HELPING YOU UNDERSTAND THE COMPLEXITIES OF WEALTH MANAGEMENT AND PROVIDING SOLUTIONS AS UNIQUE AS YOUR GOALS

WEALTH MANAGEMENT NEWSLETTER

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PROTECTING YOUR BUSINESS FROM CYBERTHREATS

Risk management is a key component in any successful business plan. In today's world—where data breaches are common occurrences—it's especially important for business owners to understand the digital risks they face. Are you doing all you can to mitigate the risk of a cyberattack?

Understanding the risks

Many small business owners may think their organizations hold little appeal to hackers, due to their small size and limited scope. However, according to the Small Business Administration (SBA), this naiveté may actually make them ideal targets. Small businesses are keepers of employee and customer data, financial account information and intellectual property. Their systems, if not adequately protected, may also inadvertently provide access to larger supplier networks. "Given their role in the nation's supply chain and economy, combined with fewer resources than their larger counterparts to secure their information, systems and networks, small employers are an attractive target for cybercriminals," reports the SBA on its cybersecurity website.

Consider the following tips compiled from information supplied by the SBA, the Federal Trade Commission (FTC) and the Federal Communications Commission (FCC).

Cybersecurity tips

1. Assess: To protect your organization, you must first understand your vulnerabilities. How are your systems protected? Do you collect and store personal information of customers and employees, such as credit card information, Social Security numbers and birthdates? If so, how is this information stored and who may access it? Do you have Wi-Fi accessible to employees and customers? How do your vendors and other third-party service providers protect their information? It may help to engage a professional to help identify your risks.
2. Protect: Ensure you have a firewall and encryption technology protecting your Internet connections and Wi-Fi networks. Make sure your business's computers have anti-virus and anti-spyware software installed and

updated automatically. Require employees and others who access your systems to use complex passwords that are changed regularly. Keep only personal data that you actually need and dispose of it securely, as soon as it no longer serves a business purpose. Back up critical information and data on a regular basis, and store the backups securely off-site. Assign individual user accounts to employees and permit access to software and systems only as needed. Be especially cautious with laptops and company-assigned smartphones. Question third-party vendors to ensure that their security practices comply with your standards.

3. Document: Establish clear security policies and procedures and put them in writing. Cover such topics as handling sensitive or personal information, appropriate use of Internet and social media, and reporting vulnerabilities. Clearly spell out consequences for failing to follow the policies.
4. Educate: Develop a mandatory employee training program on the importance of cybersecurity. Explain the basics of personal information, as well as what is and isn't acceptable to post on social media. Employees could unknowingly release information that could be used by competitors or, worse, by criminals. Ensure that employees understand the risks associated with phishing emails, as well as "social engineering"-- manipulative tactics criminals use to trick employees into divulging confidential information.

For more information

Business owners who want to learn more can find a wealth of helpful information online. In addition to visiting the SBA's cybersecurity website, business owners might want to review "Protecting Personal Information: A Guide for Business" and "Start with Security: A Guide for Business," both available on the FTC's website.

ESTATE PLANNING STRATEGIES IN A LOW INTEREST RATE ENVIRONMENT

The federal government requires the use of certain published interest rates to value various items used in estate planning, such as an income, annuity, or remainder interest in a trust. The government also specifies interest rates that a taxpayer may be deemed to use in connection with certain installment sales or intrafamily loans. These rates are currently at or near historic lows, presenting several estate planning opportunities.

Low interest rates favor certain estate planning strategies over others. For example, low interest rates are generally beneficial for a grantor retained annuity trust (GRAT), a charitable lead annuity trust (CLAT), an installment sale and a low-interest loan. On the other hand, low interest rates generally have a detrimental effect on a qualified personal residence trust (QPRT) and a charitable gift annuity. But interest rates have little or no effect on a charitable remainder unitrust (CRUT).

Grantor retained annuity trust (GRAT)

In a GRAT, you transfer property to a trust, but retain a right to annuity payments for a term of years. After the trust term ends, the remaining trust property passes to your designated beneficiaries, such as family members. The value of the gift of the remainder interest is discounted for gift tax purposes to reflect that it will be received in the future. Also, if you survive the trust term, the trust property is not included in your gross estate for estate tax purposes. If the rate of appreciation is greater than the IRS interest rate, a higher value of trust assets escapes gift and estate taxation. Consequently, the lower the IRS interest rate, the more effective this technique can be.

