

# FINANCIAL FITNESS FOR EVERYONE

# FINANCIAL FITNESS FOR EVERYONE

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IMPORTANT KNOWLEDGE FOR ACQUIRING PEACE OF MIND  
AND CRUCIAL ADVICE ABOUT YOUR FINANCIAL FUTURE

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## PREFACE

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We all have a list of things we want to do in our lifetimes. Some of us even write it down, and check it off as we accomplish our goals. We call it a “Bucket List,” because the idea is to fill our buckets with life’s experiences before it is too late.

Smart people have a financial bucket list as well. It’s all the things they need to do so they never worry about money, so they never run out of money, and so there is money left over when they die.

This book will give you the information you need to create your financial bucket list. Along the way, we’re going to answer the following questions:

- How do ordinary people get rich?
- How do you make a lifetime of working provide you with the retirement of your dreams?
- What financial mistakes can you avoid?
- How do you sort through all the financial misinformation on the Internet and pick out what is true and beneficial?
- What are the mistakes people make about money, and how can you avoid them?
- How do you know when to believe the promises of people selling financial products?

A question about you:

You are intelligent, well educated, and successful in life so far. So why are finances, financial planning, financial instruments, insurance policies, IRA's, etc. such a mystery to you? Why do you not understand all the terms and sales pitches you are presented with? Why is even thinking about planning for retirement, disability, or old age so distasteful to you?

The answer is very simple:

People don't like thinking about what will happen in the future, especially if it involves the possibility of unpleasantness. The further way an event is, the harder it is to predict what it will be like, and what it will cost. Who knows what retirement will look like?

Finances are not something you have been educated about. Had you really studied finance, you'd be just as good as the experts. But you didn't, and it is complex, and what you hear and read is confusing. And one more very important reason you hate thinking about finances: You are afraid that people are out to sell you something that benefits them more than it benefits you. You know that you cannot afford to make mistakes, because you only get one lifetime to work towards retirement.

Plus, financial services are a big business. You see advertising everywhere. This costs money, and the marketing is tested until it is proven to be effective. The big advertisers know what to say to get you to hire them to manage your money or buy their products. Ultimately, the money to pay for advertising comes from you, when you purchase a product. Which means that when you invest money, or buy a financial product, the more that is spent on advertising and selling it, the less that is left to grow and work for you.

This book is designed to let you see beyond the ads, beyond the hype, and beyond the confusing language. This book is designed to get

you to ask the right questions, make the right decisions, and be comfortable and knowledgeable about what you are doing financially.

This book is designed to prevent you from making mistakes. You just have to be willing to think about the future, and be willing to resist sales pressure.

This book is your Declaration of Financial Independence. Four things this book is NOT, and why:

1—This book is not a textbook about finances, insurances, financial planning, stocks and bonds, retirement planning, etc. A textbook like that would be massive, nearly unreadable, and out of date the day it was printed. The textbook on these subjects, like most everything else, is the Internet. What this book will do is help you evaluate the usefulness and truthfulness of what you find on the Internet.

2—This book is not a “guide for dummies.” The financial decisions you make today will affect the quality of the rest of your life, irrespective of your age today or how long you live. Money takes time to grow. A bad decision today means a bad result years down the road. You don't get to make up for wasted time ten or twenty years from now—the course is already set. Bad decisions are often irreversible, very costly, and do not come with a “do-over” because, as we just said, money takes time to grow. If you try to grow money while you are young, and instead lose money, you will have two challenges—recouping what you lost, and then growing it correctly—but you will have a lot less time, so it probably won't happen. So you shouldn't make financial decisions solely on your interpretation of advice you get in self-help books, or book for dummies. You need more input. This book is designed to help you evaluate the advice you get.

You should be asking a lot of people a lot of questions, and treating their answers with skepticism until you test them with the rules you learn here.

3—This book is not impartial, unbiased, or perfect. I wrote it—it reflects my biases and judgement. (See the section on evaluating financial advisors for details.) If you find mistakes, let me know. If you find unintentional biases, call me out on them. But if someone who is trying sell you something and tells you that I am wrong, make them prove it to you. Do not take anyone’s word for anything. Finances is about numbers, and numbers can be verified, compared, and evaluated, *even by you*, even though you are not a “numbers person.” (I know—I hear this all the time. No one is a “numbers person,” and the people who think otherwise often get taken in by good salespeople, because they become over-confident.) The numbers used to sell a product or concept need to make sense to you. If they don’t, walk (or run) away.

This is not rocket science—this is basic arithmetic—add up what you put in, plus what your money earns, subtract what gets taken out, and you what is left is yours. Compare that to other places to put money.

Understand clearly how the products work, and why, and decide if that is reasonable or not. If the person you are working with cannot explain clearly, to your full satisfaction, everything you need for you to be able to describe it back to him or her, find someone else who can. This book is designed to empower you to make good decisions, with the help of good people who know what they are doing.

4—This book is not endorsed by anyone but me. Government, industry, specific companies, and other people do not stand by anything I claim in this book. Many will disagree with all or some of what I write. Some may wish I never wrote this at all. The contents are based what I learned from working in the industry and living past middle age. It’s probably not original, and may not be particularly deep. I wrote it to explain things to my kids, who are “New Grownups.” If I missed something, or got something wrong, let me know, and I’ll try to correct it in the future. If I mention other sources of information, it just means

that I found them helpful. Whoever wrote them has no idea that I even exist, so they are not endorsing what I wrote about them. **DISCLAIMER:** The opinions in this book are the mine, and the mine alone. I am not writing on behalf of any insurance company or financial company. Examples have been taken from published documents, or created by me. Numbers are used for illustrative purposes only, to help describe what I am explaining. Projections, rates, performance, etc.—anything dealing with numbers—are simply approximations and illustrations, and do not represent what has actually happened, or what will happen. They are used solely to explain concepts. All the numbers in products you encounter or buy will always vary from what is shown when applied to a specific situation. This material is not an offer to sell insurance or securities, which may only be done by a licensed professional who is properly registered, and who provides you with required disclosures. This material is merely my explanation of financial concepts. Parts of this book are copied almost verbatim from my prior book, “The Financial Fitness Handbook,” published in 2011, because I still like what it says, and I can’t say it any better now. If you’ve haven’t read that book, don’t bother—the sections I didn’t copy have been rewritten, or omitted for a good reason.

## KEEPING THE MONEY YOU MAKE: WHY I WROTE THIS BOOK, THE FINANCIAL GOLDEN RULE

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**Y**ou have two choices, and only two choices, when it comes to your financial future.

You can either let your finances control you, or you can take control and plan, manage, adjust and direct how much money you have, how much money you earn, and how much money you have to spend.

Most people opt for the first choice. Here are the reasons they give:

- “I don’t make enough money to save anything.”
- “I have a retirement plan at work—I’m sure I’ll be okay.”
- “Social Security will take care of me.”
- “I’ll probably just keep working until I die.”
- “My accountant is looking after all of that.” (Or brother-in-law, financial planner, or husband, etc.)
- “I’ve put some money in some mutual funds, and that should be okay.”
- “Worst comes to worst, I’ll go live with my kids.”
- “I expect to be getting a nice piece of change when (name a relative) dies.”

Here's the reason they never give:

"Figuring out my options for my financial future is a huge and complex task. I don't understand a lot of what I read in the business section of the newspaper, or in the direct mail ads I keep getting. There are lots of choices, and I don't know who to trust. Everything sounds great, but it seems like everyone who is trying to sell me anything is going to make a lot of money if I buy, and I have no way of knowing if I've done the right thing."

That's why I wrote this book. (Note: this section will repeat a lot of what I wrote in the Preface, because, one, it is important enough to say twice, and two, you'd be surprised at how many people skip the Preface.)

Mapping out your financial future is a huge and complex task, if you look at the whole thing at once. But you can break it out into small, discreet, and understandable pieces.

A lot of what you read is designed to confuse you. People use strange terms, and wave numbers around without explaining how they got there, what they mean, and how you can check to see if they are accurate.

There are a lot of choices. This is a good thing—there are some real gems among them, and it is not that hard to find them, and figure out if they are appropriate for you.

You do know who to trust. That person is you. You've been able to manage your life this far, become successful at what you do, and have gotten yourself to the point where you realize that you need to take control of your financial future, and not the other way around. You know that you are not willing to let circumstances, the economy, your job, the market, or things that happen determine how comfortable you will be financially for the rest of your life. The problem is, you are unfamiliar

with, or uneducated about, a lot of the possibilities you have, and the merits, and risks, of each course of action.

Philosophers and preachers write volumes about the unknown and the unpredictable. You and I are going to deal with what is knowable, predictable, provable, and true.

This book is a partnership between me and you. I am going to give you the tools to make sure that you understand your finances—what you own, what you want to own, and how it is going to provide the income you need to live the life you want. I am going to tell you what to read up on, and how to look at everything that comes your way, so you can find the gems that are right for you.

You are going to make yourself financially fit. That is the goal of this book.

The financial world is logical, predictable, and foreseeable. Which means you can make plans, and cause desirable outcomes. The steps you take now have a high degree of certainty in shaping what will happen later. Yes, some people will win the lottery, or inherit a windfall. But most of us won't. With finances, very little happens by chance. Take any financial situation, go back 50 years, and I can show you, at each point in time, how what someone did caused the result that occurred. Similarly, give me any financial situation now, and I can reasonably project out 50 years what your money situation will be like.

It's not because I'm clairvoyant. It's just that I know the rules. I learned some by studying, (and some by not following the rules, and I paid the price). With this book, you have the opportunity to see if the points I make lead you to agree with my conclusions. If you do, you can apply my learning to your situation, without making the same mistakes. If not, you are welcome to make your own mistakes, or achieve your own successes, and I will take no responsibility in either case. This is your opportunity to learn from my mistakes.

But before you start planning, you have to agree to follow Rule #1, which is: “Understand your financial situation.” This is also known as the Financial Golden Rule (“Know Where the Gold Is!”) It is not good enough for your husband, wife, parent, child, advisor, or accountant to know your financial situation. You have to know. Mastering the subject matter in this book will get you to that goal. You need to know the following:

1. What assets do you have?
2. Where are these assets?
3. Why do you own each asset? There has to be a reason it was purchased, and a reason you are holding onto it. (For instance: Asset—a 529 tax-free college fund. Reason purchased— to make sure there was money for college. Reason to keep—you are holding on to it because you will need money for college in 3 years, and it is performing well.)
4. What are your sources of income? Separate by earned (like salary) and passive (money that comes in when you work or not, like interest on a savings bond).
5. What are your expenses? How will they change in future years? You should be able to create a list of everything you spend in a year. You also need to be able to project how this will change in future years—add in money for unusual expenses that are anticipated. For retirement, add in the increased costs associated with aging poorly, such as some money for long term care. When making this list, focus on what you spend money on, not how you pay for it. Credit cards are not a category of spending—food, clothing, personal care, entertainment are, even if you charge them. This is not as difficult as it sounds. Itemize everything you spend. Keep track of what you spend cash on.
6. What are your liabilities? What do you owe, to whom, how much, what are the payments, and what are the interest rates?
7. Know what is coming in down the road. Will you be inheriting any money in the future? Will you be inheriting any unfunded responsibilities? Is there anyone you will be responsible for taking care of in the future? As uncomfortable as it may be, you need to sit down with your parents periodically to review their

financial situation. Vague promises that there will be something coming to you are not useful for planning.

Write down the answers to these questions. The difference between what you earn and what you spend is what you have to invest.

By the way, if you think you can ignore The Golden Rule, you might as well stop reading now. No one is going to be able to help you with your finances, no matter how much you pay them, unless you can draw a complete picture for yourself. And going out and buying financial products, like stocks, bonds, real estate, CD's, insurance, etc., will just create a financial mess that may or may not be beneficial to you.

This book is meant to be neither a final authority, nor a complete compendium of useful information.

My suggestion is that you use the material presented here to formulate questions, give you some background, and answer questions on financial matters in which you may be less than fluent. Then, use the Internet to research each area more completely— there is a tremendous wealth of information available from people who are not trying to sell you anything. One blessing of 21st century technology is the ease at which you can research topics on your own. Check anything and everything you read on the Internet, especially before making a major financial decision. Evaluate the credentials of the writers of any information you use. Avoid letting others make decisions for you—read, and research, until you understand the facts, and make your own decisions.

Planning for your financial future is complicated in scope, but understanding each of the pieces, and how they fit together, is something anyone can do, if you are willing to put in the time. The first thing I tell my clients is that my job is to educate, to answer questions, to make suggestions. There is no one correct plan, or one correct financial product. There are various ways of getting to the same goals, with different instruments, and varying risks and rewards. There are never guaranteed

outcomes. Much of sensible planning involves making assumptions about what you will earn, how healthy you will be, and when you will die. These are unknowns. But a financially sound portfolio of investments contains insurance that hedges your bets. It provides protection against uncertainty. The same should be true no matter who your financial advisor is. Only after you decide what appeals to you, and you both agree, should specific products be discussed. Financial advising is a partnership. It should not be a sales pitch.

## SECRETS OF FINANCIAL PEACE OF MIND, AND HOW TO AVOID RUNNING OUT OF MONEY

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### **Secret # 1. Start worrying (and saving) when you are young. Time is your friend.**

**I**f you put aside \$100 a month starting on your 21st birthday, and invest it in a tax-free account that pays 5% compounded interest, on your 31st birthday you could have \$15,792. If you stop putting any more money in on your 31st birthday, on your 51st birthday you could have \$43,180. In other words, \$100 a month for 10 years (which is a total of \$12,000), with interest, could become \$43,180 after 30 years.

That is more than triple.

Let's say you are reading this, but you are now 51 or 61 years old. You're still young!!!! In 30 years, you'll be 81 or 91. You still have time to make this work for you. (If you are much older than 61 now, this section applies to your children or grandchildren. We'll discuss other strategies for you later.)

What you are doing is accessing the power of compounding. Invest a small amount today, and it will grow a little in one year. The next year it grows the same amount, but the earnings from the first year grow as well. In the third year, your original money still grows the same amount, but now the earnings from 2 years grow as well. Looking at it by decade, the first 10 years show slow growth. The next 10 years do a little better.

Years 21-30 have a significantly higher growth curve, and in years 31-40, the growth is dramatic. If you have 5% annual growth, you'll end up with double your money in 15 years, or 7 times as much in 40 years. Even at a lower interest rate, like 3.5%, you still quadruple your money in 40 years.

This raises 2 questions:

First, where are you going to find an extra \$100 a month, which is \$3.33 a day, roughly?

Here's a list of things that you can cut out of your daily routine to save \$3.33 a day:

- A cup of trendy "coffee shop brand" coffee. (Sorry— my lawyers won't let me mention brand names, like Barstuck's. And this does not work if you live in Chesnee, S.C., where the Bantam Diner charges 25 cents for a cup of coffee. However, the Bantam Diner does not fit the description "trendy," and you don't live in Chesnee, S.C.)
- The print edition of the New York Times (\$2.50), and a doughnut (Krispy Kreme or Dunkin' Donuts, which you should not visit anyhow, unless you have the willpower to just get the coffee.)
- Any sweetened beverage, or two bottles of water, from a convenience store.
- One valet parking, every other day.
- One drink at a bar, every third day.
- Or you can start clipping coupons in the local Sunday paper. (If you start doing this, then you can continue to indulge in items 1 thru 5 above most days. You should be able to net \$10-\$15 off items you would already purchase via Sunday coupons.)
- Borrow, scrape, or scrounge cash wherever you can.

My point is, you are not talking a major lifestyle change, for just ten years, to save \$3.33 a day, which becomes \$43,180 in 30 years, which is the price of a nice car, or the down payment on a vacation home. So you

can either drink a cup of expensive coffee a day for the next 10 years, or you can have a vacation home. It's your choice.

Now let's say you got into the habit of putting \$100 a month aside, starting at age 21. After 10 years, you are 31 years old, and you have probably gotten used to not having the designer coffee. If you keep putting away the \$3.33, by age 51, with compounding interest, you could have \$84,648. The \$100 a month for the additional 20 years would give you an extra \$41,468. So now you've never had the designer coffee, but you can own a motorboat and vacation home on a lake, in 30 years, free and clear.

Let's say you don't read this until you are 31 years old, and you still want the motorboat. \$100 a month won't do it. Now it will take a bit more than \$202 a month for the next 20 years. In other words, if you indulge yourself at ages 21 to 30, you can still reach your goals, you'll just have to put more than twice as much aside later. That is harder to do.

The second question is, how are you going to consistently earn 5%, tax free, on your money for 30 years? It's not going to be in CD's, because you won't earn 5%, and what you do earn will be taxed, so it won't grow as fast year to year. It might be in stocks, bonds, or real estate, or other investments, but there is no guarantee, and it still gets taxed. There's only one way to do this that I know of, and we'll discuss that later. (See Secret # 10.)

## **Secret # 2. Don't guess. Make a budget. Know what is coming in and going out.**

This next statement sounds trivial, but it's not. The biggest reason people get into financial trouble is that they spend more than they make. Period.

Your adult life is divided into two parts—the years you earn money by working, and the years you earn money from income on investments and retirement funds. (If you are good at saving, you can even start the passive income early, which you are still working.)

The goal of the first part (working) is to make sure there is enough money in the second part (passive income) to live the way you want to live. The added challenge is to wisely invest the surplus between what you earn and what you spend, during the first part of your life.

Spending more than you earn? That's your choice. But unless you are anticipating an inheritance or windfall, or expect to die young, be prepared for a lifestyle constrained by lack of money. Does this sound harsh? Too bad. It's true. You have two choices—learn it now, while you are young and can do something about it, or learn it later, when it is harder (but not impossible) to repair your finances.

Don't like reading this? Fine, go see a Disney movie—one of the happy ones. Then re-read the above paragraphs. Pick the story you believe is true, and run with it. (Hint: Some Disney movies are called fables for a reason.)

Budgeting: It is really simple. Go to any free website, and get a list of all the possible expense categories. Plug in what you spend monthly. Be realistic. If you don't know, start keeping track of each dollar. If you are spending more than you earn, figure out how to earn more, or where you can cut.

When I lived in New York on 24th Street, and worked on 49th, I would often walk to and from work on nice days. I passed about 6 Korean grocery shops. They always had a nice display of fruit outside, and it was easy to shop for a healthy dinner on the way home. The avenue in front of my apartment was one way, uptown. When I took the bus home on rainy days, I ended up on the downtown avenue, one block east. I discovered that produce there was 5 to 10 cents cheaper per item. A 3rd Avenue apple might cost 60 cents; on 2nd it was 50 or 55 cents. A few items a day could mean a 50 cents or \$1.00 savings. I lived there for 4 years. When I left, one of the grocers on 3rd Avenue had bought up most of the buildings on the block. The guy on 2nd Avenue was still renting. Surprised?

Next, list all the money you earn. Sort it into two groups—the money you make by working (that is, the money that comes in as a result of your efforts), and the money you earn from investments (passive income that comes in whether you go to work or not). Then figure out how to increase each.

Your goal is maximize each type of income, and minimize expenses. The difference gets put into investments. It sounds simple, and it is, but most people don't do it. Some people think they can go to a financial planner, who will wave a magic wand, and come up with a plan for them. Which is what financial planners do. (That is, come up with a plan, not wave a wand.) But they are going to start with this same exercise.

List your income. List your expenses. If you are not making more than you spend, they will kick you out of their office. Because no magic wand is going to create a stream of income that is not being spent, which is what you need to do in order to have a financial plan.

If you don't know how much you are spending, and how much you are making, you can't save, and you can't put money aside. You need to know the numbers, and you need to spend less than you make. Then you can develop a plan.

By the way, if you find that you are spending more than you are making, you really have just two choices. You can make more money, or spend less. You will find that it is easier to do the latter than the former.

This brings me to

### **Secret # 3. Prioritize your spending.**

There are two ways to have more money. One is to earn more. The other is to spend less. And, as I said, earning more is the harder of the two.

Spending less means being conscious of how you spend money, so you can make changes. Fortunately, we live in a world of nearly limitless information. Anyone with computer access can easily and quickly find items to purchase at the lowest possible price. Offers and rewards abound, not just for things you don't need, but for things you would buy anyhow. It used to be that you would have to wait for a coupon or offer to come to you. On the Internet, you can seek these out.

Coupons, Groupon, decide what you want, find out how to get it for less. You can get nearly perfect information before you spend money. Going out to eat?—chances are that you can find menus and coupons on-line, so that when you get to a restaurant, you'll know exactly what you'll be spending. It sure beats going to a trendy place and learning only after you've sat down that you'd rather spend less money at another place with food you prefer. Buying a car? You can almost price the one you want down to the penny, on-line. Clothing?—sales are advertised. Travel and leisure?—you've got to be kidding!—I can't find anyone who calls and makes reservations at published prices. Don't have time to research bargains? Unlikely. There's plenty of down time—when you are in transit, waiting for an appointment, stuck on line, or fulfilling a social obligation by being present in body but not mind. There are plenty of times you have phone and wireless connections, so use them to plan your next savings. Discreetly. Effectively. Remember, even if you spend \$3.33 less a day than you would have otherwise, that's \$100 a month. Or a free motorboat—see above.

**Secret # 4. Avoid paying taxes. Make the government give you money. It's easy, and it is legal.**

In 1913, the government first got the idea that it would be a great thing to charge people a tax on their income. Before that, taxes were imposed different ways—licenses, fees, taxes on certain goods, taxes on property, taxes on estates, etc. In some years, income tax rates soared—in the 1930's they went as high as 90% of earned income! Although the rate came way back down, it has gradually been creeping up again. And more taxes have been added—sales tax has been steadily growing,

states and cities have added income taxes, and more and more products, like gasoline, tobacco, and alcohol, have additional excise taxes of their own. Parks used to be free, now they charge admission. It seems like everything is taxed. And that's because it is. Even if you are in the lowest income tax bracket, you end up paying a hefty amount in total taxes—often upwards of 50% of your income. When you die, you can get whacked again, with estate taxes. And just in case you've figured out a way to reduce your taxes, the government makes you calculate them another way—the alternative minimum tax—to see if they can get you to pay more anyhow. It seems never ending, because it is. That's the price you pay for living in a great country like ours (and it is worth it). But the tax code, all ten thousand plus pages of it, contains hidden gems. There are many ways to reduce taxes—in effect, getting the government to give you money, instead of the other way around. It's legal, and it's easy. You just have to know how to play the game.

Essentially, there are three ways to handle taxes:

- You can pay as you go
- You can defer them until later
- You can make them go away

Everyone is familiar with pay as you go—that's what happens when you buy anything, or file annual tax returns.

Most people are familiar with deferring taxes—IRA's, 401k's, pension plans, annuities, etc. By investing or squirreling away money in a manner approved by Congress, you get to put off paying some taxes until later in life, when presumably, your income will be lower, and your taxes will be lower. But there are two caveats you need to be aware of:

1. If you manage your finances right, you can continue to pull in nice hefty earnings until late in life, so your tax rate might not drop at all, and
2. Who knows where taxes rates will go? If you look at the last 50 years, they've been creeping (or zooming) up. So the tax rate

you have when your deferral period ends may be higher than it is now.

So that leaves us with the third option—investing money in a manner that is exempt from Federal income tax—money that grows tax-free, and comes to you or your heirs income tax free. You do this with life insurance products. They are the least understood of all financial products, and the ones people are most skeptical of. For good reason, as we'll see below. But before we do that, let me point out a side benefit. While insurance is making you money, it is also protecting your money. That because insurance has an added benefit—asset protection.

### **Secret # 5. Protect your assets.**

What's the point of making money if someone can just take it away from you? It's not as dumb a question as it sounds. Until a little over a hundred years ago, the vast majority of all people on Earth were born poor, lived poor, and died poor. There were very few rich people, and they spent a lot of their wealth building castles with moats, hiring armies to attack potential enemies, and making sure that the people around them never accumulated enough money to take any time off from work, thus effectively preventing them from causing trouble. Almost everyone worked every day, and consumed all that they grew, traded, or crafted, with nothing left over. You got to stop working when you:

- Died, or
- Got too sick to work, in which case, unless someone gave you food, or you died, or
- Worked in vain, such as when disease or weather destroyed your crops or livestock, and you suddenly had no food, in which case, you got too sick to work, or starved, and you died.

The whole idea of retirement was a notion available to the select few—the powerful, and those who inherited wealth and who also had the strength to defend it. Well into the 1900's, and in many places

until this day, people led, and still lead, a subsistence lifestyle, surviving from one harvest, hunt, or paycheck until the next. But starting in the 1900's, a large middle class emerged—ordinary people who were able to earn more than it cost to live. They were able to put something away for the future, consume less than they made, and able to amass modest assets, or even wealth. Suddenly, people had savings, and with that came the idea that these assets, if unprotected, could be taken away. That is when the modern concept of insurance as asset protection was born.

It may seem obvious, because insurance is so ubiquitous, but most insurance is a modern phenomenon:

- You have homeowners insurance, because you put a large down payment on your home, and if it blows away, floods, or catches fire, and you have to rebuild, you'll have a source of funds to do so. If you don't have insurance, you'll still owe the bank money, but you will have lost your down payment, and be homeless. (If you don't own, you have renters insurance, which protects the stuff in the home you rent.)
- You have health insurance, so that you can afford medical care if you get sick.
- You have car insurance, because the most likely way that you are going to get physically hurt in life is with an automobile, and because the most likely way that you will hurt someone else is with an automobile, and if you don't have insurance, you may be held liable, and the person you hurt will be able to take away your assets.
- You have umbrella insurance, in case someone gets a judgment against you that is larger than the liability insurance you carry on your home or car.

Plus, some insurance is creditor protected, which means that you can put assets in an insurance policy, and know that if something bad happens—you hurt someone, you go bankrupt, you borrow money and cannot repay—there are some assets that will remain

yours forever (notably some life insurance and annuities). The more you have in protected assets, the more you get to keep and use, no matter what happens to you. Everything else—real estate, businesses, your gold coin collection, the money under your mattress, your bank accounts, and your prized first edition signed baseball card collection—can all be taken away.

**Secret # 6. Read the ads. Then, don't believe what you read. Acquire knowledge.**

Here's the catch. People and businesses who are trying to get you to spend (your) money (at their place of business) have become very clever at figuring out what makes people want to spend money. And they know how to push just the right buttons to get you to part with money. Mainly, they promise you benefits that are worth more than you spend. Sometimes the benefits are real. Some toothpaste may get your teeth more sparkly than others, and some detergents may make your clothes cleaner. But whiter teeth are not likely to make you more popular, attractive, or successful in business. And slightly less than crisp colored clothing and bright white shirts won't be your ruination. Sure, while a bright smile may get you a tiny edge in being noticed, or sharp clothing may provoke a slightly warmer welcome, chances are that unless your grin is repulsive or your outfit slovenly, it is not going to make much of a difference in the long run. Same with a car. Or a purse. Or a brand of liquor. It doesn't matter. While the product may be "better" than a competitor's, the extra, intangible benefits are probably not going to materialize.

The same is true for other products and services. In the 1980's, there was an investment firm called E.F. Hutton. Their slogan was: "When E.F.Hutton talks, people listen." It was well known, and they spent millions associating this slogan with their brand. People still remember it. (Ask any 60 year old what happens when E.F. Hutton talks, and they'll tell you: "People listen.") The Hutton ads showed people in crowded, noisy rooms, and when one person said to another, "My broker is E.F. Hutton, and he says..." the whole room fell silent. The implication is

that the speaker was getting better investment advice than anyone else in the room because their advisor was E.F. Hutton. (It also implied that the speaker was a smarter person as well.) Never heard of E. F. Hutton? It was founded in 1904, and became one of the largest and most respected financial firms in the country. In 1980, one enterprising E. F. Hutton branch manager figured out that if he wrote a large check for more than the branch had available, and deposited it in another bank, it would take a few days to clear. (This was 1980, after all, and computers were slower and clunkier, and a lot of banks still used paper transactions.) He could cover this check a few days later with another one, and keep the process going forever. He advised headquarters of his scheme, which netted his branch an extra profit of \$30,000 a month, and within three years, the firm was doing this with \$250 million a day. When one bank caught on and notified the U.S. Attorney, Hutton at first denied the practice, then pleaded guilty to 2,000 charges of wire and mail fraud, and paid a penalty of over \$10 million in 1985. In 1987, an internal probe revealed that one branch was laundering money for the Mafia, and the government prepared to indict the firm. As luck would have it (or not), the next week, in October, 1987, the market crashed, and Hutton lost \$76 million, and the investigation got sidetracked. When Hutton merged with another firm in early 1988, it was revealed that it had been facing massive cash shortages since 1985, and had been secretly up for sale since 1986. Several mergers later, the name is gone, and conversations don't stop when people mention E.F. Hutton. While they were around, they did no better or worse for clients than other similar firms. If you had your investments with them, you may have felt that you were better off. You weren't. So the lesson is: read the ads. They have valuable information. But be skeptical. If a benefit seems unrealistic, it probably is. If claims can't be substantiated, they're probably illusory. With all the access you have to the Internet to easily check facts, shame on you if you fall for hype.

It costs money to advertise. The only money these firms earn comes from the money you give them to manage. The more advertising you see, the higher their expenses are. Which means that your gains are lower.

**Secret # 7. Be Skeptical.**

You are going to read and hear two types of advisory messages: advertising and expert opinions. Advertising is paid for by people who have a vested interest in having you believe what they have to say. The information stated may or may not be true. Some industries, like insurance, are highly regulated, so there actually is a very good chance that advertising information is accurate. But it is still trying to get you to buy something. The products they are pushing might be good products. But they might not be good for you, or good for you at this point in time, or the best for you. They just might be great for someone else who sees or hears that same ad. But you are going to have to make that determination yourself, based on your knowledge, and based on advice you sift through. The appropriateness of expert opinions for you has similar problems. The experts may be smart, and their recommendations good for some people, but unless they know who you are, and what your needs are, they have no way of broadcasting a message that is accurate for all their listeners. And if you are dealing one on one with an expert, they are either being paid an hourly fee to advise you, or a commission, which means they don't get paid if you don't buy. In the first case, you don't know how much the expert knows, and you don't know if he knows what is right for you, and in the second case, well, do you think that a commission salesperson is unbiased? When I sell insurance, I work on a commission basis. And I have to force myself to try to think independently, without biases that I naturally pick up by reading professional literature. I'm not sure all my contemporaries fight the same fight—it is too easy to just push the product that is easiest to sell, pays the most, or that you are most familiar with.

