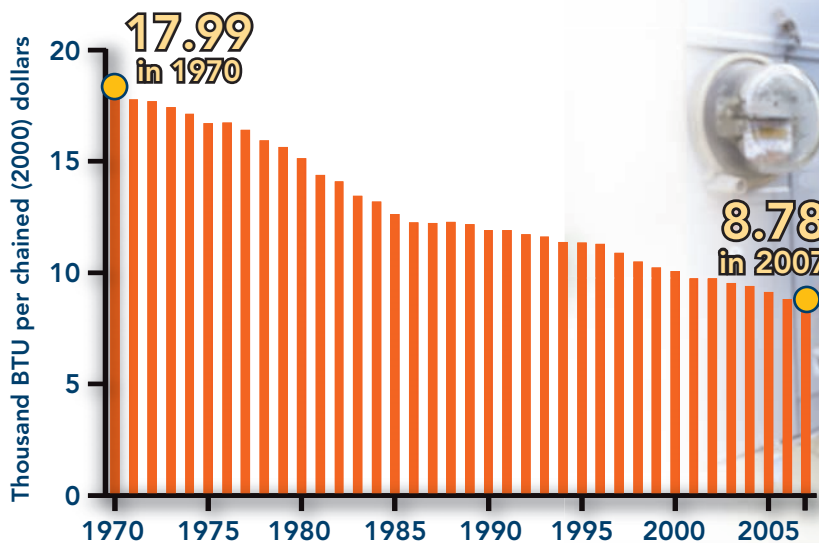
Until we see how Congress plans to treat the estate tax, it’s wise to assume that it will remain with us in one form or another. We can help you determine whether a properly structured trust would be an appropriate addition to your estate conservation strategy.

1) Tax Foundation, 2007

Less Juice, More GDP

Since 1970, the amount of energy consumption per real dollar of the nation's GDP has fallen by 51%.

Source: Energy Information Administration, 2008



Career Opportunities in Financial Services

If you know someone interested in pursuing a career in the financial services profession, please contact your personal financial representative.

The information and articles in this publication are for general information only and are not intended to provide specific advice or recommendations for any individual. **This information should not be considered tax advice.**

You should consult your tax advisor regarding your own tax situation.

Securian Financial Services, Inc., Member FINRA /SIPC.
400 Robert Street North, St. Paul, MN 55101, 1-888-237-1838

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