Charitable lead annuity trust (CLAT)

In a CLAT, you transfer property to a trust, giving a charity the right to annuity payments for a term of years. After the trust term ends, the remaining trust property passes to your designated beneficiaries, such as family members. This trust is similar to a GRAT, except that you get a gift tax charitable deduction. Also, if the CLAT is structured so that you are taxed on trust income, you receive an upfront income tax charitable deduction for the gift of the annuity interest. Like with a GRAT, the lower the IRS interest rate, the more effective this technique can be.

Installment sale

If you enter into an installment sale with family members, you can generally defer the taxation of any gain on the property sold until the installment payments are received. However, if the family member resells the property within two years of your installment sale, any deferred gain will generally be accelerated. The two-year limit does not apply to stocks that are sold on an established securities market.

You are generally required to charge an adequate interest rate (based on IRS published rates) in return for the opportunity to pay in installments, or interest will be deemed to be charged for income tax and gift tax purposes. However, with the current low interest rates, your family members can pay for the property in installments, while paying only a minimal interest cost for the benefit of doing so.

Low-interest loan

A low-interest loan to family members might also be a useful strategy. You are generally required to charge an adequate interest rate on the loan for the use of the money, or interest will be deemed to be charged for income tax and gift tax purposes. However, with the current low interest rates, you can provide loans at a very low rate, and family members can effectively keep any earnings in excess of the interest they are required to pay you.

Effect of low rates on other strategies

- Charitable remainder unitrust: You transfer property to a trust, retaining a stream of payments for life or a number of years, after which the remainder passes to charity. You receive a current charitable deduction for the gift of the remainder interest. Interest rates have no effect if payments are made annually at the beginning of each year, and low interest rates have only a minimal detrimental effect if payments are made in any other way.
- Qualified personal residence trust: You transfer your personal residence to a trust, retaining the right to live in the home for a period of years, after which the residence passes to your designated beneficiaries, such as family members. The value of the gift of the remainder interest is discounted for gift tax purposes to reflect that it will be received in the future. The lower the IRS interest rate, the less effective this technique can be.
- Charitable gift annuity: You transfer property to a charity in return for the charity's promise to make annuity payments for your life (or for the lifetimes of you and your spouse). You receive a current charitable deduction for the gift of the remainder interest. The lower the interest rate, the lower the amount of your charitable deduction. Also, charities have generally been forced to reduce payout rates offered because of economic uncertainties and the low interest rate environment.

ARE THERE GAPS IN YOUR INSURANCE COVERAGE?

Buying insurance is about sharing or shifting risk. For example, health insurance will cover some of the cost of medical care. Homeowners insurance will assume some of the risk of loss in the event your home is damaged or destroyed. But oftentimes, we think we're covered for specific losses when, in fact, we're not. Here are some common coverage gaps to consider when reviewing your own insurance coverage.

Life insurance

In general, you want to have enough life insurance coverage (when coupled with savings and income) to allow your family to continue living the lifestyle to which they're accustomed. But changing circumstances may leave a gap in your life insurance coverage.

For example, if you have life insurance through your employer, changing jobs could affect your insurance coverage. You may not have the same amount of insurance, or the policy provisions may differ. Whereas your prior employer may have provided permanent life insurance, now you may have term insurance that will expire on a predetermined date. Review your income, savings, and expenses annually and compare them to your insurance coverage, and be mindful that changing circumstances may require a change in the amount of insurance coverage.

Homeowners insurance

It's not always clear from reading your homeowners policy which perils are covered and how much damage will be paid for. It's important to know what your homeowners policy covers and, more important, what it doesn't cover.

You might think your insurer would pay the full cost to replace your home if it were destroyed by a covered occurrence. But many policies place a cap on replacement cost up to the face amount stated on the policy. You may want to check with a building contractor to get an idea of the replacement cost for your home, then compare it to your policy to be sure you have enough coverage.

Even if your policy states that "all perils" are covered, most policies carve out many exceptions or exclusions to this general provision. For example, damage caused by floods, earthquakes, and hurricanes may be covered only by special addendums to your policy, or in some cases, by separate insurance policies altogether. Also, your insurer may not cover the extra cost of rebuilding attributable to more stringent building codes, or your policy may limit how much and how long it will pay for temporary housing, while repairs are made.

To avoid these gaps in coverage, review your policy annually with your insurer. Also, pay attention to notices you may receive. What may look like boilerplate language could actually be significant changes to your coverage. Don't rely on your interpretations–– seek an explanation from your insurer or agent.

Auto insurance

Which drivers and what vehicles are covered by your auto insurance? Most policies provide coverage for you and family members residing with you, but it's not always clear-cut. For instance, a child who is living in a college dorm is probably covered, but a child who lives in an off-campus apartment might be excluded from coverage. If you and your spouse divorce, which policy insures your children, particularly if they are living with each parent at different times of the year? Notify your insurer about any change in living arrangements to avoid a gap in coverage.

Other gaps include no coverage for damaged batteries, tires, and shocks. And you might not be covered for stolen or damaged cellphones or other electronic devices. Your policy may also limit the amount paid for a rental, while your vehicle is being repaired.

In fact, insurance coverage for rental cars may also pose a problem. For instance, your own collision coverage may apply to the rental car you're driving, but it may not pay for all the damage alleged by a rental company, such as loss of use charges. If you're leasing a car long term, your policy may cover the replacement cost only if the car is a total loss or is stolen. But that amount may not be enough to pay for the outstanding balance of your lease. Gap insurance can cover any difference between what your insurer pays and the balance of your lease.

Policy terms and conditions aren't always easily understood, and you may not be sure what's covered until it's time to file a claim. So review your insurance policy to be sure you've filled all the gaps in your coverage.

WHAT IS THE FEDERAL FUNDS RATE?

In December 2015, the Federal Open Market Committee (FOMC) raised the federal funds target rate to a range of 0.25 percent to 0.50 percent, the first shift from the rock-bottom 0 percent to 0.25 percent level, where it had remained since December 2008.

The federal funds rate is the interest rate at which banks lend funds to each other from their deposits at the Federal Reserve, usually overnight, in order to meet reserve requirements. The Fed also raised a number of other rates related to funds moving between Federal Reserve banks and other banks. The Fed does not directly control consumer savings or credit rates, but the federal funds rate serves as a benchmark for many short-term rates, such as savings accounts, money market accounts and short-term bonds.

The prime rate, which commercial banks charge their best customers, is typically about 3 percent above the federal funds rate. Other forms of business and consumer credit—such as small business loans, adjustable-rate mortgages, auto loans, and credit cards—are often directly linked to the prime rate.

Actual rates can vary widely. Fixed rate home mortgages and other long-term loans are generally not linked directly to the prime rate, but may be indirectly affected by it.

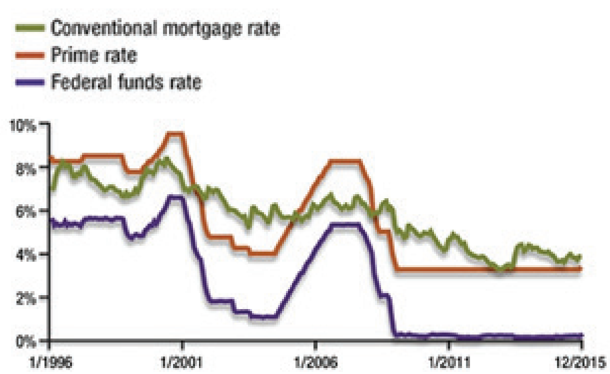
The FOMC expects economic conditions to "warrant only gradual increases" in the federal funds rate. Most Committee members projected a target range between 0.75 percent and 1.75 percent by the end of 2016, so you can probably expect a series of small increases this year. Although rising interest rates make it more expensive for consumers to borrow, higher rates could be good for retirees and savers who seek current income from bank accounts, CDs, bonds, and other fixed interest investments.

The Federal Deposit Insurance Corp. insures certificates of deposit and bank savings accounts, which generally provide a fixed rate of return, up to $250,000 per depositor, per insured institution. The principal value of bonds may fluctuate with market conditions. Bonds redeemed prior to maturity may be worth more or less than their original cost. Investments seeking to achieve higher yields also involve a higher degree of risk.

Source: Federal Reserve, 2015

Tracking the Fed

Although the prime rate has been closely aligned to the federal funds rate over the past 20 years, rates on conventional 30-year fixed mortgages have followed a more independent trajectory, generally trending downward over the period.



Source: Federal Reserve, 2016