Also, when you read so-called independent write-ups or hear investigative reports, who do you think is doing the writing or reporting? An expert? No, it is done by writers and reporters. They call people who they think might be experts (like me) to ask questions and get input for their stories. (I know—I get calls all the time.) They are not experts themselves on the issues—they are just expert writers and reporters. So the story that gets produced is not always accurate or impartial. I know—I read them daily, and shake my head at the advice given. I have

a burgeoning file of stories I've collected from respected financial publications, offering what is just plain old bad and wrong advice.

The best thing about living in the Internet age is that you can check out anything online. Someone is always out there offering advice, information, and instruction, and someone else is always there with a rebuttal. It's amazing how much is out there, and it's amazing how often people don't use the resources. Want a better explanation of anything I've discussed in this book? Google it! A client of mine called attention to a full-page ad in the local paper, which costs about \$10,000 to run, touting the services of a particular investment advisor, and guaranteeing 9.5% returns. So I Googled the name, and the first thing that pops up is a story on how he was disbarred in Nevada and Pennsylvania. Then came stories about lawsuits against him. Then came his website, with glowing praise, and nary a word about the administrative actions pending against him in 20 states, which I had just learned from reading the headlines of the links that popped up—without ever opening a page! Was this man stupid—paying \$10,000 for an ad when he had such a blemished record? Didn't he know that people would check on him, and he would never get a dollar's worth of business from his investment in advertising? I got my answer the following month, when he ran the ad again. He figured, correctly, that enough people would not even do basic, minimal research, and he made so much money the first time he ran the ad, that he felt it was worthwhile to do it again. Then I found an article published by a law firm that claims that more than 40,000 retirees and seniors attend his seminars every year. It quotes a Bloomberg article (9/11/2007—Susan Antilla): "He is a former lawyer with a checkered past.... Resigned from the Florida Bar in 1997 after receiving two consecutive 6-month suspensions on the heels of four previous public disciplines..."

**Secret # 8. Find advisors who are smarter than you.**

Don't take what they say at face value—ask questions. Make them prove that they understand the products they sell, and why those products are right for you. Avoid canned sales pitches—make them explain what they are proposing in their own words. Take financial advice from people

you respect. But don't take it at face value. Demand proof of claims they make. If you don't understand something, make them explain it to you until you do. It has to make sense for it to be real. Don't be fooled by numbers and charts—understand the claims being made. If claims are too good to be true, they probably aren't true. If they are wildly different from claims competitors are making, they are probably not accurate. There are only two possibilities with financial products if they promise a lot more than anyone else: either they are losing money, or lying. If they are losing money, they won't be around for very long, so you'll never get the returns promised. And if they're lying, well... You read the newspapers, don't you? Insurance is a highly regulated industry. For a reason. There are lots of disclosures. Read them.

### **Secret # 9. Wear x-ray goggles.**

Not literally. But pretend you are. Why are you being shown something? What's behind the recommendation? What's the reason your advisor feels this product is most appropriate for you? Why is one product being recommended over another? There is a huge range of financial products available.

One person can only be familiar with a portion of them. It is the natural inclination of a salesperson to find several products that they like, become familiar with them, and recommend them to any clients. They usually do this with the best of intentions—they've done the research, and they've found something that appeals to them, so they use it.

You bring to the discussion an intimate knowledge of your needs, preferences, and concerns—something that no one else knows. There may be products out there that your advisor is not familiar with that better address your needs. You may need to find them yourself, or direct your advisor to look for them. The value of wearing x-ray goggles is that you can use them to tell if a product is right for you.

When in doubt, ask. If you don't get answers that make sense, get them, or leave.

Are the benefits being offered real, or illusory? Feeling good is great, but understanding why you are feeling good is better. It's no shame to say "I don't understand this." If it can't be explained to you, you either have the wrong product, or the wrong teacher. The financial crisis of 2008/2009 was caused in large part by people (sophisticated, intelligent people) trading financial instruments they did not understand.

Don't rely on the government to protect you. Yes, they will pass laws to outlaw people doing bad things to you, but only after a pattern emerges, and there are enough victims. Yes, they will prosecute bad people, but only after the damage is done. Bad people will always figure their way around protective barriers—if you don't go opened-eyed into every financial presentation, you run the risk of being the case that causes the government to react—after you have been hurt, and when it will help others in the future, but not you. But even good, well intentioned advisors may not come up with the best products for you, unless you can help them evaluate the appropriateness of what they recommend for your situation.

### **Secret # 10. Play offense and defense at the same time.**

I prefer not to use sports analogies, because they only work for some people. But this one is pretty basic. Think of your money and assets as being on two squads of your team. The offensive money is working hard, trying to grow, and pursuing opportunities, taking risks, trying to get ahead. But sometimes your defensive squad will be on the field, protecting what you've gained. Sometimes the game will not be going your way. It is important to have money and assets in reserve, responding to different stimuli in the marketplace, so that when one sector is not doing well, you don't have to go into those funds at the wrong time. For example, real estate is a proven venue for making money. The key is buying low, producing income, and selling high. But you have little control over the marketplace. There will be times when rents don't cover expenses. There will be times when you'll need quick access to cash. If too much money is tied up in real estate (an offensive position), and you need

cash, you may be forced to sell at the wrong time. By having a portion of your assets invested in defensive, safe, cash-rich, judgment-proof investments, which may grow more modestly than your offensive assets, you provide a safe balance to your portfolio, and a place to get cash when selling the real estate isn't ideal.

Stocks are also offensive positions—but a downturn can last a while, and make them illiquid. The goal is to never be caught where you are forced to dip into assets that are not doing well.

If you are just starting your earning career, it is easy to play offense and defense at the same time. If you are close to retirement, it is a little harder, but a proper balance of investments can insure that you have the income you need while preserving capital. It depends on how well you allocate your portfolio.

What do I mean by defense? Cash, annuities, life insurance, short-term bonds—anything with a near zero chance of loss of principal.

What is offense? Anything with risk but also potential for big gains.

Now, let's go back to the \$43,180 and \$84,648 worth of designer coffee! (See Secret #1 above.)

We started by talking about \$1,200 a year for ten years. If you started on your 21st birthday, and used \$1,200 a year for ten years to buy a "whole life" life insurance policy, and you were in excellent health, using standard illustrations, you would have about \$75,000 in cash available to you, tax-free, to use as you wish, on your 51st birthday, PLUS, you would have an insurance policy worth over a quarter of a million dollars. If you started at 51 or 61, it would take the same 30 years—you'd just be older when you reaped the rewards, and the insurance policy would be worth less.

Here's how this works:

First, let's start out with an understanding of life insurance. Most people confuse life insurance with death insurance. That's because they think of "term" life insurance when someone mentions life insurance, and for good reason—term life insurance is what most people buy because (surprise), that is what most insurance companies want you to buy, because it is a product that they make tons of money on, and they rarely ever pay out the face value. Here's why:

Term life insurance is a contract between you and an insurance company, where you agree to pay them a certain amount every year (the "premium") and they agree to pay you (actually, your heirs) a huge sum, many times the amount of the premium, if you die within a certain period of time, say 20 years. Generally, the premium is the same every year, although some policies start with extremely low premiums, which increase each year. As long as you pay the premium each year, your heirs get the benefit promised if you die. Once you stop, the deal is off. All the money you paid is gone. There is no residual value. The policy has no value. It's over. And if you happen to live one day longer than the term you contracted for, same thing—no policy, no coverage, no benefits, no value. So if you had paid in \$1,000 a year, every year, for 20 years, with a 20 year term policy, and you died twenty years and a day later, it is the same as if the insurance company never had an agreement with you. Except they keep all the premiums, and your heirs get nothing. I've read somewhere that over 98% of term policies never pay out—either people stop paying the premiums, or they die after the policy period is over. Maybe a more accurate number is 90%, or even 80%. It doesn't matter. The vast majority of these policies never pay out. Young people simply don't die within 20 years of taking out term insurance. And if you go to renew the insurance when it expires—surprise! The rates have jumped astronomically. And your health may have deteriorated to the point at which you are charged even more just to get coverage, or you may be declined coverage completely.

“Permanent” policies differ in that they either build some sort of cash value in addition to a death benefit, or they have a death benefit that is guaranteed, no matter how long you live. Some are designed so that you only pay premiums until a certain age, and others you pay until age 100. In some cases, if you build sufficient cash value, or if the policy pays dividends, you can stop paying premiums early, and even withdraw some of the cash value as a loan to be paid off from the death benefit when you die.

About 50 years ago, an insurance company came up with the slogan: “Buy term and invest the difference.” It was catchy, and it got to the point. You could get insurance coverage very inexpensively, and then invest what you had saved by not having bought a whole life policy. But what really happened was that people saved on the premium, but spent the rest, instead of saving it. And what they did not tell you is that if you had put it all with the insurance company, they could have invested the money better and more safely than you could, and that it would have grown tax free. With a permanent policy that is properly designed and funded, unlike term insurance, you will always get a return on your money, either before death, or when you die. And because Congress wants to encourage this sort of insurance, the growth of your money inside the policy is income tax free, and the benefit paid to your heirs is income tax free (but still subject to estate tax), and money you borrow out of the policy is income tax free, and non-reportable. As long as you do not outright cancel the policy, or let it lapse, you never have to pay income taxes on it. And because your money can grow year after year, without taxes, it can grow faster than money in a taxable account. (This tax-free benefit only works if you play by the rules—you have to be careful when you set up these policies, and when you take money out, to make sure that you do not do anything that would make the proceeds taxable.)

There are also other insurance products, such as annuities, that let income grow tax-deferred. These let you earn money now, and pay tax on it later. Overall, the point I am trying to make is that there are several ways to make your money work harder for you—it can grow at the 5% you need to buy that home or boat, plus it can provide a death benefit.

And having a guaranteed death benefit means you can spend assets now, because they will be replenished when you die. So not only can you buy the car or boat with your \$3.33, you can still leave your heirs a tidy sum.

I’m an advocate for whole life insurance. I make a lot of money selling it. But I’ve also been treated well by the policies I own. It is not a sexy investment—nobody is going to get excited about the returns. But it is a sensible investment. The returns are steady, and the payout is secure, and large. I believe that good policies from the right companies should be a core component of everyone’s financial fitness regime. You will see, at various points in this book, how whole life insurance works, and what it can do for you.

## THE 7 MOST IMPORTANT FINANCIAL CONCERNS

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**T**here are five key financial concerns that everyone needs to address.

### **1—Making money grow (and, obviously, not losing money).**

You will probably never make so much money that, after spending what you make on what you want and/or need, you will be content with just sitting on the money that is leftover. Either you will need to make that money grow, to give you enough money for what you want when you stop working, or you will want to make that money grow, for whatever reason you have for wanting more money than you can use yourself (such as giving to charity, leaving to heirs, or just to be safe). Along the way, you want to minimize the risk of loss, and make sure that the money you need, as opposed to just want, is 100% secure.

### **2—Guarding against the risk of dying before you’ve acquired enough money (and leaving people who rely on you without sufficient money).**

I call this “death insurance,” although most people call it life insurance. In reality, “death insurance” is just one type of life insurance—it only pays you back if you die. We’ll discuss this elsewhere—you can have both life and death insurance, and sometimes one policy provides both.

### **3—Guarding against the risk of not being able to work to get a paycheck.**

There are two ways to do this. You can have passive income, which is just another way of saying income from investments that you don’t have to manage yourself, or you can have paycheck insurance, which guarantees you a paycheck if you are unable to earn money by working. Passive income usually comes from returns on money you invested, or that someone invested for you. For instance, if someone gave you money or died and left you money, and you invest it in stocks, real estate, business, collectibles, etc., and have someone manage it for you, you have passive income. If you have a trust fund that can pay you enough to replace your paycheck, you have passive income. If you can’t work because of accident, illness, or disability, passive income would still come in. Most people don’t have this, (at least in their early working life). Your goal is to acquire sufficient assets so you don’t have to work.

Most people have to work to earn a paycheck. And an accident, illness, or disability that denies them a paycheck or reduces their paycheck (temporarily or permanently), can be devastating.

Unless you are currently dealing with illness or injury, you most likely take your good health for granted. So far, you have been able to get up, go to work, and receive a paycheck at the end of the week. But for some people, life can throw curve balls. During forty-five working years, people can become ill, have accidents, or deteriorate prematurely, and be unable to work for several years, or not at all. While it is not likely to happen to you, it can. And you probably know someone it has happened to. It can be sudden—stroke, auto accident, sports accident. Or it can be gradual—Parkinson’s, ALS, MS, deteriorating back injury, etc.

The point of this is not to scare you; none of this is **LIKELY** to happen. But unless you have a trust fund, or are well-off, or have generous family and friends, or passive income from investments, life without a paycheck would be miserable. And if you were ill, or partially or totally disabled, and without money, it would be worse.

But you can insure a constant paycheck under these conditions. I call it “paycheck insurance.” The industry calls it disability insurance (or long-term disability insurance). If you work for a large company, you may think you have this already. But you most likely have short-term disability insurance (which pays benefits for up to 90 days in most cases). Or modified long-term disability insurance, which pays you only part of your paycheck, and under certain limited circumstances. And company provided disability insurance is usually insufficient to cover your needs (and the HR people may not know this). And the income you would receive, should you become disabled, from a company paid for policy, is most likely taxable, which means that you will be getting 60% of your pre-disability BASE income (excluding bonuses), LESS income taxes, which is way less than you are used to living on.

But most likely, you don’t even have this inadequate level of protection.

The downside to disability insurance is that it can cost you between 1% and 4% of your annual salary. And chances are way better than 50% that you will never get a penny in benefits. But if you do, it will provide you financial sustenance in a period when you need it the most.

So it’s a mistake when you don’t consider disability insurance. You should at least think it through. If you really can subsist without a paycheck, don’t buy disability insurance. But if you need to get a regular paycheck, you need to think about what you are willing to pay to insure that you will always have a means of supporting yourself.

This is the pushback I hear from most people when they talk about disability insurance is that they’re already covered at work. But it is amazing to see what is NOT covered in these policies. MOST people getting disability insurance coverage at work are underinsured and missing key benefits. MOST people with disability insurance at work should supplement that with a private policy of their own.

What would happen if you didn’t have a paycheck one week? What would happen if this went on for several weeks in a row? What would

happen if this went on indefinitely, for a few years, or more? It’s a horrible thought to contemplate—your life, as you know it now, would change dramatically, and not for the better.

There are two types of people in the world: the physically fully functioning (the “abled”), and the disabled. You are one or the other (although the extent of your disability can vary). And you usually go from being “abled” to disabled VERY quickly—in seconds (in an accident), in minutes (in a disaster or natural catastrophe, or a sudden stroke or heart attack), or in days or weeks (with degenerative illnesses). Sometimes, the march toward disability is slow, like when arthritis or tremors slowly makes it harder to perform the tasks you do while working, until, one day, you just have to stop. But that is rare, as is total disability. Most of the time, the transition is from “abled” to “partly disabled,” and it happens quickly.

Disability has nothing to do with the type of work you do. Sure, some jobs are more dangerous than others, but most disabling events happen outside of work, or due to accident, illness, or disease. And when disabling events happen, most often, your income is impacted immediately. The paychecks stop coming right away. For most people, missing just one paycheck is a problem. Missing two or three paychecks is a disaster. For most people, there are limited savings, and they get eaten up quickly when there is no paycheck. Sometimes, savings are not liquid—they can be invested in a house, or a retirement fund. Cashing out may mean losing money, or losing your home. It can mean losing your retirement nest egg. Any many people are getting by, one paycheck to the next.

When I ask people about disability insurance, and they refuse to discuss it, I ask them to write a letter to their spouse, or child, and put it in an envelope that is marked “To be opened in the event I am incapacitated.” Then, write what you want your child or spouse to read while you are in a coma, in the hospital. Start by saying—“Honey, I know you are glad that I am still alive after what I just went through. Unfortunately, we’re poor now, because my paycheck will stop coming in next week. I never bothered to buy disability insurance because I never thought this would happen, and because...” and then fill in an excuse. I did this once with a lawyer who was

making several hundred thousand dollars a year, and his wife took care of the four children, who were in private school. And get this—one of his clients had been sitting in a car at a stop light, right in front of his office, just four months prior, and was badly injured when another car ran the light. And this lawyer handled the lawsuit!

There are no good numbers on the percentage of working people who are disabled for 90 days or more in their careers, but the number is high—higher than:

- the percentage of people who total their car once in their lifetimes
- the percentage of people who have a major fire, theft, or other loss to their home once in their lifetimes
- the percentage of people who are under 65 now and who will die in the next 20 years.

Yet most people have:

- Car insurance
- Homeowners or renters insurance
- and some sort of term life insurance (either on their own or through work).

In other words, most of us have insurance on things that are less likely to happen, instead of on something we know is much more likely to occur. We are better insured to handle losses that are not likely to occur than we are to cover the losses from a more common disaster, which would have devastating consequences. Loss of a paycheck for more than a few months would reduce most people to welfare status. It could cost us millions of dollars in our lifetime. (Note: Social Security provides disability benefits for working people. But it is limited, and hard to get. It takes time, there are denials of coverage, and in many cases, the disability is deemed as not being eligible. And the amount received is generally less than your paycheck.)

So unless you are independently wealthy, and don't need a paycheck, you want to have some disability insurance.

Here's what to look for when researching a policy, and comparing plans:

- **Guaranteed premiums:** Get a policy where premiums are guaranteed not to go up until age 65. (Most policies will not cover you beyond age 65 or 70).
- **Waiver of premium:** If you are disabled, make sure no premiums are required after 90 days of disability, and you get back the premiums you paid in the previous 90 days.
- **No offset for Social Security:** if you do collect Social Security disability payments, make sure your private policy does not cut back what it pays you.
- **Definition of disabled:** Pay more for a policy that covers you if you cannot work in your own field (own occupation) if you are highly trained, and if you would return to work in a different occupation while you are partially disabled, and that work will pay significantly less than you are making now. For instance, if you are a trained surgeon, and would make less as a practicing physician who did not practice surgery, or if you are a trial lawyer, and you would make less if you were not able to go to court, then you want "own occupation" coverage. On the other hand, if you would be able to return to work and make similar money in a different field, while partially disabled, you may not want to spend money on an "own occupation" rider. It is more likely that you will be partially disabled than totally disabled, and more likely that you will be able to work at some job. If you end up being totally disabled, or presumptively totally disabled, then "own occupation" doesn't matter—you'll be getting full benefits. It is just if you are partially disabled that this provision would be important. (I know this may not be clear—please discuss this with your insurance advisor before buying disability insurance—it is complex.)
- **Benefit period:** get a policy that covers you as long as possible (until retirement), with at most a 90 day waiting period for benefits to begin. (Shorter waiting periods are very expensive, and not worth it; longer ones can be a burden if you do get disabled.)

- Extended partial disability: Disability is not all or nothing—look for benefits that give you credit for being partially disabled. You are more likely to be partially disabled than totally disabled.
- Future insurability option: The right to increase your benefits WITHOUT having to qualify medically, based solely on an increase in your earned income.
- Retirement plan contributions: Are you participating in a retirement plan, or will you in the future? Make sure you consider buying a rider that will continue those contributions if you are disabled.
- Paying for disability insurance: If you pay the premium with after tax dollars, your benefits are not subject to income tax. If your employer pays with before tax dollars, your benefits are income taxable. Since most policies provide benefits equal to 60% of your salary, it makes sense to use after tax dollars to pay for disability insurance, since the disability check you receive will be close to your take home pay.

How are benefits computed? Make sure you understand this, and have your insurance agent show you where in the policy this is explained. Most likely, if you are totally disabled, you will receive the full amount of the benefit you signed up for, adjusted to your current income (because you purchased a future income rider, and you exercised it). Your income at the time of your disability will not be a factor. But if you are partially disabled, your income prior to becoming disabled will matter in determining your benefits.

How should you buy paycheck insurance? You may have noticed that I mentioned, several times, speaking to your insurance agent. Disability insurance is something you want to buy from an agent in person, not through the mail, or on the Internet. It is too complex. Your agent should be able to work with you to get you the best possible coverage, at the best possible rate. Unlike life insurance, which is based on health and age, disability insurance also considers the type of work you do. And how you are classified affects your rates and benefits

Good websites to look at are [www.protectyourpaycheck.org](http://www.protectyourpaycheck.org) and [www.lifehappens.org](http://www.lifehappens.org). One is hosted by LIFE, a non-profit organization

funded by disability insurers, but it makes a good case for disability insurance, and has helpful details in calculating how much you need.

#### **4—Guarding against running out of money while you are alive.**

The key to not running out of money is to diversify your assets, so that everything is not invested in one place, and that the various sources of income, which I call “buckets,” increase and decrease in value at different times, and are liquid (so that you can take money out without incurring a penalty) at appropriate times.

This is also known as the “buckets” theory. It is very basic.

Over your lifetime, you are going to amass various kinds of financial assets. You may have:

- annuities
- businesses
- stocks
- real estate
- cash
- gold and jewelry
- IRA's and retirement accounts
- collectibles
- bonds
- CD's
- inheritances
- cash value life insurance
- trusts
- primary and secondary homes
- other investments

These are your “buckets.”

Very few of these are liquid at any one time: Real estate takes time to sell, and the market has to be right. Precious metals are easier to sell, but the market has to be right. CD's are easy to sell, but if you cash

them in early, you can lose money. Annuities have withdrawal penalties for taking money out too soon. Insurance is generally a long-term affair. Stocks are easily converted to cash, but timing is everything.

The key is to have “defensive” buckets and “offensive” buckets.

Defensive buckets are the ones that are minimally fluctuating, easily convertible to cash, and don’t have penalties to access early. Think cash, short-term bonds, cash value of life insurance, older annuities.

Offensive buckets are the ones that are going to grow, eventually, but that you may not be able to touch at certain times, such as when their value is down. Think stocks, real estate, investments, gold.

The key is to balance your offensive and defensive investments so that you never have to dip into the wrong bucket at the wrong time.

It’s that simple.

Keep it all balanced, and make sure that you always have enough in the buckets so you will not lose money if you need to convert to cash and draw funds out. Make sure you have funds in your defensive buckets that you can access to live on when your offensive buckets are low.

Never dip into the wrong bucket at the wrong time. You don’t want to be selling stocks, when they are down, to pull out funds for living expenses—you want your annuity payments to handle that. You don’t want to be depleting buckets that you need to grow if you are short on cash—that is what the cash value of life insurance is for. You don’t want to be selling investments that you are counting on to produce income.

## 5—Providing for Long Term Care

Most long term care insurance policies (but not all) are simply this: you pay a certain amount of money every year to an insurer, and that gets you

access to a pot of money which gets paid out, at a set rate, over a certain period of time, as long as you qualify.

The image I like to use is a blood transfusion: you buy a bag of blood, and it gets dripped into your veins at a prescribed rate. You can’t speed it up beyond a maximum level, but you can let it drip more slowly, so the bag takes longer to empty.

If you don’t use up the bag of blood, or the pot of money, or if you never start using it, you get nothing back. But the pool of money you can potentially access is many times the amount you put in, so basically, you are sharing the risk paying for long term care with a large number of people, some of whom will come out ahead, and some of whom will not.

In order to start the money flowing:

- You need to be unable to do 2 of the six activities of daily living by yourself (eating, bathing, dressing, toileting, transferring (walking) and continence), or have major cognitive issues.
- A doctor needs to diagnose this.
- You have to incur actual expenses—help for home care, or a payment to a facility.

The amount of money in the pool, and the rate at which it gets paid out, depends on the premium you are willing to pay annually. You should only buy enough insurance to cover expenses you won’t be able to pay for otherwise, from other funds. Cost of care today runs from \$50,000 to \$100,000 a year, on the average, depending on a lot of factors.

Some questions you should ask yourself are:

What happens if you are disabled, or become disabled, or need some sort of extra care, after retirement age, (when you no longer have disability insurance coverage)?

Who pays for the care you need once medical insurance coverage no longer applies? (For instance, when 90 days pass after a hospitalization and your condition stabilizes, but you are still not able to care for yourself, and you are not getting better?)

Who pays for care if you just gradually age, without any traumatic event, but just become increasingly fragile, or unable to take care of yourself? (Such as not feeding and dressing yourself, or getting out of bed unassisted?)

Who pays for care if you become increasingly disoriented, and your children realize that it is no longer safe for you to be left alone?

If you've planned properly, you already have retirement income coming in. This may be income from investments, retirement plans, pensions, and social security—any source of income that does not come from having to go to work. If you planned properly, you calculated what would be sufficient to support your anticipated retirement lifestyle. But most people do not factor in ill health, disability, or the ravages of old age into these expense calculations. All the advertisements you see for retirement funds show elegant, upscale and physically fit retirees. They are dining by moonlight, or at a clubhouse, or walking leisurely on the beach, or playing shuffleboard or tennis, or visiting museums, or taking cruises. I have yet to see a retirement ad showing an otherwise healthy person in rehab after hip replacement or a fall, or being wheeled through a supermarket by a caretaker. The ads never show a retiree getting off a wheelchair-carrying van to visit yet another doctor. But the fact is, even if you are still healthy and fully functional when you reach age 65, chances are about 66% for women and over 40% for men, that you will need some sort of long term care for more than 90 days before you die. And there will be expenses associated with that care that are not part of your "healthy lifestyle" retirement budget.

Aging poorly is a disability, just as an accident or illness is at a younger age.

But unlike your working years, when disability and health insurance will replace lost income and help with some additional expenses,

disability in retirement is NOT funded by anything other than long term care insurance, or some other source of income above and beyond what you budgeted for a healthy retirement. Medicare and health insurance will NOT pay for long term care. If you have no means to pay for long term care, you and your spouse's standard of living may suffer.

The quality of your life in your last years will be determined not so much by your health, but by how you planned to pay for your care if you are in poor health. The government chips in only when you become impoverished. Do you want poverty, and the government, dictating your care in your most frail years?

Aging poorly will cost more than you think. You will probably live longer than your parents, but not as well, in terms of health. It is not as obvious as it sounds. We conquered many of the major diseases that killed people young in the "old days." Look back at the biographies of your relatives who died before 1950—chances are that people who are dying today, at the same age that your relatives were, are not dying of the same diseases. In fact, chances are today that they are still alive at the age your grandparents and great-grandparents died. Today, if you live beyond your sixties, you have a good chance of living for a long while—most of the killer diseases that were killing people at the beginning of the last century are not going to kill you. Plus, you've already discovered the chronic conditions that will be with you for the rest of your life, and you've learned to manage these conditions. They are "under control," in the sense that you are actively doing something about them—you are treating them, doing therapy, watching your diet, immunizing yourself, etc. The disease that you are being treated for may not be what is going to kill you. It is increasingly likely that the disease you are aware of will be managed, and that it will be something that was not diagnosed that will be fatal. The successful management of the diagnosed disease may keep you alive until old age kicks in, when something else fails. For example, my Dad had chronic low level leukemia for 30 years. It was being managed. What killed him was his heart. The heart condition was undiagnosed until 5 months before he died, at which point it was too late to do anything.

But it is not just that we are living longer; the life we live, when we do live longer, is a lot different than it was in the “old days.” Because the ill people in the old days tended to die younger, the older folks back then were healthier than they are today. Having survived until old age, they were strong, and many of them tended to go suddenly, or after a short illness. There was less “lingering,” for lack of a better term. By lingering, I mean the slow deterioration of multiple body parts and functions—the slow descent into being less and less active, less and less cognizant of the surroundings, less and less mobile. Someone reaching retirement age today stands a better chance than ever of making it to “old age.” But they are also more likely to deteriorate away, and not die suddenly. The new “old age” is different than what old age looked like when you were a kid.

### **What does this mean for you?**

It means that you need to have a plan in place to fund the disabilities of old age. Medicare does not provide long-term care. Your resources in old age are going to be whatever Social Security provides, the assets you’ve accumulated, pensions and retirement funds (if you have any, and if they survive corporate upheavals), and insurance and annuities. If you’ve budgeted only for your living expenses with these funds, it means you have not provided for the supplemental income you will need when you incur the additional expenses associated with being less able to care for yourself. Relying on a spouse who is also aging, or on children who are raising children of their own, may not be a failsafe option. Long-term care insurance is specifically designed to meet these additional expenses and needs.

The next question is: Where are you going to live in your old age?

The choices are:

- In your home.
- In your child’s/relative’s home.
- In a retirement facility (either a group setting, or an individual apartment with communal dining).

- In an assisted living facility.
- In a skilled nursing facility.
- In a nursing home.

Let’s look at what these choices mean:

- Your home or a child/relative’s home. Who is going to provide the care? Are family members going to be the primary caregivers, or will you need to hire outside help? Even if you assume that housing costs will be minimal, the expense of live-in or part-time help can be considerable, and it is not covered by Medicare. And even with the best of relative caregivers, you need to factor in costs for respite care—your caregivers are going to need some time off. Don’t make the mistake of relying on a spouse—if he or she is close to your age, he or she may not be up to the task. Or may need care him or herself.
- A facility—this adds housing costs to the mix, and does not always remove the cost of private care. Even in the best of facilities, many patients have private duty care to supplement one-on-one the services provided by the staff. This individual attention, even if provided just during waking hours, can run tens of thousands of dollars a year extra. But it provides a higher level of care, and may result in better outcomes for the patient.

In a nutshell: The less you can do for yourself, the more help you will need, and the more it will cost. The older you get, the greater the likelihood that your care needs will increase. The government will not provide this care unless you become impoverished, and are eligible for Medicaid. If you want to hold onto your assets, or if you want to have sufficient funds to provide the type of care you would like to have, you should consider long-term care insurance.

There are several options for long term care:

Option # 1: “Traditional” Long-Term Care Insurance (LTCI). Although sometimes thought of as a new product, long-term care

insurance has been around for several decades in various forms. It is only recently that there have been significant advancements in this type of insurance product, providing more versatility, and making it better suited to real life needs and conditions. Since insurance companies are constantly coming out with new long-term care products, it is appropriate to re-visit older policies that you may have to see if they are still the best fit for your needs. Also, over time, your needs may have changed, so the policy your bought years ago may not adequately cover your current projected needs. For instance, one client who I spoke to about LTC insurance assured me that she did not need a policy—her mother had taken one out for her over a decade ago, so she was covered. When we looked at the policy (which had a very low annual premium that the mother continued to pay), we discovered that it would pay for care for up to two years, at a maximum of \$50 a day, only in a facility run by Christian Scientists. (I am not making this up—many people bought these types of policies.) Since today's needs are about \$150 a day, and an average of four years of care are needed between the onset of symptoms requiring care and death, this was clearly inadequate. Plus, there is only one facility in Florida run by Christian Scientists, and this client subscribes to a different religion, which is incompatible with Christian Science.

Similarly, many people have policies as part of their employment, at low or no cost to them. But even a cursory look at these policies show that the length of covered care and the maximum allowed reimbursement is wholly inadequate.

Another phenomenon in the marketplace is that insurance companies are leaving the long term care market, as costs exceed expenses, making many older policies unprofitable. One side effect of this has been increases in premiums for many customers, which come as a surprise to most, since they thought (erroneously) that premiums were fixed for life.

Before we look at the details of long-term care insurance, and how today's policies differ from older policies, I want to address what these changes mean to people who have previously purchased long-term care insurance, and who have older policies in force. But first, I need to strongly emphasize several key factors pertaining to existing policies, for those who have them. If this is repetitive, I apologize, but I'd rather overstate than understate these key points:

- **DO NOT** give up an existing policy unless you are **ABSOLUTELY SURE** you do not want it—you will not be able to replace it once you surrender it. If anyone advises you to cancel an existing policy, get a second opinion before you walk away from it. Let me repeat this to be absolutely clear: **DO NOT GIVE UP EXISTING LONG-TERM CARE INSURANCE POLICIES UNTIL YOU ARE ABSOLUTELY SURE THAT YOU DO NOT WANT THEM ANYMORE—YOU CANNOT REINSTATE THEM LATER.**
- The age of an existing policy does not automatically mean that it is either appropriate or inappropriate for you. A lot depends on the particular policy, your current and projected circumstances, and what other resources you have available.
- If you feel that you do not have enough coverage, sometimes it is advisable to supplement an existing policy with a newer policy offering additional features and benefits. Having two policies can be an appropriate way to balance the savings on premium in an older policy with the enhanced benefits of a new, additional policy.
- Because you were (much) younger when you bought your current policy, your premiums are generally (much) lower than you would pay today. Even if the coverage is not ideal, the benefits provided by an existing policy may be worth retaining. It might not be the type of policy you would buy today as a starter policy, but even if some of the coverage seems unnecessary or insufficient, it may make sense in terms of total premium outlay.

It is generally desirable to keep existing policies. Be very cautious before abandoning a policy that you have paid premiums into for a while.

Make sure that it is abundantly clear that you are better off starting anew before you cancel existing policies. However, if you find your existing policy lacking in coverage, you may want to consider adding a supplemental policy to cover the gaps, while keeping what you already have.

What are your chances for needing long-term care?

The numbers keep changing, and it is greater for single people than married people, but something like 66% of women (40% of men) who live to age 65 will need some long term care later on in life. Once you start receiving long term care benefits, chances that you will need it for more than 3 years is about 15% (and 5% for more than five years). At current rates, depending on where you live, between \$150 and \$200 a day funds basic care.

One word of caution about long term care policies. Most policies obligate you to pay premiums for your lifetime, or until you start drawing benefits. While premiums are calculated so that they remain level from year to year, the companies have the right to raise premiums for everyone (not you alone) if they find that costs are exceeding revenues. And that is exactly what happened in the past few years—as more and more people took out long term care policies, and some started collecting benefits, the insurance companies discovered that older policies were underpriced. So they went back and raised the annual rates, often substantially. This is bad news for people on fixed incomes. The policy holder's only recourse was to pay the higher rates, accept reduced benefits, or get back benefits equal to the premiums they paid in. While the insurance companies have raised their prices for new policies, there is no assurance repricing won't happen again, either on older or newer policies. The only way to avoid a price increase is to buy a policy with a limited pay-in period, like a 10 year pay, or a pay until age 65 policy, and hope the rates won't go up before the ten years are up, or you reach age 65.

What if you end up never needing long-term care?

Good for you! Even though you are more likely than not to eventually qualify to receive long-term care benefits, there still is a good chance that you may not. In that case, you would not have received a financial benefit from the LTC premiums you paid. (I am not counting the peace of mind of knowing you had the protection.) However, if you had elected to purchase a “shared benefits” rider, the funds you did not use would be available to your spouse while you are alive, should his or her benefits run out. This is a relatively inexpensive rider that can effectively double coverage.

**Option # 2: Hybrids.** Hybrids are an option that guarantees a financial return on your premiums. More and more companies are introducing a hybrid permanent insurance, which builds cash value and has a death benefit, which lets you collect on most of the death benefit BEFORE you die, if you qualify for long-term care. The premiums for this insurance are going to be higher than LTC premiums, but over time you may build cash value, and you are guaranteed a pay out when you die. Of course, the death benefit is reduced by the amount you took prior to death, and the coverage for LTC may not be as high, or for as long a period, as a straight LTC policy. A word of caution: Examine the provisions of these policies carefully. Sometimes the advertised benefits are greater than the actual benefits. At least one company promises that you can access 24% of your death benefit a year for long term care. So if you have a \$500,000 death benefit, you would think that you could get \$120,000 a year for long term care. In actuality, the amount they would actually pay is lower—it depends on your age when you access this benefit. This type of policy is designed for people who expect to need long term care towards the end of their life, when they are old, and has less money available if it turns out that you need it in middle age or early in retirement. Nevertheless, it is a financially sound investment—you always get a death benefit, and even if you live to be over 100, the return on your premium is decent.

**Option # 3: Other Resources.** A third option is a high cash value policy, which involves a substantial, one time initial premium. If you use it for long-term care, it will more than triple in value. If you don't use it, it will have a death benefit greater than the premium paid. And if you decide you want your money back at any time, you can surrender the policy and get 100% of your premium back. Your only cost is the loss of use over time of the money you paid. (These policies have a lot of variations, and allow for a lot of alternatives, such as using part for long-term care, and leaving a smaller death benefit—we can go over details if this appeals to you.) Buying a policy like this is like having a 20 year, or more, “free look” provision—you can decide at any time that you don't want it, and get your money back. The only cost is what your money would have earned for you in another investment over that period of time.

Also, you can use traditional whole life, which builds cash value over time, to help pay for long term care. After a decade or two, cash value really starts to build in these policies, so if you need to take out a policy loan later on, there are funds available. Of course, the amount available depends on the size of the policy, and you have to be careful to not withdraw so much money that the policy lapses.

**Option #4: Bad Ideas.** Some people opt for bad choices. The primary bad choice I hear is: “My spouse will take care of me.” This sounds like it is well-intentioned, but unless you are married to someone a generation younger than you, chances are that neither of you will be in a position to take good care of each other. Which means it will fall on your children, which is not a good idea for three reasons:

- They may not be able to take care of you—their life circumstances may not allow it. Chances are they will have enough trouble caring for their own children, and planning their own retirement.
- They may not want to take care of you, no matter how well you raised them. Or their spouse may not want to take care of you.

- It could ruin both your lives. It may disrupt their lives thoroughly, and lead to divorce, job loss, or worse, and you may not get the level of care you need.

And if a family member (spouse or child) does take care of you, you have to remember that it will take a toll on them. Chances are that they did not plan on spending years of their life this way, and they are probably ill-equipped to staff all three shifts that caring for an invalid requires. There was an article in the newspaper recently (I am not making this up) about a man who was arrested for housing his elderly mother in a shed in his garden. When the authorities found her, she was dehydrated, and on the verge of death. She had been living in a room inside the house, but when he lost his job, he moved her out to make room for a rent-paying tenant.

Elder abuse is a problem. It was a huge problem when I moved to Florida in 1975, and I was part of a group that investigated elder abuse in homes and institutions, and brought about major reforms and regulations. I'm still reading stories about abuses by institutions and individuals. And stories about legislators who are shocked, and promising to pass more laws. And 40 years from now, my children will be reading contemporary versions of the same stories. I won't. I'll be in a very pleasant retirement home that my long term care insurance policy will be paying for.

## **6—Other “end of life” financial and health care concerns**

As long as we are talking about long term care, we might as well address other end of life issues regarding health care and finances.

You need to have four documents: a will, a durable power of attorney, a living will, and a document naming a health care surrogate.

### **Document #1: Will**

Everyone has an estate plan. But some people do not know what theirs is. Sound strange? Here's why this happens:

Only some people bother to create a “last will and testament.” People who have a “last will and testament” know what will happen to their assets after they die. Everyone else has a plan crafted for them by the government. Who do you want to decide who gets what you owned while you were alive? You, or the government? A will is a document that provides directions on how to dispose of tangible assets that you own, when you die. You may be able to do a will yourself from a kit; on the other hand, if you have something worth leaving, you probably want to get a competent attorney to create a will for you. A good attorney will arrange for you pass assets to your heirs outside of a will. This is a good idea, because wills need to be probated by a court, which costs money and takes time.

**Document #2: Durable Power of Attorney**

A “durable power of attorney” is a document that lets someone act, on your behalf, if you are unable to do so. You really want to have a lawyer prepare this. It is a powerful legal document, and you don’t want it done wrong, or given to the wrong people.

**Document #3: Living Will**

A “living will” is a document that states what medical treatment you want if you are unable to clearly communicate when you need treatment. Best if professionally prepared, but there are good “do it yourself” documents out there.

**Document #4: Health Care Surrogate**

A health care surrogate is someone to make health care decisions for you if you cannot. You name someone to this position using a document specifically designed for this purpose. When you are hospitalized, you are asked to appoint someone. But it is better to do it sooner.

These four documents are not optional. You need to have them, they need to be accessible, they need to be periodically updated, and more

than one person needs to have copies. If not, other people will make decisions for you, and they may not be decisions you would have made for yourself.

Let me tell you a personal story. My Dad had aged gracefully, into his mid-80’s, with a slate of known health issues that he was being treated for. But when he suffered his first heart attack, it was a surprise to all—his children and his doctors. He had done such a good job of taking care of his body—eating right, exercising, etc., that the nearly complete blockage of some of his major arteries had escaped detection because he developed a strong collateral system of blood delivery. In short, by the time anyone realized he had heart problems, repair was impossible. Surgery might have fixed the arteries, but the recovery would have killed him. We were told, eight hours after his heart failed, that he probably would not live. Over the next few days, he was unable to communicate, and we had to decide on a course of action. We had three doctors advise us—a primary care physician, and two cardiologists. One cardiologist was young, and fatalistic. She advised doing nothing, just sending him home, providing pain medication, but taking no aggressive actions that would prolong his life. She was balancing keeping him alive against a projected daily routine of doctors’ offices and hospitals. She was athletic, young, and active. That type of life was an anathema to her. The older cardiologist proposed a more aggressive course of action, which would have exposed Dad to the possibility that he would spend significant amounts of time, for the rest of his life, visiting medical offices. While you or I might not like such a routine, for Dad, who was retired, and missed seeing large numbers of people every day, being out and about, interacting with others, joking with medical staff, dining out between appointments, running into people he knew, was not a terrible life. He relished life, and doing things—keeping appointments, working on his health—was purposeful. He would have hated wandering the shopping mall, especially since prolonged physical activity tired him out. The primary care physician, who was just a decade younger than Dad, proposed even more treatment, keeping him alive, no matter what the quality of his life would be. Three great doctors, three

different recommendations. Which one was correct? Fortunately, we knew Dad, and we knew what his wishes would be, and we proceeded accordingly. It turned out that we were right, and he lived five and a half more months, putting up with the doctor visits and hospitalizations in exchange for completing tasks he wanted to accomplish, including throwing a wedding for his last unmarried child, just ten days before he died. The point is, the doctors did not know him well, and their recommendations did not express his wishes. Their recommendations expressed their wishes for themselves—that was the only frame of reference they had. Dad was fortunate enough to have children who knew him. Had he not, since he left no directives, the treatment he received would have been what someone else wanted, and not necessarily what he would have wanted.

#### **7—Protecting the money you have.**

Estate taxes. The government levies a tax if your estate is large enough. The tax needs to be paid quickly. If your estate does not have enough liquid assets, like cash and easily convertible monetary instruments, your heirs may have to liquidate some assets at unfavorable rates to raise the necessary cash. Chances are, if you've been enjoying your wealth, and not merely hoarding it, you own things like art, real estate, collections, and the like, and you may have to take a loss if you sell suddenly. Or your wealth may be invested in businesses, which are not easy to sell quickly at a good price. There are countless examples of people who did not plan properly for estate taxes, and the fortune they thought they were leaving to their heirs was substantially reduced, or disappeared, as a result. A notable example is Joe Robbie, who died in 1990. Joe owned the winning NFL football team, the Miami Dolphins, during its heyday, and also the Joe Robbie Stadium, where they played home games. His family lost both because they had to sell to pay estate taxes, and the money that was supposed to provide them happiness left bitterness instead. It could have been avoided. Another example is Jacqueline Kennedy Onassis, who had wanted to leave her estate to charity and her family. Due to poor planning, less than half a million

dollars ended up going to charity, and the bulk went to pay taxes. While most people will not meet the threshold estate size to be liable for estate taxes, everyone still needs to investigate to see if this will be a problem.

Unforeseen circumstances: Children who inherit wealth may not know how to handle it, or may not put adequate protection in place to safeguard it. Assets passed on to children without restrictions can go to pay judgments, be squandered, or lost in divorce proceedings. If the circumstances of the person who dies changes before their death (divorce, loss of spouse, loss of a child, adoption, etc.), the prior estate plans may not be current, and that can mean that money will be lost to taxes, or given to the wrong person.

Aside from death, wealth is threatened by the litigious nature of our society. If you have money, and someone can prove that you are at fault for causing someone else harm, chances are that some lawyer will see an opportunity to sue, to take your money away from you. Even if you think that you are not at fault, you are still liable to being sued. And if you have wealth, or any unprotected assets, they are at risk, unless you protect them.

For instance, I was sued for \$300,000 by a classmate of one of my children, who broke her ankle while roller skating with him during a youth group outing. She wasn't claiming that he pushed her, or acted maliciously—she just claimed that he touched her while they were skating. He admits it—skating while holding hands, or in a line, with one person's hands on another's hips, is a commonly enjoyed activity among skaters. And inexperienced skaters are apt to fall. The ankle mended nicely, in a cast for four weeks, and, as is usual with childhood broken bones, there is no lasting damage. I was sued. The reason I was sued was because I have money, and the father (an attorney) saw an opportunity. Fortunately, I have homeowner's insurance and umbrella insurance, so my out of pocket costs were minimal, whatever the outcome. The insurance company bore the burden of the

defense, and paid to settle the case out of court. I was outraged at the whole action and process, and urged them to fight the case. After all, this was accidental, and breaking a leg is a known risk that occasional skaters take on when they put on unfamiliar skates and attempt to glide around the rink. Falling is normal; injuries happen; she recovered. The insurance company estimated that the case was “worth” \$90,000—that is what they thought a reasonable settlement was! This did not include legal fees. The father offered to settle for \$250,000. They ended up agreeing to nearly that amount. The point of the story is not about how ridiculous and disgusting this whole process is, nor about the damage the process does to two children who were friends and are now being forced to testify against each other under oath in court, nor about what it did to the social relationships in the youth group. These are all important points, but deserve a story of their own. My point here is that if you had asked me to list all the financial risks and hazards I thought my family and I would ever be exposed to, in my entire life, this would not have appeared anywhere on the list, ever. It just would not have crossed my mind. Yet had I not had proper insurance, I could have been out of pocket between \$90,000 and \$250,000, plus attorney fees. Ouch! I would have been forced to sell assets to cover the costs.

The reason I am including this story is to say, on a very personal level, that even though you may not think you are wealthy, someone else might, and unless assets are properly titled, and insurance is in place, you can easily and unexpectedly lose what assets you’ve accumulated.

It does not have to end that way. Wealth can be preserved.

Whether it is a lawsuit or estate taxes, or unexpected high medical or long term care costs, insurance can help you keep the money you’ve accumulated. Life insurance can be obtained to pay estate. And these protections can be extended to your heirs, for more than one generation.

Trusts can be set up to control the use of inherited funds. I won’t go into specifics here, because the entire field of estate planning is complex, and estate lawyers are best equipped to deal with it.

You should have umbrella insurance, the four documents mentioned above, and they should both be reviewed periodically.

## THE TEN SECRETS TO YOUR FINANCIAL SUCCESS

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### **One: Start Early**

**T**he longer you wait, the fewer your options, and the greater your risk. There are two types of risk. One risk is that you will not reach your goals, and end up with less money than you need. The other risk is that, given a shortage of time, you may take imprudent financial risks. Sometimes this will pay off, and you will make up for lost time. More likely, you will end up with even less, because of the extra risks you took. The earlier you start, the less you will be tempted to take unnecessarily high risks.

### **Two: If It Is Too Late to Start Early, Start Now**

It is better to be on a path to financial success than to not do anything at all. You may not get as far as you want to be, but you'll be better off than you are now.

### **Three: Understand the Basics**

There is no excuse for financial ignorance. You can look up anything on Wikipedia and get a reasonable explanation. You can search for any subject matter, product, or person, and type the word "scam" after it, and find out what people who have had bad experiences with it are saying. You might learn something that wakes you up, and prevents you from making an error. Remember, if someone is trying hard to sell you something, or you are seeing it advertised everywhere,

that means someone is making money by selling it to you. Obviously, someone has to make some money if they are going to sell you something that is beneficial to you, but what they make has to be reasonable, so more of your money can go to work for you, and not them. Don't read ads—read what people say about ads. If you can't figure out the truth yourself, ask three independent teachers—until at least two of them will agree with each other.

### **Four: Choose Your Buckets**

Think of different ways to save and grow money as buckets you put money in, and let it grow, like you would do with plants. You have lots of possible buckets. Everyone has to have a social security bucket—it's the law. You probably have some sort of retirement bucket at work. You may own some stocks—that's another bucket. A savings account is a bucket. Real estate (your home, or investment property) is another bucket. Collectibles, savings bonds, etc.—these are all buckets. The goal is to get each bucket to grow as fast as possible, and to make sure that when you retire, you never take out so much money from every particular bucket so that it is empty. The key is to only take out money when the amount in the bucket is increasing, so have at least as much as you had a year ago. That way, you never run out of money.

So your objective here is to decide on your buckets early, start to fill them, and manage the growth.

### **Five: Map Out the Decision Points and All the Possible Options**

You should know in advance what you are going to do in every instance. There are not going to be a lot of choices, but they should be predetermined. For example, when you get paid, what happens to the money that is not spent on necessities? Even penny should be accounted for. What happens if you don't get paid—where will the money come from? What happens if you are unable to work? If you get sick? If you get a bonus? If your investments perform better than you expected? If you have a child? If you retire? Draw a "decision tree" of life. Start where you are

now, and envision every possible scenario. See the attached chart as an example. Insure for the risk of things that will derail your plan.

### **Six: Erect Scaffolds**

Have you ever seen the way they build a building? After they create the foundation, they build a scaffold outside the walls the where the building will be. Then, they build the walls, as the walls get higher, they build the scaffold higher, until the building is shrouded in a scaffold. When the building is done, they take the scaffold down. While it is up, it allows them access to build the building. Your life is no different. The scaffolds of your life are your financial accounts, your investments, your will (which controls what happens when you die), your trusts (which controls who has access to your money), your power of attorney, living will, and designation of health care surrogate (all of which control who makes decisions when you cannot). You need this layer of protection to insure that your life goes the way you want it to go, even when things go horribly wrong.

### **Seven: Provide for “What If”**

Something is going to go wrong with your plans at some time. It may be a minor hiccup, or it may be a major setback. Each stage should have a well thought out “what if” scenario to give you the best possible chance to straighten things out. If it is hopeless, your “what if” should spell out what will be the least painful for you, and how to accomplish it.

### **Eight: Commitment and Passion**

If you pursue money just to have money, chances are that you will be unhappy, because you will never have enough money, and you won't know what to do with what you do have. If you engage in money making activities that are distasteful, or for which you have no enthusiasm, you will be unhappy, and the use to which you put the money may not bring you sufficient happiness to compensate for the misery of obtaining it. And if you confuse your worth as a person with the worth of your

financial assets, you are doomed to be miserable, because if you suffer a financial setback, you will perceived that your worth as a human being is diminished. Unless you are happy working for money to accomplish a worthwhile objective, you will be miserable in the process, and miserable in the outcome.

### **Nine: Form a Brain Trust**

Pick several people or sources who disagree with each other, and use them to get questions answered, bounce ideas off, and engage in discussions. The advent of the Internet means that there is a lot of advice out there, but most of it is no good. There is a low barrier to entry—anyone can put info out for the world to see. A lot of marketing/advertising is disguised as information, so these are not unbiased sources. Your parents are a good place to start, but remember, they are just one source of information, and their opinions reflect their own biases, and, unconsciously, they may wish to defend mistakes they made. You need enough varied input to be confident about your own decisions. A key indication of confidence is if you can explain clearly to someone else what you are doing, why you are doing it, what are the upside rewards and downside risks, and then respond to their questions/objections. Who you decide to trust is important—ideally, should shouldn't trust anyone, even yourself, unless you can explain what you believe clearly, so someone else understands it. Stay away from advisors who mislead, take up too much time, or don't get back to you. (It is okay for them to say they don't know, but will get back to you—the key is whether or not they do.) Make them explain things in their own words—anyone can hand you a preprinted brochure that someone else created. Don't be lured by SWAG and “free stuff.” It's pretty and memorable, but not substantive.

### **Ten: Remember Your Uniqueness**

You are a unique human being, with specific wants, needs, and financial circumstances. What works for someone else might not work for you. Financial success requires that your plans be customized for you.

## EXPENSIVE MISTAKES SMART PEOPLE MAKE

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### **1—Many smart people don't have a master plan.**

All their lives, they've been used to having a long-term plan. Kindergarten through 12<sup>th</sup> grade was mapped out. Four years of college followed by some sort of post-grad education was usually loosely envisioned early on. Details may have changed as education increased and interests evolved, but suddenly, in their mid-20's, all the planning stopped (except for doctors). The lucky ones found direction after their first few jobs, but most people respond to what comes along, as opposed to having a definite goal, and a path to get there. Professionally, this can work out. Opportunity, and being in the right place at the right time, can be beneficial. The reason is that you can build on changing environments, new contacts, and acquired expertise to move faster in your chosen direction than you initially anticipated. You can use changing facts on the ground to get ahead in different ways than you originally expected. Financially, lack of planning is a disaster. That's because the fundamental rules of finance do not change, and money compounds over time.

### **2—Many smart people live longer than their finances allow.**

They have figured out ways to afford retirement and old age. But their planning is based on average life spans, or 90% scenarios. This is fine if you are planning for a group, but if it is just you, or you and one other

person, it won't work. You cannot tolerate a 50% or even a 90% chance of having enough money for your entire life. You need to be 100% certain that your money will outlive you. And you can't plan on average, or most likely scenarios—you need to have plans in place for the worst possible outcome, because, for some people, that is what will happen, and that is precisely when you do not want to run out of money. The key is NOT planning a shorter life span—the key is planning sufficiently to provide for the longest possible life span.

How will you pay for retirement, in sickness or in health?

The average net worth of people approaching retirement is \$179,000, of which a substantial portion is not accessible, because it is tied up in the homes they live in. (Center for Retirement Research, Boston College, as reported in the New York Times, 9/15/12 “The Road to Retirement.”)

The average amount in retirement accounts in this group is about \$120,000. But considering that traditional pensions have almost disappeared from the private sector, and that less than half the households have 401k plans, and more than a third have no retirement coverage, most people are going to run out of money in retirement. IRA's were created in 1974. Prior to that time, people had social security, and some people had private pensions. Roth IRA's were created in 1997. Both are insufficiently funded by nearly everyone to support extended retirement. (Center for Retirement Research, *ibid.*)

### **3—Many smart people rely on the wrong people for information in the areas of finance where the risk is greatest.**

Parents and relatives, peers, pundits, product pushers, paid advertisements, people they work with, and passions (fads of the moment, etc.)—I call these resources the “P's.” With some exceptions, they should not be primary sources of information.

#### **4—Who is a “smart” person? If they are “smart,” why do they make so many mistakes, and get so confused?**

Most of us are pretty smart. We’ve had a lot of schooling. We can negotiate our way through life, figuring things out when we need to, researching answers to questions, sorting out information to determine what is useful and accurate (and what isn’t).

Along with other successful people, we are knowledgeable, competent, and highly qualified in our fields.

We like to deal professionally with people with similar qualities.

When presented with new challenges, we like to become educated before making decisions. When we need more information than we care to research, we like to be advised by knowledgeable, easy to understand, and unbiased peers.

We don’t like feeling manipulated, pressured or sold. When doing research, we look for useful information, not sales pitches.

We dislike making important decisions in fields in which we are not an expert.

There are two areas, however, in which we struggle: health (and weight and fitness), and finances.

And the reason we struggle is the same: there is so much information, and misinformation out there, most of it provided by people who are trying to sell us something so they make a profit at our expense. As a society, we first recognized this with tobacco products. They used to be sold with the promise that if we used them, our lives would be sexier, richer, more interesting, and that we would be more attractive as a result. Several decades ago, we rebelled, and everyone is now constantly made aware of the dreadful harm tobacco products do.

We are just now beginning to demand that the food, snack, beverage, and edibles industries stop using sophisticated marketing techniques to take advantage of us to sell us products and lifestyles that are unhealthy.

We have not yet made the same demands of the financial sector. Despite the appearance of overbearing regulation, the industry is rife with abuse. (I will go into specific things to watch out for later.)

But unlike food and fitness, sorting out the truth from the hype is not easy, because the financial world is complex—part by its nature, and part by design (so you can be taken advantage of by the unscrupulous). And because we are not comfortable in deciphering the math behind these products, we tend to lull ourselves into believing the sales pitches, especially when they have an aura of believability.

For instance, most people in the financial world have impressive sounding titles, and their business cards have a long list of miscellaneous capital letters bunched in groups of three or four, after their names. Have you ever Googled any of these abbreviations to see what they stand for? Do you know who issued these “degrees,” and what the qualifications to get them are? Many are issued by profit making companies that are also selling products. Some just indicate membership in a group, who only requirement is paying dues to join, and not having had a license to sell financial products revoked over a two or three year period. For titles and degrees where actual course work is required, and tests need to be passed, have you ever seen a textbook or a final exam? I have. I’ve sat in classes, and taken the tests. I’ve interacted with the other students. Some are bright. Some are ethical. Some have competence in their fields. But not many.

Do you know the real reason most financial professionals load their business cards with a lot of designations and titles? There are two: it impresses the client, and scares the competition. If I go into someone’s office, and see another person’s business card on my potential client’s

desk, and the number of designations on that card is greater than the number on mine, it is supposed to scare me off.

So how do you could find a financial professional to speak to who is knowledgeable, trustworthy, ethical, unbiased, and willing to spend time with you explaining things, and who will put your interests first?

Good luck to you!

Is the solution to find highly educated, trustworthy people whom you can hire for a fee to give you advice? This works well with many attorneys and accountants, and is a model that some financial professionals embrace as well. But financial professionals may offer you a selection of products created by insurance companies and financial institutions, where compensation is included in the price. So while you can pay a fee for advice, if you end up buying products (which is usually the case), a non-negotiable fee is built in as well.

The real challenge is to find someone that you can agree to work with, either on a reasonable fee basis, commission basis, or combination of the two, who is knowledgeable, listens to you so your needs are clearly understood, has the time to answer questions and look for satisfactory solutions. You also want someone who knows about the products that have the lowest expenses (like commissions and advertising), and which are not heavily advertised, so your costs will be lower.

Like I said before, good luck to you!

Since you've already met plenty of people who do not fit this description, I invite you to interview me, to see if I do. I did my undergraduate work at Princeton University, and graduated with honors, and earned my MBA at the very prestigious Wharton School of Finance of the University of Pennsylvania (but actually learned finances primarily through on the job training over the subsequent 40 years through various businesses that I owned or operated). My real credibility is that I

have lived and worked in my current community for over 35 years, and have been involved in numerous philanthropic and non-profit Boards. I have created, operated, and sold numerous businesses of my own, and I am well acquainted with the needs and concerns of business owners and professionals. I have written about financial matters, and would be pleased to send you my books and publications. I have an excellent reputation for business acumen, integrity, ethics, and caring. In short, I've spent all my life preparing to work with people like you, so that when you make decisions that will affect you years down the road, you will know that you have made good decisions.

## **5—Credentials and reputation aside, why listen to me?**

I recently got an email from a writer for Reuters that started like this:

"I'm doing a piece for Reuters on what savers expect in returns going forward. Do you have a few minutes on Monday to chat?" He was someone I had not spoken to before, but he had seen a short piece I was interviewed for on CNBC, and I was happy to speak to him.

It turns out that the story he was writing is bigger than he let on. He has two young children (under 5), and what he really wanted to know is:

"How are people planning for retirement, after the debacle in the economy and the stock market over the past decade? Will we ever be able to retire comfortably after what we've been through, and with earnings the way they are?"

He wanted to speak to someone a generation older than himself (which describes me), and he wanted to come up with answers that would give people my age hope, and people like him a strong sense of what to do to avoid becoming the poster children of the next financial meltdown. (Yes, Virginia, there will be another financial crisis in the coming years. There always is one, and there always will be another. But you can shield yourself from its deleterious effects by acting prudently now.)

I'm a good person to speak to about this, in part because I do not work alone. My partner is my wife, Nancy, who, along with allied associates, put our decades of experience together under our "Synergix" brand.

We have 40+ years in personal, business, and financial consulting with insurance and other financial products. Nancy told a recent interviewer: "We're focusing on the complete picture. We found, over the years, that we need to work with everything, and not just individual pieces. You define success, and we provide the knowledge you need to get there, either on your own, or with us. I bring my MA in Marriage and Family Therapy, and Louis brings his Princeton and Wharton credentials, and extensive business history. It is a shame that people run out of money before they die. It is happening all too frequently. But it does not have to be that way. It is easy enough to plan ahead."

Have the following thoughts ever crossed your mind?

- "I hate dealing with insurance people. I don't know enough about the products they sell to make an intelligent evaluation of what is right for me. How can I make a smart decision in this environment?"
- "Why does every insurance salesperson seem to have a better, less expensive, product than the one I bought last year from someone else, and why wasn't I offered it then?"
- "Why does all the "educational" information also try to sell me a product? How does anyone what know what products, if any, are appropriate for me, until they get to know me, and my situation?"
- "How do I get the least expensive product, which pays the lowest commission to the sales agent, so more of my premium dollars go to work for me?"
- "The numbers don't seem to work. They sound too good to be true. There's got to be something I'm missing."

Have you ever witnessed something so horrible that your mind prevented you from fully processing the meaning of what you saw?

Nancy was headed up the Beech Mountain a few summers ago, while I was home working. The road up Beech Mountain is very steep—the government won't let you make roads this steep any more—and it twists and turns for about 3 miles as you climb. Our Ford Escape is definitely the wrong car to be driving—it has very little power, and on some stretches you feel like getting out and pushing it to help it up the mountain. Coming down is worse—you need to be in first or second gear the whole way, and even then, you need to apply the brakes at nearly every turn. It is easy to spot the tourists—the smell of burning brake pads gives them away.

No matter how often you make the trip, you need to be vigilant—you may have thought you memorized the various curves, but each time you go up, it seems like the first time.

One day in July, about half way up, a truck came barreling down, half on the road, and half in the bushes alongside it. It seemed like the driver was trying to get it under control. It reminded Nancy of the runaway truck lanes on the interstate in the area—portions of the highway on a steep descent that have unpaved dirt ramps going uphill—where trucks that have burned through their brakes can coast to a safe stop. But this road doesn't have anything like that—a runaway truck will crash into the bushes, or a house, or whatever is at the bottom of the hill.

Before Nancy could contemplate the oddity of the half out of control large flatbed that she passed, she came upon another scene, on the right hand side of the road. A car with a broken windshield sat in the ditch, and a limp rag doll the size of a man hung out the window. It wore a bright pink shirt, and a red scarf. "How odd," she thought, but really couldn't take more than a glimpse before her attention was drawn to a few other cars on the side of the road, and three people running. "Oh," she thought, "maybe it's an accident." She asked one of the people running if she could help, but was told that help had been called. She continued up the mountain, passing a few screaming police cars on their way down.

Several days later, she heard reports of what had happened. The flat-bed had been carrying two cars, and a frayed cable broke due to the strain of the twisting back and forth at every turn. The cars fell off the side on one turn, and one crashed into a car coming up the mountain, smashing the windshield and forcing it into the ditch, killing the driver instantly. The second car just bounced off the side of the road, missing the next car on its way up the mountain. Nancy was just a bit behind.

Nancy told me the story calmly, as if updating me on local goings on, and without the sense that she was a participant. She recounted it as if she had seen it on the news, and not live. That's when I realized how powerful her subconscious was in protecting her. "Don't you realize," I asked, "that you were the next car in line? Didn't it occur to you that if you had been fifteen seconds earlier, or in a slightly faster car (which might have allowed you to pass one or two slow vehicles on the way up, as many people, impatient to be behind a Ford Escape, often do), it would have been you hanging limply out the side?" She hadn't, of course. Her subconscious mind had pushed the horrible implications into a different part of the brain. (I didn't even tell her, then, that at the time this all happened, I had a completed life insurance application on her sitting on my desk, waiting for funds to clear before I mailed it in with a check. It was the last piece in our estate planning process that remained to be completed.)

That's when it occurred to me that I needed to reach out again to the community at large. Previously, I had written the well-received "Financial Fitness Handbook." One of the things I've become more and more aware of is just how compartmentalized financial information is within families. Generally, one spouse knows everything, and the other, little, or nothing. And generally, it's the spouse that lives the longest who is clueless. Which means that on the loss of their partner, they suffer the double blow of suddenly being single, and not having any idea what their financial situation is.

For young people, who are either single or just thinking of getting into relationships, there are not a lot of sources of understandable,

advertising-free, unbiased information. Parents are often not the place they go to for advice, in part because money hasn't been discussed before, or because they have not been impressed with their parents' financial acumen.

Many people nearing retirement age, or getting within fifteen years of retirement, went into the turn of the century confident that their portfolios would continue to grow, and that the plans they have made in the decades prior, to fund their IRAs and 401ks, and live off the growth and income that they would provide, would be sufficient to pay for their retirement. The first decade of the 21st century came as a rude shock to most of these people. The stock market tanked, housing values soared, then imploded, companies defaulted on their pensions, and the fraud and greed in the investment and banking community, which had enriched a few at the expense of many, was exposed. People lost savings, homes, and confidence in the financial system. For many, their working years needed to be forcibly extended, by a decade or more, in an effort to replenish their retirement accounts. And for those who did not have the option to continue working, retirement meant living at a level well below their expectations. While the stock market rebounded to new highs by the end of 2013, for many investors, it was too late.

How could this have been avoided? What learning comes out of this, that is of benefit to you? Throughout the years, the stock market has had its ups and downs, and always will—it's the nature of the beast. And fraud and chicanery will always exist, as long as there is money to be made.

But you don't have to be a victim of circumstances. You can protect yourself. You do this by diversifying your assets. Here's how: Think of your retirement funds as several distinct pools of assets. The imagery I like to use is a group of buckets, each one filled with a different asset. I mentioned this in previous chapters, but let's look at this concept now in detail.

The first three buckets are the ones most people are familiar with when they think of retirement and financial security.

The first bucket is Social Security. Social Security is backed by the government, and despite the attempts of so-called financial experts on television (who really have few credentials, and who strive for controversy and ratings, and whose main goal is get viewers by scaring people), Social Security is solid. It will be there for you, in some form or another, when you retire, as a secure base for your retirement income.

Another bucket is your big, long term investments— real estate, collectibles, businesses, loans you’ve made to people. It is something that will go up and down in value, depending on circumstances, and may even go bad.

The third bucket is your IRA, 401k, 403b, or other tax deferred retirement account that is invested in stocks and bonds.

The bucket that many people are not aware of, but which can be the most important bucket, is cash value life insurance.

Let’s take the analogy further, and look at two buckets. (I’m ignoring social security for now, because you have little control over it, and it is supplemental, not primary, to your retirement picture.) Assume that there is \$100 in the IRA bucket, and \$100 in the investment bucket, and you need \$8 a year to live on (in addition to what you get from Social Security), so you intend to take \$4 from each bucket. That is your retirement income—4% of these assets every year. So let’s say that your IRA grows 4% every year, or \$4, and you take out \$4 every year, leaving you with \$100 in the bucket at the end of the year. If this goes on year after year, no problem! You’ll always have between \$100 and \$104 in the bucket, and this bucket will never become empty. But let’s say one year, the market was down 8%, leaving only \$92 in the bucket, and you took out \$4 to spend on your retirement. So you start the next year with \$88. If something similar happens next year (the market is down 8% a second year in a row, which is not unheard of), and you still take out \$4 to live on, now you are

down to \$77 (\$88 less the 8% decline, which is \$81, less the \$4 you took out.) By the end of the third year, you need to get the \$77 back up to \$104, in order to be able to safely take out the \$4 you need, and restore the bucket to the \$100 you started with. In terms of percentages, to go from \$76 to \$104, the market needs to be up 35%! That’s tough to do. A few bad years, and if you keep dipping into the bucket, it will soon be empty.

If the same thing happens with your investment bucket, you are really in trouble.

The beauty is that everything is not in one bucket. You still have the Social Security, which will grow slowly, and be reliable. But as we all know, you may not always be able to take money out of real estate, businesses, etc. – these a long term investments that can provide big returns, but are not always liquid. That is where the cash value whole life insurance gets used. When you cannot go into your other investments because market conditions are not right, cash value life insurance is the way to go.

## THE 8 MOST COMMON INSURANCE MISTAKES PEOPLE MAKE

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### **Mistake #1: People confuse “life” insurance with “death” insurance.**

**D**eath insurance pays you a benefit when you are dead. This is also known as term insurance. Permanent insurance is “life” insurance—it provides financial benefits while you are alive, via loans or withdrawals. It lets you spend your money while you are alive. When you die, the death benefit replaces the money you’ve borrowed, and your heirs keep the rest.

Term insurance is insurance that pays a death benefit in the event you die during the period, or term, that the insurance is in force. For example, a term policy of \$50,000 for 10 years would pay your beneficiary \$50,000 in the event you die anywhere in the period between when the policy becomes effective (generally the date you apply for insurance, or the date you are approved by the insurance company) and ten years from that date. If you have a policy that became effective 10/1/2009 for ten years, it would cover you for the period up to 10/1/2019. If you become ill on 9/20/2019 and die on 10/4/2019, you collect nothing. If you are healthy until you die on 10/2/2019, you collect nothing. You need to die during the term of the insurance to collect.

Also, the insurance is in effect only as long as you pay the premiums during the term of the insurance. (If you stop paying, your coverage ceases.) Term policies do not have a cash value, or reserve, to cover

future premiums. Everything you pay in the way of premium goes to cover the cost of the insurance. It does not build value over time, and is only in force as long as you keep it in force. It is the form of insurance needing the smallest cash outlay.

If you wish to continue the insurance at the end of the term, there may be a provision to do so, but the rate will be astronomically high—it will reflect the estimates from ten or twenty years ago (whenever you took out the policy) of what they thought the rate would be for someone 10 or 20 years older. Since more recent term insurance policies have had a lower cost of insurance than older policies, it you would probably get a better rate by just applying for a new policy (assuming you were healthy enough to qualify). Term insurance has a lower premium than permanent, but before you buy it, you need to be sure that:

- you won’t need it for longer than the term covered, and
- you invest the between the term and whole life premium so you get at least as good a return as you would get with a permanent policy (see below).

Permanent insurance is a term used to describe a broad range of other types of policies. Despite its name, it is only permanent as long as there are funds available to pay the cost of insurance; it will lapse when the funds you’ve paid in, plus the dividends you’ve earned, run out.

If it is properly funded, it sticks around until you actually die, so your heirs always collect the death benefit. That is why it is called permanent. It also builds cash value over time. This is why I call it “life and death” insurance. If you decide you don’t want the policy anymore, you can cash it in and get the cash value.

You also can keep the policy active, and borrow against the cash value. Pay premiums for a long enough period of time, and you’ll have a pile of money you can use, tax-free, to spend any way you wish, to enhance your life. After a while, you don’t even need to pay premiums—you can

use the dividend to pay the premiums. It will grow more slowly, but you'll still have cash value, and the death benefit when you die.

Money for living, plus money at death.

It is designed to last until you die. (Whether or not it lasts depends on how well it was designed, and how well the investment portion of the policy performs.) A portion of the premium you pay is used to pay the cost of insurance (which is what the premium of a term policy would be used for). The balance of the premium is invested by the insurance company, and builds a value that you have access to. Each year, a portion of the premium you pay in that year goes to cover the cost of insurance, and the rest gets added to the investment pool.

Ideally, over time, this invested portion grows significantly.

At some point in time, the annual cost of insurance will have increased so that it is greater than the premium you are paying. At that time, the difference is taken from the invested portion. If the growth in the invested portion increases greater than the amount that is taken out to cover the premium, the investment will continue to grow. If not, the investment will gradually decrease.

There are many variations on this type of life insurance. In the 1990's everyone got excited about variable life insurance, and universal life insurance. Most people who bought variable are sorry—it did not live up to its expectations. Universal has some good attributes, and is appropriate for some situations, but I usually stay away from it. (One notable exception is certain policies used as a substitute for long term care insurance, but there are very few of these. See the chapter on retirement for details.) My preference is for cash value whole life insurance, purchased from a mutual life insurance company, which offers competitive premiums, and a strong dividend paying history. Properly illustrated and funded, they are guaranteed to last until you die.

In my opinion, it is the best value for your money. I own a lot of it.

**Mistake #2: Death insurance is expensive (but looks cheap) and is usually a waste of money.**

Term insurance (death insurance) has a lower annual premium than permanent insurance. That's why it looks cheap. It actually makes sense in some cases, such as when you don't have any cash, and you need insurance for a short period of time for a specific purpose. But most term insurance policies never pay out a claim. People either drop the policy, or live too long. That's why insurance companies love them—they are pure profit. The reason term insurance ends up being expensive is that you are just throwing the money away. Plus, the money you spent could have been growing for you in an investment. So there is an opportunity cost. You could have been making money with the premiums you paid.

Properly planned permanent insurance will cause you to pay more out of pocket each year than term will, but eventually it can pay you back every penny you put in, with interest, while you are alive, plus, leave a substantial sum to your heirs on your death. In other words, you can make money with permanent insurance. And since everyone dies eventually, properly designed policies always pay out, as long as you keep it going.

**Mistake #3: Most people insure themselves against the losses that are least likely to occur, and don't insure against the most likely losses. And they wait too long to get the right insurance.**

What type of insurance policies do you have? Most likely, you have automobile insurance. But the odds of getting into anything bigger than a fender bender are low. You probably have homeowner's insurance or renter's insurance, but the odds of your home burning down, or all your possessions stolen, are extremely low. You most likely have health insurance, but the chances of a major hospitalization are small.

So what is likely? Chances are high that you will be unable to work at some point in your life, due to a temporary or permanent disability. But very few people have disability insurance.

Chances are greater than 40% for men and 60% for women that you will need some form of long-term care in your old age, but most people don't have long-term care insurance.

And there is a 100% chance that you will die, sometime.

But most people who die don't have permanent life insurance.

Why would you spend money to protect yourself from something that is not likely to occur, and not spend money for something that is much more likely to occur, or for something that will certainly occur?

When people finally figure out the correct insurance to get, they have generally already wasted decades.

They've lost the chance to have their money compound for a long period of time, and the insurance component of their premium, as compared to the investment component, is high.

For example, I recently wrote policies on a 15 year old male child and a 44 year old female parent. The policies were for the same amount of coverage. His premium was \$2,500 a year. Hers was \$7,600 a year. Both had the same cash values in 30 years. She just committed to spending the difference in the two premiums (\$4,600 a year) for 30 years, or \$127,000 extra, to get the same result in cash value and insurance coverage. That's because she waited to buy until she was in her mid-forties.

Everybody asks me when the proper time to buy long term care insurance is. The answer is: ideally, you want to buy it one day before you qualify for benefits, while you are healthy enough to still get coverage at a good rate. Obviously, I'm being facetious, but it shows why there is no correct answer to that question. You can buy it while you are very young, and pay premiums for years with little likelihood of needing the coverage before you are 65, or you can wait until your early 50's, when the annual cost of waiting starts to sharply increase.

But there's a danger to waiting. Everyone forgets this: by your early 50's, you've probably been to the doctor sufficient times, and have had enough tests run, so that are indicators of what your health will be down the road. You already know your blood pressure and cholesterol levels. You've had a colonoscopy. You've done a stress test. If you're susceptible to kidney stones, you know it. And because insurance companies get to see your medical records, they know the same things you do. And more. Remember, when people are being evaluated for long-term care, the insurance company doesn't look to see if you will die young or old, as they do with life insurance. They only care about one thing: how poor will your health be in the years preceding your death, and how long will you linger in poor health? I have a booklet one insurance company publishes, which list 426 possible ailments. If your medical records contain a diagnosis of any of 168 of these diseases, they will not write you a long-term care insurance policy. Now some of these diseases are extremely rare, so it is not exactly a 1/3 chance that you will be uninsurable, but there also are another hundred or so diseases that make the cost of insurance go up. By waiting, you increase the chances that you will not be insurable, or insurable only at a higher price. The booklet also lists 308 medications. If you take one or more of 84 of them, you're also uninsurable by some companies.

Usually, we can find some insurance, at any age, but it may be limited in coverage, or more than you want to pay.

Don't wait to buy insurance for what is likely or certain to occur. Plan now, when insurance is less expensive, and obtainable.

#### **Mistake #4: Most people don't understand the insurance they buy.**

They did not ask the right questions, and the sales person did not tell them the right questions to ask. Make sure that you understand what you are buying, and that it is clearly explained to you. If the salesperson cannot explain the policy to you, get a different salesperson. If you cannot

find what you are told in print, or you do not understand what you are reading, and it cannot be explained to you, return the policy, and get a different policy, a different salesperson, or both.

**Mistake #5: Nobody reads the sales literature and the policy. Be the exception. Avoid free meals.**

I don't know why people don't read the sales literature and the insurance policies. It is all written out in plain English, with lots of examples. Insurance is one of the most highly regulated industries in the U.S. You have to sign a lot of documents before you get a policy. Everything has to be clearly explained in writing. You never have to rely on anything that is not in writing.

If people read the sales literature and policies, and made the salesperson explain clearly everything they did not understand, fewer people would end up with the wrong policies. If people made a point of not listening to anything they were told, and just read the sales material and policies, they wouldn't make mistakes. If your salesperson can't explain the sales material to you, or find someone who can—work with a different salesperson.

How do you know if you understand correctly what you've bought? Repeat it to someone else—a friend, a spouse, a co-worker. If they understand what you say, you're okay.

I live in Miami. It's the senior citizen capital of the world, and the scam capital of the world. It's the home of the early bird meal. It is still the only place in the world where Sweet 'n Low packets are available only by request, because if they were left on the tables, they'd be pocketed by thrifty diners. It's the only major city where \$1 admission movie theaters, which sell tokens to put in turnstiles to admit patrons to the theater, are plagued by an epidemic of slugs, used by patrons who are trying to see a movie for less than a buck. FREE is the most compelling sales pitch, and the only people cleverer than those who take advantage

of FREE things are those who use FREE to ensnare and scam the less than fully wary. I am constantly being offered free meals to listen to financial sales pitches.

I found the following information on-line, as part of a press release being issued by a law firm. I don't know what their source is, but the information could be true:

“A recent investigation by the SEC of 110 “free lunch” seminars found...deficiency letters or letters of caution were sent to 78% of the investment firms...23%...are under review for possible further investigation by ...SEC.”

No surprise.

In and of themselves, free meals are not bad. You can learn things. You might even enjoy the meal (but not the persistent post-meal phone calls). But you won't get investment advice that is right for you, during the meal.

Here's why: What you will be presented with is generic advice, which touts the investments that are the most profitable to the sellers. What you need is something tailored to your specific needs. There's no “one size fits all” in financial products. There's an old saying that you have two ears and one mouth, and two eyes and one heart. Two ears and one mouth means that you should listen twice as much as you talk. At these free seminars, you don't get to talk at all, and no one is listening to you. Two eyes and one heart means that you should use one eye to see the goodness in others, and the other the faults in yourself. Too often you meet people who use one to see the faults in you, and the other to see the opportunities they have to sell you something inappropriate for you, but profitable for them.

You don't need free meals to get information. You have the Internet. Check out anything you want to know online.

**Mistake #6: People pay premiums monthly.**

This is foolish. The additional charge for paying monthly instead of annually can range from 5% to 20% a year, or higher.

Why would you want to pay crazy interest rates like that? It is almost always going to be less expensive for you to borrow money someplace else, and pay premiums annually. Not sure how much your monthly premiums are costing you? Read the policy. It is stated explicitly in there. Don't have enough money to pay the annual premium all at once? You need to beg, borrow, or scrape the funds together. Then, the next month, put one-twelfth of the annual premium in a savings account, and do the same every month. Forget it is there. Never take any money from that account, except when you get your premium notice. This way, you'll have the next premium when it is due, and you can start the process all over again.

**Mistake #7: Most people set up their retirement plans so that they'll run out of money before they die.**

Not on purpose, of course. They just don't think it through. If you retire in your mid-sixties, you need to plan on 25-35 years of retirement income. Of that time period, last few years will have an additional expense associated with it, for assistance with the routine tasks of daily living. You may need to have someone coming into your home for a few hours a week or day, or you may be going to an adult day care center, or you may permanently relocate to an assisted facility or nursing home. It will most likely start out with occasional help, building to full-time as you age. In today's dollars, it could easily run \$4,000 to \$8,000 a month extra (for full-time care).

Most people don't plan for any of this. Because it is not pleasant to think about. But the future is going to happen, whether you plan for it or not. The only difference will be your lifestyle.

Much of this book is devoted to preparing for retirement, and long term care. Read it.

**Mistake #8: People complain about taxes, but ignore the opportunities to avoid taxes, legally.**

There are three ways to handle taxes: now, later, or never. "Now" means income taxes, sales taxes, excise taxes (gasoline, tobacco, alcohol, etc.) No way to avoid these, unless you can defer some of the income taxes.

"Later" refers to deferred taxes—income put into an IRA or a retirement account, reinvested proceeds of a sale, growth in an annuity, etc. You hope that you'll be in a lower tax bracket when you need to pay taxes on this income.

"Never" is income that you get tax-free, like the proceeds on life insurance payouts. Or the cash accumulation in life insurance policies that you borrow out.

Want a hint on the best way to deal with taxes? Think about this: Six of the largest U.S. banks report that they have more money invested in life insurance than they do in branches, real estate, fixed assets, etc. Because they know that they are going to make more money on the payout of life insurance on key employees, tax-free, than they will on any other asset. (Source: Medical Economics, June 19, 2009.) Life insurance can play an important part of your program for financial security, wealth preservation, and retirement. It is mentioned in nearly every chapter in this book. Read about it. Whole life insurance with cash value is the best way to earn money tax free, legally, with certainty. Learn about it.

**Summary: How do you avoid making these mistakes?**

The insurance world is complex, obscure, and hard to understand.

A good agent has a solid team behind him or her—good companies, strong staff support, excellent resources to call on. The plan your brother-in-law bought will most likely not work for you. You need to work with someone who understands your particular situation. You need to work with someone who can talk clearly about the different types of products, and why they are or are not appropriate for you. You need to work with

someone who is comfortable working with all your other financial advisors. You are only going to get one shot to set up a good plan that will fund your lifestyle for as long as you live. Most likely, you'll want the best advice you can get. You can buy the same insurance and other assets from anyone, at the same prices. What you cannot shop is the expertise, the integrity, and the level of care that the top advisors provide.

If you do want to use a financial advisor, give them the information they need to customize a proposal for you. Make them back it up with data. Then check out the answers on the Internet. Get someone else to review the proposal and pick it apart. Make the advisor explain it to you in his or her own words, without referring to the sales literature. You'll quickly determine who you want your advisor to be.

Also, don't hesitate to ask the advisor what they are being paid on any product they sell you. Don't be alarmed by high numbers—financial products pay high commissions and fees. It takes a huge amount of time for a financial advisor to learn about the products available, stay current with the market, plan for your needs, and put the right plans in place. Do be alarmed when the salesperson cannot explain why the product is good for you despite the fees. I tell my clients that the best product for them to buy is usually the least rewarding one for me to sell, because when I make less, more of their premium goes to work for them.

Obviously, the conflict between what is best for the client and what benefits the advisor most has the potential for bad results with the ethically challenged salesperson. Some people try to avoid this by getting advice from an advisor who is compensated by a flat fee, and not a commission, and buying the products elsewhere. That can work. But if you go that route, you are still going to buy a product in the end from someone who earns a commission, so you need to get both a good fee-based advisor, and a properly motivated salesperson. You still also need to avoid uneducated or unethical commission based salespeople.

The real solution is to know who you are buying from, and getting clear answers to your questions.

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## TWELVE WAYS TO EVALUATE THE PEOPLE TRYING TO SELL YOU FINANCIAL PRODUCTS (AND HOW TO DETERMINE IF YOU SHOULD PAY ATTENTION TO ANYTHING I WRITE.)

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There are 12 qualities to look for in a financial advisor, but there is one word that sums them all up, and that word is "humility." Humility means being upfront in telling you that they do not know everything, and that they will not have solutions until they get to know you, your situation, and your needs, and until they have a chance to research the issues, and consult with others. When you ask questions of a potential advisor, the response you are looking for, more than half the time, should be "I don't know; let me find out and get back to you." Then, when they do get back to you, more than half the time, when you have follow up questions, the answer you are looking for is "I don't know; let me find out and get back to you."

If, instead, you always hear immediate responses, you are dealing with a salesperson, and not an advisor. The difference is that a salesperson has been trained to listen for certain words, and spit out a canned answer. It is almost like the caged lab monkey, who is trained to hit a lever to get a piece of fruit every time the light flashes. Except that the monkey gets to eat the fruit, and you don't get anything.

**Quality #1: The ability to listen.**

Your situation is unique. Describe it to your potential advisor. Tell him or her what your needs are. Know your goals. Can he or she repeat it back to you, without notes? If not, find a different advisor—this one isn't listening. Does the sales person know anything about you—family, future, financial responsibilities (now or in the future), real needs, how what he or she offering fits into your overall financial picture? If you haven't spent a lot of time answering a lot of personal and financial questions, the answer is "no," and you are not getting advice tailored to you. If your first meeting ends with a recommendation based on a proposal prepared before you met, the salesperson either has brilliant insight, has guessed correctly, or is just trying to sell you whatever is convenient for him or her. If you are not comfortable giving the salesperson the info he or she needs to know, then why are you talking to that person? (Sure, you may want to speak to numerous people to ask questions about products in general, or determine if you are comfortable, and that is fine. Just make sure that when a product is offered, you've reached a stage when substantial knowledge is exchanged, and you are extremely comfortable.)

**Quality #2: The ability to communicate clearly.**

Repeat back your understanding of what you are being told. Make your advisor explain the abbreviations to you. Make sure you understand what they stand for, and how concepts apply to you. "Too good to be true" usually is—remember, highly sophisticated people fell for Ponzi schemes and the collateralized debt obligations (CDO's) that sunk Lehman Brothers and major banks. Most people who sold CDO's did not understand them. Read any of the books about the collapse of 2008, most notably Barry Dyke's "The Pirates of Manhattan," to see just how frighteningly ignorant the greedy and overpaid salespeople/con artists who ran major funds and banks were. They did not know about what they were buying and selling. Don't stop there—go back and read about the tulip bulb craze of the 1620's in Holland. Put the two together, and you'll see that in 400 years, nothing has changed:

clever people who are willing to take advantage of others can always find someone gullible.

Read tomorrow's newspaper. There will be headlines about financial fraud and schemes. There always is.

**Quality #3: The ability to see you as an individual.**

Your financial situation and your goals are unique to you. How customized is the proposed solution that is presented to you? How well does each piece address your needs?

**Quality #4: Competency, and intelligence.**

Check references. Who does the person work with? What is his or her reputation? What are his or her strengths? What do all the letters after his or her name mean? Google each one—if he or she is boasting credentials that require just membership in an organization, and no experience or qualifying education, be suspicious. (Mary L. Shapiro, when she was the CEO of FINRA—a government group responsible for regulating the financial industry—said on 9/10/2007 about a pending regulatory action: "The first sweep is aimed at the use of inflated or meaningless titles by advisers who are seeking to lure seniors into thinking they are experts in retirement planning. The use of so-called professional designations is becoming an increasingly common device used to open an account. The unfortunate truth is that seniors can be susceptible to these tactics. Our research shows that some seniors are more likely to listen to pitches from people with such designations.... The unfortunate fact is that some designations can be obtained by simply paying membership dues to an organization with an impressive sounding name. Too many times these designations mean absolutely nothing. Seniors put their trust in these individuals and are led down a path of financial ruin.")

**Quality #5: Connectivity.**

Who does your advisor go to for advice? No advisor can know everything—the key is knowing where to go to learn what is right for you.

Who are his or her advisors? If your advisor cannot call on a wide range of experts to fashion a solution for you, it means he or she is regularly selling a small set of products that he or she knows well, and is not open to spending time to learn what is best for you. Can he or she run through a “what if” scenario with you? Provide reasonable projections of your financial trajectory? Summarize recommendations clearly? Or is it a hodge-podge?

**Quality #6: Concern.**

This is my biggest area of annoyance. Too many advisors are sales motivated—find the client, present a product, make the sale, collect the commission, move on. You need to flip this around. It’s your money, and your future. The commission payout of most products is huge. Your advisor has to be looking at your situation from your perspective. He or she is being well compensated. There is only one chance to get it right. You’ll never have a chance to go back thirty years and begin your earning experience over again. If an advisor implies that you are taking up too much time, or asking too many questions, or looking for too many quotes, then it’s not a right fit for either of you. Leave.

**Quality #7: Compatibility.**

Unless you share similar values, it’s hard for your advisor to get on your wavelength. I’m not talking about sharing hobbies, or even community involvement. What I am speaking about is those values that lead to hobbies and community involvement. Priorities, ethics, the role each of you plays in the community. You are talking about plans that will shape your life, and your children’s lives. Don’t you want to do this with someone who has the same values as you?

**Quality #8: Confidentiality.**

Are you being told things about other clients that you would not want other people to know about you? If so, leave. When you go to your advisor’s

office, are other client files readily visible? When you view files on your advisor’s computer, do you end up glimpsing information about other clients?

**Quality #9: Follow through.**

Does your advisor follow through when promised, in a reasonable timeframe? Don’t expect immediate answers—developing recommendations can take time, and you are one of several clients. But your advisor needs to be able to acknowledge your inquiries, respect your time horizons, and follow through on delivering information when promised. If he or she doesn’t, leave. That person is either too busy for you, or you are not important enough for him or her. Either way, it’s a bad fit for you.

