
COVER YOUR ASSETS

How to Build, Protect, and Maintain your own
Financial Fortress

- ❖ Asset Protection
 - ❖ Income Tax Reduction
 - ❖ Estate Planning
 - ❖ Financial Planning
 - ❖ Business Management
-

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Mitchell L. Levin, MD, CWPP™, CAPP™
Roccy DeFrancesco, Jr, JD, CWPP™, CAPP™, MMB™

This publication is designed to provide accurate and authoritative information regarding the subject matter covered. It is presented with the understanding that neither the publisher nor the authors are engaged in rendering legal, accounting, or other professional services through the issuance of this book. If you need individual advice on the topics covered in this book, please contact Harry M. Barth for an individual consultation.

Planning Today For All Your Tomorrows

By: Mitchell L. Levin, MD, CWPPTM, CAPPTM and
Roccy DeFrancesco, JD, CWPP, CAPP, MMB

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**Asset Protection
Income Tax Reduction
Estate Planning
Financial Planning
Business Management**

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Forward

Welcome to possibly the most succinct, clear, and organized overview of some extremely important yet overlooked issues facing the successful and affluent. All in plain English. Why another book on this “arcane” topic? Why *any* book about these issues? Because the subjects discussed here are of vital importance for those of you who have substantial assets, and who may wish to protect and preserve them from predators, creditors, and bad actors. Those of you who read this, probably wish to continue to make the good and to avoid the bad decisions—decisions that can have a profound impact on your future.

Isn't this information that you expect from your attorney, accountant, or financial advisor? In brief—no. Here is why: many of these professionals lack the time (and their clients rightly lack the desire to pay them) to research a topic which only affects a small proportion of their client base (those that earn over \$150,000 per annum, with a net worth in excess of \$2 Million), people sometimes identified as the “middle class millionaire”. You are in the top 5% of their client base. In addition, the professional educational systems may not give these issues the attention they deserve. And it is an extremely dynamic, politically-charged field with ever changing rules and regulations. Add into the mix, that a thorough analysis of the available options requires substantial mathematical study, investigation, and testing. This makes it difficult to keep up. So, unless you are the “Ultra-Wealthy” (net worth in excess of \$30 Million), your advisors are unlikely to have the resources to provide you with all of the needed tools supplied in this book.

What about those attorneys, CPA's and financial advisors who have never learned about some of the advanced strategies in this book? Do not blame them. The reason the Wealth Preservation Institute exists (contact them at www.thewpi.org) is to make these subjects available. That is the reason to trust someone who is a Certified Wealth Preservation Planner (CWPP™), and a Certified Asset Protection Planner (CAPP™).

Do you ever **wonder or worry** about whether:

- Your personal and/or business assets are properly protected from predators and creditors;
- There are viable income tax reduction plans that will allow deductions between \$25,000-\$250,000 per year in addition to a traditional 401(k)/profit sharing plan;
- Your estate is properly set up to minimize, defer, or eliminate estate taxes and take care of the family in the event of death;
- Your personal finances are invested correctly and whether there are ways to mitigate investment risk/volatility and reduce or defer capital gains on investments. Additionally, if there are ways to mitigate or eliminate capital gains taxes on the sale of appreciated real estate or stocks;

- Your businesses are run in the most financially efficient manner;
- And, **how you can reach** “Critical Capital Mass” (CCM) to achieve Financial Freedom.

In the following 300+ pages, you will not only read information on the general topics covered by the above six sections, you will be reading about many specific sub-topics that to the authors’ knowledge have never been printed in an educational book of any kind.

No perfect plan – real world math

Let me first state that there is no “perfect” way to build, protect, preserve, or transfer wealth; nor is there any one plan that is a good fit for everyone (no matter who tells you otherwise). This book will truly show you how to “Maximize Your Wealth with Maximum Security” using simple verifiable math. Math, using real examples that are based on real scenarios.

Threats, Traps, and Risks

What is your answer to the following few questions? (Hint: these are not trick questions):

-Are tax-deferred retirement (also known as “qualified”) plans tax-hostile or tax-favorable? Most will say that tax-deferred accounts are **always** tax-favorable. Our readers may be surprised to **discover the real truth**.

-Are income tax rates most likely going to be the same in your senior years, and are you most likely going to be in the same income tax bracket? Most of us will acknowledge that income tax rates are at historic lows for modern times and that the chance of them going up significantly is high.

-From a financial standpoint, is it a good idea to pay down the mortgage on your home? While the answer for most of our readers is no longer a **secret**, it could be that it is not necessarily a good idea for you to pay down the debt on your home (so long as you have the discipline to use that same money to build wealth elsewhere). This book could show you why and how.

-Does it make sense to remove some of the equity from your home to build a tax-favorable nest egg? Though it seems a bit counter-intuitive to incur more debt in an effort to build wealth, for many, removing equity from a home to build wealth may be the single best way to help them build a secure and tax favorable retirement nest egg.

There are risks we know, risks we know we don't know, and risks we don't know we don't know. Taxation is a risk we know. **Taxation is probably the biggest risk** you face. For example, you may think that FDIC insured CD's are the safest form of investment. However, as counter-intuitive it may be, and however contrary to what some financial media "pundits" have espoused, a simple fixed annuity may turn out to be far safer. Despite its expense.

Let's look at how they may compare on \$100,000. First, their rates of return are often very similar. Assume they are equal at 3%. Neither provides upside potential. And both have limited principal guarantees of sorts. Both have early withdrawal penalties. The differences lie mainly in their tax treatment (and in creditor protection, and estate planning: in many cases annuities usually lie outside the estate, and often are creditor protected). The CD interest return is counted as income for tax purposes, and is taxed in the year it is applied. Not only is it taxed, but also that income is counted against you for Social Security distributions.

Yes Social Security represents an insignificant amount for many of you reading this book. But stay with this to further show you the simple analysis. For easy figuring, assume also you are in the 33% bracket; then with the CD's net growth of 3% the after tax yield is \$2000. Next year (if it could be re-invested at exactly the same rate) the growth of an additional 3% is on only \$102,000. On the other hand, the annuity is not (even partially) taxed until it is distributed, and the next year's 3% return gets to grow on \$103,000. Moreover, even when distributions (through annuitization) begin, only the small taxable portion counts against you for Social Security purposes. So safety needs to be thoroughly analyzed. Things are not always as they seem. Things are not always as they were taught.

The Third Sure Thing

It has been said that there are only two sure things in life—death and taxes. No one can stop or predict your death. And, we wrote this book specifically to show you how to avoid, defer, eliminate or reduce your tax burden, through "bright line", legal, safe, and proven strategies. (For a discussion on some of the inappropriate offerings that you must avoid contact the authors directly).

So what is the third sure thing? First allow me to digress. John Maynard Keynes, who is venerated by some and abhorred by others, nevertheless was a clever and educated person. He said in the "long run, we are all dead." That is a truism. But how do we measure the long run? For us, I submit it is 20 years or more.

In life, the third sure thing is **inflation**. No one can stop inflation. Not enough inflation is a bad thing. Think deflation, and the depression. Too much may be a worse thing. It destroys wealth and income and results in perverse incentives and behaviors. The "right" amount of inflation seems to be in the 2-3% range. Historically, over the past several centuries, by all measures, in all countries examined, inflation has averaged 3-

3.5%. That also has been the average rate of inflation over the past 50 years in the United States when my father purchased his first house.

How does the long run relate to inflation? As an example of inflation, my father recently purchased a Lexus. Not the top of the line model, either. In fact, it was the entry level ES 330. He paid twice as much for that car as he did for his first house. That is inflation's long term erosion of your purchasing power. That erosion is inevitable. We must plan for inflation and be prepared for it.

It may be urban myth, but someone once calculated that if you took the \$24 in wampum paid for Manhattan Island 400 years ago, and invested it at 1.5% over inflation (the documented average long term rate of return for real estate investments), that investment would now equal the total value of all the real estate on the island. Even if that is untrue, the point is clear. Inflation is another major threat to your assets. These pages may provide you some alternative weapons to combat this inflation threat.

Could inflation be the world's eighth deadly evil? Well, inflation is the inverse of **compound interest**. Albert Einstein called compound interest the eighth wonder of the world. And the above annuity to CD comparison demonstrates one simple method to harness compound interest (by deferring taxes) to combat inflation.

It is not how much you make; it is how much you keep

If you wish to keep, protect, and control your fortune, this book can help you fulfill that goal. I am not saying to be miserly. On the contrary, sharing your bounty with loved ones, and charitable giving are some of the things I believe in, try to live by, and participate in. It is in our culture to be charitable. Imagine how much worse off we would be if the ultra-wealthy did not achieve their wealth, and then did not give it away. Intelligently. Hospitals, libraries, museums, universities, and concert halls -- all were funded by philanthropists who created tremendous wealth. And then they gave it away. Some achieved their wealth by nefarious means to be sure. But without amassing that wealth, their impact would have been dramatically reduced. Giving small amounts in frequent doses is helpful. Giving very large amounts is meaningful.

But charitable giving is not the point. Rather, properly retaining what is rightfully yours, and obtaining and utilizing the smart tools available in this book, can provide you with the freedom to exercise your choices for your wealth. In any way you deem appropriate. That freedom, that confidence, and that security is the point.

What I *am* saying is that there are numerous and tremendously treacherous traps set by those who apparently may have designs to separate you from you from your wealth -- the IRS, trial attorneys, government policy, unscrupulous bankers, unwitting advisors, feckless associates -- waiting to take what is yours. Beware of these traps. In these pages, you will learn how to combat some of those, how to protect yourself from them, and best of all, how to avoid them. It is our hope to bring you a process for prudence and prosperity. To bring you clarity on these important subjects. Then, if you choose, and if

you have enough, you can be charitable as well. Or not. On your own terms. Financially free. Independent and confident.

About the Authors

Mitchell Levin, MD, CWPP™, CAPP™, a Financial Wealth Coach, is founder and Managing Director of Phipps Lane, LLC, a Registered Investment Advisory firm. Phipps Lane, LLC is dedicated to “*empowering investors to build, protect, and preserve their prosperity through their own Financial Fortress*”.

He is an “A” rated Florida State Representative of the **Asset Protection Society** (www.apsociety.org), and is a member of the **Wealth Preservation Institute** (www.thewpi.org), the **National Association of Professional College Advisors** (www.napca.org) as well as the **National Association of College Financial Advisors** (www.nacfa.com), and the **Financial Planning Association** (www.fpa.org).

Author, speaker, trusted advisor: Dr. Mitch is the co-author on many articles, and several other books (**The Lies My Broker Taught Me**©; and **101 Truths about Money and Investing**©; and **Secrets if a Worry Free Retirement**©), and has been featured in several educational CD’s (**The Seven Deadly Investor Traps**©, **How the Really Smart Money Invests**©), and in the **acclaimed documentary movie “Navigating the Fog of Investing”** along side several **Nobel Prize Laureates**. He has appeared on **ABC, NBC**, and in **USA Today**. In addition, Mitch is certified in Florida to provide Continuing Professional Education credits to Certified Public Accountants. Some of his speaking engagements include, “The Myths of Investing,” “College Funding Solutions,” “This Time is (Never) Different,” “The Affluent Survival Guide,” “Why Mutual Funds Stink,” “Why Your Insurance Agent is Costing You Tens or Hundreds of Thousands of Dollars,” “How to Prosper in the Reign of Error,” and “Your Asset Protection is Inadequate.”

His clients are nice, affluent people, who actually may be **furious** when they discover -- too late -- the poor outcomes, outrageous and hidden fees, and unnecessary taxes they have to pay. And the excessive risks they’re taking—that’s another conversation completely. They’re bombarded with mixed, or negative, or outright fear-mongering messages. They sometimes wake up in the middle of the night in a cold sweat. These people feel **cheated** ... (is that too strong a word?).

Some are **worried sick** about the markets ups and downs... and their futures don’t look so rosy anymore. How to pay for college, retirement, eliminate their mortgage burden. They’re looking for new ideas and don’t know who to turn to.

Still others are honest enough to admit they’re **failing miserably** in their investments, trying to pick stocks, or time the markets, or chase mutual fund track records. They would stop, but no one has the guts to provide a viable alternative, to tell them the truth, to tell them they’re wasting time while losing lots of money. They’d have a better chance at the roulette wheel, without the fun.

But you probably don't know anyone with concerns like those, true?

Mitch's mission is to "*Empower investors to achieve financial fulfillment and peace of mind,*" as your "Chief Financial Doctor". Help stop the financial malpractice and facilitate the cure for financial cancer. To progress from scarcity, losses, fear, and frustration to abundance and peace of mind, he provides a completely independent financial second opinion.

While in medical school, Mitch was instrumental in setting up the first (and completely student financed) long-term endowment campaign through insurance and derivative products. He was recruited by then Orlando Regional Medical Center to open the first full time eye surgery practice at one of its facilities. The practices grew to several locations with dozens of employees, including several now prominent surgeons. He has lived with his family in Central Florida since 1986, and has been involved professionally in the financial world since 2005.

A small business owner, Mitch has built, grown, bought and sold several other business entities. In addition, he is a successful commercial real estate investor. Dr. Mitch is a major donor to charitable organizations, and has served as an officer on several Boards of Trustees. The knowledge he gained through these experiences contributed to his personal financial success and the ability to pursue his passion of educating and assisting others in their quest for financial freedom. Contact: info@levinwealthsystems.com

Roccy DeFrancesco, JD, CWPP™, CAPP™ is the Founder of the Asset Protection Society, the Founder of the Wealth Preservation Institute, and the creator of the Certified Wealth Preservation Planner (CWPP™), Certified Asset Protection Planner (CAPP™), and Master Mortgage Broker (MMB™) designations (www.thewpi.org; www.apsociety.org).

Roccy received his B.S. degree from Embry Riddle Aeronautical University (where he also received his commercial pilot's license) and his J.D. from Valparaiso University School of Law. Roccy is licensed to practice law in both Indiana and Michigan and is "of counsel" for DeFrancesco Law Offices.

Roccy is the Author of **The Doctor's Wealth Preservation Guide©**, **The Home Equity Acceleration Plan©**, and Editor of a book titled: **Wealth Preservation Planning: A "Team" Approach©**, by The National Society of Accountants. He has also authored a number of advanced asset protection and wealth preservation articles in numerous legal, accounting, financial planning, banking, and other professional journals.

Help from the authors

On many of the topics in this book, there might not be an advisor within 300 miles who will have even heard of the topic, let alone know enough about the topic to give you advice. The exceptions, of course, are the authors of this book.

Any person who reads this book has the ability to contact one of the authors for help. In the back of the book, you will find a five-page questionnaire you can fill out and fax or send in e-mail format to the one of the authors. Within a few minutes of reviewing your questionnaire, a summary can be created to let you know the areas of need in your asset protection, financial, and estate plan and how to fix them.

Please turn to **page vi of the book for the author's contact information.**

If you take nothing else from this book, we hope you take away enough motivation (if you need it). And the proper tools. The motivation and the tools to become pro-active: when trying to protect your assets; when trying to save on income, estate, and capital gains taxes; and when trying to more efficiently and effectively run your business, or your family enterprise; when you plan for transitioning your wealth. It is our intention that you will have discovered for yourself the secrets to building and maintaining your financial fortress. That you find it useful to fulfill your purpose for your money. For control, clarity, comfort, and confidence. In short, for independence and dignity. Through financial freedom.

Thank you for your kind attention

ENJOY THE BOOK

Dedication and Acknowledgement

This book is dedicated to all those who strive to make good choices; who work hard; who do the right thing. Like my parents and like my wife. With this book, we strive to make sure you are rewarded, and not punished, for those admirable traits.

No one is perfect. We all make mistakes. We all will continue to make mistakes. Let them be new ones. Let them be small ones. Let us not repeat our errors. Use the combined knowledge of our professional expertise to help you avoid the big ones.

Quotes

Put not your trust in money. But put your money in a trust.

--Oliver Wendell Holmes

A democratic government is the only one in which those who vote for a tax can escape the obligation to pay for it.

--Alexis de Tocqueville

Death is the most convenient time to tax rich people.

--David Lloyd George

Social prosperity makes people happy, citizens free, and the nation great.

--Victor Hugo

It's a kind of spiritual snobbery that makes people think they can be happy without money.

--Albert Camus

It is better to have a permanent income than to be fascinating.

--Oscar Wilde

You can be young without money, but you can't be old without it.

--Tennessee Williams

Money is better than poverty - if only for financial reasons.

--Woody Allen

Money is a terrible master, but an excellent servant.

--P T Barnum

If we command our wealth we shall be rich and free; if our wealth commands us we are poor indeed.

--Edmund Burke

In prosperity be prudent; in adversity be patient.

--Pelatiah Webster Huntington

Plans are nothing. Planning is everything.

--Dwight D Eisenhower

Critical Capital Mass (CCM)

The term Critical Capital Mass (hereinafter CCM) will mean different things to different people.

To a school teacher, it might mean that he/she has enough money to pay all the bills and live a life in a financially comfortable manner (i.e., living paycheck to paycheck).

To a young professional, 38 years old or younger, CCM might mean that all the student loans are paid off; and now the professional and spouse can finally buy that big house and car they've always wanted.

To an older small business owner over the age of 50, CCM might mean that the family has no debt; and he/she has enough money to put the children through college and, eventually, will have enough money to retire.

The following is the definition of CCM for purposes of this book and should be your definition while reading this book and beyond.

A client reaches CCM when:

He/she has accumulated enough money/assets to retire and live in a financially comfortable manner for life.

It sounds simple, but most clients do not reach CCM until far later in life than they originally planned.

When do you want to retire?

The answers vary from clients depending on their profession and annual income. Most readers of this book will be in a higher income tax bracket and/or have already accumulated a sizable amount of assets. As a rule of thumb for small-to-medium size business owners, most 35-year-olds want to retire when they are 50; most 45- to 50-year-olds want to retire when they are 60; and most 60- to 65-year-olds want to keep working for as long as they can, because they simply enjoy the business.

We are poking fun at the answers we get from clients when we ask them that question; but for the most part, business owners over the age of 60 like to work, but do not want to be forced to work because of financial considerations.

That's the real rub of the situation. Most clients want to have the financial means to retire at 55-60 years old even though most will continue to work because of the personal satisfaction from the work.

How much money do you need to reach CCM?

The answer will depend on a number of factors. Following are some of those factors:

- Are you married (and, if so, does your spouse work)?
- Have you been through a divorce or do you plan on going through one in the future (“trading up” which we do not recommend)?
- Do you have children?
- Do you have grandchildren?
- Do you or will you live a lavish lifestyle (an expensive lifestyle)?
- Do you want to pass wealth to your children or grandchildren when you die?
- Do you want to give to charity?

Every answer will be different based on certain goals of passing wealth to heirs or charity and based on how lavish a client wants to live in retirement. Our place is not to judge the client on the how they want to live but simply to show them how to reach CCM in the shortest time frame while doing so in a manner that has as **little investment risk as possible**.

Again, depending on when a client wants to have the opportunity to retire, the amount of money needed will vary. The younger you want to retire, the more money you need to accumulate.

How can you reach CCM?

In our opinion, there are only two ways to reach CCM. Those ways are through:

- 1) Good Luck, or
- 2) Good Planning

And, we believe you can break those down into sub-categories of trying to reach CCM in a:

- A) Non-Tax Favorable Manner; or
- B) Tax Favorable Manner

How do most clients try to reach CCM?

The short answer is through 1A above. See if our characterization of a typical 40-year-old client sounds familiar (and we are working under the very big assumption that Dr. