The Secrets of Successful Financial Planning

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The Secrets of Successful Financial Planning

Inside Tips from an Expert

Dan Gallagher

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To Laura, mother of our four; wife for life.

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Introduction

For more than three decades until my 2017 retirement, I've asked clients about the financial strategies and experiences they had prior to our engagements. Roughly two thirds had obtained great professional guidance but switched due to retiring advisors or a change of residence. However, about a third of my clients had one of three problems that kept surfacing:

- They did little to no planning, ignoring professional advice but occasionally taking ideas from magazine articles or other impersonal sources
- They diligently planned, using self-help books and/or software that offered strategies that were not customized to the client's specific situation

- They engaged human advisors who gave them bad advice (biased or incompetent) and/or bad products (inappropriate or non-competitive). This includes professionals who used ghost-written books to subtly promote their financial products or fee-based services.

The first and second problems were usually due to fear or disrespect of financial professionals, even though most professionals really do offer sound advice and problem-solving products. These three problems, at best, led to inefficient or costly results; more often to financial disaster.

Real human experience stories, especially the tragedies as most of these are, help us learn and motivate us to act. True accounts stay with us because we see a path to avoiding a danger. Although some of these accounts show how certain advisors (and also clients) employed guile, self-serving advice to clients, as well as poor judgment by some clients, don't get the wrong impression: these are rare horror stories from three decades of observation, and they are far from the norm for advisor behavior or even client error. They are admonitions. They are reminders to pray, or at least have compassion, for the victims. I do not want you (anyone) to make the mistakes we will explore. I want you to benefit from the information provided here. Buy copies of this book for your adult children and pre-retiree/retiree friends about whom you care. It can help you, and those you care about, avoid financial pitfalls. It can help you think about money as something to steward wisely rather than hoard in fear or risk greedily. I have no products or advice to sell.

This book is very different from other personal financial planning books for consumer use: Most topics herein have engaging narratives of real-life drama, success and wrenching failures. These rippled through time in their effects upon individuals and families I have known, and with whom I have cried or celebrated. Much of my advice runs counter to commonly held beliefs among the writers of sensational news, regulators and industry professionals. But every strategy discussed herein is justified or derided in a way that enables you, the user, to determine whether it is an advantageous or poor strategy for you in your specific situation because I specify the conditions under which the strategy may be sound.

Knowing the conditions under which a strategy can help or hinder reduces the risk involved in doing one's own planning. Knowing the conditions under which a professional will make recommendations in your best interest is crucial to coordinating your strategies (and, newsflash: fee-only advisors are not the only professionals who *must and will* work in your best interest). Understanding these conditions that bear upon product and advisor choices are what enable you to become validly -- not merely emotionally -- confident in your decisions. So, we will explore optimal decision-making as well.

Finally, as the title implies, I will identify for you numerous little-known -- even some *intentionally withheld or mischaracterized* -- strategies, boom and bust indicators, restrictions upon consumer choice, good-versus-poor value factors, and other important facts. These issues are crucial to understand when planning for success with your money and other hard-earned assets that *you* have the responsibility and privilege to steward.

How this book is organized:

Chapter One is on types of professionals and who are best able to help you. It clarifies professional designations, "captivity" and degrees of "independence", analysis work that you can rely upon yet obtain free, paying fees and when commissioned brokers may be relied upon versus not. This chapter, like the others, has "secrets" and "little-knowns" of success you'll definitely need! There are new developments in services, including practical tips on the fiduciary debate and regulatory environment that affect you. Do-It-Yourself software and online Robo-planning, a new phenomenon, are also clarified to help your decision making. The planning process itself, updating plans, and when to just focus on a few components are also explored in Chapter One.

The Six Components of Personal Financial Planning. Although big problems can arise if you don't coordinate and integrate these components carefully, each has its own chapter. You might be tempted to skip Chapters Two and Three, thinking that you have a handle on your budget and insurance strategies. Skipping any chapter, especially these foundational ones, would almost certainly cost you some efficiency, which is equates to real money and important options. There

are some very scary real-life accounts of intelligent adults who assumed they knew all... and lost big! Ever heard of someone losing money in a money market account, or losing their disability payments while on an approved disability claim? Hmm, what's that they say about the three parts of the word "assume"? What does it make out of "u" and "me"? Here are chapters Two through Seven, which cover the six financial planning components:

2. Financial position (including cash and credit management and budgeting)
3. Risk Management (non-insurance and risk transfer techniques)
4. Accumulation Planning (strategies and the truth about financial & non-financial investments)
5. Income Tax Management (including considerations most brokers always say, "talk to a CPA" about)
6. Retirement Planning (tips for the young to seniors, medical to lifestyle, and all in-between)
7. Estate Planning (Health Care Powers of Attorney versus Living Wills and more)

All of these topics connect, and some integrate deeply, such as tax management and accumulation strategies. Picking optimally efficient strategies for your individual portfolio might depend on having an insurance product (risk management, like Long-term Care insurance) perform double duty with accumulation strategies, tax management and retirement planning. Likewise, certain tax-advantaged pure investments may not be discussed in detail in the accumulation chapter because their use is primarily for retirement income planning. So, if you skip a chapter, you might miss important discussions that you assumed should be only in your chosen chapters. Within chapters, though, topics are labeled to help you judge which to focus on in detail versus skim.

What's New: There are several little-known changes and trends in financial products themselves; these are explored in the applicable chapters, mainly Chapters Four and Six. One financial product is new on the market since 2014, and even many professionals are unaware: Qualified Longevity Annuity Contracts (QLACs). It's still evolving in 2017; so is the supplier list. Yes, there are new things under the sun! There are significant trends in some product

categories, too: These include still-little-known changes in the last decade in some composite investments: mutual funds, investment trusts, derivatives and risk hedging products. Changes are brewing, too, with Equity Indexed Annuities. Designs and tax treatment of life and annuity products are also changing: for example, drawing a death benefit while alive from newer life policies in event of terminal illness or to pay for at-home or institutionalized nursing and custodial care. There are also hybrid policies for Long-Term Care expenses that can be for ordinary income (no premium loss if LTCI is unneeded), and which preclude premiums being required. These trends and new products are described and "prescribed" clearly to help you decide whether and to what extent they are needed.

Supplemental Resources: This book provides extensive detail, key references, and an index. Supplemental resources and a blog are online for my valued readers: AuthorDan.com. If you are a business owner, this book can help you, and would be an appreciated gift for your employees (they'll see that you care). But financial planning for business entities is a different -- and just as crucial -- "to-do". I'll have that for you in the fall of 2018.

Ready to finally get your finances as close to optimized as possible? Great. Let's get started!

Chapter One: Advice & Advisors and What's New

The following experience did not end well for anyone involved.

Frank's wife Lu felt that electric stab in her neck as she jerked her head left, away from the overdue mortgage notice toward her husband's shout.

"Bastards!" he yelled, crushing the annuity carrier's letter.

"What?" she gasped, as she simultaneously wiped away tears and caressed the back of her neck.

"These people actually refuse to take my whole rollover! They want to know what I want them to do with the half they won't accept. The rollover was almost nine hundred thousand and I chose them to get away from market risk into this pension thing Chester advised me on. Almost a million dollars, and they have the nerve to tell me that?"

"Says there, Frank, that your income is zero now and expenses are four thousand monthly. Where did they get that, our expenses are twice that anyway."

"I made a hundred forty thousand until the layoff, and I can hit that again anytime now. I don't know why it says four--" He paused, looked again, and dropped his jaw. Says some financial report has my other assets at zero but that my application shows another million in something called 'non-qualified' mutual funds. If I were worth two million, we could retire early. What is this?"

"Frank, calm. You're already so over-focused on getting re-employed, you forgot to pay the mortgage."

"I did not. It's auto-debit from checking and we had…" He watched a tear escape Lu's eyes.

"Hon, The Homeowners' Dues and the club and several other things come out first, and you wanted the vacation paid with cash, not on the credit cards so--"

"Our credit is going to crash."

"Didn't Chester say you could take income right off the bat from this new IRA until he got you a new job?"

“Right, and there’s no surrender charge on that, but he said his fee for coaching and job consulting would be less if I paid in lump and-- He’s got this thing all in a spreadsheet and he knows what he’s doing. He’s been a career and investment coach for over a decade. I hope he won’t see me as some lower-priority client now that the investment is half what we expected, but I can’t figure out how this...”

“Everything will be fine, Hon. Call him Monday and get it all put into the pension annuity, just like he advised and, then, it will be there if you don’t find the kind of job you want and he has to keep looking. At least we have the option to start the annuity early. It’s almost what we need for the mortgage and debt obligations, anyway.”

“Yes. This letter is obviously some mistake. Chester will fix this, just like he found the best annuity by being different from all those shyster brokers he showed me real articles on. Why anyone would use a broker, I cannot fathom. Those guys don’t care about your career or income or retirement like Chester and people at a professional career-focused shop like his. Watch, he’ll fix this Monday. Anyway, this can’t be real: Who ever heard of an investment company that wouldn’t take your money? This is America, isn’t it and I get to pick what I invest in, don’t I?”

Turns out, Chester did calculate correctly that the income from the rollover annuity would cover most expenses… if they waited a year to take income; no income without penalties prior. Frank and Lu had told Chester that they would put their vacation, a tax-deductible one due to Frank’s interview schedule and possible starting a business consulting for his old employer and others, on credit and that Lu was about to start a job… that fell through. So Chester had them roll the entire 401(k) into the annuity. Chester knew that, because of the regulatory environment that annuity carriers must deal with (more on this later), these carriers have become so intimidated by regulators and the legal environment, that they are de facto forced by the government to deny people full investment choice: They design their applications, and sometimes check financial sources, to enforce what is actually the government dictating to consumers that they cannot invest more than half of their investable funds in insurance products; roughly half must be in other forms of investments. Frank wanted all existing investable funds to be in an annuity that was his personally owned pension; he wanted all new savings from any new job’s income to go into at-risk mutual funds, but he wanted to protect the existing assets. To maximize the sale and to satisfy Frank’s desired strategy, Chester lied on the application Frank signed and hoped random examinations would not be made. For his part, Frank felt he could trust Chester and it

was Frank who pushed for this two-phased strategy of diversification. Chester had also used his role as a career coach and job hunter for-fee to simplify things for Frank. Chester made the rollover decision appear as a no-brainer he could be most trusted to handle because "career coaches work for fee and only for the client and find investments that have minimal commission and maximum consumer value."

Last I checked, Chester still had his insurance/annuity license. Frank still trusted him -- or maybe felt his career was in Chester's hands and he had better help Chester. Frank confided that he protected Chester by taking responsibility in writing for lying on the application. Nothing more came of the matter, except this: I showed Frank a far better annuity and showed him that Chester was appointed to sell for only two carriers, and hat Chester's commission was about the same as other agents. Frank could not change annuities, having gone well beyond the 30-day free-look period for switching back. Frank had the other half of his funds sent back to the old 401(k) and, when the market corrected, he exited those funds into the money market account of the 401(k)... having sustained an 18% loss. That loss would not have occurred had this American citizen been allowed to invest as he chose. Three cheers for that career coach and for the regulatory environment? I think not.

This account leaves several questions unanswered. What are these licenses? Who is best to trust when investing? Might the current regulatory environment actually deprive Americans of their constitutional right to choice in investing -- or might the "nanny state", irritating or not, help more than it harms? How can all of this be navigated for optimal personal decision making?

Let's examine the types of professionals you can encounter and utilize, their function, expertise, what makes for trust, and who represents the best interests of whom. Since these professionals operate in a regulatory environment, let's examine industry self-regulation, the legal or litigious environment, as well as direct governmental regulation. At the end of this section, you will be well equipped to make wise decisions about changing or keeping professionals you utilize. But, first, [jump to next excerpted section]

Lawrence worked in Charlotte, NC as a leasing specialist for a regional commercial realty firm. He also owned some office rental units in town. We spoke many times over three years

before he became an investment client, which occurred only after a for-fee financial analysis and plan. I could always detect that he wanted to do the planning and invest. He was uncomfortable talking about his investments, though. He spoke professionally, but never warmly, of his banker and his stockbroker (same firm). Nevertheless, he had long expressed worry for the fact that his investments available at his brokerage lacked any guarantees and that the annuities available were also as variable as the mutual funds he had; no guarantee as to principal or return.

Examining his portfolio, I found a very limited selection of management companies used for his funds, he paid rather high fees for the funds and also for some managed accounts. I diagnosed the need for an annuity requiring close to half of his savings. This was because he had expenses that would not stop after he retired, and he had no pension; Social Security was inadequate. I diagnosed, among other things, the rate of return to reach his goals and I solved for the asset allocation mix that would most likely provide that return but with minimum risk associated with that required return. This allocation was radically different from what he had and required far less risk than his current posture forced upon him. His current allocation, very aggressive, was recommended by his broker without any such analysis ever done; it was based upon hunches and news flashes from the investment gurus that the bank's brokerage had, its research Department. He [Jump to next excerpt]

One "secret" of the industry is that most brokerages and financial firms have employment contracts that…

Next excerpt, from Ch 2:

Three-Tiered Cash Reserves: You don't need a financial advisor to know you need a cash reserve. But how that is assembled profoundly impacts your chances of success. Optimally, you should use three tiers (Tiers) and assemble a special kind of budget – not any old budget – in order to estimate how much cash to place in each. These Tiers have specific purposes, ready for

specific events, and you will need this structure regardless of whether you are young, approaching retirement or long-since retired.

:

Next excerpt:

:

I met Bill, a friend of my wife Laura's, in 1987. He first became a client in the late 1990s, soon after marrying. Bill's wife was the higher earner, so when they had their first child, he quit his job and became a stay-at-home Dad. Bill eventually had reason to suspect his wife of infidelity. His life began to crash. His wife left for another man shortly before his father died. The inheritance was a help, but not enough in itself to fund his dreams. So began a trying property settlement negotiation with my assistance concerning his wife's pension, savings and an effort to get him to be serious about budgeting. Bill loved the idea of a budget, but rejected the work and lifestyle changes needed to make his financial plan work. He spent to avoid depression: meals out, new tools and the like. I offered several cautions knowing he did not take advice well, but had no idea how impulsive his pain had made him.

Bill came to me one day and said, "I don't need this budget anymore because the mortgage is gone and there's plenty of room for all those things you cautioned against."

"Wow. So Terri gave in and paid it off, or you got your attorney to make her commit to that?"

"No, we haven't finished the property settlement. But I just paid off my half of the mortgage, and the rest she'll have to deal with."

"I don't understand, Bill. You and he are 'jointly and severally' obligated. If you paid off your half, I suppose you mean she also paid..."

"I don't care what she pays, mine is done. I just came from the bank and – oh, can I have some of that Merlot?"

"Sure. I think you're going to need a drink if I understand you correctly. You still have to pay on that mortgage if she doesn't. Plus..."

"She'll pay, besides, her payments will be half now." "Did you get her to refinance in her own name, then?"

"You're not a listener, Dan. No, she didn't refinance. I told you I paid my half off because I can't sleep having to dip into what's left of the inheritance and credit cards to make ends meet. Now, there's breathing room."

"Just a minute." I rifled through my files to a copy of the promissory note. "Bill, there's nothing about payments reducing when either of you pays this down, and you both are liable for whatever the balance is at any given time. Look."

He resisted my offer of the note's verbiage and gulped some wine.

"Bill, even if you eventually negotiate a settlement that gets her to pay the mortgage and lets you stay in the house, you both remain on this note. Also the payments can be sought from either or both of you regardless. You each are liable for the entire mortgage and paying half down just reduced Terri's debt by half of what you paid."

Bill was shocked and shamed. His attorney read him the riot act about acting without talking to him first (I was kinder about his impulsiveness but had a similar message). As I expected, Terri laughed and instructed his attorney to give nothing back of this windfall. Bill, like so many people I know, remains in our prayers.

So, take from this two lessons:
[Next excerpt]

Budget Tracking: Target vs Actual: First, you must create a budget, with intended versus actual expenses and make adjustments accordingly. This information directs the three-tier cash reserve strategy. Be certain to list all expenses, even those not due monthly but appearing randomly (car expense, for example cannot stand alone. Maintenance expected is a separate line item from saving for the next car; same approach for furniture, appliance, and clothing replacement.) Second, even if you are a DIY type, respect and utilize the advice of professionals prior to major financial and obligation-related decisions. Don't make some large outlay, like a boat, uninformed mortgage pay-down, etc., without either being truly rich or talking to your planner first. He or she can check your assumptions and model the effects of your desires to advise you well on what is really prudent and how it affects your future financial success.

Old habits die hard, and more prudent ones get adopted even harder. I understand. Everyone has heard, "Pay yourself first," meaning put money away for retirement before you spend money on entertainment or luxury. But some entertainment or luxury can help keep you sane. Moreover, some "investment" in fun things you love can make you money later. Just don't let spending become like eating a half-gallon of ice cream when you're sad!

What if you were building your three tier cash reserves but really loved your hobby of woodworking? You might waste money on that hobby, or it might become something that can actually sustain you if you have a layoff. Investing in yourself, at least if you do build those cash reserves, can enable you to develop new skills that can get you promoted or a better job. So, consider buying learning experiences that have real potential and are personally rewarding. Few investments pay off better than those that enable you to earn more or to have a fallback career.

Bill struggled with abandonment, heartache and depression in addition to not being the type who takes advice. Mood and anxiety definitely affect your finances and your propensity to seek and execute good advice. After all, you must believe that there is hope in a brighter future.

[Next Excerpt]

Chapter Three: Risk Management (Protection Planning)

Why buy insurance at all? Why not be self-insured and save the profit margin that carriers earn? After all, everybody knows that, if you live to age 85 or so, the return on a life policy (represented by the death benefit) for the investment of premium is around 3%. Long-term investors can achieve much better results than that! Sure. But the "return on investment" or death benefit can come anytime in life, and your investments may not accumulate to total anywhere near what the death benefit would be, especially if your investments had serious losses or you had a briefer life than you assumed. The point of insuring is this: For an individual, an uninsured loss is a financial catastrophe; especially before a large investment fund can be grown.

But for the carrier, paying a large death claim on that individual after receiving just a few premiums is not a catastrophe. This is because the carrier knows that, in large numbers of policyholders, this is rare and it factors such losses in to premium rates. The carrier will make a stable return from a large and predictable group because it knows the average mortality rates, including instances when it is likely to lose on a particular claim. So we buy insurance to hedge what is, to us individually, a catastrophe, and the carrier correctly prices premiums to consider the average results of all policyholders. It would only be wise for an individual to scoff at insurance if he/she actually could predict his/her lifespan and health over all of those years.

Disability Insurance (DI)

The financial impact of a disability, health expense, loss of life, nursing home need, liability in some lawsuit, etc. on an individual would be catastrophic. Let's first consider disability coverage. A disability is a threat to a mortgage and personal finances. Here's a real-life sales encounter that helps illuminate at least a couple of the reasons we protect ourselves and others with insurance.

Although missing supper with my family, I was excited to welcome my first referral from clients at a Civil Engineering firm in Charlotte. I had been informed that he was a rising-star soils analysis expert who had just purchased one of those over-priced cookie-cutter "McMansions" in Ballantyne, a suburb of Charlotte. He had expressed a need for Single Premium Life Insurance. My shared assistant, Debbie, popped her head into my office and grinned. "Your six-o'clock is here, Dan. Max… I'll, uh, get you some wine glasses."

"Wha—uh—Thank—" Before I could ask her the obvious question, a chipper, thirty-something young man took a seat at my conference table and pulled a nervously smiling twenty-something blonde to the seat beside him.

"Great to meet you, Dan," he bubbled, pouring an already opened bottle of Merlot with one hand and gripping my handshake firmly with the other. "John said you like Merlot."

"And I'm Max's better-half, Jennie. Well, sort of. My parents went ape, but we're celebrating our moving in together."

"Jen and I share everything, even her parent's judgmentalism."

Jennifer shot Max a cold look, then smiled tentatively.

"Welcome to both of you, Max and Jennie, and thanks for the wine. I'll just set it over here while we get acquainted and begin our work. We can do joint planning or two individual plans, depending upon whether you meld finances."

After the get-to-know and quite a bit of note-taking, I had to challenge one of Max's previously expressed objectives. "Max, I don't see a pressing need for much life insurance beyond your group coverage, given what I've taken note of here. You can't buy the best consumer value in a Single Premium version with just thirty thousand. Why were you interested in that variety, anyway?"

"My Dad said it's the best value."

"It is, like buying in bulk. But it would be wiser to place your hard-earned savings into a cash reserve for emergencies."

"Dad said mutual funds in SPLs grow almost as fast as regular funds, only tax-deferred. And, then you take big dollars out for a tax-free retirement income; never paying tax ever."

"It can work like that. But the pressing need I see is the need for Disability Insurance, DI, to supplement your employer group coverage. For your group DI, the definition of disability – to qualify for benefits – changes after one year on claim. Benefits might not continue if you could perform other work than your specialty at your firm. So, you could lose your house. You would be unable to save for the future, unable even to pay for the added therapies and facilities that disability often forces on people. There's a worse financial burden with disability than with death, and about four times the likelihood between now and your age 65."

"Wow. I see that. Let's get started, and get some for Jen too."

"Jennie can't buy any yet because of her medical issue that needs five years without recurrence. Since she's contributing some to the mortgage payment and can't get DI for quite a while, you especially need that cash reserve to be able to take care of her in event of her disability. You'll need to start carving an estimated premium out in your budget for when she could buy it. Disability can be very burdensome and costly: One of you might have to take care of the other for life, or hire custodial assistance for long-term disability and care, and that is a significant risk that must be hedged."

"Custodial care… Out of pocket?" he stammered, blanching. Max was silent for a moment. He stared at Jennie and back at me. "If Jen got, like, disabled and couldn't walk and… I just couldn't deal with that."

Jennifer squeezed his hand and kissed his cheek, but he pulled slightly away.

"Max," I soothed, "I know it's difficult when you had your heart set on aggressive investing plus, tax bells and whistles. But disability is the biggest financial threat—"

Max stared at Jennifer and drew his hand back. "Jen, you remember I said we'd just split the expenses, not give over everything."

Jennifer's warm smile fled her face and she swallowed hard. "You said we're partners for life. If I got disabled, are you saying you wouldn't support me?"

"Jen, I never said to you I'd—"

Jennifer swiftly and silently left my office. Days later, she called to tell me she had reconciled with her parents and thanked me for helping reveal what got revealed.

[Next excerpt]

Life Insurance:

What might be ongoing life insurance needs? Does this imply that lifelong coverage (I cannot get myself to use the phrase "permanent insurance") may be needed for some people? It does. Here are five reasons to consider lifelong coverage:

1. You want to leave a legacy to heirs and/or charities.
2. You want to compensate a surviving spouse for the loss of pension or Social Security income at your death. Briefly, the loss of the lowest Social Security Payment is a fact of the system. So, life insurance that can purchase an annuity or be an income fund to pay the same to the survivor makes sense and is a need that lasts as long as both spouses live. The same occurs with traditional pensions (Survivor Benefit Payment or SBP) but in a more complex manner. This is treated in detail in the Retirement Planning chapter.
3. You expect estate taxes upon a second death of couple, and would rather have a tax-free death benefit to pay the taxes than to be forced to liquidate – often a pressured sale – a business or similar asset.
4. You need Long-term Care coverage to provide for nursing home or in-home custodial and nursing care. These policies are most advantageous as hybrid policies that give tax-advantaged access during life to the death benefit for use in paying for Long-term Care

expenses. Almost everyone needs LTC coverage and, if a legacy or pension SBP replacement need also exists, such a policy can perform double-duty.

5. You want to over-stuff the policy with premium in order to replicate the tax benefit of a Roth account, yet stay just below the maximums that will cause the IRS to classify it as a "Modified Endowment Contract" or MEC, which takes away the tax shielding for drawing out income.

Let's examine life insurance, then. :

Next excerpt:

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Harold was delighted for years with his Variable Universal Life policy, and gave his agent, Charles, many referrals as the stock market kept driving his cash value up. The aggressive "separate accounts" had grown his cash value between 2004 and 2008 by about a third, not considering premium additions. He knew that there was a commission charge of five percent on all premiums, including extra premium that he had long wanted to remit. One day in early December, his bonus hit over $35,000 and most was deposited into his policy, an amount just below what would have made his policy a MEC.