No advisor will hit 100%—I try hard for my clients, but some of them don’t get the attention they need, and go elsewhere, even if we are a good fit. It’s just that sometimes I get overwhelmed. But usually, I follow through. I’ve rescued many policies that clients forgot to pay attention to, pushed others to take needed action, and proactively looked for ways to save them money.

An insurance agent complained to a potential client of mine: “You can’t keep re-evaluating your policies every year. It is taking too much of my time.” This is ridiculous. Your policies may not be performing as advertised, there may be newer, more appropriate products for you, or your situation may have changed. Would a doctor tell you not to repeat a blood test because you just did one a year ago? If your agent won’t do an annual review, find a new agent.

**Quality #10: Commitment to work on your behalf, and not on in the interests of their own profit or an insurance company’s profit.**

An agent boasts: “I’m not beholden to any insurance company—I can sell a policy from anyone I want.” Yet their business card had an insurance company’s name on it. What is up with that?

There are three types of agents: captive agents, career agents, and independent agents. A captive agent only sells the product of one company, irrespective of whether or not it is the best policy for the customer. (If their company does not offer a particular policy, they may be allowed to sell someone else's policy, but they are pushed to sell a proprietary product.) You only want to work with a captive agent if you are already committed to buying a policy from that company.

A career agent aligns himself with one company, from which he may receive benefits, such as health insurance, profit sharing, etc., but can sell almost any company's policies. The advantage of working with such an agent is that you have access to a diverse range of products. The disadvantage may be that there is still a push to sell proprietary products—it varies by company. Don't hesitate to ask the agent you are working with exactly how they benefit from their affiliation.

An independent agent has the greatest freedom. They might not have access to all products, because a few insurance companies still make their products available only through captive or career agents. The drawback to an independent agent is that because they are not part of a strong system pushing out information and updates, they have to have a lot of experience, know where to look for products, have a good network of sources for various products, know when to cooperate with other agents who have specialized knowledge, and they have to constantly be learning about market changes. These type of agents, especially ones with experience, are rare. But they are worth finding.

Are you seeing a presentation from more than one company (manufacturer)? Spoiler alert!—No one company has the best product in all categories of products, and subtle (and not so subtle) but important differences exist between products from different manufactures, but which have similar names. You **MUST** look at more than one carrier, and be told the difference.

Why do these products make sense for you? Are the assumptions explained, and are they reasonable?

What will the salesperson make from the sale, and who employs him or her? Salespeople can be captive, independent, or hybrid. "Captive" means they work directly for an insurance company or financial services firm, and can only sell products manufactured by that firm, or approved for sale by that firm. All of the big name institutions, and several of the largest insurance companies fit this description. Part of the reason is that the institution is on the line for damages resulting from the agent's work, and wishes to control what is offered to products they are comfortable with. Another reason is that manufacturers of products pay the institution an override on what the salesperson earns. Or the institution may manufacture its own products, or hold products purchased from others in inventory. These last two reason gives the institution, and the salesperson, an incentive to push certain products for their own gain. Compensation can be structured to make it beneficial for a salesperson to sell certain products over others. "Independent" means that the salesperson is free to sell any product for any manufacturer willing to pay a commission. (Some manufacturers may have annual minimums required of the salesperson, or may award incentive prizes or extra pay for selling more that minimum requirements.) "Hybrid" someone who has a primary relationship with one or companies that provide for health benefits, deferred compensation, retirement plans, or marketing support in return for selling a certain amount of their product, but has no control over what else the salesperson can sell. And just to make matters more confusing, some agents are described as "independent" but are in fact subject to the same restrictions as captives. I call these people "highly brand aligned." If the salesperson's business card has the name of a financial institution on it, there are either captive, or highly brand aligned.

### **Quality #11: The ability to analyze existing policies.**

You know how periodically you look at your cell phone or cable bill and wonder "Can I get a better deal?" You call the company, and find that, indeed, you can get a better price for the exact same services, because prices have come down, or there is a promotion, or you can benefit from a different package, etc.?

You can do the same thing with life insurance.

I find that when I review existing life insurance policies, even policies that are number of years old, I can often make a few phone calls and find another carrier who can write an identical policy, with the same coverage, for less. (Sometimes I don't even need to change insurance companies.) There's no risk to you—you don't cancel the older policy until you are approved for the new one—and there is no fee or premium to be paid before you are approved.

It adds up—\$300, \$400, or \$500 on a \$1200 premium every year means saving \$3,000 to \$15,000 over the next ten to thirty years.

If you want to know why this happens, I'll need more space than I have here to explain it, because there are different reasons for each policy. In some cases, it is because the original policy was not the lowest rate available at the time it was taken out, but often, even if it was, it may not be the lowest now. Insurance companies are eager for business, and some set prices lower than others to get business.

In other cases, favorable experience has led them to lower rates.

Some companies also pay lower commissions to people like me, and pass the savings on to you, but the goal is to get you the lowest price, and not to get me the highest commission.

### **Quality #12: Strong Ethical Commitment**

The pressure on agents to put their own interests ahead of their clients' interests is tremendous. It is one of the biggest concerns of regulators, and the inability of regulators to effectively deal with this is astounding. Their focus is on monitoring and regulations. It doesn't work. They need to focus on getting rid of unethical people. But it is not just the agents. Many of the insurance companies encourage unethical behavior by promoting the benefits to agents over the benefits to the clients. One of the largest companies has a standard practice when marketing to agents of focusing on commission the agents will earn before talking about the benefits for the client. I can't name names for legal reasons,

but it is obvious in their sales literature. (Not the public literature, just the internal pieces. The ones marked "For producers use only—not to be distributed to the public," or something similar.) Ask to see these.

Are you dealing with a salesperson, or an advisor who you can potentially trust (irrespective of the titles and initials on the business card)?

Does the salesperson have the education, experience, maturity, credibility, and reputation to warrant your confidence and trust?

Does the salesperson insist on explaining the product to you, even when you protest that you trust him or her, and don't want to know all the details? (They should—you need to hear this information.) You will have to sign a document saying that this has all been explained to you, and that you do understand the details. The government makes you do this to protect you from false or misleading verbal statements. If you want to take a kind view of this, you can say that experience shows that some people may not clearly understand what is transmitted verbally, and that the government wants to make sure that you've heard and read it, so that there is less of a chance of misunderstanding. If you want to take a less kind view, you can say that the government wants to protect you from liars and manipulators, and feels that extensive regulation is needed to protect you from people who do not have your best interests in mind. Considering that insurance and financial services agents and companies are one of the most highly regulated industries in the U.S., you might want to take the less kind view.

Industry statistics show that about 90% of the salespeople in the financial services industry exit in less than five years. Industry statistics are that about 50% of advisers who are let go for ethical/honestly/compliance reasons are rehired by another firm within one year.

In order to sell insurance in Florida, you need a GED or high school diploma, must pass a written, on-line knowledge test, and a submit fingerprints for a criminal background check. You need zero days of apprenticeship, product knowledge coaching and training, and you do not need to demonstrate proficiency in a product in order to sell it.

Here's a not untypical email I received, with the company's name removed, and names changed:

"You spoke with Susan about ABC's single premium whole life so I wanted to get this information to you. I have attached the illustration that you requested along with the attachments about ABC. Here, again, are the highlights of the annuity: It has a great commission of 15 percent. This is an annuity alternative where the death benefit passes to the beneficiaries tax free instead of them having to pay taxes on the growth of an annuity at death. The name of the company is ABC and rated A- with an agent commission of 15 percent. It is a single premium whole life product with the highest approval rate being 80 percent with just a phone interview. There is no blood test required. It is simple issue with them only checking the MIB."

This email provides no real knowledge about the product. It may or may not be a good product, and it may or may not be appropriate for my client. But the email is real clear that there is a huge commission for me. Which means that less of my client's money will go to work for them than with a lower commission product.

Here's a horror story about ethics:

I got a call from a CPA friend of mine. He was concerned that the life insurance policy his client (a married couple in their 60's) had purchased a few years ago was not appropriate, and was wondering if I could look at it and make a recommendation.

Turns that they had purchased a "second to die" cash value policy from a well-known, top-rated mutual insurance company. So far, this sounds good—good company, highly respected, and a policy that (like its name says), will pay a big chunk of money to the heirs when the second of the two people passes away. These type of policies are appropriate when there might be an issue of needing funds to pay estate taxes when the

second spouse dies, or when there won't be a need for funds for the surviving spouse when the first one dies. Doesn't take a genius to figure this out—the name really says it all.

Except in this case, the couple (college-educated) were concerned that if either spouse died, the other one would need money, and they did not anticipate having an estate large enough to cause a tax problem, and they weren't particularly concerned about leaving money to heirs—they just wanted to protect the other spouse when the first one died. Obviously, what they wanted was two policies, one on the life of each of them.

Additionally, they wanted to park a large amount of money in the policy, so it would grow income tax free, creditor protected (if titled properly), and secure, so that the policy could serve as a cushion if they needed cash in retirement. So a cash value policy was an appropriate vehicle, but it had to be the type of policy that was designed to thrive when cash was taken out. The policy they bought was designed to lose considerable value if they took money out when they were alive.

But the commission to the agent would be huge—larger than he would have gotten with other policies.

So the CPA was right to be concerned.

Another story:

A few years before, I looked at a policy sold by a part-time insurance agent/part-time clergyman to a friend of mine. It was a long term care policy. It was well known as being the worst long term care policy on the market—it was terribly designed, and if my client had continued the policy into his 80's (which is what you would expect him to do, considering that this type of policy is designed to be used in the final few years of life), his premium would have been over \$85,000 a year (no typo here), although it was only a few hundred dollars a year now. The only way this policy made sense for a 40 year old would be for him to be certain that he would need to be in diapers and a nursing home in his early 50's!

It wasn't the commission that motivated the sales agent. He was a captive agent, selling just one company's product. So this was the only long term care product he could offer. (The insurance company has since stopped selling long term care insurance entirely.) Plus he had to make more sales to meet his quota.

Shortly after rescuing this client, I ran into a similar situation with the same agent and a different client. This client was overpaying by \$180,000 (again, no typo) in premiums over 25 years with a poorly designed product from the same insurance company. We replaced the policy, but the client had already wasted \$50,000. Greed? Ignorance? Conflict of interest? Ethical issues? I don't know, and I don't care. But I do know that this agent did not act in the best interest of his client.

### **Summary: Seven Ways You are Likely to Be Taken Advantage of**

1. Limited access to products—if the agent has a narrow selection, it is unlikely that you will get the best product on the market.
2. Limited agent knowledge—if your agent is inexperienced or not well read, it is unlikely that he or she will be aware of what the best products for you are.
3. Lack of ethics—are you being sold what is best for you, or just what is suitable? This is a top concern of regulators now, and the problems in the industry are rampant. Google “fiduciary versus suitability”—you will be shocked.
4. Greed—selling you too much insurance.
5. Manipulation—convincing you to drop insurance you already own, for no good reason (other than to earn a commission).
6. Limited information gathering—not knowing enough about your needs.
7. Lack of skepticism on your part. Even if you work with the “best” agent, you need to be appropriately skeptical. You will always know more about your personal situation than you can convey, so, ultimately, you have to ask questions, questions, and more questions, and raise and resolve doubts in your own mind.

## **SIX THINGS TO LOOK FOR IN AN INSURANCE POLICY (THAT YOUR AGENT MAY NOT KNOW OR BOTHER TO SHOW YOU)**

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### **1—How do values grow inside the policy, and what's the risk?**

There are usually two components of an insurance policy—the death benefit (what is paid out to your heirs when you die), and the cash value (what is available for you to borrow, or what you can surrender the policy for.) There are usually two numbers given for each of these values in any year—a guaranteed value, which the insurance company is obligated to pay out (and which the government of your State makes sure they are capable of paying out), and the projected value, based on anticipated earnings and investments. Guaranteed values are not a good basis on which to compare policies—they represent a worst case scenario, and the actual situation is unlikely to be that bad. On the other hand, projected values rely on assumptions. Reasonable assumptions lead to reasonable projections. Unfortunately, too many policy are sold with unreasonable assumptions, which is one of the reasons I wrote this book. One of the key explanations you want when buying a policy is what the assumptions are, and then you need to determine if they are reasonable. This book will help you do just that.

### **2—How long is the policy good for?**

There are two types of insurance associated with people's lives. One is usually called term “life insurance,” but it should be called “death

insurance” because it is only worth something when you die (or, in some cases, shortly before you die). It is of no use to you when you are alive. This is “term insurance.”

The other is called “cash value” life insurance, or “whole life” or “permanent life.” It is designed to be of enormous value to you WHILE YOU ARE ALIVE, and also after you die. When properly designed, it will not expire while you are alive. But you have to be careful—some agents reduce your premiums by shortening the benefit period, like to age 80 or 95. You rarely want something like this if you are intending to have a policy that will be good until your death.

Term life insurance is very inexpensive. The premium is designed to accumulate just enough funds to pay a death benefit for people who die during the term of the insurance (30 years, 20 years, 10 years, 1 year). It can be a level premium for all 30 years, or a low initial premium in the early years, gradually increasing over the term.

The reason term is so inexpensive is that over 97% of these policies never get cashed in—people don’t die in time, or they stop renewing before the term is up. Think of term insurance like automobile insurance—it is only good during the coverage period for which you’ve paid the premium, and you have to crack up the car in order to collect something. If you pay your premiums for 30 years, drive carefully, and then stop driving and sell your car, you don’t collect anything in exchange for all those premiums you paid. If you stop paying premiums one year, and get into an accident the next day, you don’t collect, either—you’re out of your coverage period. Just like term insurance—stop paying, or die one day after the policy ends, and it is just like you never had insurance at all.

### **3—Are reasonable promises being made?**

What is the history of the company? Has it met expectations in the past? Are the returns promised a fixed amount, or are they tied to the stock market? If they are tied to the stock market, are there guarantees? Are

the projections used reasonable, or are they inflated returns based on periods in the past when the market did unusually well. Hint: if you are looking at projected returns of over 5% consistently, you are being extremely (and probably unreasonably) optimistic.

### **4—What is the cost of exiting if you change your mind?**

If you surrender a policy for cash, there may be surrender charges that reduce the cash value your policy has available for loan. Also, you may incur income taxes. So the cost of exiting can be steep. And if you want to change policies, there are two criteria that need to be met in order to buy a new life insurance. One, you need to be able to pay the premiums, and two, you need to find an insurer who will issue you a policy. Your health status may make you ineligible for a new policy, or may make it expensive.

### **5—What is cash value, and what is the true cost of accessing cash value while you are alive?**

This may be one of the most important sections in this book. Pay attention.

A life insurance policy with cash value is like a home with a mortgage.

When most people purchase a home and take out a mortgage, they get to live in a home that they don’t fully own, while promising to pay the bank back over a long period of time. In the meantime, they get to use the home. If they stop making payments, they will lose the home to foreclosure, and will only get to keep the excess of what the home is sold for after the balance of the loan is paid off, if there is anything left.

When the mortgage is paid off, then they own the home 100%.

When a person purchases a cash value life insurance policy, they acquire the death benefit protection immediately. They keep this death

benefit protection provided they pay premiums over the specified time period. They control the death benefit, they can assign it, they can change the beneficiary, they can use it as loan collateral, but they don't own it outright, until they are done paying premiums for the contracted period. If they stop paying premiums, they lose the death benefit (or at least the part that hasn't been paid for yet). But if they die, their heirs get the full value of the death benefit (less the loans that have been taken out, if any).

So what is "cash value?"

The cash value of an insurance policy is like equity in a home. As you pay down your mortgage, you own more and more of the home outright, and the bank owns less. When you've brought the balance down a bit, you can get another loan—a home equity loan—that lets you use some of that value as cash, while continuing to live in the home.

The problem with a home equity loan is that it's not easy to get. The bank must agree to finance you, and you have a schedule of when it needs to be paid back.

The same idea applies to accessing life insurance cash values. The cash value in a life insurance policy has a dollar value that grows over time as you pay premiums and receive dividends, but the asset isn't the same as cash. It's an insurance benefit. To convert the benefit to cash, and still keep the insurance intact, the company charges interest like the bank. There are two significant differences, however—there is not a set repayment schedule, and you don't have to be approved. Just pick up the phone, ask for a check, and the next day it is in the mail to you.

BUT (slow down, this is important), there are two ways the life insurance company can structure the loan. They can lend you money from the general funds of the company, charge you interest, and use the cash value as collateral. This structure leaves your original illustration of cash value growth, death benefit growth, and dividends intact. This is important, because the growth of the dividends and cash value and

death benefit is crucial to you achieving your goals. The only new factor is the interest and the loan, which gets paid back out of the death benefit proceeds (if you don't pay it back earlier). What you are really doing is paying a fee to use the death benefit early, while you are alive. The trade-off is the reduced payout at death. This is called a non-direct recognition policy.

The other way to structure the loan is for the insurance company to loan you your money, and charge you interest. The problem is that the dividends, cash value, and death benefit growth slows down, while the loan and interest increases, and you incur the danger of bankrupting the policy. This is a direct recognition policy.

Chances are that if the policy you are buying has the second type of loan feature, you won't be shown an illustration that shows the consequences of taking out a loan. Much of my time is spent running comparative illustrations for clients showing how these two types of policies differ. If you don't see an illustration, at the time you purchase a policy, that shows money coming out in retirement, and if the agent shows you a direct recognition policy illustration from one company but not a similar non-direct recognition policy from another company, you are not getting the information you need to make a good decision.

## **6—Is investing in insurance as good as other options available to you?**

Insurance policies are designed to produce a desired death benefit, and a desired cash value, and a desired schedule for paying premiums. You can pay a lump sum premium up front, pay in over 10, 20 or more years, pay until a certain age, or pay until age 100, etc. Paying in quickly for a shortened period of time generally provides a higher rate of return, but can limit your contributions down the road, meaning that you will have to find other places to invest money in later years. Paying in over a longer period of time provides immediate death benefits with a lower outlay of funds, but a lower rate of return. Total return can be higher, however, because you have the opportunity to invest more money.

## WILL THE GOVERNMENT PROTECT YOU?

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Okay, stop laughing. I didn't intend for you to read this while you were drinking your coffee, and I'm sorry I made you laugh so hard that you spit it out.

The answer is no; the government will not protect you. The government will pass laws, and if there is enough money in the budget, they may attempt to enforce the laws. But the enforcement division is small, the financial community is huge, social media and advertising enables unscrupulous people to act quickly, inexpensively, and without fanfare. And people are still basically trusting. And ignorant.

You will protect yourself. You need to learn how. This book will help.

Let's start with the obvious. The financial services industry is huge, and designed to make a profit. Even if you could say that 99% of the people in it are ethical and honest (I doubt it, but even if), there are enough who aren't to pose risks to everyone else. But even among the rest, there is a blurry line between doing what is borderline ok, and what a seriously ethical person would claim is right.

Here's a huge example: Right now, the Department of Labor has made a ruling stating that financial advisors who sell annuity products that people buy to put in their IRA's must act as a fiduciary. Previously,

the standard was that they had to make sure only that investments they recommended were suitable for their clients. Let's deconstruct this:

What is the difference between suitability and fiduciary? Easy—suitability means that the investment is okay for the client—the objectives of the investment align with that of the client. For instance, the client needs income many years in the future, and the investment is designed to grow for many years, and only distribute income many years in the future. Or maybe the client needs to keep money safe, and anticipates possibly needing access to all or some of it in a few years, and the investment is designed to make that money available quickly without any penalties.

Fiduciary means that the investment being recommended is in the best interests of the client. It means that the advisor has done research to provide the lowest cost investment, and that the advisor has chosen that investment not because the advisor earns a huge fee, but because the client gets the most value for the money being spent.

There is nothing wrong with recommending something suitable. It is only wrong if the client thinks the advisor is acting as a fiduciary (in the client's best interests), and that the advisor is merely recommending something suitable, which benefits the advisor at the expense of the client. That is wrong.

Yet the government has to go out of its way to enact rules to make this perfectly clear to advisors. But it only pertains to SOME products and only if sold to an IRA. In other words, advisors can put their interest first by recommending other "okay" products as long as they are not annuities being sold to an IRA.

So is the government protecting you? Why does the financial services industry fight the fiduciary rule? Because it will cut into profits if they have to supervise more closely, prove to regulators that they are following the law, and keep more records. And because they have to keep fees low, because high fees are not in the clients' best interests.

To give you a perspective on the pressure advisors are under, I would estimate that about a quarter of the advertisements I receive for new products stress the high commissions that I can make before they talk about the benefits to the purchaser. And one large insurance company always presents products this way.

So what happens to advisors who act unethically, or who break the law? Are they prosecuted? Are they fired? The answer is sometimes. They are more likely to be fired than prosecuted. But that really doesn't deter them—estimates are that half of all advisors fired for misconduct are hired by another financial services firm within six months, to do the same type of work.

That doesn't sound like this is a very good arrangement for you, and I've been saying that for years. You have to know who you are taking advice from, what their qualifications are, how they are compensated, what their conflicts are, and why they are only showing you the options they choose to present. Nearly all the advisors in the business have access to only a limited range of products, and very few will encourage you to go and explore the products they don't handle.

My clients know that this is not the way I operate. I'm completely candid, uncensored in my evaluation of products and purveyors, and willing to spend the time needed to make sure my clients are educated about what they own, and what they are considering buying. I, too, have limited access to products, and when I don't have the best products for your needs, I let you know, and send you elsewhere.

My clients know that I am more interested in the relationship than the sale.

## TAXES

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There are three ways to deal with taxes, and only three ways—you can pay taxes now, you can pay taxes later, or you can **never** pay taxes.

Taxes now: Income tax, capital gains tax, sales tax, excise taxes (on your mobile bill, on your electric bill, on your gasoline, etc.). Any taxes built into products you buy. You are stuck with these. You may be able to avoid paying sales taxes by shopping in a lower sales tax state, but even then, you are expected to voluntarily notify your home state, and refund them the difference between the tax you paid and the tax you would have paid at home.

Income tax can be avoided by earning legitimate non-taxable income (of which there are few opportunities), or postponed by legitimately deferring income taxes to a later time.

A Roth IRA is a form of earning tax-free income. Money you earn from income, after you pay income taxes that are due on that income, can be contributed to a Roth IRA (if you meet all the other requirements to be eligible to contribute), and all of the earnings on that money, inside the Roth IRA (assuming you invest wisely so there is income) is not taxable for the rest of your life, and it is not taxable to your heirs (unless you take it out of the Roth IRA prematurely). Great idea, but lots of obstacles to getting money in, and out.

A regular IRA is a form of taxes later. If you are eligible to put money in a regular IRA or 401k, whatever you put in (subject to limitations) is subtracted from your annual calculation of income when you compute what you owe in taxes. So let's say that at the end of the year, you normally have to send a check for income taxes that were not withheld from your paycheck during the year. If you may a contribution to an IRA, you'd be sending in less, since a portion of your income is not taxable now. If you are accustomed to getting a refund, and you contributed to an IRA, you'd get a bigger refund. In either case, the government is giving you money (by charging you less in taxes), and allowing the money to grow tax-deferred until you take it out. Here's the catch: when you take money out of a regular 401k or IRA (unlike the Roth versions above), because you didn't pay taxes initially, you will owe taxes on what you originally put in, and you will owe taxes on the growth. Plus, the government will tell you the minimum amount you need to take out every year to avoid paying an additional penalty. And, the tax you pay will be at the rate in effect when you take the money out, not at the rate it was when you put it in. Think taxes will go up?—You'll end up paying more than you do now. Think your income will be much lower, and that your tax bracket will be lower? You'll end up paying less. The tradeoff is guessing how much you can earn over the years that tax is being deferred, and what your taxes will be when you retire.

What have income tax rates been like in the past? In 1915, when the current system started, the top tax rate was 5%. By 1915 it was 70%. It came down for a while during the depression. Then spiked to over 90% during World War II and through the mid-60's. The 70's saw 70%, and the 80's even less, but then it jumped up to 40%, where it is now. Where will it be when you retire? Who knows? But government debt is going up, as is spending, the number of people on Medicare is increasing, and people on Social Security are living longer. I think we are looking at tax increases over time, not decreases. If that's the case, there will be a hefty price to pay when you take money out of an IRA—heftier than now. And the government won't let you delay taking money out to avoid paying the taxes.

There are other ways to pay taxes later: reinvesting capital gains, rolling over taxable accounts, doing tax-free exchanges, buying tax-deferred insurance products, such as annuities. These are all ways to defer taxes to later. Is this a good idea? It depends—if you can make the money you defer paying earn enough for you now, it may be worthwhile postponing, if you don't think that taxes later will destroy your gains. (Of course, if you are not concerned about leaving money to anyone, you can spend everything while you are alive, owe tons of taxes when you are dead, and the government won't be able to do anything about it. But you have to plan your death precisely.)

Taxes never: Yes, this can be done. Legally. Some bonds are tax-free, in some jurisdictions. Life insurance proceeds are tax-free, if you play by the rules. But more importantly, life insurance proceeds that you receive while you are still alive, can be tax-free, if you follow the rules (which are not hard). The reason for this is that Congress wants people to own life insurance, and wants people to be able to take care of themselves in old age, so they designed the system so you can take money out of your insurance policies, almost like an advance on the proceeds your heirs will get when you die, and not pay taxes on it. You can take it out in old age, or you can take it out while you are young. You won't pay taxes or a penalty. While the advance will slow down the growth of the death benefit, if you have the right type of policy, your policy will continue to grow in both cash available to you, and death benefit. The problem is that it only works with certain types of policies, many insurance agents are not familiar with these policies, and many agents misrepresent other policies which don't actually work this way. That is why you need to work with a knowledgeable, ethical advisor who is looking out for you.

## ANSWERS TO IMPORTANT QUESTIONS FOR NEW GROWNUPS AND YOUNG COUPLES

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### 1—What's a reasonable amount of money to have for retirement?

**W**e all know that at some point in time, we'll have to live off passive income—money that we receive without actively working for it—investments, sale of assets (real estate, business, things we've acquired, etc.)

We also know that these assets, left untouched and invested, will grow at some rate of return. Cash in a CD might grow at 1%; real estate might appreciate at 5% to 15% or more, and other assets at varying rates. The question is—how much can we withdraw on a regular basis without spending the principal.

Traditionally, we've been told to use 4%. Two percent is more conservative, and used more frequently now. The correct answer is probably somewhere in between. The key is what you can withdraw when value is down. (I write about this extensively elsewhere in this book—look for the sections that talk about “buckets.” The concept is that you want to have varied buckets of assets to draw on for income in retirement, making sure that you don't have to go into any one bucket when its value is down.)

There is a lot of good research behind these numbers on the internet. Bengen did some good work in 1994, and Pfau/Dokken wrote a widely available article in September, 2015, in *Financial Advisor* magazine.

You also have to keep in mind why average life span is not good enough when planning for retirement. Average (actually, median, to be precise) means 50%—half the people will live longer. You need to be sure that you are planning to have money so that if you are in the last 5% or last 1% of the people your current age to die, you'll have money. Who cares if you live longer than 50% of the people your age, and your remaining years are impoverished ones? Who good does that do you? You want to have enough money to afford your lifestyle until the very end.

At your age, the simple answer to how much money you need in retirement is that you don't know. You want to amass as much money as possible, so you have options later. More importantly, you need to insure against the risk of not having enough money. You need to insure against premature death (for the benefit of your loved ones). You need to insure against the inability to earn a paycheck, for your own comfort. You need to insure against the inability to care for yourself in old age. The key, as I've discussed elsewhere in this book, is to spend as little as possible on insurance that may not pay out, and use your investment money to bring you guaranteed returns for the things you must have, and structure your investments so that they are dual purpose—they provide money in good times and bad.

### 2. Real estate—do I rent or buy a place to live? Should I buy real estate to invest?

There is no correct answer to this question. If you are going to benefit from the tax advantages of having a mortgage, then, obviously, you should have the biggest mortgage possible, and invest your savings in higher yielding investments. If the market to buy homes is in a bubble, you should rent. As we well know, it takes a long time to recover from buying at the wrong time, and if you buy at the top of a market that has big swings, you may never recover. If you are buying to hold for 30 years that makes more sense than buying when you may be moving in a few years.

Most people are hung up on the emotional issues of owning a home. That's fine, if you are willing to pay the price to indulge in pacifying

your emotions. And that is not a question that cannot be addressed in the context of a financial discussion. If you are in a situation where it is not financially advisable to own, but you are willing and able to incur the cost, without jeopardizing your long term financial health, go ahead and indulge. But don't try to justify it financially.

Real estate as an investment is totally different. If you are looking at commercial or residential real estate as a pure investment (that is, you will not physically live in the property), it is one of the best places to make money grow, PROVIDED that you buy right and manage it well.

### **3. What is the “big boy” and “big girl” conversation and how do I have it?**

A key conversation that you need to have with your elders is what I call the “big boy/big girl” conversation, which goes roughly like this:

“Mom, Dad—you did a wonderful job raising me, and I'm proud to be a new adult. I'm still your child, and I'll always be your child, but I have adult responsibilities now. Think of your mind-set when you were my age. As uncomfortable as it is to talk about, there are questions that I need to know the answers to. They are:

Am I going to be responsible for caring for you or anyone else, financially, in the years to come?

How have you (and anyone else you are referring to in the previous question) prepared financially? We need to look at everything you own or are relying on so we can be sure that you are adequately taken care of, or so I can make appropriate plans to take care of you.

You always taught me the value of money, so I try to plan properly. Over the next few years, I'm going to plan out my financial future, and the future of my children. In order to do this most efficiently, it would be helpful for me to know what you think I will be inheriting from you. I say this not out of greed or anticipation, but so that I don't

waste money that can be put to better use in paying for things I will never need. Money is a limited resource that we all work hard to obtain. Help me plan responsibly.”

Of course, you have to say it better than that—if you said that to me, verbatim, and you were my child, I'd probably give you a swift kick in the rear. But this has to be the essence of the conversation. It's one of the tougher conversations you'll have with your parents, but it is good practice—as they become older, and you step more into the role of their caregiver, the conversations will only become tougher—when to stop driving, when to stop living alone, when to relinquish control of finances, medical surrogacy and living will issues, burial wishes, etc.

### **4. What makes more sense—putting money in an IRA or 401k or other tax-deferred retirement account, or using the same amount of money to buy a high-quality whole life insurance policy?**

The answer depends on several factors, which vary from person to person. I approach this question from various angles at several points in this book. Here is one way of looking at the difference between the two concepts, which applies to everyone:

1. With the deferred strategy (IRA or 401k), you get to deduct the invested funds from current income, thus saving on taxes, and with the insurance strategy you don't get the immediate deduction. (Caveat: there is a phase out on the deductions for the deferred strategy, so if you make too much money, the tax saving goes away.)
2. With the insurance strategy (if done correctly, which I will show you how to do), you'll never pay income taxes on the money you earn from the policy and you can withdraw money to spend however you want, whenever you want. But with the deferred strategy, you'll pay income taxes (on what you put in and on what you earned) when you start withdrawing money, and you'll be required to take withdrawals after age 70, or pay a hefty fine. If

you retire with very little income, your tax rate at that time will probably be low, but if you end up doing well in life, it could be really high. (Higher than the top rates now, because tax rates will probably go up over time—right now, they are low, historically). And if you need to take out money before age 60, you'll also pay a fine, plus taxes.

3. With the retirement account, that's all you have—just a retirement account. If you use it up, it's gone. If you mismanage it, it can disappear. If you die, you just get what is in the account, less taxes due. With the insurance strategy, you get whatever you take out, plus, when you die, there is an additional payout, which is income tax-free.

The variables that matter are:

1. How well can you manage the money in the retirement account? You will need a plan to make it grow consistently. With the insurance strategy, it's done for you, and the track record is consistent positive returns, albeit it conservative and not exciting, but reasonable.
2. The only way to compare the two strategies fairly is to invest the taxes you save yearly with the deferred strategy in a taxable account, which you also have to manage, and pay yearly income taxes on. What will you earn after taxes in that account?
3. What is your tax rate in retirement going to be? The higher it is, the less attractive the deferred strategy is.
4. How much will you take out every year in retirement?
5. How much “free” money is your employer contributing to your retirement plan?

## EIGHT RULES TO ATTAIN FINANCIAL SECURITY IN RETIREMENT

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**Rule #1: Have more money coming in than going out, either through passive income, such as investments, or earnings.**

If the combination of your earned income and investment income does not meet your expenses, either increase income or cut expenses. It is usually possible to do both, but it is easier to cut expenses than to earn more income. It is generally possible, however, to increase UNEARNED income by investing smarter.

**EXCEPTION TO RULE 1:** If you are “retired” (i.e., not actively earning much income because you are older), it is OK to spend more than is coming in, IF and ONLY IF you have sufficient assets to GUARANTEE that you will not run out of money, ever, before you die.

**Rule #2: Protect your income, either from loss due to disability, or from not working.**

There are absolutely no reliable numbers that predict loss of income due to accident or disability by age or occupation, due to wildly varying factors, and inflated claims by people trying to cheat the system. All we know for sure is that you have a greater chance of being disabled than you do of dying if you are under 67. We're going to look at disability insurance in a different chapter. But here's a good way to start estimating what your needs might be if you are disabled:

1. Determine how much EARNED income you need to run your household on a break-even basis.
2. Determine how this would change if some or all of your earned income stopped before age 67, either permanently, or for a limited period of time. Include in your calculations:
  - a. Decrease in expenses if you are not working (lunch out, work clothes, unreimbursed auto or travel, lower cell phone costs, reduced child care because you are home more, etc.).
  - b. Additional expenses you'd expect from being disabled (care-taker, more medical supplies not covered by insurance, extended rehab, etc.).
  - c. Other sources of income you would have if you are disabled, but not included above (financial support from family, friends, etc.; current insurance from work; income you could earn while disabled).
3. Figure out how much monthly disability insurance you need by combining the above results. This should be called paycheck insurance, but it's not. It means that you need to have insurance that will bring in the same amount as your net paycheck, if you are disabled.
4. Decide how many months you can wait until disability insurance kicks in, either by using savings, quickly selling assets, borrowing, etc. Don't forget to factor in any short-term disability insurance you may have from work. Use this to select the elimination period on your disability policy.
5. Determine how much money you would need if you quit and started job hunting, or if you had a period of time between leaving one job and starting another. Take into account both voluntary and forced non-income producing periods. Also consider temporary reductions in income due to cutbacks, unpaid time off for pleasure or to handle an emergency. Add in funds for unusual increased expenses, such as uninsured losses (deductibles on auto, home, renter, health etc. insurances; emergency funds for you or someone else, etc.).
6. The combination of the funds for a disability elimination period and emergencies plus job interruption is what you need to have

readily available—cash, checking accounts, easily disposed of collectibles (gold and jewelry), highest quality stocks that don't fluctuate much under adverse conditions (if such stocks still exist), bonds, CD's, etc.

7. If you don't have enough of these assets, your 2nd goal, after insuring your income due to disability, is to accumulate these assets quickly.

**Rule #3: Once you have protected your income while you are working, plan on how you will live when you retire, even if that is decades off.**

You need to consider 2 scenarios:

The first scenario is for while you are retired and still healthy. You need to start accumulating assets now that will produce income later. This can be investments, real estate, your home, insurance, IRA's, 401k's, retirement accounts, annuities, businesses, collectibles—anything that will endure after you stop working, grow in value over the years, and produce income, or that can be sold (over time) to produce cash.

The second scenario is for when you are retired and not in good health. You need to put in place a FAILSAFE system that will cover expenses above and beyond those needed for when you are healthy. I call this "income assistance for the expenses of aging," because it is like disability insurance, except it starts when traditional disability insurance stops (usually retirement or age 67.) Of course, this old age insurance does not have to be a traditional insurance policy—if you've accumulated sufficient assets so that you can sell them off as you need funds AND NEVER RUN OUT. This acts as your old age "disability" insurance.

**GOOD NEWS and BAD NEWS about Rule #3:**

The good news is that you can plan now so that some assets will work for you whether you age well or poorly. The same money put away

now can work for you in either case, and as you move from good health to poor.

The bad news is that the younger you are, the less you know about what you will have available to you in the future, and so you have to make a lot of wild guesses, and plan around them. It can drive you crazy. You don't know how much money you are going to make in your lifetime, how well your investments will perform, whether or not you will be disabled, and how long you will stay healthy after retirement.

There is one factor, however, that still lets you plan intelligently for part of the future, and that is actuarial prediction, which is this:

No one knows what will happen to you, personally. But mathematicians can predict, with stunning accuracy, what will happen to a large group of people who resemble you. Take a large enough group of people your age, your gender, your lifestyle, your current state of health, and they can predict, accurately:

- How many will die every year for the next 120 years
- How many will be disabled or need help due to aging in each of the next 120 years

If enough people in your group pool sufficient funds (insurance premiums) and they give it to someone to manage wisely (insurance companies), there will be sufficient funds available over the next 120 years to pay an agreed upon amount when each person dies (term life insurance) or gets disabled or needs old age help (disability and long term care insurance). Furthermore, if this group puts in more than the minimum amount needed to pay out claims, these will be a sufficient pool of extra money that can be accessed temporarily as needed (cash value life insurance) or paid in advance of when benefits would ordinarily be received, or when you meet certain criteria that show that you are likely to live a shorter period of time (accelerated benefits on life

insurance). Using insurance products, correctly purchased, lets you avoid the bad consequences of RULE #3. (But we'll go into that more after the other rules are outlined.) Obeying Rule #3 is more important than obeying Rule #4.

**Rule #4: Amass as much wealth as you can to fund expenses in the years when expenses exceed income (private school, college, large purchases, unexpected and uninsured expenses, weddings, huge vacations, periodic splurges on luxuries).**

But always remember, RULE #3 is MORE IMPORTANT than RULE #4. This is because everything in RULE #4 is optional:

If you can't afford schooling, there will be subsidies and loans.

If you can't afford large weddings, you'll have small ones.

If you can't afford large purchases, such as cars, boats, second homes, vacations, you'll do without.

If you can't cover the expense of the roof blowing off your house, you'll cover the holes with a tarp.

Etc.

But Rule #3 is not optional.

If you do not have enough money to live your lifestyle in health or sickness, then, after you retire, you will be dependent on your children, the government, and charity. Your lifestyle will be different than you planned, the severity of the change may shorten your life, and the conditions may be unpleasant. And you have no way of knowing for certain the ability and willingness of your relatives, the government, and charity to pitch in.

The good parts of Rules #3 and #4 is that the earlier you start planning for #3, the less expensive it will be, so you'll have more available for #4. And anything above what you've spent by age 67 automatically rolls over into more for retirement.

**Rule #5: While amassing wealth, only put at risk that which you are willing to lose.**

This is a no brainer, but most people ignore it and this impedes their accumulation of wealth.

Any investment you make has risk. Anything you buy, you can lose. Nothing is 100% safe or 100% sure. Some risks are innocuous, with limited potential for loss, and a lot to gain.

Buying an occasional lottery ticket for \$1 now and then is unlikely to change your lifestyle—you'll probably find a way to gain this back by cutting an expense somewhere else, and you could win a million bucks. Highly unlikely, but possible, and it only costs \$1. But we also gamble with every other financial decision we make, and the larger the amount we put at risk (and the greater the type of risk), the more it slows down our efforts to amass wealth. It sounds obvious. We should be able to accurately assess risk and reward, but we're only human, so we usually err.

**Rule #6: Protect your wealth.**

Whatever you amass, make sure it is protected against loss.

The four primary causes of loss, and their antidotes are:

1—Natural occurrences. Weather damage, health damage, theft, accident, etc. Protect yourself by having insurance for anything that is at risk, by staying fit, by being careful.

2—Economic and financial occurrences. Communal economic downturns, personal economic downturns (like job loss). Protect yourself with insurance and a safety net, and minimize risk to wealth you've amassed.

3—Malfeasance and theft. Understand all the risks associated with everything you do. Don't rely on others to manage your assets—help

is fine; abdication is not. Insure against loss. Carry umbrella insurance against large, unusual claims. Keep assets in trusts, not individual names. This provides added protection against others spending your money foolishly, and protects it from civil judgments.

**Rule #7: Structure your assets so that you can enjoy the benefit of having them while you are alive and healthy.**

Look for things to own that let you use them while they grow in value. Avoid assets that you merely get to “wave at,” like large savings account in a bank you drive by daily, and huge balances in investment accounts in large glass office buildings downtown, where you cannot access the income to fund your lifestyle. Avoid putting funds in the wrong “buckets” so that you do not take from the wrong bucket at the wrong time.

**Rule #8: Structure your assets so that you never have to sell any of them at the wrong time, if things do not go according to plan.**

This is the most important one of all, once you've accumulated some assets. This is the essence of the “buckets” philosophy.

## HEALTH CARE IN RETIREMENT

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If you are under the age of 50, you are not going to believe anything I tell you in this section, unless you are brighter than 95% of your peers.

If you are between ages 50 and 60, what I have to say may sound vaguely probable, but you probably think it doesn't apply to you.

If you are over 60, and you haven't read this before, you'll be kicking yourself, because what I am saying is blatantly true, obvious to all senior citizens who read it, yet implemented by few.

This is the message: If you are under 60 years old today and in decent health, you stand a good chance of living until your 90's. This means that you can live 30 years or more past your wage earning days, and you probably won't feel "old" until the last few years of your life. Your health will be pretty good, until it gradually declines, and then you'll deteriorate to death over the last 3 to 5 years of your life. Suddenly, it will become very expensive for you to be taken care of.

Yet most people do not plan to have a secure and sufficient asset pool by the time they stop working, to provide enough to live on for the rest of their lives.

Even more do not plan for the added expenses of aging badly.

And that means the quality of your declining years will not be what you want it to be.

Medicare and Medicaid are going to change from what we have today—it is too expensive for the government to provide the programs that currently exist, and there are too few people funding it. It is mathematically impossible for the government to pay as much as it currently does for each retiree, especially now that the baby boomers are retiring, and the work force is shrinking.

The only thing working in the government's favor is a two-edged sword—obesity. So many Americans are so out of shape and overweight that life expectancies will probably go down before they go up. The good news for the government is that there will be fewer old people to take care of. The bad news is that their last years will be more expensive, as they consume more and more ineffective medical care. (On the other hand, they won't have that many bad years—their bodies just won't last that long.) Don't take my word for it—hang out in a hospital lobby, and see the condition of patients who are being discharged. Then look at the people who came to take them home, or go around the corner and sit in the emergency room lobby, and see what brings them in. Next, go to the airport, and count the number of people who won't comfortably fit into the seats they will be sitting in for the next few hours. The airlines have spent so much time worrying about the excessive size of the luggage you are attempting to carry on, that they have totally ignored the excessive size of the people they are trying to cram into rows of 3 and 4 across.

If you have not planned for the added expenses of aging poorly, you are doomed to a poor lifestyle in old age.

But what is the cost of basic medical care in retirement?

What type of government sponsored health insurance are you going to have in retirement, how much will it cost, and what will it cover? Forgive me if I cannot give you a precise number on what to budget. It's

a long way off, and medical costs do not follow other cost trends. If you want to be safe, figure \$10,000 to \$15,000 out of pocket per year, per person, plus inflation, plus rising costs. Times two, for a couple. Then times 30 years, since it is not unreasonable to assume that you and your spouse could live to age 95.

How do you plan for this, especially since we don't know the rates Congress will set for Medicare premiums?

Ideally, you want to create a private pension plan to fund basic medical costs. You do this by investing a sum of money, now, which will be able to throw off \$15,000 to \$30,000 a year when you retire, and continue doing so for 30 years or more. The two strongest options for doing this are life insurance (the kind with cash value, usually called "whole life"), and annuities.

This is more important than long term care, college educations, and legacies. The only thing more important is having enough money for living expenses.

The cost and nature of medical care in retirement raises basic questions and concerns, so you would think that there should be basic answers, but that's not the case at all. In fact, medical care plans in retirement are more complicated than coverage provided by employer sponsored plans while you are working—it's a trick the system plays on people who are getting old—we make it harder for them to figure out what is appropriate for them, at a time when their mental skills are starting to decline.

Given this confusion and lack of knowledge, it is not surprising that many people underestimate their medical expenses in retirement, and hence do not budget for it correctly. Add to that the uncertainty of what medical costs will be in the future (I've heard 4% to 6.3% cited as today's average annual increase), and you can see why planning for medical care in retirement is difficult.

During working years, most people have either an employer sponsored health plan, an individual plan, or no health insurance coverage

at all. (I'm skipping Medicaid, which is for people below the poverty line.) If you continue working beyond age 65, you may have the option to continue with your employer sponsored health plan, and, depending on how much the employer pays and the quality of the plan, that may be the best option for you. Most people, however, working or not, go on Medicare.

Medicare Part A (also known as Original Medicare) is automatic for most people. You turn 65, and you are automatically enrolled. For most people, there is no monthly premium—it is covered by the payments you made into the system while you were working. (Naturally, there are some exceptions—such as if you have not paid Medicare taxes through employment. Also, some disabilities get you Medicare at an earlier age. And some diseases, and railroad workers, are treated differently. In some cases, if you are not covered, you may be able to purchase Part A.) Medicare Part A covers PART of the following:

- hospital stays
- skilled nursing facility stays
- hospice
- home health care.

It does NOT cover all of the costs for these. It does NOT cover doctor visits. It does NOT cover ANY costs for long term care or custodial care. There IS a deductible. You can pretty much count on paying over \$1,000 per person per year before coverage kicks in.

Medicare Part B is optional. You can purchase it only if you are eligible for Part A. It covers PART of the following costs:

- doctor services and visits
- outpatient care
- some home health care
- some preventive services
- some tests and therapy
- ambulance services

- rehab or physical therapy
- flu shots
- colorectal cancer screenings.

There is a monthly premium, which is deducted from your Social Security benefits check. The cost varies—it depends on income, when you sign up, and a variety of other factors. There is a deductible. And there is a co-pay. It is possible to pay thousands of dollars a year, per person, on premiums, deductibles, and co pays for Part B.

Then there are Medicare Part C plans. These are offered privately, not by the government, but they are regulated by the government. There are more than a dozen different plans, and prices vary, depending on plan, and location. They are also called Medicare Advantage plans. They replace Parts A and B, and sometimes include some drug coverage. Medicare Advantage Plans can save you money, since out-of-pocket costs in these plans are generally lower than with Original Medicare alone. But each Medicare Advantage Plan can charge different out of pocket costs, and have different rules for how you get services (like whether you need a referral to see a specialist or if you have to go to only doctors, facilities, or suppliers that belong to the plan). They come in many flavors, including:

- PPO
- HMO
- private fee for service
- special needs plans
- medical savings account plans.

There are time limits when you can sign up for them, and some restrictions—you are not eligible, for instance, if you are on dialysis for end stage kidney disease.

If you decide you don't want Part C, but still want additional coverage over and beyond what Parts A & B provide, you can purchase Medigap, or supplemental private insurance, which covers all or some

of the costs not covered by Parts A & B. Again, costs and coverage vary widely, and it is a chore to figure out if you are better off with a Part C Advantage plan, or a supplemental plan. The challenge, basically, is to figure out what will cost you less, between co pays and deductibles, and premiums, and often you won't know the answer until you start receiving services, and getting bills. This mutual exclusivity (you cannot have Parts A & B—Original Medicare—and a Medical Advantage plan, and you cannot have a Medical Advantage plan and a Medigap, or Supplement, plan) has been a major source of fraud and fraudulent enrollments by unscrupulous agents, and often results in the cancelling of coverage that you really want to have. It is very confusing.

You cannot have a Medigap and a Medicare Supplement plan at the same time. Also, not all plans are offered in all states, and while the plans are labeled with letter (i.e., Plan F), the meaning of the letters differs in certain states.

Be prepared to spend thousands of dollars a year on premiums, or services that you need to pay for because you do not have Part C, or a substitute. But be careful if you choose a Part C Medicare Advantage plan. Sure, the premium is low, and usually zero, but if you enroll in a Part C (Medicare Advantage) plan and later want to move to Original Medicare plus a Supplemental plan, like when you decide you want a bigger network, or a PPO, you will need to be medically underwritten. And since most people don't care what plan they are on when they rarely see a doctor, it is usually the need for increased medical care that gets people thinking about switching out of Medicare Advantage plans. That is when they discover the requirement for medical underwriting, and, they often are rejected because no insurer wants them at that stage of medical need.

Lastly, there is Part D, which covers some drugs, and some of the costs. If you don't sign up when you are first eligible, it may cost more to join later. And there are gaps in coverage, and deductibles. You can pay additional thousands of dollars a year, or more, plus premiums, if you have Part D, (and more if you don't).

All in all, you need to budget something like \$10,000 to \$15,000 a year for medical care in retirement, or after age 65, depending on what services you use. These are today's numbers. And because there are so many possible plans and usage levels, these numbers can vary. And, this is just for regular care like you get from insurance while you are working. This does NOT include long term care.

By the way, dental is not covered by Medicare unless it is part of something else, like repairing your mouth after cancer surgery, for instance. Hearing and vision are also not covered. You need separate budgets for these expenses.

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## COLLEGE, RETIREMENT, AND LONG-TERM CARE—WHICH DO YOU SAVE FOR?

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IT IS ALL the same question, really. It's not one over the other, but how do you balance all of it—needing to make sure college needs are met, yet also making sure that if you live 30 or 40 years after retirement, you don't run out of money, and also making sure that if you age poorly, there is enough money to keep you comfortable?

Let's look at the concerns, and then see how we can balance needs and resources.

### College:

It would be nice to wave a wand, put money in a pile, watch it grow, and know that you won't have to think about paying for college. But it doesn't work that way. Because there are too many unknown factors, such as:

What will college cost? Will your children end up at an expensive school or a lower-priced school? In-state or out of state? Will they have merit scholarships available? Will they qualify for need-based grants or loans? What will loan terms and rates be like? Can they qualify for a loan that might be forgiven?

Will certain schools offer them low tuition because they have skills that the school deems desirable to “round out” the student body or a team?

How many years of college? Graduate school? Professional schools?

If your answers are: “I don’t know, I don’t know, I don’t know, How can I possibly know?,” at least you are being honest.

My point is—let’s just see how we can put away as much money as we can, and make it multi-purpose money. That is, money that can be used for education, or something else.

For instance, many states have prepaid college plans. I live in Florida, so I am familiar with theirs, but it is a good example. Right now, you can buy 2 or 4 years of tuition, 2 or 4 years of dorms, and a package for other expenses. You can do it in whole or in part. What you are getting is a contract that says, *IF* my child gets in to one of the covered schools (no promises about that happening), you’ll get tuition credits equal to what you put away for now, you’ll get dorm credits equal to what you put away for now, etc., irrespective of what the actual costs are at the time your child goes to school. *BUT*, if your child does not go to one of these schools, you’ll just get your money back (unless you have another child to transfer the package to), or, if you are lucky, you may find some out of state schools that will accept these credits as a partial payment for their fees. Oh, by the way, if you have college already paid for through this type of plan, you may lose the right to scholarship money.

Advantages—you are locking up future tuition and dorm at current prices.

The disadvantages—you may not be able to use the package, and end up with getting your money back, with no growth. And the details may change. And so may the schools your State partners with. And you may be forfeiting free scholarships.

Conclusion—if you have several children, and think one might go to a state school, it’s not an unreasonable investment, given that it can be

transferred to other children if the one you buy it for doesn’t use it. But as the sole plan for college, there are many “ifs.”

#### 529 Plans—

Great concept, in theory—put money aside in a plan (after paying current income taxes due), let someone knowledgeable manage it, have it grow income tax free, and voila!—Ready for college? Take the money out, don’t pay taxes on the gains, and pay for whatever college you want, wherever you want, at whatever cost you are offered, less scholarships, grants, and loans that you may get.

Disadvantages—someone needs to manage the funds, and there is a cost associated with that, just like with any investment account. There can be two layers of costs—one for the underlying investments, and another for the people managing the diversification of the underlying investments.

There is no guarantee on returns—the value can go up or down, depending on market volatility. And you may find that just when you need to pay bills, the market is down, leaving you with less money than you need. Remember, we’ve seen flash crashes this century alone of up to 30%, and while markets generally do recover, it can take years—possibly longer than your child will be in college.

You need to keep funding these accounts, as agreed, in order for them to stand a chance of meeting projections. Miss a payment, and account growth will be hampered. Can’t work because you are disabled? There is no option for built-in disability waivers of payments. Some people get back to work after a disability or accident quickly, but others can be out for 2 to 5 years, or even permanently. Private disability insurance will help, but few people have this.

Turns out you don’t need the money for college?—Then there are taxes, plus penalties, when you take money out for reasons other than education.

Financial aid—if the 529’s are owned by the child or parents, and in some cases the grandparents, some schools may consider this when

offering financial aid, in the form of loans, grants and scholarships. I know it sounds unfair: one set of parents set up a 529 plan, another set doesn't, and the child with the parents with foresight gets less free scholarship money, because he/she already has a pile of money in the 529 plan. The child without the plan—he/she needs more money because the parents weren't able to save, or just chose not to, so he/she gets more free money. It sounds unfair, and probably is, but that's the system.

A savings account for the child? Sounds like a good idea, but, realistically, how much are you going to save, and how fast will it grow (after you pay annual income taxes), and it will count against financial aid if the child owns it. Not a good option.

So basically, four traditional choices, each of which could work, but each of which has severe shortcomings.

Let's look at a non-traditional alternative—whole life insurance. It works similar to the other plans discussed above. You put money in over time, it grows income tax free, and while you are alive, you have access to the cash value. If you happen to die, then you get the huge death benefit.

#### Whole life insurance advantages:

You can access the cash values but taking out automatic loans (that you don't have to qualify or apply for—just pick up the phone and ask) against the cash value, for college, retirement, or healthcare, or anything you want, without paying income taxes on it. Want to buy a yacht? No problem—borrow the cash, don't pay income taxes, and don't pay the loan back until you die. (The insurance companies are not stupid—they will make sure that the death benefit is greater than the amount you owe, with interest.) But if you over-borrow, or have a policy that is not designed to let you take out loans, you can easily forfeit the policy entirely—it is important that you

understand the type of policy that you are getting, and what the limits are! (Be careful—some policies appear to be loan friendly, but really aren't.)

Guarantees—there is always going to be a minimum guaranteed death benefit and cash value, no matter how poorly the insurance company may be run in the future—that is an obligation that the State takes on. Plus, whole life policies are not tied to stock market performance—they are tied to dividends that the company pays policy holders. Dividends will vary, but for top rated companies (and you should only be buying from top-rated companies), projections based on a history of 75, 100, 125, and 150 years of continually paying dividends are a good basis on which to project future growth. To be safe, good agents use current dividend levels, or even a little bit lower, to run projections, so that you are pleasantly surprised in the future, and not the other way around.

Disability—for a slight additional premium, the owner of the policy can be insured against becoming disabled, and unable to work, in which case the insurance company will pay the premiums for you.

Cash value—As of now, the financial aid formulas ignore the cash value of life insurance policies.

Death benefit—even if you loan out a huge amount of cash, after you are done borrowing, the cash value can replenish itself over time. So down the road, you'll have cash value again, and a death benefit. None of the traditional college savings plans will do that.

We started this chapter by looking at college, retirement, and long-term care. The real question is not whether or not you should save for college. The question is: what is the opportunity cost of doing so? What else do you need to save for?

In other words, if you save for college, what are you diverting money from?

Most people fail to consider the obvious—if you save for college, what are you not saving for? And if you spend money on college, what do you not have money left for? If you don't have money saved for retirement, how will you pay for retirement? If you don't have money saved for long-term care, how will you pay for it if the need arises?

College is going to last four years, there are scholarships and loans available, and if you cannot afford one particular college, you can always find another that you can afford. On the other hand, retirement is going to come whether you save for it or not, it may last for decades, and there are no scholarships or loans available. The quality of your life in retirement is going to be commensurate with the income you've provided for. If you don't plan your retirement, Medicaid and social security will be your safety net, and it may not provide for the retirement you envision. Also, consider the following: if you follow the rules, and put aside money for college, and don't have enough, you'll apply for financial aid. First, they'll take the money you've saved, be it in a 529 plan or something else, and then they'll consider your needs, and loan or gift you the rest. But if you don't save specifically for college, and instead put the same money in retirement vehicles, when it comes time for college, if you don't have enough money, they'll make you come up with less, and loan or gift you the rest. In short, unless you can save for both college and retirement adequately, look out for your retirement needs first, then save for college. Don't believe the hype. Sure, colleges want you to pay for your children's education, because that way it will cost them less. But ask the financial aid office—"If I pay for college in full, will you loan or give me money for retirement?" If they won't, make sure you put your retirement needs first.

College costs way more than it did for you and your parents. And retirement for you will be longer, and more expensive, than it was for your parents and grandparents. Approach college and retirement with open eyes—it's a different game than it was 30 years ago, so you need to plan accordingly. If you can put away money for college, and then have the option to use it eighteen years from now, for college, or keep letting it grow, and have it for retirement, or for long term care, or for your heirs, that is probably the best option.

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## RETIREMENT SURPRISES, AND HOW TO PREVENT THEM

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### **1-Planning for medical care in retirement:**

**Y**our working years are often the golden years for medical care. Most people have health insurance, which reduces out of pocket medical costs. In the case of a sustained illness or disability, long-term disability insurance (if you have it) kicks in to provide a paycheck when you are not able to work.

When you retire, two things change. You become part of the Medicare system, and you are no longer eligible for disability insurance. If you will already have provided for long term care insurance, which acts a disability insurance for retired people, then your main concern is health insurance (Medicare).

If you do not have long term care insurance, or if the long term care insurance you have is inadequate, you need to allocate other income or assets to cover the eventuality of long term care insurance. While you may be able to get by with \$4,500 a month for full time care, the base rate is more like \$6,000 a month, and can easily be double that in high-end locales. The average time period that care is needed is three to five years, but that is misleading. You cannot afford to plan for the average—what happens if you are part of the 50% who live longer, and run out of money? To be safe, you need to plan for 10 to fifteen years of care. This equates to one to two million dollars.

## 2-When should you start saving for retirement:

Now, if you are already working. (Possibly in a traditional type of retirement plan, but maybe not.)

Now, if you are just beginning your working life. (Partly in a traditional type of plan if you are getting a match, possibly in a Roth, definitely in whole life.)

Now, if you haven't started working yet. (In whole life.)

Why?

Because money takes time to grow, and it grows faster in later years than in earlier years (because you have growth on top of growth). You can't avoid the slow growth phase that precedes the rapid growth phase, so if you wait too long to start, you'll never get to the rapid growth phase.

Retirement may not cut your cost of living. Depending on how well you've planned, and how independent your children are, you can still be paying off a mortgage, paying off loans, contributing to the costs of grandchildren's education, and paying for medical care for yourself. Plus, you may want to enjoy life by doing things you can't afford to do now.

## 3-Myths: Early social security, reliance on bonds, target date plans, retiring later, working part-time, post-retirement career, and 4% withdrawals without reducing your retirement principal:

The facts, (in order):

- Early social security: no. Right now, is a bad deal if you intend to live more than 18 years.
- Bonds and target date plans: No and no—bonds and target date plans may work or they may not—don't over-rely on them.

- Retiring later—you may not want to, you may not be physically capable of continuing to work, and you will probably have problems finding a job.
- Post-retirement career—this will probably produce more quality of life than money. It can be tremendously rewarding in feeling useful, productive, and helping others. It is unlikely to pay a lot.
- 4% withdrawals: old philosophy. Google “Pfau & Dokken” to see why they say 2% is safer to use in order to not deplete retirement funds. If they are right, unfortunately, it means that a lot of people have just had their retirement income cut in half, or the numbers of years of funding shortened. The key, for the not yet retired, is to over save. For retired people, the key, unfortunately, is to skimp on expenditures.

## 4-Bad retirement assumptions:

Flawed retirement calculators—these are only as good as the underlying assumptions. If you assume an unreasonable rate of return (which is the way too many insurance and annuity policies are sold), you'll end up short.

Lower tax bracket—maybe. Maybe not. And taxes will probably rise. When planning, assume a high tax-bracket so you'll be safe. You won't be pleasantly surprised if it turns out to be lower, because it means your income will be lower, but at least you won't be devastated, which is what happens if you plan for low taxes and end up paying 40%!

“The stock market will bail you out.” No, it won't. The market will return 7% to 8% over a long period of time, but that is the market as a whole, and not to any individual investor. You are extremely unlikely to beat the market, very unlikely to match the market (even in ETF's), lucky if do get within 75% of the market, and probably right on target if you do half as well as the market. Unless you do worse. Conclusion—don't rely on the market exclusively, and don't rely on the market to bail you out.

### 5-Bad luck:

Divorce in retirement, financial losses in retirement, loss of mental capacity and the need to hire someone to manage money, loss of mental capacity that causes poor money management before someone realizes what is going on, damage to house or property, foreclosure, bankruptcy, loss of pension/social security due to death, becoming a victim of fraud or scam, becoming a victim of violent crime, family emergency, unexpected home repairs.

So what do you do? The solution is to over-prepare for retirement, and over-prepare for long-term care.

## TOP CONCERNS FOR BUSINESS OWNERS

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**Y**ou can sustain the strength and growth of your business by making it attractive for key employees to remain with you, *on your terms*, for a long period of time.

If your business would benefit by having a high value retention program for key employees, we should speak.

Especially if you want to do this in a very cost-effective manner.

There are a variety of strategies, generally known as non-qualified executive compensation plans, or supplemental retirement plans, which reward key employees for staying with you until retirement, *if you want them there until then*.

These strategies often cost less than outright cash payments, and protect you, the business owner, from financial loss if the employee does decide to leave before you are ready for him or her to leave.

Some of the ways to accomplish this, in addition to standard 401k plans (which limit how much an employee can put away, and don't offer you any leverage on keeping them), are: executive bonus arrangements (Section 162 bonus), split dollar plans, golden executive bonus

arrangement (GEBA and golden executive match (GEM), and other nonqualified deferred compensation.

Some of these plans are income tax-deductible, making them very attractive to the employer. Some of these plans use life insurance as the accumulation vehicle, especially if there is a sufficiently long timeline. Additionally, the tax-deferred growth and the tax-preferred access are attractive to the employee.

If you have valuable employees who you wish to retain, let our key employee compensation experts work with you to make suggestions and design programs that meet your needs, without forcing you to learn all the nuances of each type of plan. Our goal is to serve your needs by finding out what your goals are, and making recommendations on how to achieve them.

Family businesses or other closely held businesses often represent a substantial portion of an individual's assets. It is extremely important to have a plan in place that covers:

- Retirement
- Turning over the business to heirs
- Turning over the business to successors while you are alive
- Continuing the business if you are disabled

In each case, you need to have thought through and funded mechanisms to either buy you out, or provide you with income, in the event you are no longer working. It is especially important to have made arrangements for financial liquidity, to either pay taxes (in the event of inheritance) or to buy you out, or to continue your compensation in the event you are no longer able to work (due to disability). You also need to provide for a way for family members who are not going to continue in the business to be able to access the value of their ownership. In detail, some of the questions you need to ask are:

- How is the business going to be capitalized to minimize estate taxes?
- How will the estate pay the taxes due if ownership changes in whole or in part due to death?
- How will non-involved family members be compensated when ownership changes?
- How will sufficient cash flow be provided to fund the business, pay creditors, or provide indemnification until the key person can be replaced?
- Disability:
- What salary continuation plan is in effect, and how will it be funded?
- With what funds will the disabled key employee's replacement be paid?
- What deferred compensation retirement plans need to be created to provide a tax effective plan?
- What incentives need to be put in place for key people to stay on?
- What does the buy-sell agreement look like?
- What are the details—purchaser, price, method of payment?
- What will prompt a sale (death, retirement, disability)?
- How will proceeds be invested?

The point of raising all these questions is not to try to resolve them in such a short space. Rather, by identifying these issues, we are hoping to make it clear that where a family or closely held business is involved, these types of questions need to be addressed before there is an immediate need to answer them, especially if insurance is going to be a vehicle to fund the solutions. Also, each business, and each family will be different—no shorthand list is going to adequately address all the aspects of each situation.

In addition to determining the financial ramifications of the above scenarios, you have to make sure the assets of the business are properly titled for the plans you put in place.

Often, the tax consequences of an event triggering a financial change are determined not only by what happens, but how the underlying assets are owned and titled. If your financial situation includes a closely held or family business, you need to address the particulars of your situation both with an attorney and a financial consultant to make sure all the issues are covered.

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## INVESTING IN STOCKS AND BONDS ON YOUR OWN

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Should you invest on your own? Certainly, you can. Today, it is inexpensive—a stock trade can cost less than \$10, and it is immediate. And ETF trade can be free. When I first started investing, I used a broker. It was time consuming. And expensive. Then I started investing without a broker. It was much less expensive. And ETF's didn't exist yet. Both ways, I made some money, and I lost some money. Overall, I probably lost more than I made.

The three places I've made real money—and where I think everyone can make money—are: businesses you own, real estate, and whole life insurance.

But, in your own business, you have huge management headaches, huge risk, and you really have to be good, on top of it, and have more than a little bit of luck to do well.

And in real estate, you just have to buy right, do a little management, have the ability to stay invested when you are not earning rent, and have the ability to be able to hold onto property when the value is down, and when market cycles are down, not be forced to sell. And have a little bit of luck.

With life insurance, all you need to do is buy the right product, and pay the premiums. You don't need luck. You don't need management.

You don't need to worry about market cycles. Risk is negligible. You can get out at any time, easily, and make money (if you've owned it for a while). There is no market timing. And you can even borrow against it (without asking anyone to "approve you" for a loan, like you have to get approved by a bank or someone else to borrow against your business and real estate.) You only need two things, in addition the ability to pay the premiums—you have to buy the right policy, and you have to get good advice. That is why the returns are moderate—very low risk. And they are boring—there are few surprises, up or down. That is why major financial institutions own a lot of life insurance on their key people. But what I've seen is that MOST people buy the wrong policy, and MOST people get bad advice. That's one of the reasons I wrote this book—you CAN be extraordinarily successful owning life insurance, if you do it right.

But getting back to stocks and bonds. One, you are not going to beat the market on skill. You may on luck. How much of your assets do you want to put at risk this way? Two, there are many bad advisors out there, and few good ones, and it is hard to tell them apart. They will all cost you money. They will all admit the same things:

- that they can't predict the future based on how they did in the past
- there is a cost associated with using them that won't be recouped when markets are rising, (but if they prevent you from panicking when markets are falling, they can be worth a lot to you)
- there is a lot they don't know about the rest of the financial world, including insurance, so if you rely on them alone for advice, you are not seeing the complete picture

(If they don't admit these three things, run away from them.)

By the way, you will probably be heavily invested in stock and bonds. Your retirement money will be heavily invested in the markets, as will some other financial products you own. The question for you is not "should I be in the market or not?" The question is: "Do I want to be more invested in the market, and how am I going to manage

those investments?" Remember, you already have investments in the market, and you may not be happy with the way professionals, who supposedly know more, are managing some of those investments. It's human nature. They may not be bad professionals. It's just when the market goes up, you want to participate to the greatest extent possible. When it is down, you want no losses or minimal losses. But half of the professionals you use are going to be below average in ability and knowledge, because that is the definition of "average"—half are better, half are worse. So you probably have at least a 50% chance of performing below average as well. Statistically. In actuality, smaller investors tend to do worse.

If you thought stocks and bonds were complex, wait until you get to annuities. Basically, an annuity is where you give someone (an insurance company, if you want something that is regulated and offers some degree of protection) a sum of money, either all at once, or over a period of time, and it stays with them, and gets invested for a while (a month, or many decades, or somewhere in between), and then they start paying you a regular income (some of which is taxable as income) for a pre-agreed on period of time (your lifetime, your lifetime plus an heir's lifetime, "x" number of years, or until all the money you earned runs out, etc.) They make a profit for doing this, you get some degree of certainty about future income. If you are willing to settle for some degree of guaranteed income (because you must have it), annuities are worth looking at. But, watch for these things:

- Cost—they can be expensive, so decide if the certainty is worth it.
- Riders and guarantees—they add to the expense. Some maybe worthwhile, many are not.
- Inflation—you will probably get income guarantees in today's dollars, which is a problem if you are looking for payouts a long time in the future, and if inflation soars.
- Lack of liquidity—it is expensive to cash in early, or may not even be possible.
- Possible low returns—you've traded performance for certainty of income—make sure it is worth it.

- Unrealistic sales promises—such as you can make up to xx%, if the market does yy%, even though it has never performed that well in the past. Etc.
- Early death risk—you might lose money if you die too young. It can be the trade-off for living too long, and not having a guaranteed source of income, and then running out of money. I think it is better to have money left over that you lose when you die, than to run out of money when you are alive. The question is an annuity the best way to do it?

You've probably looked at ETF's and mutual funds. Mutual funds are pools of money that you contribute to, a manager buys of bunds of investments and manages them for a fee, and you get to share in profits and losses. You are limited in how and when to trade them, and you don't control the choice of investments. In return, you supposedly get expert advice.

ETF's are less expensive, mimic segments of the market (and can mimic mutual funds). Management costs are lower, but in exchange, you are just running with market values. In effect, the marketplace—all the idiots and all the wise investors—are your “advisors.” You have more flexibility than with mutual funds. But you may find that there are hidden costs, such as a lower price when you sell, as opposed to when you buy, even if you make the trades within seconds of each other.

ETF's are a relatively new product. They've been rapidly growing in size. As they grow, the way they interact with the market changes. In their inception, they mirrored the market. How big do they have to get before they start influencing the market? What will be the unintended consequences of their growth, both for the investor and the market? We don't know the answers. We do know that they will change in nature. We just don't know what it will mean to you.

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## WHERE I'VE MADE MONEY

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**D**espite having been involved in about 30 businesses that I've owned or operated in the past 40 years, I only did well in a few. The other ways I've made good money are by owning real estate, and by owning whole life insurance policies.

I've done well in real estate in two ways: by buying investment property, and by investing in property that I leased to myself for businesses that I owned.

Investment property is risky. You have to buy right, be able to hold, and be prepared for the long term. I've made quick money investing when the real estate market was plunging (2008-2009), renting out, holding for a year, and flipping for more than double. I've made money on chancy properties (heavy environmental issues that needed cleaning up). I've made money on buying quickly when the seller had personal reasons to undervalue the property. But you have to know the markets to do that, be in the right place, and have cash to move. For instance, I was able to flip the condos in 2008-2009 because I had instant money at a time when banks were not lending to anyone. (I just borrowed from my life insurance policies—I had the cash in 24 hours, no approvals needed, no forms to fill out.)

I've made money investing in property that I leased to myself for my businesses. It's a no brainer. Buy right, have the business pay you rent to cover your costs, including mortgage, (which will give you a below market rate), and if you are in the right location, slowly build equity while running the business, and when you sell or close the business, keep the

property and lease it to the new people, or sell. When I sold one of my businesses, I had several office/warehouses that I owned and leased to myself. When I sold the business, I leased the properties (at a higher rate) to the new owners, and when they went bankrupt several years later, I evicted them, leased to other end users, and eventually, when the appreciation was high enough, cashed out.

I've made money by investing in land. Usually, the carrying costs are low. The key is to buy ahead of the development—if you see growth spreading out from the center, go a bit further out, buy cheap, and wait for values to go up as the center expands.

Your home can be a good investment for the long term, but it is not a short term investment. And remember, when you sell, you have to find a new home for yourself. Makes a lot of sense if you can benefit from the mortgage interest deduction—the government in effect subsidizes your rent. If you are in that tax bracket, borrow as much as you can, and invest the money at higher returns elsewhere. But you are probably best off thinking of an investment in your home as a cushion in case other things don't pan out. It should not be your primary source of retirement money.

Your business can be a great place to invest money and make money. But remember, nine out of ten businesses fail. I've been involved, primarily as an owner or key manager, of about 30 businesses. A few were ill-conceived. A few had partners who were not a good fit for me, or who had different ideas about sharing, cooperation, and fairness than I did (and which I learned about too late), A few had employee theft issues. A few just out-lived their time. And three that succeeded (two buy design, one just by pure luck—an incredibly stupid narcissist who had tons of money bought a business that I was struggling to maintain for a lot of cash.) So I'm right on track. But I can't even take credit for my biggest success, except for the fact that I hung in during a wrenching two-year acquisition process.

Whole life insurance was unexpectedly, probably the best investment I made. I bought it because it was sold to me, and, surprisingly, it was an honest, realistic pitch for a good product (although I did not have the background to know that at the time). It provided consistent, boring, steady, decent tax-free growth with essentially no risk and no involvement on my part, other than to pay annual premiums. The “boring” returns financed some of my children's college costs, many of my real estate ventures (see above), and some of my business failures (also see above). But the policies are still here, I'm still alive, they keep growing in value at an extraordinary rate, and should I choose to not put any more money in, they will continue to grow, tax-free.

Not exciting, very safe, and a good foundation for the portion of my retirement that I cannot afford to put at risk.

Conclusions from the last two chapters: Should you invest in stocks and bonds on your own? Answer—only what you are willing to lose. And the money you invest in stocks and bonds with others? Only if you are prepared to watch it closely, get REASONABLE returns, and take risk. But if you look at it that way, why not just invest it in whole life insurance, get the same reasonable returns, not need to watch it closely, and minimize or eliminate risk? Or put it in real estate or your own businesses.

## TEST YOUR KNOWLEDGE

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A national study by LIMRA (an insurance industry association) reported in early 2013 the results of following ten question life insurance knowledge test given to 4,000 Americans. Less than 1 % answered all ten questions correctly, and 55% answered less than half the questions correctly. LIMRA claims that the main reason people don't buy life insurance is that they find it too confusing. Could be, but they also need to consider the possibility that people don't like talking about it, don't like the people who try to talk to them about it, and never spoke with anyone who tried to explain the pros and cons of all the options, as opposed to just trying to sell them something. See how you do on the test—the answers are below. And below that is my commentary on the “official” answers, which I hope will help you realize that selecting the right policy is highly nuanced since they vary greatly, and that how insurance fits into your financial picture is as important as what type of policy you choose.

1. If someone dies, and you receive the payout from his life insurance policy, do you have to pay income tax on it?
2. Is the main reason insurance companies want to know your medical condition when you apply to have documentation of pre-existing conditions if they want to dispute a claim?
3. Is life insurance is basically paying money to an insurance company every year for them to invest, so your heirs can get money when you die?

4. If you have group life insurance at work, and you leave your job, will you still have life insurance?
5. If a life insurance company goes bankrupt, will your policy be cancelled, and your benefits lost?
6. If you have a variable annuity or a variable universal life insurance policy, do you or the insurance company bear the bulk of the risk?
7. Which type of insurance policy requires the larger premium for an identical initial death benefit—term or whole life?
8. Which type of insurance is most appropriate when you have a specific need for life insurance for a specific amount of time—term or whole life?
9. Which type of insurance has a cash value that you can use when you are alive—term or whole life?
10. Which type of policy has a premium that will go up eventually if you keep the policy forever—term or whole life?

Answer key:

1. No
2. No
3. Yes
4. No
5. No
6. You
7. Whole life
8. Term
9. Whole life
10. Term

How did you do?

A majority of the people who take this test get more than half the answers wrong. Two-thirds or more of the people get questions 1, 2, 5 and 6 wrong. Below are short explanations. Email me if you want more info.

My explanation:

1. Most life insurance payouts are income tax free. There are some exceptions. Surrenders may be taxable. Some contracts are specifically designed to be taxable. Unless precautions are taken early enough, some payouts may be subject to estate tax. It is better to resolve these issues when the policy is taken out—they can be hard to change later.
2. The reason is to assign you to a risk class is so they can set a premium.
3. That's the basics. But it also creates tax-exempt wealth, can provide creditor protection of assets, tax-free growth, safety, and disciplined savings.
4. Not only does your workplace group life insurance usually not go with you when you leave (for any reason), but, depending on your age and medical condition, you may not be able to replace it with an individual policy (or not be able to afford an individual policy) and your next employer may not offer group coverage. Think of work provided life insurance as a bonus, and don't count on it being there later. After all, you probably won't die during your working years.
5. Insurance is a highly regulated industry, probably more than any other. State departments of insurance make sure that every company is actuarially sound. If one threatens to fail, it is sold to another company, which honors the policies. You cannot find one person who has submitted a claim from a policy issued by a decently rated company, and had it rejected because there were no funds to pay it. That is why you buy the least expensive term insurance that you can find, once you have limited your selection to companies rated A or B by the rating services. Company strength is irrelevant (unless you plan to convert it to a permanent policy later). Insurers offering some types of insurance, however, are allowed to raise rates if the policies become underfunded. This most often happens with long-term care insurance. In this case, price alone is not the best way of choosing a company.
6. Variable policies gained in popularity when the stock market soared upwards. They offered more attractive returns than traditional cash value policies because their hypothetical illustrations were better. Unfortunately, many purchasers did not understand that, and many hypothetical outcomes turned out to be purely hypothetical. These policies are still offered today. Consumers still don't understand them. Your agent needs to explain these to you very carefully. You probably don't want to buy one, unless you love taking risk, which raises the question of why you are buying insurance in the first place, since insurance is designed for people who want to reduce risk.
7. Part of what you pay goes to cash value, and building up cash to keep future premiums level.
8. Term is pure insurance, designed to provide you with a set payout if you die within a certain number of years. But that should not be the only consideration when choosing between the two types of policies.
9. That's why I call term insurance "death insurance"—it only pays out if you die. Cash value permanent insurance is "life" insurance. If you follow the rules, you eventually get to use the money while you are alive.
10. Only buy term if you definitely don't want coverage after the term is up—it gets too expensive.

## WHAT I DO, AND WHO I AM

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“What is my work?” someone asked me recently. It took me a while to answer, because I am usually asked “What do you do for a living?” and the response is easy—I sell insurance and financial products, and the insurance companies pay me a commission or fee, which provides the bulk of my income, or “living.”

“What is my work?” however, is a different question, because my work does not always provide me a living. I see my work as basically listening to people, hearing their hopes and dreams and concerns, answering questions about money and risk, and helping them figure out what steps they need to take to achieve those goals, while protecting themselves financially against obstacles that may get in the way. My work is learning about all parts of their lives—about the people they love, about the people they are financially responsible for, about the people who help them, about the people who might try to take advantage of them, about the people and situations that expose them to risk. A lot of my time is spent advising on things that I have learned the hard way—business relationships, child rearing, relationship building, self-confidence, marketing, negotiating, getting an idea across to others. My work is teaching what people and life’s experiences have taught me. None of this generates income. A lot of my time is spent explaining the myriad of alternatives for investing, saving, building assets, reducing liabilities, managing money, etc.—for which I often refer them to other professionals, and for which I do not get paid. More often than not, I can help these people acquire

insurance and some other financial products which are an essential part of the risk reduction/income production/asset preservation balance. From this part of my work, I make my living.

I was born in 1953, the first child of Lila and George Berlin, and lived in a tiny apartment in Manhattan for six months, until my father bought a \$15,000, two bedroom, one bath starter home in the suburbs. Mom worked as a nurse until I was born, and then retired to take care of what would quickly become a family of four. Dad, a Navy vet and a college trained civil engineer, began a 15 year career in a concrete supply company, thinking he would be there forever. Growing up, I often spent weekends with Dad, hosing the chutes of concrete trucks before the tailings could harden. After the concrete company went bankrupt, and the owners forged papers saying that Dad had an ownership position so as to try to saddle him with their liabilities, I figured out that financial security lay not with working for others, but in building something of my own.

Mom’s youth had been colored by the Depression. Her father was often out of work, and her mother struggled to provide for the four girls (the only viable births from seven pregnancies, which included two stillborn and a short-lived male). As a teenager, she sold sandwiches by the roadside, near a farm that relatives lived on for a while, and then, back in Manhattan, went door to door selling subscriptions. The fear of not having food or money became ingrained into her subconscious, and I clearly remember bringing a sack lunch to school, every day, with 3 pennies to buy a half-pint of milk. Rarely was there an extra nickel for a candy bar, although an extra nickel a day, \$13 a year, would not have taxed the family budget (even if all four children got that nickel). A cafeteria hot lunch for thirty-five cents was achieved but once or twice a year. Suffice to say, with the school lunch program being my Holy Grail of gourmet food, the first time I went to an “all you can eat” buffet restaurant, I thought I had died and gone to Heaven. (Who knows what damage I have inflicted on my children by making them eat what was in the refrigerator, irrespective of its age or state of decay?)

The lesson I learned from vicariously living Mom’s youth was that if I did not provide for myself, I might, indeed go hungry in the future.

I began my working career in 3rd grade, publishing a short-lived, one page community newspaper, which Mrs. Shepard, my teacher, was gracious enough to make mimeo copies of at school. I attempted to peddle these door to door for 3 cents a copy, but the smell of the acetone toner brought back too many memories of surprise quizzes and worksheets that my potential customers had endured in childhood, and it did not sell.

Since then, I've been involved in over 30 businesses, sometimes as an employee, but more often as owner and entrepreneur, generally with a partner or two, and the success or failure of my efforts depended mainly on my wits, determination, incredibly long work day, fear of failure, and luck. These forty-plus years of adult working life have brought me a wealth of experience and insight into human behavior, and a clear understanding of what it takes to succeed. It has also taught me just how ill-prepared we all are for a life of financial peace of mind. Too much is invested in hopes and dreams, and wishing that things will turn out a certain way, at the expense of realistic planning.

A number of years ago, I turned to the world of insurance and finance, in part because, amidst the joys of life, several unpleasant surprises and tragic events occurred:

- My mother-in-law spent 27 years flat on her back in a nursing home, supported by Medicaid. Several State employees began their careers in the Department of Family Services with Jane's case already open, and they retired before it was closed. She may well have been the longest case on record.
- My sister-in-law, age 61, was hit by a car, thrown 25 feet, broke everything, was in a coma for 3 months, and was still in rehab over 18 months later. She had no disability or long-term care insurance.
- My Dad passed away. He was woefully under-insured, and some of the insurance he had was totally inappropriate.
- My Mom's long-term care insurance lapsed, leaving her with annual costs in excess of \$100,000, and a lifetime cost of \$1,500,000.

- Some investments I had were tied to the stock market, which tanked just when I needed the money.
- It turned out that some wildly popular insurance products that I owned were invested in the stock market as well.
- I discovered that I had become middle-aged, which was quite a surprise, because I had been thinking that I was still young.

Reviewing insurance was never on my list of top 10 things to do. I did not like shopping for insurance. And I thought growing old was something that would happen in the future. But after I reviewed my policies a while ago, I concluded that I was missing important coverage, that I was paying for policies that were no longer right for me, and not getting the most out of the good policies that I owned. So I took matters into my own hand; I went to school and got a license to sell insurance. Then, I fixed my policies that were worth saving, cancelled others, and added some new ones that I needed. It occurred to me that I might not be alone, so I started talking to people. It turns out that I was right. I have yet to find anyone who likes shopping for insurance, and I've collected a set of insurance horror stories. I turned what I learned into a career—and you can save time and money and benefit from my learning, just by talking to me.

I approach insurance the way I approach everything else—studying, gaining knowledge, seeking out mentors with experience and the proper connections. And I listen to people's needs. That's what I was taught at Princeton University, and at the Wharton School of Finance, while studying for my MBA. (It's also what I taught my undergraduate students there, while I was getting my MBA.) It's the methodology I've used to build several successful businesses. It's the bedrock of my ability to help people achieve financial peace of mind.

In the philanthropic world, I have started and developed several charities, with a strong focus on child abuse, poverty, and teaching life enhancing values. I support numerous organizations, including serving on local, national and international boards. I have developed several successful programs that I use when training and teaching.

I particularly enjoy mentoring others to live more successful, prosperous and inspired lives. As an author, lecturer, and teacher, I have addressed the issues of success in business, financial, personal, and philanthropic arenas. By improving and transforming the quality of life for others, I have earned the trust, respect, and a following from the individuals, groups, businesses and non-profits.

## THE MOST MISUNDERSTOOD FINANCIAL TERMS, AND WHY THEY CONFUSE SMART PEOPLE

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**M**atching funds: This is a no brainer. It's free money. Every dollar you put in gets matched, so you are doubling your money at no cost. Plus, you defer paying income taxes until you retire, so the government is adding to these funds as well. This is a very sweet deal. Unfortunately, you'll max out on the match quickly—that is when you want to stop. The reason is that the taxes are just deferred, not forgiven. At some point, you will have to start taking distributions, and you will have to pay income tax on the money you put in, plus the growth, at whatever the tax rate is at the time you take the money out. If you do well in life, this could be quite high. That's why we want to stop using these types of accounts when the matching stops. If your employer offers any sort of matching funds in a retirement or profit-sharing program, sign up for it now. It's free money. Put in whatever you need from each paycheck until you max out your employer's match. Then stop, open an IRA any place that has extremely low fees (Schwab, Scott, eTrade, Fidelity, etc.) Have money deducted automatically from each paycheck. Take out a cash value whole life insurance policy with the insurance company that offers the best value for you. Don't think about the death benefit—it is irrelevant. Think about building cash value, and how money gets loaned out. It's the next best deal after a Roth account, and you can put in unlimited funds.

**Roth IRA's:** You pay taxes on the money you invest now, because it does not get deducted from your taxable income, like 401K funds. So you have less to invest. But since you are only in the 10% or 15% tax bracket, the taxes are not that big a hit. The beauty of these accounts is that you never pay taxes on the money again, and you never pay taxes on what you earn inside the account. Invest wisely, and this money grows by leaps and bounds, because the growth compounds on everything—no deducting some money for income taxes! The downside is that there is a max you can contribute every year, and eventually, when you make enough money, you won't be able to contribute at all. But use this while you can. When you open the account, ask the advisors on staff how to best allocate it for someone your age. Remember, you will not be touching this for 40 years or more, so you can be on the aggressive side. Talk to them about automatic rebalancing. If you can afford it, go for the max every year.

If you already have money put away from when you were younger, you can move that money into the Roth account (up to the max) and not take it from your paycheck. Gifts from family work as well. Take money from anywhere you legally can, and max out your Roth. Then manage it wisely.

**FINRA:** A Wall Street Journal analysis of securities records found that more than 5,000 brokers licensed to sell securities had worked at a firm that had been expelled by FINRA from 2005 to 2012. "FINRA is concerned about the potential risks posed by brokers who formerly worked at one or more firms that have been severely disciplined," the regulator said in the letter. FINRA has the authority to expel firms and bar brokers, making it illegal for them to sell securities. The Journal's analysis revealed some of the nationwide migratory patterns of brokers associated with firms with checkered pasts. Some brokers remained in the industry even after having accumulated numerous arbitration claims against them or declaring multiple bankruptcies. FINRA and other regulatory institutions are great, but they just dampen inappropriate activity, after it becomes known and abusive. Their actions are unlikely to help you personally.

**Life Insurance:** Life insurance is based on the knowledge that, in a given population, statisticians and actuaries know exactly how many people will die in a given year, based on their age and health. They don't know who, but they do know how many. So let's say that we are looking at a population of 1,100 healthy males, age 25, and they know that exactly one of them will die in the coming year (that's not the actual number—I am making up these numbers to give an example.) If each person puts one dollar in the kitty, there will be a pot of \$1,100 dollars. If it costs the insurance company \$100 to administer the fund, then whoever dies that year gets the remaining \$1,000. Insurance is that simple. They'll be a certain number of winners (or, losers with heirs who have just received a sum of money, to be accurate), and it's predictable. The older the group gets, or more unhealthy it is, the greater the number of deaths and payouts, so, over time, everyone needs to contribute more money every year. And that is the underlying basis of life insurance. Insurers found out that, for budgeting purposes, consumers did not like paying increasing premiums every year, so they figured out a plan. Let's say people wanted policies that would be good for 20 years. Since the early years would be inexpensive to fund, and the later ones more expensive, the companies just averaged the numbers, factored in something for investment earnings, and charged every member of the group the same premium for the next 20 years. (The same is true for policies that are good for 10 or 30 years.) In the early years, the pool would be over funded, and in the later years, the costs of the increased payouts due to higher death rates would be taken from that excess. At the end of the 20 years, the fund would be at zero, the company will have earned its fees every year, and the heirs of the people who died would have been paid. And everyone else? Nothing. They got no money back, and when they died in subsequent years, their heirs got nothing. And that is why their premiums were so low – they went into the program knowing that they would all be supporting each other when a few of them died in the prime of life, when their dependents needed money the most, and once that time period had passed, and the children had grown and the mortgage was paid off, there would no longer be a need for a big payout at death.

That's when insurance companies figured out the concept of whole life cash value insurance. What would happen, they said, if instead of taking in just enough money to fund the deaths in the next 20 years, everyone put in a lot more money every year, and we invested it for them so that, over time, there would be money to pay everyone at the time of death, and in the meantime, there would be a big pool of money that people could borrow against? And that is exactly what cash value whole life insurance is: high annual premiums, but a guaranteed death benefit no matter how long you may live, and cash value that you have access to if you want. Generally, it is designed so that the cash value builds every year, and that when you turn 100, the cash value is the same as the death benefit, so they just write you a check whether you are alive or dead. Now you may be asking yourself, why do I need the insurance company to do that? Why can't I just put a huge amount of money aside every year, invest it wisely, and just pay myself a huge amount of money when I turn 100? And in the meantime, I'll have all that money in an investment where I can get it if I need it.

Because life insurance basically involves paying money to an insurance company each year so it can be invested so the company can pay your heirs when you die. That's the basics. But it also creates tax-exempt wealth, can provide creditor protection of assets, tax-free growth, safety, disciplined savings, and a death benefit.

Group life insurance generally does not stay in effect when you leave your job. Not only does your life insurance not go with you, depending on your age and medical condition, you may not be able to replace it with an individual policy (or not be able to afford an individual policy) and your next employer may not offer group coverage. Think of work provided life insurance as a bonus, and don't count on it being there later. After all, you probably won't die during your working years.

Life insurance companies are heavily regulated and monitored so that policy owners are assured of a payout of benefits even if the company goes out of business. Departments of insurance make sure that every company is actuarially sound. If one threatens to fail, it is sold

to another company, which honors the policies. You cannot find one person who has submitted a claim and had it rejected because there were no funds to pay it. That is why you buy the least expensive term insurance that you can find—company strength is irrelevant (unless you plan to convert it to a permanent policy later). Insurers offering some types of insurance, however, are allowed to raise rates if the policies become underfunded. This most often happens with long-term care insurance. In this case, price alone is not the better way of choosing a company.

Variable life and universal life policies shift the investment risk from the insurance company to the policy holder. They offered more attractive returns than traditional cash value policies because their hypothetical illustrations were better. Unfortunately, many purchasers did not understand that, and many hypothetical outcomes turned out to be purely hypothetical. These policies are still offered today. Consumers still don't understand them. Your agent needs to explain these to you very carefully. You probably don't want to buy one, unless you love taking risk, which raises the question of why you are buying insurance in the first place, since insurance is designed for people who want to reduce risk.

Term insurance is most appropriate when you need a large amount of insurance for a limited period of time, and when you do not have sufficient funds to buy a cash value policy with the same death benefit. Term policies are usually sold for a flat premium for the initial term of the policy, with the option to continue coverage later at a much higher price. Only buy term if you definitely don't want coverage after the term is up—it gets too expensive.

“Average Rate of Return”: If you see this phrase in a sales pitch, run in the other direction as fast as you can. It is way too complicated to explain here, but it is mathematically possible to average rates of returns for several years and come out with a positive number, while in fact ending up with less money than you started with! For example, if you invest \$100 for 3 years you can have an “average” rate of return of 8%, and

easily end up with \$75, and not the \$124 that the term implies (\$100 + \$8 in year 1, + \$8 in year 2, + \$8 in year 3). This is explained in more detail in the section on comparing investments.

“Complimentary Dinner” or “Complimentary Gift Card”: These are usually provided for those fancy, “all you can eat” restaurants, but the only one gets to eat all he can is the guy inviting you, and guess what is on the menu—you! Why would anyone who does not know you invite you to a free meal, unless he expected to get more out of it than it costs. Your financial health is a serious matter, affecting the rest of your life. If you had heart disease and needed a transplant, would you choose a surgeon who offered you a free cruise for using him?

“Consistent” Returns, Results, Performance or anything else: There is no such thing as consistent returns from investments that involve risk. CD’s, money market funds, whole life insurance products, fixed annuities all provide consistent returns because they are financially sound and hedge against risk. Any variable product, or stock or bond investment that goes up and down is by nature inconsistent. There are only two things consistent about stock or bond investments. One, there is a consistent supply of suckers who believe that they can earn consistent returns, and two, there is a consistent supply of people who are willing to take advantage of them.

“Average Expected Life Span”: People are often sold products designed to provide them for their average expected life span. “Average” means half; that is, half of the people your age will live to the average age, and half will not. (Actually, that is the definition of “median,” but in the industry, people sometimes use one term when they should use the other.) So if you plan on being part of the half that does not live that long, having enough money to make it to the average age is fine. But if you are standing next to someone, and you think he is not going to make it to that age, it means that you will be out of money when he dies. What are you going to live off in the rest of your years? If you are a couple, the implications are worse (financially): the average age that ONE of you is going to remain alive is a lot longer than the average age

for each of you. So if one of you still needs money when the other is dead (DUH!), having enough for either of your “average” life spans is not enough.

“Guaranteed Issue” or “No Medical Exam” or “Group Rates”: This is the best thing for you to look for if you are in bad health, or expect to fail a medical exam. It is the WORST thing to buy if you are moderately healthy, or better. Think about it. If you have an extremely large group of people, say 10,000, all of the same age, you can reliably predict how many are going to die each year from now until the last one passes. You know this based on what has happened for groups like this over the past few hundred years. You just don’t know WHO is going to die each year. You may think it is going to be the sicker ones, but some of the healthy ones might die “before their time.” But if experience shows you that, for example, for this age group, only two will die next year, and you collect a dollar from each of them, you are perfectly happy to give each one an insurance policy for \$4,500, because this year, you will collect \$10,000, pay out \$9,000 and have a \$1,000 profit. You just don’t know who the “winner” will be, and you don’t care, if you are the insurance company. But if you were one of the people paying the dollar, wouldn’t you rather be in a different group of 10,000 people who have been screened for health issues, and who are healthier? In that group, maybe just one person will die, so the insurance company can charge everyone 55 cents, collecting a total of \$5,500, paying out just one claim of \$4,500, and making the same \$1,000 profit. The net result to you is that you’ve paid 55 cents instead of \$1. So if you see any of the terms above, buy if you are ill, and run if you are healthy!

“Term” Insurance: This is like car insurance. It is not forever. It is for just one year, as long as you pay the premium that year. With car insurance, if you crash the car during the year, the insurance company pays you. If you have an accident one day after the year is up, you get nothing. (If you pay monthly, substitute the word “monthly” in the sentence above.) Same thing for “term life” insurance. Die a year and a day after you paid the premium, and your heirs get nothing. “Level” term insurance or “Guaranteed Renewable Level” term insurance means that the

rate is guaranteed to stay the same for whatever term you select—10, 20, 30 years, or somewhere in between. As long as you pay each year (or month), and you die within the year that you paid, you heirs “win.” But if 30 years and a day go by, and you’ve paid every year for 30 years, they get nothing. And while you are alive, the policy has no value—you can’t cash it in, or borrow against it, or pledge it as collateral, because it is only going to have value if you die during that year. “Guaranteed renewable” only means that you can pay every year, and they will accept your money, without asking you any medical questions. SO you can be sick as a dog, expect to die any day now, pay the money, and they have to insure you. (Great deal for your heirs; sorry to hear about you.) It may also mean that you can keep paying after the term is up, BUT at a MUCH higher annual rate—like 40 or 50 times what you paid the year before. Again, great if you are deathly ill, but a few years of these payments, and you’ll pay in much more than you can ever collect.

“Whole Life Insurance”: This has a much higher annual premium than term, but the difference is that the insurance company invests the difference for you, and guarantees that as long as you pay the much higher premium every year, you’ll be insured forever. So feel free to live as long as you like, there will always be something there for your heirs. And because you are pumping in so much money upfront, and because they do such a good job of investing, these policies have a value while you are alive, so if you cancel the policy, you get money back. You can also borrow money, either from a bank, or the insurance company, or from your cash value, using the policy as collateral, and plan on paying it back when you die (or sooner if you want). And because they invest the money so well, after a few years, you’ll be able to take out more than you put in.

“Universal” or “Variable” Life Insurance: WATCH OUT! Many people really got misled by these policies in the past 2 decades. They are neither term nor whole life. Instead, the risk of investment is passed on to you, the policy owner, instead of the insurance company. So if they invest the money well, you have permanent insurance. But if they don’t invest well, or the investments they choose do poorly, you will either 1)

have to put more money in to keep the policy alive, or 2) end up with no cash value for all the extra money you put in. There is only one type of policy like this that makes sense—a “Guaranteed” Variable or Universal Life policy, where the death benefit is guaranteed to age 120, but the cash value is not, and the investment risk is not passed on to you. It is almost like having a term policy where the death benefit and the premium are both guaranteed to be level forever. I like these policies in certain situations, especially when they’ll give you part of the death benefit while you are still alive, if you need nursing home care.

## LEGACY

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Dying is expensive, and it generally happens at the wrong time, financially.

If you haven't planned properly, estate taxes, or income taxes on tax-deferred assets, like IRA's, can eat up your legacy.

Unpleasant as it is to think about, you are better off planning while you are alive, than letting your heirs deal with a mess after you pass. Remember, everyone has an estate plan. Some of us have one that we planned for ourselves, and the rest of us have the one that the government planned without asking us. Which one do you want to have?

Nobody dies broke. Everyone has something, even if it just the clothes they are wearing, and their "stuff." Most people have some money as well.

What happens to your "stuff" and money depends how well you prepared while you were alive. Amazingly, most people never bother to think it out. When they die, no instructions are left, and what happens next depends on the laws of whatever State they died in. It is called dying "intestate," or without a will, and generally, if you intended what you left to go to people you cared about, that is not going to happen. But even without going to the effort of writing a will, you can still get your money where you want it to be.

It just takes a little planning.

Even if you just have a small amount of assets, if you do not prepare correctly, your estate can end up in probate. This is a procedure where the courts appoint a representative to value your estate, notify potential creditors and heirs, and make a recommendation for the disposition of your assets to a judge. It is time consuming and expensive. For a small estate, it could eat up all the assets.

Leaving a will does not prevent probate. Having a will just means that the probate court has another document to analyze to determine what your wishes were. It is far better to arrange to dispose of your financial assets, and items of value, before you die, than after. More will be left for your heirs.

If you have a lot of money, the government gets really excited about your passing away (and not by shedding tears). Estates valued above a certain amount are subject to estate taxes, unless precautions are taken while you are alive to shelter your assets. With proper planning, taxes can be reduced or eliminated entirely, often for several generations.

Without proper planning, wealth often becomes a burden. It pits family members against each other, causes rifts, and acts more like a curse than a blessing. Even well-intention family members, without clear guidance from you, can end up in fights that last decades (and cost millions) in the belief that they are doing the right thing.

Additionally, if your assets exceed the limit for estate tax exemptions, your heirs will need to come up with the taxes due in 9 months. If your assets are illiquid, such as businesses, real estate, or collectables, your heirs may be forced to sell at drastically reduced prices to come up with cash. If certain family members have sentimental ties to certain assets, or regularly benefit from having those assets, feuds can easily erupt. For instance, let's say some family members work in a business you own, and some don't. Maybe these family members really enjoy going to a resort condo that you own. If you need to raise cash quickly, do you sell the

business, and put some of your relatives out of a job, or do you sell the condo, and change the lifestyle of other relatives?

In some cases, there is a real need to plan ahead. If you still need to take care of someone, or you have other obligations, advance planning is crucial. It is even more important when you are leaving behind someone with special needs, who might be eligible for government assistance. Poor planning could inadvertently leave that person with too much money in his or her name, and the assistance will disappear.

Beyond what you need to do, and beyond what those close to you expect you to do, you may also want to do something that you were unable or unwilling to do while you were alive. Many people use death as a time to make bequests to charities that they supported while they were alive, or that they wished they could support, but were still unsure if they had enough money to so.

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## COMPARING INSURANCE POLICIES AND INVESTMENTS, AND MAXIMIZING THEIR VALUE WHILE TAKING OUT INCOME

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One thing you have to be careful of when comparing different types of investments and rates of return—you cannot average rates of return by themselves, and then apply them to results. It will not give you a mathematically correct result. You have to average the total returns, and then work backwards to get an average rate of return. Using returns averaged improperly can provide misleading results, and unscrupulous people use it to confuse you. For instance:

For example, let's say you invested \$100, and got an 8.33% average return. You might assume that this means after 3 years, you would have \$127.13:

| Year    | Start     | Gain    | End             | % Gain |
|---------|-----------|---------|-----------------|--------|
| 1       | \$ 100.00 | \$ 8.33 | \$ 108.33       | 8.33%  |
| 2       | \$ 108.33 | \$ 9.02 | \$ 117.35       | 8.33%  |
| 3       | \$ 117.35 | \$ 9.77 | <b>\$127.13</b> | 8.33%  |
| Average |           |         |                 | 8.33%  |

Every year, your investment grew 8.33%, including growth on the income you earn in prior years. The total is three times 8.33 (25.00), divided by 3, for an average of 8.33%.

Now let's assume that there was inconsistent growth, but that the "average" was still 8.33%:

| Year | % Gain |
|------|--------|
| 1    | 100%   |
| 2    | -50%   |
| 3    | -25%   |

The total also is 25% for the 3 years, for an "average" of 8.33% a year.

Now, let apply this second set of returns to the \$100 investment:

| Year    | Start     | Gain        | End       | % Gain |
|---------|-----------|-------------|-----------|--------|
| 1       | \$ 100.00 | \$ 100.00   | \$ 200.00 | 100%   |
| 2       | \$ 200.00 | \$ (100.00) | \$ 100.00 | -50%   |
| 3       | \$ 100.00 | \$ (25.00)  | \$ 75.00  | -25%   |
| Average |           |             |           | 8.33%  |

With the same "average" of 8.33%, you've actually lost money in 3 years! Instead of having \$127.13 after three years, you have \$75.00, which is less than you started with.

Let's look at how this principle applies to retirement accounts. In this example, we are going to take a retirement account that has

\$500,000 in it, and we are going to withdraw \$30,000 in the first year (and increase this by 3% every year to keep up with inflation. So the next year, we withdraw \$30,900, then \$31,827, etc.). In Portfolio 1, we end up with \$19,369 after 26 years. In Portfolio 2, we end up with \$2,555,498. Same starting amount, same annual withdrawals. So the difference has to be the investment return every year. But if you look at the investment return columns, you'll see that the numbers are the same, except in reverse order. For instance, in year 1 in Portfolio 1, the return is (8.40%), which is the same as year 26 in Portfolio 2. (And the same is true for year 2 and year 25, etc. The "average" of each column is the same: 11.30%.) In fact, the only difference between the two portfolios is the order of the rates of return—which causes a difference of over \$2.5 million.

| Portfolio 1 |                   |                 |                 | Portfolio 2       |            |                    |  |
|-------------|-------------------|-----------------|-----------------|-------------------|------------|--------------------|--|
| Year        | Investment Return | Withdrawal      | Account Balance | Investment Return | Withdrawal | Account Balance    |  |
| 1           | -8.40%            | \$30,000        | \$427,900       | 1.30%             | \$30,000   | \$476,600          |  |
| 2           | 4.00%             | \$30,900        | \$414,030       | 10.10%            | \$30,900   | \$493,646          |  |
| 3           | 14.30%            | \$31,827        | \$441,430       | 7.60%             | \$31,827   | \$499,385          |  |
| 4           | 19.00%            | \$32,782        | \$492,275       | 30.40%            | \$32,782   | \$618,417          |  |
| 5           | -14.80%           | \$33,765        | \$385,752       | -3.10%            | \$33,765   | \$565,419          |  |
| 6           | -26.50%           | \$34,778        | \$268,942       | 31.50%            | \$34,778   | \$708,917          |  |
| 7           | 37.30%            | \$35,822        | \$305,976       | 16.80%            | \$35,822   | \$792,335          |  |
| 8           | 23.70%            | \$36,896        | \$341,596       | 5.20%             | \$36,896   | \$796,799          |  |
| 9           | -7.30%            | \$38,003        | \$278,753       | 18.60%            | \$38,003   | \$906,602          |  |
| 10          | 6.60%             | \$39,143        | \$257,966       | 32.00%            | \$39,143   | \$1,157,844        |  |
| 11          | 18.60%            | \$40,317        | \$265,631       | 6.10%             | \$40,317   | \$1,188,270        |  |
| 12          | 32.10%            | \$41,527        | \$309,451       | 22.40%            | \$41,527   | \$1,412,559        |  |
| 13          | -4.90%            | \$42,773        | \$251,484       | 21.10%            | \$42,773   | \$1,667,978        |  |
| 14          | 21.10%            | \$44,056        | \$260,516       | -4.90%            | \$44,056   | \$1,542,024        |  |
| 15          | 22.40%            | \$45,378        | \$273,416       | 32.10%            | \$45,378   | \$1,992,099        |  |
| 16          | 6.10%             | \$46,739        | \$243,383       | 18.60%            | \$46,739   | \$2,315,890        |  |
| 17          | 32.00%            | \$48,141        | \$273,197       | 6.60%             | \$48,141   | \$2,419,901        |  |
| 18          | 18.60%            | \$49,585        | \$274,250       | -7.30%            | \$49,585   | \$2,194,633        |  |
| 19          | 5.20%             | \$51,073        | \$237,535       | 23.70%            | \$51,073   | \$2,663,688        |  |
| 20          | 16.80%            | \$52,605        | \$224,883       | 37.30%            | \$52,605   | \$3,604,638        |  |
| 21          | 31.50%            | \$54,183        | \$241,605       | -26.50%           | \$54,183   | \$2,597,028        |  |
| 22          | -3.10%            | \$55,809        | \$178,282       | -14.80%           | \$55,809   | \$2,157,378        |  |
| 23          | 30.40%            | \$57,483        | \$174,997       | 19.00%            | \$57,483   | \$2,508,718        |  |
| 24          | 7.60%             | \$59,208        | \$129,107       | 14.30%            | \$59,208   | \$2,808,257        |  |
| 25          | 10.10%            | \$60,984        | \$81,111        | 4.00%             | \$60,984   | \$2,859,042        |  |
| 26          | 1.30%             | \$62,813        | <b>\$19,369</b> | -8.40%            | \$62,813   | <b>\$2,555,498</b> |  |
| Average     |                   | \$1,156,590     |                 | Average           |            | \$1,156,590        |  |
|             |                   | Total Withdrawn |                 |                   |            | Total Withdrawn    |  |

Obviously, the value of your investment is very sensitive to what happens each year in the market, and when you have positive and negative returns, so you cannot just take a general average of rates of return over time. The actual dollar value of any investment depends on what happens each year.

So if actual returns can vary so much depending on the order in which they occur, how do you use investment accounts, but protect yourself in negative markets?

The answer is to combine these investments with cash value whole life insurance.

Investment accounts offer the opportunity for growth and income, but the timing of your withdrawals can affect account balances and future income. But by setting up an investment account, and coupling it with permanent whole life insurance policy, you have the option to just take money from your investment account when the market is up. In down years, you can tap into the cash value of your life insurance, giving investment account a chance to rebound. In up years, you can take income from your investment account, and let the cash value of your life insurance rebuild.

Let's look at combining whole life insurance and a rollover from an IRA into an investment account.

Let's start at age 45. Assume you are putting money into an IRA or other tax-deferred account, and you also purchase a whole life insurance policy that has a cash value.

Now, fast forward to age 65, when you retire. Your IRA is worth \$2,000,000, and you want to withdraw \$150,000 a year, every year, to live on. (You only need \$100,000 to live on, but we allow \$50,000 to pay taxes on your withdrawals, assuming that you are in a 33% income tax bracket.)

The following chart shows what can happen if you continue invest your \$2,000,000 IRA at age 65 and withdraw \$150,000 every year. (The returns shown, by the way, are arbitrary, and do not represent anything that has happened, and are not a projection of what will happen. They are just one reasonable possibility of how varying up and down years might look.) At the end of 15 years, you would be left with \$900,642—about half of your original amount.

| Age | Beginning Balance | Withdrawal | After Withdrawal Balance | Return  | End of Year Balance |
|-----|-------------------|------------|--------------------------|---------|---------------------|
| 65  | \$2,000,000       | \$150,000  | \$1,850,000              | -14.80% | \$1,576,200         |
| 66  | 1,576,200         | 150,000    | 1,426,200                | -26.50% | 1,048,257           |
| 67  | 1,048,257         | 150,000    | 898,257                  | 37.30%  | 1,233,307           |
| 68  | 1,233,307         | 150,000    | 1,083,307                | 23.70%  | 1,340,051           |
| 69  | 1,340,051         | 150,000    | 1,190,051                | -7.30%  | 1,103,177           |
| 70  | 1,103,177         | 150,000    | 953,177                  | 6.60%   | 1,016,087           |
| 71  | 1,016,087         | 150,000    | 866,087                  | 18.60%  | 1,027,179           |
| 72  | 1,027,179         | 150,000    | 877,179                  | 31.10%  | 1,149,981           |
| 73  | 1,149,981         | 150,000    | 999,981                  | -4.90%  | 950,982             |
| 74  | 950,982           | 150,000    | 800,982                  | 21.10%  | 969,989             |
| 75  | 969,989           | 150,000    | 819,989                  | 22.40%  | 1,003,667           |
| 76  | 1,003,667         | 150,000    | 853,667                  | 6.10%   | 905,741             |
| 77  | 905,741           | 150,000    | 755,741                  | 32.10%  | 998,333             |
| 78  | 998,333           | 150,000    | 848,333                  | 18.60%  | 1,006,123           |
| 79  | \$1,006,123       | \$150,000  | \$856,123                | 5.20%   | \$900,642           |

Next, let's look at the same account, but showing you not taking any distributions after years where the market had a negative return (except where you had to, to meet IRS guidelines for required minimum distributions.) In this example, you do not take distributions at ages 66, 67, and 70, and only take a partial distribution at age 75. The net result is that after 15 years, your account has grown, not shrunk, and is now worth \$3,353,353.

| Year | Age | Beginning Value | Withdrawal | Post Withdrawal Balance | Return  | End of Year Balance |     |
|------|-----|-----------------|------------|-------------------------|---------|---------------------|-----|
| 1    | 65  | \$2,000,000     | \$150,000  | \$1,850,000             | -14.80% | \$1,576,200         |     |
| 2    | 66  | 1,576,200       | 0          | 1,576,200               | -26.50% | 1,158,507           |     |
| 3    | 67  | 1,158,507       | 0          | 1,158,507               | 37.30%  | 1,590,630           |     |
| 4    | 68  | 1,590,630       | 150,000    | 1,440,630               | 23.70%  | 1,782,059           |     |
| 5    | 69  | 1,782,059       | 150,000    | 1,632,059               | -7.30%  | 1,512,919           |     |
| 6    | 70  | 1,512,919       | 0          | 1,512,919               | 6.60%   | 1,612,772           |     |
| 7    | 71  | 1,612,772       | 150,000    | 1,462,772               | 18.60%  | 1,734,847           |     |
| 8    | 72  | 1,734,847       | 150,000    | 1,584,847               | 31.10%  | 2,077,735           |     |
| 9    | 73  | 2,077,735       | 150,000    | 1,927,735               | -4.90%  | 1,833,276           |     |
| 10   | 74  | 1,833,276       | 77,000     | 1,756,276               | 21.10%  | 2,126,850           | RMD |
| 11   | 75  | 2,126,850       | 150,000    | 1,976,850               | 22.40%  | 2,419,664           |     |
| 12   | 76  | 2,419,664       | 150,000    | 2,269,664               | 6.10%   | 2,408,114           |     |
| 13   | 77  | 2,408,114       | 150,000    | 2,258,114               | 32.10%  | 2,982,969           |     |
| 14   | 78  | 2,982,969       | 150,000    | 2,832,969               | 18.60%  | 3,359,901           |     |
| 15   | 79  | \$3,359,901     | \$172,303  | \$3,187,598             | 5.20%   | \$3,353,353         | RMD |

The question is, obviously, how you are going to survive retirement in the years you cannot take anything out of the IRA because it is down? You still need to live, and you still need \$100,000 a year after taxes. (The \$150,000 you were taking out of the IRA becomes \$100,000 after taxes if you are in the 33% tax bracket.) So let's go back to when you were 65, and look at what had happened to the life insurance policy you had invested in at age 45. In this particular example, we look at a policy taken out for \$1,000,000 at age 45 by a healthy male. The premium was \$26,470, payable for 20 years. (This is a sample policy based on a blend of actual quotes—the actual numbers will vary depending on the insurance company, and the details of the policy, but this premium is a reasonable estimate of what such a policy could cost today.) By the time you reach age 65, you are done paying premiums, you've put in a total of \$529,400 over the 20 years, and you have a cash value of \$799,961 and a death benefit of \$1,429,855.

| Whole Life Policy |           |              |                | Taxable Investment + Term Life |           |         |
|-------------------|-----------|--------------|----------------|--------------------------------|-----------|---------|
| Age               | Surrender | Net Cash     | Net Death      |                                | Account   | Death   |
| Year              | Beg Yr.   | Value End Yr | Benefit End Yr | Withdrawals                    | Balance   | Benefit |
| 66                | \$0       | \$799,961    | \$1,429,855    | \$0                            | 731,277   | \$0     |
| 67                | 100,000   | 740,997      | 1,291,835      | 100,000                        | 652,425   | 0       |
| 68                | 100,000   | 678,549      | 1,154,250      | 100,000                        | 570,931   | 0       |
| 69                | 0         | 718,051      | 1,192,261      | 0                              | 590,057   | 0       |
| 70                | 0         | 759,576      | 1,231,438      | 0                              | 609,824   | 0       |
| 71                | 100,000   | 697,709      | 1,104,861      | 100,000                        | 526,903   | 0       |
| 72                | 0         | 737,802      | 1,141,702      | 0                              | 544,555   | 0       |
| 73                | 0         | 779,925      | 1,180,221      | 0                              | 562,797   | 0       |
| 74                | 0         | 824,217      | 1,220,447      | 0                              | 581,651   | 0       |
| 75                | 49,000    | 819,085      | 1,187,459      | 49,000                         | 550,495   | 0       |
| 76                | 0         | 865,156      | 1,228,671      | 0                              | 568,936   | 0       |
| 77                | 0         | 913,371      | 1,271,378      | 0                              | 587,996   | 0       |
| 78                | 0         | 963,769      | 1,315,689      | 0                              | 607,693   | 0       |
| 79                | 0         | 1,016,352    | 1,361,763      | 0                              | 628,051   | 0       |
| 80                | \$0       | \$1,071,110  | \$1,409,726    | \$0                            | \$649,091 | \$0     |

On the left hand side of the chart, you see where you take out \$100,000 a year (which is what your \$150,000 in the investment account netted after taxes) at ages 66, 67, and 70, and \$75,000 at age 75 (when you do not want to take money out of the IRA due to negative prior year returns). At the end of 15 years, you have a remaining cash value of \$1,045,110, plus a death benefit of \$1,379,524, which will continue to

grow. Between the \$2,000,000 that you invested in the IRA, where you took at \$150,000 (which got reduced by taxes to \$100,000) in most years, and the whole life insurance, where you took out \$100,000 (tax free) in the other years, you got to preserve and grow the \$2,000,000, plus have cash value life insurance, and a death benefit.

Summary: If you had taken out \$150,000 every year from the \$2,000,000 investment in this example, at the end of 15 years, you would have \$990,642. If you instead switched between the investment account and the whole life insurance policy, you would have \$3,356,013 in the investment account, plus \$1,409,726 in cash value, plus a death benefit! And the cash value and death benefit will keep on growing.

What's missing from this discussion? Obviously, if you had not been paying life insurance premiums from ages 45 through 65, you would have had \$26,470 a year to spend or invest in something else.

So let's revise the scenario. Assume that at age 45, you had taken out a \$1,000,000 term life insurance policy for 20 years, instead of whole life. Your annual premium cost would have been \$1,885 (approximately), leaving \$24,585 a year to invest (the difference between the term premium and the whole life premium). Assume you put this in an account that earned 5% a year, and that your taxes were 33.33% of the gain. This would have grown to \$731,277 by age 65 (see the right hand side of the chart). At age 66, keep this going at the same rate, and remove \$100,000 at ages 66, 67, and 70, and \$75,000 at age 75. You end up with \$649,091 in 15 years, as shown on the right side of the chart above.

So at age 65, you have less cash, and no death benefit. By age 80, when you've removed money at ages 66, 67, 70, and 75, you are still farther behind than where you would have been had you bought whole life, and still, you have no death benefit.

In other words, even factoring in the different in the cost of insurance between term and whole life, you can end up in a much better

position at age 65, when you structure your retirement years' investments, and at age 80, when you are half way through your retirement.

That's why it is important to look at whole life insurance as a retirement and death benefit vehicle. There are other examples that I look at with my clients, some of which show more dramatic benefits.

## A FABLE—TWINS WHO COULDN'T BE MORE DIFFERENT

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Eric and Mark are single. They are twins in their late 20's. Mark is an attorney, and Eric owns and runs a medical billing service. They earn about the same amount of money.

They meet every morning for a Barstucks coffee to chat, check emails, and see who is there.

Mark brings coffee from home in a thermos, and reads the newspaper supplied by the store, or checks headlines on his iPad.

Eric buys a fancy latte and a newspaper, sending over \$6 a day.

Mark wears stylish clothing that he only buys during sales, while Eric buys designer labels on impulse.

Mark packs lunch several days a week, Eric eats out for lunch daily.

Mark's firm has a 401k that matches part of his contribution, and Eric has an IRA.

Together, they own some rental real estate that they bought as an investment.

Eric and Mark get married to twins Betty and Veronica. They decide to buy life insurance.

Eric buys a 30 year term policy, figuring that he will get coverage while he is young and healthy, taking advantage of low rates.

Mark buys a cash value whole life policy, spending more on premiums, but knowing that he'll get every penny back in cash value, plus coverage for life (unlike Eric, who won't have any life insurance after 30 years).

His premiums are higher than Eric's, but he was also saving about \$2,500 a year by not buying coffee and a newspaper (savings).

Within a year, they each had twins.

Mark and Betty bought cash value life insurance policies on their twins.

Eric and Veronica opened 529 accounts to save for college.

The children are ready for college, and even though they went to in-state schools in the Twin Cities, it was expensive.

Mark & Betty's twins used saving, loans, and scholarships.

Eric & Veronica's twins did the same, but they got much less in scholarships, because the colleges required them to use their 529 funds first.

(Mark & Betty's kids didn't have 529 funds, so they got more in scholarships. The schools did not require them to use the savings in their whole life insurance policies, or their parents' policies.)

Fast forward a few more years.

It's been 30 years since Mark and Eric bought their life insurance policies. Eric's policy is about to expire; there is no cash value, and no money for Veronica when Eric dies. Mark, on the other hand, has seen his death benefit grow, as well as his cash value. He's planning to use some of the cash value during retirement, and some to pay for weddings for the kids.

Sure, he's never tasted a cup of Barstucks coffee, but he has the sweet taste of a sound investment.