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# WEALTH IS NO ACCIDENT

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WHAT YOU ARE NOT BEING TOLD, AND NEED TO KNOW…

# Introduction to The Wealth Plan



**NOTES ABOUT THE AUTHOR**

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# Introduction to The Wealth Plan

The modern phenomenon of the growth of trusts is perhaps one of the best examples of a grass roots movement in modern history. It was not a promotion of the IRS or the legal system. In fact, the demagoguery by these institutions seemed designed to frustrate and deny the common person from using these devises.

Perhaps the example that might illustrate this is the Tortoise and the Hair parable. The Hare was the favored of the race and the Tortoise was widely proclaimed the obvious loser before the race had even begun. The day of the race, the Hare took off in a cloud of dust leaving the tortoise as a laughable laggard. The Tortoise took off with muffled laughter from the gathered crowd and with no doubt as to the outcome.

In many ways, the status quo was that wills were the charmed and sanctioned vehicle for Americans to pass on their wealth, and only the extremely wealthy family needed look any further. Trusts were the Tortoise that everyone proclaimed as the inferior competitor. The wills were the Hares of the estate planning industry. The wills were the proclaimed winner of the race to transfer your wealth. Trusts were condemned from the inception as expensive, too laborious, not really a contender.

Like the fabled Hare that was so convinced of his superiority, wills were nearly uncontested in the 1970's and 80's, so they simply rested in the success that everyone expected. It was not only the confident conviction of the attorneys, but a similar transferred belief of the majority of Americans. There simply were no contenders.

By the mid 80's, the introduction of the Revocable Living Trust (RLT) was first heard. It was promoted quite literally as a grass roots movement that was very much counter culture. I refer to it as "bottom-up revolution" as opposed to the traditional "top-down process." Instead of the "powers that be" dictating the rules to the people, the people decided that they believed the Revocable Trust was a better choice. This idea took hold and grew for over a decade. More and more, the wills were replaced by trusts, and now the Tortoise (trust) shocked the industry as the overwhelming leader in the race to transfer generational wealth.

Trusts have been praised and denounced, promoted and slandered, used and abused. However, as we passed into the 2000 millennium, trusts are the absolute winners. While the debate rages, the facts are in, and wills hold a languishing second place while trusts have taken the market place from the bottom-up. People made trusts the most popular program in estate planning, and those pioneers of the 80's were right after all. They weren't all perfect and there are instances where the promoters over-promoted the Revocable Living Trusts. Criticism about the persons or the methods of trust promotion effectively overlook the creation of a modern phenomenon. The Hare (wills) lost and the Tortoise (trusts) won! This book is not to convince anyone, but hopefully to set the record straight as to what trusts are about, how they work for people, and to discover if one might be effective for you.

This book is not exhaustive; other courses from The Virtual University actually offer a more complete compendium of estate planning information than this book will have. This book is a persuasive and apologetic (meaning logical reasoning) project. Before you look at the applications and technicalities, you should understand the history and conceptual program.

It has been argued that "trusts are not for everyone." Neither is any great idea for everyone. There is no universal tool that everyone will use unless we go to the most basic of principles like the use of levers or the need to drink water. Beyond these fundamentals, there exists a complex world that presents serious threats to our well-being, our personal and family lives, and our financial security.

It has been argued that wills cost less than trusts to establish, making them the best choice. This is true. An average will goes for about $100 to $300. An average Revocable Living Trust goes for about $1500 to $2500. So, if we made decisions solely on the initial price, the will is the obvious choice. However, I once was counseled by a person that pointed out the difference between the "cost of buying" and the "cost of owning" as he related an inspiring epiphany while buying tires for his car. At first, I thought I would have to endure another story that had little relevance to me, but I too was struck by the truth behind the story.

Roger related to me that as a young man he went to buy a set of tires for his car. He was approached by the owner, and he told the man that he wanted to buy a set of tires. He was then shown a series of tires that ranged from moderately priced to the quite expensive Michelin tires. Once he heard the price of the Michelin tires, he told the storeowner that he wanted to buy the "cheaper tires." The owner then took him to the counter and asked him "Did you want the cheapest tires to purchase or the cheapest tires to own?" Roger was confused because he thought he had already made himself clear.

Pulling out a calculator, the owner proceeded to add up the cost of the four Michelin tires. The price seemed staggering. Then the owner put down the cost of the "cheaper tires." The figures seemed to prove Roger's choice. Then the owner told Roger how many miles he could get with the Michelin tires versus the cheaper tires. In fact, Roger would have to buy several sets of tires to match the longevity of the Michelins. When the owner added up the cost (in today's dollars) to keep good tires on Roger's car, the facts stood out like the Rocky Mountains on a clear day. The cheapest tires to buy were the "cheap tires," but the cheapest tires to own for the long haul were the Michelins. Roger drove away with the cheapest tires to own and a great piece of advice for life.

Wills are cheaper to purchase, but they are definitely not the cheapest to own. (Watch out Mr. Hare, the Tortoise is gaining on you.) The latter costs related to probate and conservatorship are so shockingly expensive and difficult that a $300 initial cost could end up being a $30,000 mistake! Conversely, the $2500 RLT cost will likely end up with a total investment that exceeds another $1000 to settle.

We have heard the argument that the estate is too small to worry about. Really? Do you think for a minute that a person with just $80,000 in assets isn't worried about their little bit as much or more than the person with $8,000,000? You'd be dead wrong. Those with small estates endure a disproportionate cost of probate than do the rich. For small estates, AARP and national statistics report a 7-10% cost to go through probate, whereas larger estates can run 2-4%. That 10% of the smaller $80,000 estate (or $8,000) has far more impact than the $160,000 for the $8,000,000 estate.

We have heard that trusts are too much trouble for the less-than-large estate. The process of creation and funding may exhaust the average person's ability. This is nothing more than a complete fallacy. The task of establishing a trust is far less trouble than buying a home, yet most of us are anxious to go through that process.

Probate is perhaps one of the most difficult episodes that you will endure. It is long by comparison to trust settlement terms. On average, probate cases take nine to twenty-four months to complete, and there are numerous cases of probate taking years and years to settle. One attorney said that he could predict exactly the day when probate would be over. He said, "When the estate is out of money for legal fees, the attorneys will instantly rush it to conclusion."

Cost and delays are the most obvious reasons that most people resist letting the probate court handle their estate. Whether large or small, these two issues are not acceptable alternatives when better choices are easily had.

And there is, finally, the other associated issues that need to be addressed. Medicaid is a very serious economic threat. The elderly can suffer from loss of cognitive powers and fall under Living Probate (also called guardianship or conservatorship), where they will also lose control of their assets to the court. Tax planning is another issue that pays dividends over time. And those that have substantial assets should look for asset protection. This leads us to an early conclusion. Everyone needs to plan his or her affairs. This plan will affect your life and your wealth.

# THE UNIVERSAL NEED **Chapter One**

"Everyone needs a plan … in particular a wealth plan."

There is one certainty; however, and that is that everyone needs to have a plan for his or her personal and financial success. Without one, you are left to the fickle circumstances of luck, and there are very few that can succeed that way. One of the fundamentals of the human experience is the need to have a plan.

We face issues that are very complex and many times very threatening. There are a vast number of people who find that their hindsight is far better than their foresight. They all fall prey to problems and issues that could have been prevented, or at least minimized by some measure of preparedness. We are all familiar with the old adage "A Failure to Plan is a Plan for Failure."

If you are a business owner, you should have a business plan. This is more important than many people realize. A business plan allows you to anticipate both the success, as well as the threats to success in your business. In the realm of business schools, a business plan ranks very high in what makes and protects success. It is something that I recommend to all businesses, whether new or existing. The discipline of having a business plan and measuring your progress against this gauge is incredibly important to those who want more than luck on their side.

Let's turn our attention to the next subject, and that is that everyone needs a Wealth Plan. This has been commonly thought of as a Financial Plan or an Estate Plan, but what I envision is a more comprehensive plan that maps out the issues of your life.

## NOT JUST AN ACCUMULATION PLAN

A financial plan is designed to assess your current assets and potentials, determine your goals, and then map out a logical plan to AMASS MONEY. In summary, it is a formal ACCUMULATION PLAN, which tries to predict some nominal growth patterns to help you achieve your goals. You may have heard it called a goals and needs analysis, but in fact, it is still an accumulation plan.

An estate plan tries to add two other dimensions to your planning. The ability to (1) PROTECT your wealth while you are alive, and (2) PRESERVE your wealth to successive generations. This is a noble pursuit and something nearly everyone needs.

A WEALTH PLAN encompasses all the issues we have addressed thus far and actually adds a new and important value. Investing is what drives the financial planner. He or she wants to help you hit your goals by accumulation of funds. An estate plan endeavors to shield what you've amassed and send it efficiently to your heirs. A Wealth Plan combines key elements to make wealth happen sooner.

In a Wealth Plan we are going to combine certain features to create wealth faster. There are primarily two key issues: (1) tax reduction strategies, and (2) increasing passive and active earning. The result is a predictable pattern to make you more than comfortable, and wealthier at retirement. By applying tax reduction and increasing earnings, we create extra revenue (MONEY) each year. If we do this repeatedly, the faster accumulation of MONEY year after year equals WEALTH.

A Wealth Plan is a complete plan that combines financial planning, tax planning, estate planning, and business planning in one orchestrated project. At the heart of the project is not just an accumulation plan, but the development of real wealth.

## PIECEMEAL PLANNING

We are all in need of better planning! We may buy insurance, invest our money, and have a retirement plan at work, but none of these are plans. A plan is not a piece, but a complete project that addresses the multiple issues of our lives. We are often fooling ourselves that these random elements make up a good plan, but this is not the case. Such piecemeal planning is vulnerable to any number of problems. If you think you are exempt from life's hazards, you are very lucky or very foolish. Life insurance will not prevent a lawsuit. An investment will not substitute for a tax plan. Your retirement plan at work will not guarantee a secure and comfortable future. Why? Because it is not realistic that a piece should be embraced as a cure-all plan for your life.

It is important that you develop a complete plan instead of random pieces. An attorney creates the legal documents for an estate plan, but this is still only a portion of the complete puzzle. Documents should not be substituted for estate planning. For example, if an attorney creates a corporation for you, are you in business? Not really. The real elements of business are what you do to make a business. The documents are more of the announcement that you are in business than the true business itself. If the attorney draws up a contract for you, does that mean that the contract will be honored? Pieces are pieces, and legal documents are not nearly enough to make a plan.

You may feel that your accountant is the answer man. His guidance is something that you rely upon. He does your books and files your taxes. You may think he is a great guy or gal, but bookkeeping and tax filing are not a plan.

Your insurance guy or investment broker is not a planner either. These folks supply other important pieces of the puzzle, but they do not have the final answer. The best investment advice and insurance coverage can only resolve certain targeted issues. An effective plan is not just a chart of projected accumulations isolated from other critical issues. In fact, wealth accumulation can be greatly improved by more extensive designs and enhanced tax treatments.

You may come to the conclusion that you could pull it all together. You could draw from the talents of the attorney, the support of your accountant, and the expertise of your insurance and investment person. But you will then discover two critical issues:

(1) TERRITORIAL CLAIM: You, the client, will find that these various professionals see you as their territory to be claimed, fought over, and jealously guarded from other potential rivals. Therefore, these people spend more time trying to keep you from other advisors than worrying about your more extensive issues. It is a contest among those whose services are for sale, and you are the battleground. Mostly it is a "Winner take all" situation that very rarely is about what is in the best interest of the client. It is, more likely, what this vaunted professional believes is best for you regardless of their professional bias.

(2) THE COST for all these advisors would be prohibitive. If you had great wealth, perhaps it wouldn't matter that you would pay thousands and thousands of dollars. If your name was Kennedy, Vanderbilt, Rockefeller or such, you would desperately need good planning. That's the bad news, but the good news is that you would have plenty of money to spend on life's luxuries and still pay these immense bills.

Where does that leave the average person? You are not poor enough to be unconcerned about your personal and family wealth, and neither are you rich enough to do anything more than meager and inadequate planning. Into this paradox of life, I'd like to suggest a way for you (the client and consumer) to come out the winner instead of just a loyal client of a piece planner.

## ESTABLISHING YOUR WEALTH PLAN

I am going to make the assumption that you don't have a lot of money to throw around, or that you are smart enough to avoid throwing excess money to those that may not have your complete interest at heart.

First, you must take a more personal interest in the establishment of your Wealth Plan. I know that you're busy. We're all busy, and would really love to "hand off" the decisions and work of your financial, legal, and security issues. Regardless of the standard excuses, you must take responsibility at some level for your life. The way you do this is to become more empowered by education. You will need to spend about as much time as you take to read the newspaper in a week, a good book, or several magazines to get up to speed on some basic and critical areas.

I have said that it is a crime to be ignorant in the Information Age. Ignorance will cost you more than you are willing to spend, problems that you don't want to face, and damage that may never be repaired. Education is empowerment. Ignorance is slavery and subjection. Do you think that people who make their living based upon the single factor (they being smarter than you) really want you to be smarter too? While you may not rise to the level of a professional, you can at least be more of a participant in the decisions that so gravely affect your life. I believe that the client should be a partner in the planning rather than an observer. Therefore, I encourage clients to take a modest training course in the broad area of estate and wealth planning before proceeding to the next step of someone designing a Wealth Plan that will be the roadmap for success of their lives. I'd like to think that the client feels they are smarter and more successful than to be impressed or disappointed in the performance of their advisors.

In Chapter Two, I will discuss the education program that I promote. But let's move on to the other key element of successful Wealth Planning, and that is the very important Wealth Plan itself.

As described, The Wealth Plan is something that is not done by the majority of legal, accounting, or investing people. If you recall, you have always been told what to do, but you have never seen a comprehensive plan. You have been sold this, and sold that, but you have not been educated because your professional does not make money educating you. The "educational seminars" that you have been solicited to attend were veiled sales presentations. But did you come away with a serious education or with an independent option? No, you were likely convinced (or unconvinced) that you should hand your money over to this advisor. If they're not selling a product, believe me … they are selling their services.

Things have changed in the last ten years. The more astute consumer is not looking for the latest promotion, but for more fully developed ideas. The age of consumerism has begun to turn into the age of enlightenment. Increasingly, people want to understand more about what they are buying, and want to be more in control of their lives. While there are always those that like to pass off responsibility to whomever will take it, this is not the current trend.

We hear of empowerment and involvement, which means we are not giving away our lives, money, and welfare like sticks of gum to our friends. The realization is that the impact of each decision that is made can seriously alter our lives and our future. The example of saving $1000 per year from age 21 until age 65 means this person will have $1,000,000 at age 65. But starting at age 45 we would have to save $50,000 per year to achieve that goal. At age 55, we would have to save $175,000 per year. Do you think we should be smarter before we get older?

Some of you are already older. Then you have to be even more astute and involved than the person in their 20's and 30's. You need to become aggressive in the understanding of money and wealth, and you need to take action that is more than listening to a self-proclaimed professional. Remember, motive in any representation is critical. It is hard for people charging you by the hour or on commission to be more concerned about your welfare than their own.

"Shouldn't we get richer and smarter as we get older?"

The number one key to empowerment is education. This is not a debatable issue. It is a simple fact of life. What you don't know *can* hurt you! Our years have proven that we have been helped by knowledge, and suffered our greatest defeats when we did not have the information that we needed.

Does education make a difference? Take a simple comparison between high school graduates versus college graduates. Go a little further and compare college graduates to graduates of Harvard, MIT, or Cal Tech. Education is not the only issue of a successful life, but it is a very powerful ingredient.

### THE PERIL OF INFLATED WEALTH

The topic of "Inflated Wealth" is perhaps a very challenging concept to understand. This is partly because we don't notice the slow onslaught against our wealth. The problem is that the prosperity boast is being degraded by factors that most of us ignore. If you are a hard-working American and struggling to achieve the "American Dream," you will discover that crossing the winner's tape is not as simple as you have been told. Someone is weighing down your progress while another person is moving the goal line further ahead.

Statistics tell us that the vast majority of Americans will retire "under expectations." The only question is, "How far 'under expectations' will you be when you retire? These statistics show that only 5% of Americans will retire "in comfort," and only 2% of Americans will retire "wealthy." That means that 95% (the vast majority) will retire "under expectations."

…. 95% of Americans will retire more poor than wealthy …

You may ask the same question that I did. After a 17 yearlong bull market, and the longest period of prosperity in history for this country, how can so many people work, save, and invest their money and still end up nearly broke?

### THE WEIGHTS ON YOUR LIFE

One of the most pervasive reasons that you cannot save enough money for retirement is taxation. The single largest bill that you pay each year is taxes. It is larger than your house payment, your car payment, or your food bill. In some cases, it is larger than all three of these combined.

If you combine the ever present income tax, with state income tax, sales tax, real estate tax, gift tax, capital gains tax, gasoline tax, and federal estate tax (not to mention many more minor taxes), you will be shocked to learn just how much of your money goes towards taxes each year. If you consider that most people will work about 40-45 years, you must compound your annual tax bill by about 40 times to see how much you are really paying in taxes.

A modest $40,000 income having an effective tax rate of 20%, means you are paying about $8,000 per year in taxes. At about 6% state tax, you must add another $2,400 to the figure. The combined tax bite is then $10,400 with only these two taxes. If you say this is your average income over a forty year working lifetime, you will pay Uncle Sam $416,000 in cash payments. If you had invested that money at 8% annually over the forty-year period of time, you would have over $2.7 million dollars.

I am sure that you realize that the IRS and income tax were imposed in 1913. But did you know what the tax rates were? If you made over $20,000, you paid a 1% income tax. At $50,000, the income tax was 2%. At $75,000, the income tax was 3%, and at $100,000 the tax rate was only 4%. Today, if you make over $14,000, you will pay a tax rate of 18%. If you could remember that far back, you would recall that the income tax was promoted as a tax on the rich. In 1913, anyone earning over $20,000 was very, very well off. They were either rich or well on their way to wealth.

If the income tax was a tax on the rich, and you are currently paying taxes, congratulations! You are a member of the "Inflated Wealthy" of this generation. The trouble with inflated wealth is much like a donut. It tastes good, but there isn't much to it.

Interest is another weight to your success. Much like taxes, interest drains your disposable income assiduously, and leaves very little in return. One of the most common examples is buying a $100,000 home over thirty years at 9%. If you pay faithfully on that home for thirty years, you will pay over $300,000 (principal and interest) to the bank!

The blame is always placed upon you (the consumer) for spending too much and not budgeting your money well. But, I object to this easy way of blaming the ills of the “average many” for not having an accountant's background. Taxes and interest over the years strip away a true fortune from every American family. The lack of wealth is not because of spend-crazy people. Rather, these are hard-working families that can't get ahead of the curve.

### THEN THEY MOVED THE GOAL LINE

With these items working against us, which slow our progress toward wealth, the goal of wealth is changing. In 1913, $100,000 was a huge block of money and enough to provide well for a retirement. How about now? Does a $100,000 portfolio mean you are wealthy? Not really! A yield of 6% means you must live on $6,000 per year. In fact, a million-dollar portfolio at 6% will give you only $60,000 per year.

Not bad, but remember inflation will make the buying power of that $60,000 drop every year.

We call the more personal side of this "The Cost of Living." Once you quit working, your wealth accumulation stops. Inflation is the enemy, and those that forget to factor in an annual cost of living into their retirement plan may be sadly embarrassed.

### PROBLEM WITHOUT ANSWERS

Knowing the problem is only one third of the answer. Now, you need answers. There are plenty of people that will offer their favorite version of answers to your financial concerns, but you cannot tell whether these people are helping you or helping themselves. To an ignorant person, a bad plan can sound pretty good.

Remember how little children could be easily duped into a belief in Santa Claus and the Easter Bunny. We could tell them that storks brought babies, and that the moon was made of cheese. The little trusting faces would believe everything you told them. But then they went to school. They learned from their friends that Santa Claus and the Easter Bunny were lies, and the last one to find out felt pretty stupid.

They went to classes, and one of those classes was about human reproduction and sexuality. The stork gave way to much more difficult questions. Education is the stepping-stone to the real issues of life.

Well, that is roughly the position of most Americans. Someone could tell you that this stock was great, and you'd buy it. If they told you that an annuity was a great purchase, you'd sign the check. If the company offered a retirement plan (401K or like), you'd sign up for it (even though it was run by the boss's nephew). You may have faithfully put money away each week into your bank or credit union at a startling 4-5% (taxable). Now, as you look back over the years, how did you do? You have some money put aside, but you are way behind expectations.

### GET EDUCATED OR SUFFER FROM IGNORANCE

One of the first issues that the average American needs to address is getting smarter about money. It starts with a simple training about the nature of money and wealth, and can expand into a growing exposure to financial and estate planning principles.

Our version of this education is called **The Passport to Wealth** where you will learn about "The Secrets of Money and Wealth," which then allows you to enjoy easy access to an eight-module course called "Estate Management Training."

You, the client will be allowed to expand your understanding of financial and estate principles in a layman style course that will provide ample information for your eventual decisions.

On the other hand, you can rely upon those professionals that surround you to grow your money because they know more than you do about such matters. They don't want you to get smarter, or you might stop buying their wares. Their “educational seminars” are thinly veiled sales meetings where they spend time showing you how great they are. If you like depending on others for your future, you'll like these guys! Their attitude is that people can accomplish an effective estate plan in an assembly line process where problems can be solved by a single issue.

In a seminar, you will almost always realize that you will hear a promotion about a trust, an annuity, an investment portfolio, or some investment firm. At that point you will realize that you are being channeled to this person's idea of planning instead of your own.

Fundamentally, the most important thing that can happen to you is to get an education that empowers you to have more control of your life and future. This is hard to find. It starts with a plan. This may seem far too simple of a solution, but it is critical to anyone that sees a challenge in front of them. The unknown and difficult are too mysterious and difficult to resolve without planning. Therefore, you should not settle for product in place of planning.

This is the premise of this book. The Wealth Plan is not just a good idea, but a necessary obligation. Every orchestra needs the music score, every building needs a blueprint, every class needs a text, and every trip needs a map. A simple trip to the grocery store requires a shopping list. Every family needs a basic plan that maps out their success. Wealth and success are elusive and rare. Some people obtain them because they are lucky or persistent even without planning. But the rest of us need to learn about the process and get a game plan together. This book is going to encourage and motivate you toward that task.

# THE WEALTH PLAN

## Chapter Three

"Wealth is not an accident and it can be predicted."

We can narrow the planning to the use of trusts; implementation of a tax plan, or trying to provide a good retirement program, but this is still not the answer. The idea of a Wealth Plan is a more comprehensive process. If we settle for less, then it is our own fault if we get less.

Wealth Planning requires the ability to not only see the tree, but also to see the forest. We need the detail of addressing specific issues and a grand view that assures us that we are not missing an important area that may have a profound affect on our life. The average American needs a basic education to become aware of the problems, but once he is aware of the problems, he runs into the frustration of not knowing the answers.

### THE VULNERABILITY OF THE UNPREPARED

One example of general ignorance is our total ignorance about lawsuits and civil litigation. This can be one of the most devastating financial and emotional events of your life. You must admit that right now you are likely to be totally unprepared to address a serious civil litigation. You probably don't know a good attorney (specializing and accomplished in this area of practice). You have no idea of what this nightmare is going to cost, and your understanding of how these things work is equal to your knowledge of atomic physics.

A civil lawsuit can easily cost you $25,000 to $90,000 to fight. It can last two to four years, and you will have absolutely no idea if you are going to win or lose. If you retain an attorney for $5000, you have only served him an appetizer. You will soon be on the slippery slope of the amazing detailed billing abilities of the attorney; paying bills of $1200 to $3000 per month.

### LACK OF FUNDAMENTAL CONCEPTS

On another view, we are also quite illiterate about money and wealth. Try reading (with understanding) the average prospectus. Dissect the numerous financial charts that you are exposed to, and then endeavor to determine your suitability for an investment. Go further and try to sort out the best stock, bond, or mutual fund from the thousands upon thousands of choices.

I have already mentioned taxes, inflation, and interest on debt as serious holes in our bucket of wealth, but what are you doing about the solutions to these intrusive issues? Most people feel absolutely helpless against these threats to their wealth, and simply resolve themselves to work harder and try to save a little more.

## The Real Benefits of a Wealth Plan

In the final analysis, all the planning in the world is no good unless you improve your family security and actually create wealth. Such planning should always create more economic reward than it costs you; otherwise it is senseless to invest time and money into planning. In the grand majority of cases that I have dealt with, the client has reaped many benefits compared to the cost of any planning.

First, with tax planning, most families will see a two to five thousand dollar reduction of income tax by following several helpful suggestions. Further, tax reduction is seen by dealing with capital gains tax, gift tax, and estate taxes. When these savings are all added up, a family may see tax savings that run well over $10,000 and even over $100,000. Compound the effectiveness of such planning over years of your earning life, and many families have a large block of tax savings that mean greater personal wealth to them.

In a rather simple explanation, extra money is what you get each year when you apply good planning principles. And wealth is what you get if you compound those savings year after year. It may not be as seductive as a "Get Rich Quick" idea, but I like to refer to this method as a "Get Rich Sure" plan.

## Preservation of Wealth

Wealth planning has certain features rarely seen in simple investing models. The introduction of estate planning principles allows you to have control over the future of your assets from beyond the grave. While none of us are anxious to pass off this earth, there is still the obligation of determining where your earthly possessions will go. I can't imagine that anyone wants to have Uncle Sam as the favored relative that gets most of everything they've work for all their life.

After all, you've paid taxes throughout your life, and now the probate process and the taxing system at the state and federal levels are waiting for the final moment when they can once again gather up your assets.

Preservation of wealth, or estate preservation, means that we want the plan to include a transition of wealth design that will eliminate or reduce these problems. It is called "Erosion of the Estate," and good planning can make a tremendous difference.

Of course, I have run across a certain few that were so immovable about planning that they would rather leave it all to the state than to go through the bother of making such decisions. I have often said to such people that your worst decision on your worst day about your estate is better than the judge's best decision on his best day. When did we become so careful for the state and so careless for our loved ones? Can this person be so convinced of the care of the government that spends money on incredible projects while denying needful benefits to seniors? It is incredible but true that the government is the "Default Heir" to your estate, and if people do nothing they inherit the government and disinherit their family.

As the title says, wealth is not an accident for the vast majority of Americans. It is hard to get and hard to keep. It is elusive and mysterious, but there is a way to make wealth happen for you. It is by having a Wealth Plan. For people like you, and me a Wealth Plan may be as simple as reducing unnecessary taxes and finding ways to increase your active or passive earnings.

If we can create $1000, $5000, and $10,000 per year, we can create the foundation of wealth for anyone. Even a few hundred dollars of extra money each year can make a big difference in your retirement later. So, our Wealth Plan is not designed to pull money from your pocket, but to literally create wealth by effective tax and financial planning.

# THE USE OF TRUSTS

"Finding the right tool for preservation and protection."

One point needs to be made at the very beginning. There are three, and only three ways, to transfer your wealth. They are:

1. Holding your property and assets by Joint Tenancy with Right of Survivorship.

2. Using a will to send your assets through the Probate system.

3. The use of contracts, such as trusts, to pass your estate.

If you listen to the many voices in the marketplace, you will be (as most professionals like you) confused, and incapable of making a good and solid decision. This decision should not be subject to the bias of the person talking to you, but in the best interest of your family. It requires a more dispassionate decision rather than the power of persuasion by the presenter.

In a side-by-side comparison, which of the three choices is the superior choice? If it is only the matter of the best decision, you don't need persuasion. Instead, you need an introduction to the facts of estate preservation and asset protection. If the facts are simply presented, the rest of the responsibility is in your hands. Such is the nature of empowerment by education. Surprisingly, you will discover that such decisions are not as difficult as they might seem.

Money decisions are like this. We are vitally involved with money day after day throughout our lives. In a course called "Passport to Wealth," the principles of money are shared to help you understand money. It isn't difficult to amass wealth if you know the principles called the Secrets of the Wealthy.

So much of life is simply a matter of realization, and so many of the troubles of our lives are a matter of ignorance. Otherwise, the phrase "If I knew then, what I know now … things would be quite different" would not be so oft repeated. Much like our diet, we eventually learn that what we eat has profound affects on the quality of our life.

## THE REVOCABLE LIVING TRUST

The choices for the planning of your estate plan are not difficult when you want the best choice. The reasons are simple.

First, contracts (like a Revocable Living Trust) avoid probate. The "Great Debate" between attorneys and non-attorneys is whether wills and the probate system are superior to trusts and no probate.

Probate is a legal process of your state whereby the courts with attorneys and other agents transfer your estate to your creditors and your heirs. They use your will as a guide for this process, but the court has final authority in all decisions. So, let's examine the two processes. One is the probate system, and the other, the use of a trust.

In the probate system, the state courts quite literally take control of your affairs and decide what will ultimately happen. In this way, there is a loss of control until the matter of the transfer of the estate is settled.

In the probate system, you will incur delays and costs that are inherent in the probate system. While you may hear that probate is a perfectly normal way to transfer an estate, this does not mean that it is efficient or inexpensive. In fact, this is quite literally the criticism of probate and wills. A will[1] is the guarantee that your estate will go into the formality of probate. The result is being caught in the cost and the delays of an adverse probate situation. Many consider the option of probate a bad choice. If the truth were widely known about the real cost of probate the vast majority of Americans would demand another system. But, there are ways to avoid probate.

JOINT TENANCY WITH RIGHT OF SURVIVORSHIP (JTWOS)

There are those that have been advised to use JTWOS to avoid probate. The process is simple and requires very little real effort. A married couple can title their real and personal assets where both names are listed utilizing a state statute that allows the survivor to file a minimal amount of paperwork to transfer the property to their name.

Avoiding probate is a good idea, but do JTWOS solve the problems that we are addressing here? Not really.

1- The unlimited ability to gift to spouse does nothing for your children. If the spouse survived the first spouse, the same process is not available to pass the assets to the children. You can give an unlimited amount to a spouse without incurring a gift tax, but the same is not true for your children. If you attempt to put the children on title of nearly any asset, you may trigger a gift tax issue that can be very costly and unnecessary.

[1] If you have a will, you are called testate. If you have no will, you are intestate. Either way your estate will go through probate if you have no other provisions. Probate is the default system that catches everything that is not otherwise disposed of. By employing a will, you are literally guaranteeing that your estate will go through probate. With an intestate estate, the Probate follows the automatic will found in the statutes often known as the Laws of Decent and Distribution.

2- The Absence of the Step-Up in Basis

3- The Extended Liabilities

4- The Loss of Control

JTWOS works for the first spouse, but works very badly for passing property to the heirs. Since we need to concern ourselves about passing wealth from one generation to another, does the ability to pass the estate to the surviving spouse really solve the problem of passing the family wealth?

One of the mysteries that befuddle people is the labor and time it takes for an attorney to prepare a will that is 90% already developed in his computer. Numerous examples of people waiting three, six and twelve months for the attorney to prepare a 3-10 page will is unbelievable, but does leave the impression that a sizeable work effort went into preparing this document.

If the truth were known, these are all boilerplate documents that are largely produced by the office staff. It must be said that there are instances where a will is adequate. If you do not own real estate (particularly in another state), and have less than $50,000 in assets, the argument becomes more believable.

Be warned when the only solution offered to you is a will and JTWOS to own assets. This oft repeated mantra of "will and joint tenancy" should be a real clue that you are being allocated to the "Default Category" of estate planning. In other words, you are being told that you are too small for real planning and we'll just let the courts handle this stuff (including a nice fee for the attorney) at your eventual deaths. The deception with this kind of planning is that it works well on the first death only. The surviving spouse will have a rather easy transfer of assets in a smaller estate. However, when the surviving spouse dies, the probate process is fully engaged. Joint tenancy is not a good conveyance device, and does not work for heirs.

The reason is that you have unlimited gifting ability to your spouse, but not to anyone else. Therefore, you cannot gift assets to children by placing them on deeds and accounts without running into a substantial transfer tax. Without joint tenancy to the ultimate heirs, your family is left completely to the mercies of your state court (probate). Whether you are testate or intestate seems only a matter of inches in crossing the ocean. Wills and probate are not thoughtful planning, but they channel most benefits to the minions of the probate courts rather than the more serious concerns of the client. This is not a condemnation of wills, but it is a criticism.

By their nature, a trust represents more thoughtful planning. You are not leaving the details of your life and wealth to a non-descript process after you've gone. You are required to make decisions now (that may be modified later if you desire). You are going to make decisions about potential tax issues, and you may find that you need more than a simple cure for the more complex issues of your life. If you have a business, you will need to decide how best to design your entity to compliment your other plans, and you will likely have numerous issues that could mean large tax benefits if you take appropriate steps. So, it will be admitted that trusts will require more of your time and consideration, but generally are not more difficult than changing the oil in your car periodically or rotating your tires to maximum mileage.

## AVOIDING SENIOR PROBLEMS

The elderly may encounter issues that were not of any concern earlier, but age is something that none can resist. With age comes more than the concern of death, but the potential of losing control. Of the issues that most concern seniors, the reality that they may lose control of their assets, freedoms, and rights become very serious.

We do not all pass quietly in the night. The vast majority of seniors will endure a period of illness and even mental decline. The most powerful example is Alzheimer's disease, where the body may be healthy, but the mind leaves prematurely. Although such matters are not a joking matter, it is better to take a better attitude toward the eventualities of life.

What happens when a person can no longer run his/her affairs? Well, the answer is something that you probably do not know and will not like. Probate court actually controls your pre-death estate if you are not able to handle your affairs. This is called Conservatorship, Guardianship, or Living Probate.

If this happens to you, you will unfortunately discover that the courts will control your estate (even if you have a well spouse capable of running everything), and attorney and accountant fees will be among the other new costs for the care of you and your estate.

Medicaid is a second serious issue that can devastate the estate of the senior. If you are not able to care for yourself or be cared for by the family due to age and illness, you may find that you require the care of a nursing home.

The cost is astounding and most often devastating. While you and your spouse may have enjoyed a modest level of comfort in your post retirement years, the financial demand of senior illness may create a nightmare to your security. While it is not a published statistic, the number of Americans that go broke each year in America due to senior illness is over one million per year!

Therefore, your plan should include the options that you have for conservatorship and Medicaid. A trust is a good starting point, but frankly there are several items that can be easily included into most plans.

The saddest words ever uttered are, "It could have been."

# THE PLAN OF THE FUTURE  Chapter Five

"A good plan will be able to change with new rules."

One of the tricks to estate planning is building a plan that has flexibility and further options should the world (as we know it) change. In my years of estate planning, I have found one constant, and that is that everything changes. Just the time you have everything figured out, the government, the IRS, or a state statute will change the nature of the game, and you're back at square one. The conclusion is the frustration of doing anything for fear that it will be worthless later.

A good plan is one that expects things to change and is not so strict that it becomes obsolete with each new tax revenue act. There is much to be said about the "wait and see" attitude. We are always looking forward to the optimum moment and a bolt of lightning to inform us that God has spoken. Well, its rather like the man who was caught in an immense flood in Mississippi. When the flood reached the first floor of his house, he moved to the second floor. A boat came by, and they asked him if he wanted to be rescued. His reply was, "God will take care of me!"

Later, the floodwaters had risen to the second floor, and he vacated to the roof. Another boat came by, and they once again asked him if he wanted to be rescued. His reply was again, "God will take care of me!"

Finally the water crested the roof, and he took the final high ground by standing on the chimney. At that point, a helicopter saw him, and offered to whisk him to safety. He defiantly yelled, "God will take care of me!" and the helicopter flew away. But the water continued to rise, and the next scene is of this fellow waking up in heaven. He finally got hold of God and said, "God why didn't you save me from the flood?" God smiled and said, "I sent you two boats and a helicopter."

The moral is easy … don't put this kind of planning off. The ability to protect your family, preserve your capital, reduce your taxes, and secure your financial future is never better than it is today. But please understand that it may not always work like you think. That is why a good plan is not too constrictive, but leaves open options that you may enjoy tomorrow. I often encourage people to do more than the minimum in planning because we just don't know how things will go later. Minimal planning is like using a will to pass your estate. There is really no latitude at all with this kind of planning. The court will figure it all out when you die, but do you believe they will do it in a way that you would approve? Doubtful!

This is what is great about trusts. They are flexible. A Revocable Living Trust has some great features built in. First, it is "amendable." This means that you can change the trust by simply completing an amendment to the trust. It is not difficult, costly, or laborious. It allows you to adjust things later if you see it is beneficial or necessary.

A Revocable Living Trust is also "revocable" which means that you can take everything back and cancel the trust. I can perceive no good example of why anyone would revoke a trust, but it is nice to know that you have the option.

Finally, you can enlarge the trust. One trust can spawn another, or you may create as many trusts as you may desire. It is all up to you. Therefore, doesn't it seem like the person with a trust has far more latitude and available options?

### GRANDFATHERING

Remember, the concept of "Grandfathering." This is a rather important tradition that you need to keep in mind. Most laws that allow you to do something today cannot take it away later on. So if you did a plan in 1990 that was taken off the books in 1998, you are typically grandfathered. After 1998, no one else can get what you obtained in 1990, but you can still enjoy the advantages.

An example of this was TAMRA of 1988. Certain annuities, and life insurance policies had tax preferential treatment. A person could put money into the policy, and treat the money earned in the policy as a return of basis. Others policies provided tax-free loans. In the pre-1988 days these policies were deemed "Too good to be true." A number of people passed on the option because it seemed too good. Suddenly, the IRS passed the laws that took away these benefits, and clients started clamoring for these policies. It was too late.

If you do your plan today, and take advantage of existing rules, the chances are very, very good that you will not lose them later. In fact, if new and more favorable laws do come up later, you have the option of one, the other, or both.

Consider the opposite. What if you waited until you heard that Congress had once again removed one of the legal options that you could have had last year, but didn't do anything about it. Can you still get it? No. The door has shut, and only those that entered in prior to the change got the benefit. It's rather like being in the store, and they lock the doors so that no one else can get in. Don't you feel like you lucked out?

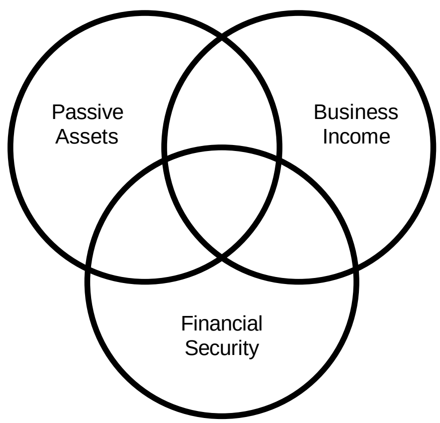
Here we see the "use it or lose it" rule. It is the reason that I advocate people on every financial level to do their planning right away. Too many times, I have heard a client lament, "Where were you ten years ago? If I had done this back then, I would be living a far better life."

## THE FOUNDATION

The initial plan that is drawn up is pretty much a blueprint that allows for growth. If we took a large view of planning, we would start with a passive device to hold the assets. This may be a Revocable Living Trust, a Family Limited Partnership, a Family Estate Trust, or sometimes a passive corporation.

If you have a business, the next broad category is some type of business entity that is a compliment to your plan and your needs. Care must be taken to make sure that these are not two incompatible entities but that they actually maximize the benefits and minimize the taxes or other problems.

In the third large area of planning, we want to provide a retirement program that may be far better than an IRA or 401(k). This too must be integrated with the other options. Most people may have a few of these ideas working, but they don't have a plan. If I were to prepare a basic example of a full estate or wealth plan, it would look like this:




This is not the first time you've seen a model like this, but it is a good way to see why most plans are very shallow or faulty. The three major issues of their lives are being run by different people that have no coordination with the other. The business is treated as though it had no importance to your personal assets, and your retirement planning is spread among various brokers that don't understand the other issues of your life. An obvious formula for trouble!

However, the most interesting part is where the three circles intersect. This calls for the ability to coordinate more than one issue. It is here that the powerful virtues of estate planning are seen. When we bring all three together, we create a whole new realm of benefits. We get tax benefits, we can get asset protection, we can develop higher yields, and we can pass wealth more efficiently.

However, the average American is treated like a juicy bone among four or five angry dogs. Each one wants to possess it, and cut the others out of the picture. The people that serve as your advisors (from time to time) do not want to share with anyone. Their agenda is to make you think that they are doing you a great service while they make their money. They do not build a true estate or wealth plan. They just see how much they can carve out of the pie for themselves. Want to prove it? Watch what happens when a problem comes up. Do they help, run, or charge you more? Most mercenary type advisors will bill you to set things up, bill you to answer questions, bill you to manage things, and bill you when a problem comes up.

Paying for what you get should not be the problem, but your plan should be more than a means of billing you. It is something that you install, learn to operate, and realize benefits from over the years. The client must realize that the "real duty" of planning is his or hers and that it cannot be deeded off to someone else to care take without serious risk of under-performance or non-performance.

The Bible speaks of the difference between a hireling and the shepherd (owner) of a flock of sheep. It says of the hireling that when threats like a wolf or lion were to come, the hireling will run and leave the sheep at the mercy of the predator. By contrast, the shepherd will fight and actually give his life to protect the sheep. The Biblical reference to the Lord is obvious, but how about that which you have under your care? Can you simply transfer the duty of your money, your retirement, or your family into the hands of hirelings? You shouldn't, and that is why a plan is critical. It is something that allows you to participate in the project and see that certain issues are addressed.

## ACCUMULATION IS NOT THE ONLY ISSUE

You might also imagine a project that is one-sided and inadequate. Like feeding sheep water without food, or food without water. You should not look at a financial plan as a complete resolution, neither is a will prepared by an attorney the answer, nor a bookkeeping system provided by your accountant. As already explained in this book, they are just pieces of the puzzle.

Trusts are great devices. So are corporations, limited partnerships, and LLCs, but they only deal with the active or passive protective needs of your life. And unfortunately, life is very complex in the post 2000 era. Solutions are not as simple as a forty page financial report on your portfolio, diversity, risk tolerance, and time horizon. While it is a great idea to grow your portfolio and increase your net worth, you must also address other issues that can strip you of whatever portion of wealth you may possess.

A good estate plan can provide the other solutions that money alone cannot solve. Most families have tax concerns. Income tax reduction strategies will allow you to accumulate money better. Capital gains tax on your real estate, stocks, bonds other appreciated assets, and federal estate tax at death can also erode your financial estate. The use of trusts and planning techniques can reduce or eliminate these taxes.

Passing your estate to your loved ones should not be left to the mercies of the Probate court. Regardless of the excuses, the delays and cost of probate are not good planning if you want efficiency. Probate works, but other plans work better. Of the three methods of transferring wealth, probate is the least efficient. Joint Tenancy with Rights of Survivorship (JTWOS) offers other options, and contracts like trusts also provide another method of transferring property and bypassing probate.

Civil threats of litigation and Medicaid can be other unwelcome threats to your estate. Your financial assets are at risk by simply holding everything in your own name. In fact, the more you possess, the more you can lose. Once again, structuring an estate can make an immense difference when you face some future threat. In such matters, a good plan can change the way things are owned so that creditors cannot reach them and you still get the benefits.

# DO YOU HAVE A PLAN

"Do your have a written plan?"

Success is predictably the result of a plan, but a plan is more than good intentions. Every thriving business has or realizes the need of a business plan. Unless you are born rich or extremely lucky in life, wealth is always the result of a plan and hard work.

If you are in business, you absolutely need a business plan. If you are wealthy, you certainly need a plan to minimize taxation and erosion. And if you don't have a business or great wealth, you need a plan to achieve a measure of wealth. The person with a typical job thinks that the company will provide a plan for them. And maybe you are fortunate enough to have an outstanding work-provided plan, but consider these factors:

1- Most insurance coverages expire when you leave the job. Life insurance provided by your job, will be lost within a few years or greatly diminished.

2- Health insurance is converted to Medicare coverages and some ancillary benefits.

3- If the retired spouse dies, the income from the retirement plan will be reduced by one half of the previous income.

4- Problems of the company and their investment policies can adversely affect your retirement plan as well as benefit you.

In other words, do not depend on others to do what you should be doing for yourself. We should not concede our future to the provision of the government or the company that we work for. The ebb and flow of circumstances are rarely consistently kind, and these programs should not be your only plan.

As you plan your affairs, you need to first discover what are the main issues that you care about or may most impact your life. No two plans are alike, and there are numerous solutions that may be employed. Age, circumstances, and threats are numerous, but the idea that a simple will or retirement investment will fully address your issues is a fairy tale. Unfortunately, we often find out too late that our plan was not comprehensive enough. A lawsuit, tax issue, disability, or Medicaid problem is all it takes to find out how ineffective most plans are. Consider that a serious illness can cost in excess of $50,000 in hospital costs. This may fatally shock your best-laid financial plans. Remember, many seniors lose their extensive coverage at retirement. Or even one lawsuit may poke a hole in your nest egg from which you may never recover. Hopefully, you'll never know what a divorce can do to your finances.

I have listed a serious of issues that you need to include

| | | |
|---|---|---|
| ___ Federal Estate Tax | ….. | [__] |
| ___ Capital Gains Tax on Appreciated Assets | ….. | [__] |
| ___ Asset Protection from Litigation | ….. | [__] |
| ___ Cost and Delays of Probate | ….. | [__] |
| ___ Medicaid's Forced Spend Down to Poverty | ….. | [__] |
| ___ Retirement Security | ….. | [__] |
| ___ Investment and Insurance Planning | ….. | [__] |
| ___ Large Income Tax Costs | ….. | [__] |
| ___ Wealth Development | ….. | [__] |
| ___ Business Planning | ….. | [__] |

Take the time to list the importance of these ten issues. (1 = Most important and 10 = Least Important). The foundation of a plan is discovery of the issues that are important to you. If you don't think about them, then maybe they will go away. But, you and I know that is a foolish statement. So, take a moment and complete the list above.

Once you have completed numbering the importance of these items, go back to the right hand brackets and put an X on each item that you have already resolved. This exercise is a simple revelation of the truth. We all have problems, but few people have the answers or an effective plan.

# The Wealth Plan

The Wealth Plan is the best way to guarantee financial success and safeguard your future

Are you ready to do your planning? If so, do not settle for less and do not be fooled into thinking that everything will simply work out without hazard. Success in your life, your retirement, and in your family comes from planning. The need to plan is so obvious that I am sure that you found good reasons to complete your own plan.

The next step is also obvious. You need a plan that will resolve the very issues that have been explained in this book. As a Certified Estate Planner™, I have the training, resources, and expertise to help those with small, medium, and large estates achieve their dreams by a serious plan that we call The Wealth Plan.

The design of your Wealth Plan is not just an "Off the Shelf" program, but something that is tailored to meet your needs and address potential issues in your life. Many of these concerns cannot be done by piecemeal planning, but require attention today before problems occur.

"Opportunity waits for no man," we are told, and time is too quickly swept away. Thank you for taking the time to read through this important presentation, and I hope that you will call me for further assistance and development of your Wealth Plan. As a further gift, I have a wonderful book that I would like to give to you. It is called "This is Your Life." I know people are hungry for this kind of information, and you will be pleased to learn how much support we offer in educating and assisting our clients.

I look forward to hearing from you regarding your interesting in starting your very own Wealth Plan.