"As far as I'm concerned," he said loudly to my friend so everyone in the office could hear, "you deserve the commission on this and every premium!"

A week after Christmas, Harold had a heart attack and died. His wife, Karen, brought in the policy for my friend to process the death claim. We all heard her shout from down the hall.

"You mean the death benefit is the same whether he made that extra deposit or not?"

After sobs and growls, she calmed and exited the conference room with Charles. We could not help but listen to him as he escorted Karen out into the lobby.

"These notes in the brochure about Option A are Harold's handwriting. He knew the death benefit wouldn't rise until the cash value got way bigger than it got. It's not your fault. It's just stunning that his bonus went up in smoke like this."

Harold understood, but never mentioned to Karen, what Charles had clearly explained about Option A versus Option B.

Long-term Care Policies:

The two ways to buy LTCi are [Next excerpt]

Chapter Four: Accumulation Planning

Before we start this topic, let a guy who spent over three decades helping people with investment accounts relate two points in all humility: The single best investment is in yourself, if you are willing to work that diligently, and not all meritorious investments are financial products brokered by licensed financial professionals.

Invest in Yourself

I speak, of course, of the fact that improving your professional education and other skills makes you a walking, talking annuity for yourself and your loved ones. Get that promotion, study other occupations of interest, enjoy that hobby, start that side business. You might need these if you're laid off or lose the ability to continue your current work. Besides, many studies have found that retirees who just live onward dully tend to die sooner than more active retirees and have more debilitating diseases. Did you know that reading and brain games can even moderate the effects of Alzheimer's? To my second point, many investments turn out to be both fun (a current return) and might grow in value. These include fine art (though be sure to have adequate liquidity in your overall portfolio!) and collectables of scientific and historic significance, etc.

Long ago, before rules made securities ownership purely a data entry, I started collecting cancelled securities and insurance certificates. I started this just to adorn the walls of my office and lobby. The collection also has economic and business related maps, documents and business commemorative items like stamps. I obtained these from estate sales and document brokers. After stock and bond certificates could no longer be physically issued and cancelled ones had to be destroyed, my collection became quite rare. I even have a junk bond once owned and signed by the infamous Michael Milken. I suppose I paid a thousand or so from 1990 through 1998.

Today, the collection is worth twenty thousand or more; it is not for sale; only for my heirs for sentimental reasons. I have fossils and a nature collection, all to edify and fascinate my children; to me, these things are God's art.

My father-in-law similarly collected stamps, coins, and personally dug up Native American archaeological items when that was legal during the 1950s through the 1970s. The coin portion of that collection was mostly sold for tens of thousands after he and my mother-in-law went to their final rewards. But it was thirty-seven acres of tax-advantaged timber land, purchased for $5,000 exactly in 1958, that he and his family (and the Boy and Girl Scouts) enjoyed most during their lives. It was later was sold for $1,125,000. His tax benefits and timber revenue alone averaged a thousand dollars per year of ownership.

My uncle Buddy purchased a Buck Knife manufacturing and marketing franchise in 1965 for around $8,000 It eventually paid for his San Diego home, college for four children, and most of his and Aunt Thelma's retirement in that high cost-of-living city. When you visit a financial professional, do pay attention to his/her cautions about being too concentrated in holdings that you might not realize have significant risk. But don't get rid of the farm or employer stock just because the advisor only has experience with financial investments.

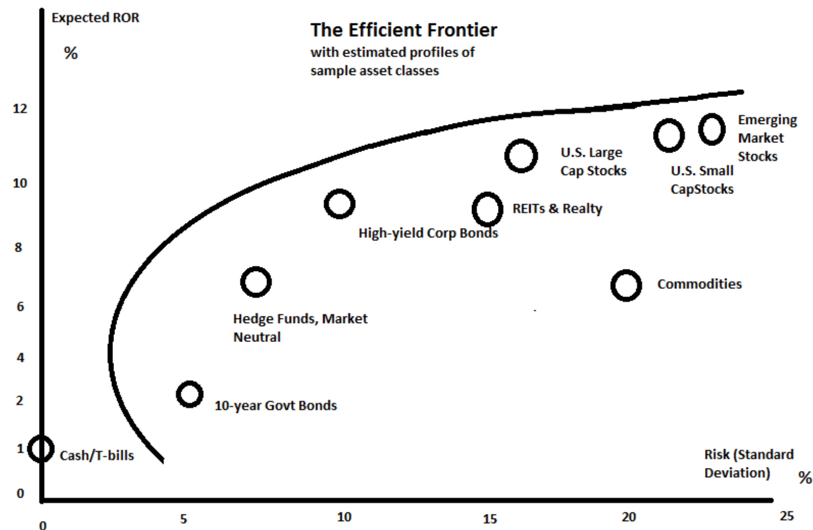
That said, be keenly aware of the liquidity problem and the tendency to be emotionally attached to a deceased loved-one's investments (broadly defined), or to assume that employer stock has minimal risk. Diversify.
[Next excerpt]

<u>Asset Allocation and Money Management</u>

Both "Robo" and regular Financial Planners recommend what is known as "efficient portfolios". These are constructed with a huge database of historical behaviors of as many as thirty-two asset classes (though some models simplify this to seven). To briefly explain "how the watch" works so we can move on to what time it is: Each category of assets has a history of reacting with price

losses and gains, depending upon economic conditions. Some of this movement appears random. For example, Mid-sized U.S. stocks have a growth pattern over time, but have been recorded losing value as well as exceeding their own trend that is plotted over time long periods. The upward slope of its average growth rate is the likely return over time for that asset class, and the historical variations from that average return (as with losses and anomalous gains) gives statistical insight into the behavior of the asset class during specific economic conditions or just over very long periods. This variation from the trend line is referred to as volatility; often referred to as risk level. Ten year U.S. Bonds also gain and loses in value, but typically not as widely and rarely in sync with stocks. This sets up an interesting way to construct a portfolio that minimizes these fluctuations in value, while still appreciating generally along the trend line: Mix some stock with some bonds. Now, imagine that a computer has all asset classes, from commercial real estate to precious metals and they all tend to gain over time, but lose or jump in value in a way that, usually is not all at the same time. Then, you could use some of all of these to dampen the fluctuations in a portfolio of them all yet (likely) earns a fairly predictable return that is the weighted average of all the asset classes you place money into. A computer program can examine all of these statistics to find that one combination of many asset classes that is likely to hit a target rate of return and, yet do this with the least volatility for all possible combinations of asset classes. Of course, not every possible rate of return is reasonably likely, but for every rate of return that history and statistics shows is reasonably possible, there exist many combinations of assets that can achieve that rate of return; but there is only one combination whose total variability (risk) is least among these possible portfolios. That combination of asset classes, solved for using a statistical subroutine of a financial planning program is “the efficient portfolio” and is said to be on the “Efficient Frontier” which is a curve that shows all likely average returns that are realistically attainable.

One can likely obtain a target return (rate of return or ROR) from many different combinations of asset classes. But there exists only one combination that minimizes volatility (risk) for a given realistic ROR. Below is what that curve looks like. Asset classes are positioned as if they were the only portfolio (no asset class is itself on the Frontier). Combinations are necessary to reach the efficient frontier. Notice also that there are diminishing improvements in ROR as the portfolio takes on more risk.



A good Asset Allocation program (or portion of a Financial Planning package) will show where your portfolio lies in this chart, and the "Recommended Allocation" will be shown next to it with a list of the percent allocations for each. The Asset Allocation subroutine of such a program feeds a probability model called a Monte Carlo simulation. The simulation connects to your income draw needs that are projected in another part of the program. In other words, growth of a portfolio, whether efficient (solved for and called "recommended" in the plan output) or existing (what you have in reality now), is reduced by your projected withdrawals for income or education costs or other goals for spending. Remember that, efficient or not, the portfolio can be projected into the future using the historical statistics earlier mentioned. But there are many possible returns, remember? You could lose money in one scenario and even exhaust your portfolio. You could win wildly in other scenarios. The economic occurrences, along with how the asset classes can behave, are randomized in a computer simulation, but the economic conditions have differing likelihoods, so the random nature of these simulated occurrences is modified according to the historical likelihood of occurrence. Booms and busts of varying durations occur in, usually, a thousand random simulations of your existing as well as a proposed asset allocation. All the while, the software considers your new savings in working years, then your sell off assets. This results in some number of "success events", which are getting to age 100 or whatever you specify, without exhausting assets. The number of successful simulations divided by the 1,000 total simulations is your percent likelihood of success. Anything under 90% -- for my comfort level – is problematic, and the lower the proportion (likelihood of success), the more you REALLY need to make changes in budget (to spend less and save more),

asset allocation, or otherwise adjust your strategies. Often, you're paying too much in taxes, and the advisor can examine that scenario also, one change at a time until he/she finds the best courses of action humanly possible to assemble. This methodology really is powerful, but not perfect. It's not perfect because
[Next excerpt]

The first "secret" to be shared here is that your investment portfolio's asset allocation is always recommended by these programs and advisors to be
[Next excerpt]

Another fact: When management does equal or exceed the benchmarks used, producing alpha, this tends to happen with the more aggressive or volatile asset classes. These include classes and combinations such as high-yield bonds, small company stocks, and derivative-included portfolio strategies. Hmm. How might this miracle happen, and why is it happening more as time goes onward? Keep in mind that a benchmark is an unmanaged portfolio, like an index fund or just a statistically tracked hypothetical portfolio of most stocks or bonds available in that class. Keep in mind that most of these studies look back many years, in some cases years when the manager was not even using the asset class. Technology is getting better at rapidly helping these analysts exclude from their portfolio the securities that have serious problems, like bad labor relations at company X or the loss of key officers. This information processing does not exist for index funds; there is no decision making for such funds. Nor for
[Next excerpt]

<u>Best annuity?</u> Prudential Life, a fine insurer especially for large non-variable whole life policies, offers, even allows brokering by competitors, a fascinating Variable Annuity: The HD Lifetime series or annuities. These annuities have truly outstanding money managers available, and they expertly hire and fire these with diligence and care. This annuity has the highest fees I have seen in Variable Annuities, but a truly intriguing benefit: Every single day, the market value is recorded and then locked-in for purposes of an income account (not a walk-away cash value lock-in). That is, the highest market value is guaranteed to be the "high water mark" from which an annuitant would draw lifelong income. Hence the term HD, for "Highest Daily value"

Lifetime. Some insurers guarantee only the highest market value that existed on any anniversary, but Prudential locks in the highest day ever! But there are three catches that I have personally found consumers are not told; they can find it in the prospectus, though: The management is "cloned" from other famous managers and mutual funds, but the cloned version is far less aggressive than the retail fund or manager, so Prudential dampens the return it must insure (its fees help with that too). When one activates the income rider, the dampening effect on aggressiveness is far greater, but owners may think that their previous level of aggressiveness continues during the payout phase; it is not even close. Finally, the percentage of the insured high market value is lower than most such Variable Annuities. Is this a deception? Not technically, because reps are not expected to explain every detail; they must disclose the main details and present the prospectus and ask customers to read it.

This ratcheting effect, though for income riders is a great idea. But let's examine how this can get removed from the contract. The "secret" is that most agents do not even know the following unless they read legalese: Variable Annuity issuers are regulated differently from Equity Index Annuity issuers: VAs are subject to removal of the income rider (carriers can buy it back, like it or not) but Equity Index Annuities issuers cannot.
[Next excerpt]

Chapter Five: Income Tax Management

Tail Wags Dog: As noted in Chapter One, too much focus on minimizing tax, regardless of the type of tax, can compromise maximizing wealth. Most importantly, as we will discover in the Retirement Planning and Estate Planning chapters, maximizing wealth (as a lump or inventory concept) can compromise maximizing your and your family's wellbeing. That said, taxes can be a serious drag on your return, so tax strategy is essential. To strategize anything, one must first comprehend the "big picture" or overall structure of the system you seek to navigate.

One useful tool for this is
[Next excerpt]

Failing to consider the tax consequences of how you achieve your personal goals can thwart their attainment. For this reason, the robo and human advisor-driven software and experience go beyond what most CPAs advise; often they contradict what CPAs may advise. The typical example is that most CPAs will advise term life insurance only, and this misses the advantageous LTC aspect, as well as the "enhanced Roth" effect that certain policies can achieve. A CPA will usually not be familiar with tax-controlled ETF use; almost certainly will be unfamiliar with Pension Maximization and with how using a catastrophic-only Medicare Supplement policy plus a large cash reserve can save very big money for some retirees.

[Next excerpt]

IRA client, Bob, had relied on an accountant (not CPA) for tax advice, often ignoring my admonitions for what he wanted to hear. One day, he seemed irritated with everyone.

"Those hardship withdrawals you told me about, Dan, just got me a huge tax bill and penalty."

"You're not employed, Bob, and don't have money in a Qualified Plan. How could you take a hardship withdrawal?"

"A year ago, you said I could take a hardship withdrawal. It was on that sheet you gave everyone at the seminar."

"I remember that, and our discussion. You rolled your Plan to your IRA at Fidelity. Shouldda used me! But I appreciate you eventually switching to the IRA I provided. But I'm confused."

"Me too, Dan," he continued to growl. "Your sheet said I couldn't take a hardship withdrawal from an IRA, so I took a Plan loan before I rolled the rest. Read my notice from the IRS!"

I read it and shifted in my seat, dread invading my brain. "Who told you that would work?"

"My accountant looked at your sheet and said the loan could be reported as a hardship withdrawal because of why I couldn't pay it back before the rollover."

"Say it isn't so, Bob!"

I called his accountant and faxed over the letter. Only the introduction went well. "So you read my handout, right where it states that Plan loans not paid off by employment termination are taxable and subject to penalty…" I listened to whining and weaseling, thinking back to Army days and the phrase, "The maximum effective range of an excuse is zero meters". I continued

aloud. "…and still you told him you could re-characterize this as a hardship withdrawal? Don't you know that the Plan Administrator automatically reports status to the IRS after termination? How in the world did you show this on his tax return?" The line went dead.

"Well, Bob, your accountant misinterpreted the handout, and— How long has your accountant been in practice, anyway?"

"Two whole years. So whose fault is this?"

I knew exactly which two people were at fault here, and referred Bob to an attorney.

[Next excerpt]

Chapter Six: Retirement Planning

Retirement Planning is the most complex chapter in the book, incorporating all of the prior topics, several very complex additional topics, and linking closely to estate planning. Income generation is generally assumed to be primary, but that is not really so. There are tax efficiency decisions, health and other insurance decisions, and a host of lifestyle decisions – this latter component could be the most important because it can affect how well you age and your level of satisfaction with your life. Social Security decisions have become so complex that you must gain a significant understanding of detail just to understand the models and recommendations that professionals use in assisting you! But let's explore income generation from investing first. A gradual change in portfolio composition – risk-return profile – along with a specific component that matches guaranteed-to-pay-out expenses to guaranteed income (pension, Social Security, and annuities) is crucial. Let's start with how non-guaranteed income sources can fail:

The Order of Returns and Losses

Most people assume that some conservatively estimated rate of return for a portfolio, coupled with a conservatively set withdrawal rate, will result in success in the same way a long-term stock portfolio (e.g., the S&P 500 index) is successful. They assume the portfolio cannot be exhausted with a low withdrawal rate and a high average rate of return is high. But, this is far

from true. The chronological order of losses and gains (returns) makes a dramatic difference in success. The following table shows two hypothetical $500,000 portfolios. Each has an identical average Rate of Return at 11.3% and run 26 years. The income draw is identical, starting at 6% of portfolio value and inflating 3% annually. The only difference between the two is that B has the sequence of returns reversed; same average, however. While this illustration can work with any time frame and set of returns (hypothetical or real), I picked the starting year of 1969 in order to show a modest loss in the first year and to avoid the anomalous gains and losses of the last quarter century.

Year	Income Draw, each Portfolio	Historical ROR	Dollar Value of Account A	Reverse Order ROR	Dollar Value of Account B
1969	30,000	-8.4%	427,900	1.3%	476,600
1970	30,900	4.0%	414,030	10.1%	493,646
1971	31,827	14.3%	441,410	7.6%	499,385
1972	32,782	19.0%	492,275	30.4%	618,417
1973	33,765	-14.8%	385,752	-3.1%	565,419
1974	34,778	-26.5%	248,942	31.5%	708,917
1975	35,822	37.3%	305,976	16.8%	792,335
1976	36,896	23.7%	341,596	5.2%	796,799
1977	38,003	-7.3%	278,793	18.6%	906,602
1978	39,143	6.6%	257,966	32.0%	1,157,844
1979	40,317	18.6%	265,631	6.1%	1,188,270
1980	41,527	32.1%	309,451	22.4%	1,412,559
1981	42,773	-4.9%	251,484	21.1%	1,667,978
1982	44,056	21.1%	260,516	-4.9%	1,542,024
1983	45,378	22.4%	273,416	32.1%	1,992,099
1984	46,739	6.1%	243,383	18.6%	2,315,890
1985	48,141	32.0%	273,197	6.6%	2,419,903
1986	49,585	18.6%	274,290	-7.3%	2,194,633
1987	51,073	5.2%	237,535	23.7%	2,663,688
1988	52,605	16.8%	224,883	37.3%	3,604,638
1989	54,183	31.5%	241,605	-26.5%	2,597,028
1990	55,809	-3.1%	178,282	-14.8%	2,157,378
1991	57,483	30.4%	174,997	19.0%	2,508,718
1992	59,208	7.6%	129,107	14.3%	2,808,257
1993	60,984	10.1%	81,111	4.0%	2,859,042
1994	62,813	1.3%	19,369	-8.4%	2,555,498

By 1994, Portfolio A cannot support the income draw and Portfolio B has almost 132 times the remaining balance even though the average Rate of Return is 11.3% for each and the draw is the same! Now, consider that a big withdrawal early in retirement can have the same effect as an early market loss insofar as value is lost (shares are sold off, etc.) when a big withdrawal for that dream vacation (or whatever imprudent treat) is made. So, the lesson is this: In your planning, avoid professionals whose models are not based upon Modern Portfolio Theory (i.e., no Monte Carlo simulations, the recommended portfolios are no on the Efficient Frontier, and quarterly rebalancing is not done to keep them there).

This leads to an investment maxim credited to Jimmy Buffett. Wait, I meant Warren Buffett… I'm showing my age again! "Rule No. 1: never lose money; rule No. 2: don't forget rule No. 1.″

Accumulation & Rollover Strategies

What of changing that portfolio over time to reduce exposure to market losses as you draw income, and as your dependence upon the portfolio grows (i.e., diminished ability to work if you need an income supplement)? There are three approaches to this, and one is popular, yet really bad for you:

[Next excerpt]

The Wharton School of Business has performed most recent authoritative study yet comparing EIAs versus mutual funds mirroring similar indexes (Marion et ux, 2010). Back-testing of historical returns found that the no-loss feature was decisive in 15-year or longer hold periods (long enough for downturns to have an effect on mutual funds) and 20-year and longer payouts. Two popular EIAs, despite the muting effect of crediting formulas upon the index's returns, outperformed mutual funds for both accumulation and lasting income.

[Next excerpt]

<u>Social Security Decision Support</u>

There are so many rules and resulting permutations of options and results that, like income tax planning and filing, sophisticated software is now *absolutely necessary* for maximizing benefit strategy. Further, these rules change so much – they constitute a political football – that you should avoid making any decision about your options based upon this or any book or seminar. Such references and annotations get dangerously out of date.

So here's the "secret":

[Next excerpt]

Pension Survivorship Decision Making: Using Life Insurance to do the job of a Pension's Survivor Benefit (SBP).

It was just after five one night in early January 1987 when Shasta called our MetLife office in Newport News, VA, to make a death claim. She had just received the death certificate. The District Sales Manager, a caring and competent man whose actual name was Gene Sternfield, taught representatives to process claims face-to-face, rather than utilize the office manager or the mail. But he was on vacation, so the secretary handed me the phone. I expressed sincere condolences, assured Shasta I would have paperwork ready and make the process as painless and efficient. We set an appointment for mid-morning the next day.

"Good Morning, Mrs. Lennox," I said, grasping her hand in both of mine as the secretary ushered her into the conference room and shut the door for privacy. "I'm Dan Gallagher, Ma'am. I know a loss like this can be heart-rending, regardless of divorce. Would you care for some coffee or orange juice?"

I had assembled policy status and transaction history print-outs from the MetLife database for District Offices into a folder for her. I made copies of her husband's local file, which had some pension Survivor Benefit replacement calculations and a policy illustration. I placed a death claim form last in the thin stack.

"Thank you for taking time for me, Mr. Gallagher," she said in a tired voice. My eyes traced the wrinkles above her eyes and beside her lips, which drooped in a dejected expression. "What

are these other papers? They look like what the former agent gave us before my husband retired."

"Those show how the death benefit was derived, the amount needed to replace the survivorship on your husband's pension. But there's a significant problem with the death benefit, Mrs. Lennox."

"How so? I'm still the beneficiary even though we divorced. The Property Settlement required that he keep that the same."

"There has been no change of beneficiary, Mrs. Lennox," I quavered. "I have no doubt but that the Property Settlement required him to keep you as beneficiary and to keep paying it but…"

Her voice heightened, throaty and almost shrill. "But what? Are you hemming and hawing on paying a death claim? That's not how MetLife does business."

"That's correct, Met is sensitive and never gives anyone the run around. I'm proud to represent the company. But, Mrs. Lennox," I quavered as sadness took me more strongly, "The policy was cancelled two months ago… despite the Property Settlement, of which we were not even made aware."

She gasped almost imperceptibly, rifled through the print-outs, and began to weep.

"Then the pension has to start pay—"

"Mrs. Lennox, I'm not sure why a copy is in this file, but the pension Plan's Waiver document is here and it shows in block letters that waiving your Survivor Benefit is irrevocable upon the Plan remitting the first pension check. I double-checked the calculations of your old representative: The face amount and necessary premium were correctly calculated, and you and your husband received notice of all assumptions in that calculation and a follow-up letter."

"I'll lose… I'll lose everything. Even the mortgage, it's. Oh, my dear God!"

She began to go limp and fall from the seat. I grabbed her and helped her sit stably, her head on her arms now limply flopped upon the table in a pool of tears. Her shuddering and quivering abated in a few moments.

"Your rep should have told me he could do this. My lawyer should have made su—"

"This letter copy, was addressed to both you and your husband and has a delivery receipt. It shows that the rep at least tried to inform you both that the owner should be you and not your husband prior to giving up the SBP right. Did Mr. Lennox not discuss this with you? Did you not get this before the policy was applied for and the pension's SBP Waiver document signed?"

"I trusted him, that bastard! I never saw… he must have intercepted the mail. I trusted him with thirty-eight years of my…" She broke down in more tears and tremors. "My husband told me he'd take care of everything and apply for the policy and handle the paperwork. He told me that the rep wanting me to be at the appointments was just a sales ploy and he'd take care of everything. All the while he had his secret girlfriend and—"
[Story completes in SSFP]

A Shameful Secret: Some carriers make software available to calculate the correct estimated equivalency of the policy face value to the SBP. But most actually forbid (even in written policy) their reps from so much as suggesting this, especially for government and military pre-retirees. Why would they, if it creates an opportunity to sell policies? Follow me with this linkage along two routes: 1. the "secret" is that pensions (especially the military and government pensions) actually take pains to discourage you *from even learning* about SBP replacement. That's because they fear "adverse selection", meaning it is in their financial best interest to keep "selling" SBP because if people in good health opt out of the SBP, then the Plans have to raise more money. They are left with a poor-health population whose SBP is expensive for the Plan, yet paid for by the retiree's pension reduction being over a brief period of years because of that poor health. If SBP replacement occurred a lot, the pension plan would lose the pension reductions that healthy retirees sacrifice, and it would have to pay SBP sooner for unhealthy retirees whose SBP would be paid over many years, and that plan would lose out on the pension reductions from healthy retirees whose SBP would, if those healthy ones kept the SBP, be paid only briefly to their widows. In the early 1990s, using instances of Financial Planners inappropriately promoting investment and insurance sales as "government specialists" on military bases and other government facilities, Congress forbade this marketing positioning. At the same time, both private and public pension plans backed lawsuits and regulatory complaints against insurers and brokerages for faulty or incomplete SBP replacement advice. The result is that most carriers became so intimidated that, instead of carefully training advisors and providing proper software, they simply forbad reps from discussing SBP replacement. If you assume typical mortality tables (for which the healthy are only a part, by the way) and ignore the two subjective issues of the potential widow dying first and also ignore the fact that that insurance can leave a legacy whereas an SBP never does, and you assume average mortality charges in a

policy (remember, use only policies recommended above) then "smart" Financial Planners will decry using SBP replacement. But individuals must make smart decisions for their household and not be deterred from decisions that are expensive for the Pension Plan. So I submit that, for many people, SBP replacement is an excellent and advantageous option and, further, dismissing it broadly or concealing it from pre-retirees is a moral turpitude.

[Next excerpt]

Required Minimum Distributions: Qualified plan money and IRAs are subject to IRS regulation at the distribution level as well. One cannot defer taxation and pass the account to a child without exposing the money to income taxation (exception, see next chapter). :

[Next excerpt]

In the spring of 1986 I dated Lynn, a nice woman from my church in Virginia, and assisted in moving her grandmother from a private Maryland nursing home to a Medicaid-certified facility also in Maryland. Money and private insurance had exhausted. I had earlier been part of a ministry that provided stimulation and companionship to people at "The Pines", a different Medicaid-funded facility in Williamsburg, VA. These residents were starved for interaction, games, story reading, etc., and some there at the time seemed withdrawn and had bruises, so our group tried to compensate through mini-shift visits. The condition of some of these residents was explainable, and I never saw or heard about abuse at The Pines. But, of course, our ministry was quite active at The Pines for several hours most days. In Lynn's grandmother's private facility, residents seemed far more active, cheerful, confident, and I noticed, during a few hours spent with her in the common areas and patios, that no one had bruises anywhere but where I.V.s would be placed.

Lynn's grandmother's new facility appeared humble but (fairly) clean. It did not smell as clean. The staff were fewer than her private facility, I noticed, and clearly appeared haggard and stressed. The residents were far less active and none seemed happy. Lynn cried to leave her

grandmother, but other relatives came in as we left, so I we both felt confident that she would adjust and all would be well.

Four months later, Lynn and I no longer dated. But she called one day, deeply upset. Her grandmother had died of a heart attack. She related that her grandmother had seemed more stressed at the new facility and had become less conversational. Was she abused? Was she near a heart attack anyway? I cannot help but wonder whether the change of living conditions and environment tempted the heart attack. But I then and there resolved to promote the sale of private Long-term Care insurance.

Lifestyle, Attitudes and Mindset in Retirement:

How dismal, this talk of aging and health problems worsening. The bright side, of course, is that the process will eventually abate. But, seriously, do enjoy your time: Take steps to assure you remain as healthy and active as possible throughout retirement, otherwise the aging process will be worse. Here are a few issues and tips to consider:

[Next excerpt]

Another lifestyle issue is attitude and the extent to which we share with spouses and other important advisors. Ego or procrastination can cause any financial plan to fail, especially plans that are developed in a vacuum; no professional or spousal input.

Nick had attended several of my retirement and Financial Planning seminars at the Williamsburg Inn. He always avoided talking, even as I greeted attendees before the presentation and discussion. Williamsburg is a unique and fascinating collection of people and history, and many of its residents are sensitive about either modest means or great wealth; quite a few were spy trainers from Camp Peary or industrial or political success stories. So I never pressed; he had mentioned he lived in Kingsmill, at the time the ritziest development in town. Nick appeared to be about seventy years old, so I assumed he was well set and just curious or liked the meals; he never returned the feedback sheet that also could reserve a confidential consultation.

I was working late one day on my novel when he rushed into my office and sat at the round conference table near my desk. I rose to greet him, but his thin and leathery hand could not strongly grip mine. He breathed in deeply and tears welled up. Before he could speak, he shook. I gave him the box of tissues I always had ready.

"Can you sell my insurance policy?" he asked after composing himself.

"You need to close out your policy? Have you talked with your agent?"

"No," he burst out. "I need to sell the death benefit. My wife doesn't know we're losing the house. If I can pay off the mortgage, she can be set."

"Don't you have other assets? Are there income sources to—"

"I cannot pay the mortgage. It's financed to the hilt. And my royalties… have stopped"

We talked further, and I calm him a bit. Howard was the inventor of the first horizontally drilling oil drill bit, no ordinary feat of engineering. His royalties had been astounding and he treated his wife and family over the years to trips all over the world, sparing no expense. But in several iterations after retiring, his royalties dwindled and then stopped because of improved competing designs. His mortgage was over a million dollars and there was currently a downturn, so its value was slightly below the mortgage balance. His cash reserve was under ten thousand dollars, and his savings were under fifty. I discovered that he had always done his own Financial Planning, that he never had patience with financial professionals because, as he confessed, he never had much regard for other professionals; that he could run his own numbers. He sobbed as if he had personally offended me, but he spoke of other professionals he had encountered.

"Nick, I see your cash value is almost a hundred thousand, but I would hesitate to cancel that policy."

"I'm dying, Mr. Gallagher. My prostate cancer has spread… The doctor says I could live many years, though, and I don't know how to keep a roof over my wife's head, let alone help my children and grandchildren. There must be some way to

[story completes in *SSFP*]

Yes, Nick's financial descent had several moving parts. But the most glaring was

[Next excerpt]

Chapter Seven: Estate Planning

Financial Planning texts uniformly treat this topic in a very brief manner because implementation and advice regarding the creation of legal documents is strictly the purview of attorneys. Estate Planning Attorneys are specialists in this area, and you should definitely utilize their expertise. One could utilize the Financial Planner for advice on structuring matters, then use an online will creation website, but you carry the risk of the counsel needing revision by a legal expert which the Financial Planner will not claim to be. This chapter goes into more depth than other Financial Planning texts do because

[Next excerpt]

<u>Titling Property and Related Topics</u>:

I learned the following report from my client Ron. Ron's father, Leonard, age seventy-four, would not admit his failing memory, but it was increasingly obvious to his sons and daughter. Leonard's wife, Mira was then having worse dementia symptoms and was confined to a nursing home within a few years. Leonard had made preparations for his wife's care and other matters via a will and a Revocable Living Trust, which was the beneficiary of a $150,000 life insurance policy. Were he to die or become incompetent prior to Mira's death, this trust and assets passing via his will would assist with her care. Any remainder after Mira's death would be distributed to four children and two charities in equal shares.

Leonard made his youngest son, Ron, a bank loan officer, his executor, trust Trustee, and Health Care attorney-in-fact. He placed his home, a life insurance policy and assets "remaining" in the Revocable Living Trust in order to avoid the delays in distribution, cost and potential publicity of Probate. As his health waned, he mailed a copy of his will to his children, his favorite charity. Each had a one-tenth share. After a few years, two of his sons, Leonard Jr. and Lionel, moved to his state to be near their father. Leonard Jr. and Lionel convinced him that Ron might not reliably execute trustee duties because Ron was laid off and now suffering financial difficulty. Leonard made these two co-trustees with the younger son, and the updated will was distributed.

Time passed, and his deterioration continued. He was distraught one day because he noticed the lights in successively more rooms over time failing to light. He did not recall paying the electric bill, and concluded that the power company was denying service to one room for every month of his delay in paying the bill. Leonard Jr. and Lionel assured him that this was not the case, but that bills would be taken care of reliably and his investments more responsively managed only if they "became joint" on Leonard's Teacher's Federal Credit Union accounts and Vanguard account. Leonard signed the papers. Soon after, Leonard suffered a heart attack, surviving only a matter of months.

After the emotion of this tragedy quelled somewhat, the practical tasks of administering the trust for Mira's care fell to Leonard Jr., Lionel and Ron. Ron complained that the other brothers provided no accounting and that the only explanation regarding the life insurance proceeds was that "these were well taken care of at RBC Bank" where the trust account was established without his knowledge. Ron recalled later that the TFCU and Vanguard accounts were valued at around $100,000 and $300,000 respectively, but had no recent statements. He only knew this from vague references of his father's many months prior to his death.

Just over a year after Leonard's death, Mira died quietly in the rest home. Ron continued to complain that he was edged out of information about all accounts, but the only criminal activity he could actually point to came to him when a RBC Bank account manager called. The account manager confirmed that he had erred in accepting the other brothers' statement, at account registration and deposit of the death benefit, that there were only two trustees; he had not read the Trust document until a recent random check. Ron was added to the account as a third trustee but threatened his brothers with a criminal investigation. They

[story competes in SSFP]

Lesson 1: In nearly all states, titling any asset "joint" will disinherit even widows because …

Lesson 2: The default withdrawal or check-writing mechanism (unless changed on the account application) is that...

Lesson 3: Waiting until you are mentally impaired to make a will or other account document (or to update beneficiary forms) can result in the change being open to challenge…

[Next excerpt]

Trusts and their Uses:

Trusts are not just for the rich, though they do have more uses for them as a way to minimize estate taxes. Trustees, such as large bank trust departments, can provide money management and distributions according to your prudent instructions. This helps loved ones who cannot or should not handle money or decisions. The cost of trust administration can be one percent or more, but this might be worth it to you. Institutions are far safer as trustees than individuals, so you might not be able to negotiate fees; do try, though! Of course, there are many aspects of trust law and taxation at the state and province level so be sure to have your documents reviewed if you change residence. Remember: A trust can be created during your life *(intervivos)* or created at your death through wording in your will (testamentary); either way, be sure you have adequate and trusted management, i.e., a willing and reliable trustee. Let's look first at the estate and gift tax system.

[Next excerpt]

Amara, an owner of five Greek restaurants and one of my very first clients, called to set an appointment. Her husband of thirty years was not my client, but I liked them both more personally than any clients; we could even debate Catholic versus Greek Orthodox theology with humor and remain close friends. But now, she was distraught and needed to meet as immediately as possible. I stayed late. She was already snuffling and in tears as she approached the conference table, her knees buckling as she fell into the chair and dropped her purse on the carpet.

"Mara," I called softly, using the familiar contraction, "What's troubling you, is it Selene again? I thought she stopped living with that guy and had moved back after graduation, at least for a few months."

"Yes, but it's much more." She paused long, breathing erratically.

I reached across over and held her hand. "Take your time." I handed her the tissues.

After some moments, she composed herself. "You know she's left the Church, all that "superstition" label from her professors and immoral friends."

"Yes. Has she attacked you again? I thought she grew out of that."

"Dan," she quavered, "Yesterday afternoon, I told Galen about a filthy letter I found from her college live-in, and I showed him some horrendous things I spied from her Facebook because was I was .afraid for her safety and health. I had to know what we were dealing with; what dangers she was getting into under our noses. Galen thinks I was outrageous for spying on her and I would push her away like our in-laws."

"I remember your upset for so many years over in-laws."

"Galen told her about that. Can you believe he would betray me like that?"

"Mara, she used your internet and was under your roof. As I see it, you were nothing short of courageous for risking your relationship with your daughter to learn what threatened her so you could deal with it. Can't you make Galen understand and appreciate that? As for the In-laws, you had to protect her."

"Galen never accepted that I had to keep Selene from concluding that their influence was… It was all about success in life after abandoning the morals and teachings of the Church. You'd think he would make that a 'we' thing, but no. He never fully joined me with that when she was a teen, and he was always critical of me in front of her. Eventually I had no influence, even as a mother."

"Now, you never told me that part, Mara. What's happening now?"

"I told Selene we had to talk and she blew up and said she had something big to say to me, too. Her online stuff was all about hating me and home and the Church, and "BS morals". I asked Galen to come home when she got off work and tell her that, if she wanted to leave home, she could do that but help me get her straightened out. But he's no support.

"When she got home, she started in to me being irrelevant as a mother. She said she wouldn't care if I died. By the time Galen got there we were arguing civilly, but mostly I was pleading with her to return to what's wholesome, when she yelled that the Church is just a superstition. I stood up to rebut that, and Galen must have thought I was going to hit her – I never hit her, and he knows that – but he grabbed my wrists. And then she got up and started kicking and punching me, and I told her to stop, and begged Galen to help me get her under control. But he kept preventing me from grabbing her hands and she just kept hitting and kicking me. I kept telling him I had to get ahold of her arms, but he just let her keep –"

"Tell me this calmed down!"

“I told her this time I was calling the police. As they arrived, I told her I would let it alone if she would just talk reasonable. She ignored me, but I dismissed the police anyway. No ‘Thank you, momma’, at all. Then we went back to the kitchen, and that’s when life ended.”

My jaw dropped, and I was dumbfounded. I could only stare as she lowered her head onto the table and began to quiver. She spoke with her head in a pool of tears.

“With Selene right there, Galen told me he was no longer in love with me.”

“Oh my God, Mara! You know he couldn’t mean that.”

“He loves me but he’s no longer in love with me.”

“What did you do?”

“I sat on the bed, alone, with his pistol and pulled the trigger. It wouldn’t pull; the magazine was out and no round loaded. It’s always loaded, so I knew it had to be a miracle.”

“You have to go back and work with him, Mara. You have a purpose.”

“I have responsibilities, and I love them. I can’t give up on either of them. But Galen is afraid to stand with me for what’s right, so he’s undermining my influence so he will have a relationship with her; she’s got him to shut up and that effectively endorses her lifestyle. He won’t stand with me on this. So I only have one way now get her to reconsider her values and beliefs. That’s why I need you and Alan.

“Me? Selene won’t listen to me, and she certainly won’t listen to a lawyer!”

“I need you to help me design a trust for my stores and life insurance. I need it to allow pass money to Selene only if she straightens out. Galen needs a share, but there has to be an incentive to make her re-think her ways. And I don’t want Galen to know how this gets done.”

“I can’t… I mean I don’t see how…”

“How long have you been my friend and advisor? You know how to do this.”

We stared at each other for a long moment. I began slowly. “Mara, you need to sit in chapel and list the good and bad effects that can come from this before you take this to Alan. Promise me.”

“Promise. How can this be done?”

“You change your will to

[story completes in *SSFP*]

Conclusion

Picking the right trustworthy professional help in arranging your financial plan clarifies the likely financial future, helps avoid pitfalls and captures opportunities that may not have dawned on the Do-it-yourselfer. But whether or not you employ professional assistance, planning ahead is essential for most people. Such planning should be updated at least annually. Over many years, efficiencies in budgeting maximize savings and net worth; it can also keep your financial obligations from oppressing you. Risk hedging has cost but minimizes the financial effect of a life catastrophe from creating a compounding financial catastrophe. Asset allocation identifies the return (or budget changes) you must seek to reach goals, and it enables minimizing risk associated with a given target return. Tax planning helps make funds available for savings and other goals, and brings focus upon a three-pronged approach to hedging the risk of tax law changes. Retirement planning encompasses all of these strategies and more to help keep you from exhausting income sources during retirement.

Sadly, estate planning is the most ignored of the six elements of personal financial planning, perhaps because it connects most deeply to issues and questions of personal belief and feelings. These include charitable giving and tithing, whether material concerns control a person, worry over loved ones, damaged relationships and end-of-life contemplations: What do beliefs and things spiritual have to do with financial planning? Aside from HCPA content, estate planning connects profoundly to ongoing choices and attitudes about money and what – or who – awaits after death. Three belief systems impact stewardship of money, relationships and planning: An atheist conducts his/her affairs influenced by the unscientific assertion that it is a fact that there is no God in love with him/her. The atheist may be misguided or merely mistaken. So, if sin and spiritual merit are real, an atheist's sin is less than the agnostic's. An agnostic knows, quite scientifically, that the negative cannot be proved (that one cannot prove there is no God who loves). Yet the agnostic makes a decision to either not care or to indolently not investigate an infinitely important question. Then there is the believer. But the paramount question for the believer is whether he/she will act upon a Father's instruction, or simply offer those in need of compassion (at the individual and societal levels) mere scraps from the table. It is my sincere

hope that you, and those whose lives you touch, will steward – not merely efficiently manage – resources with good goals in mind. For he who treks the right path will never know an end.

[References, Resources and the Index are not excerpted]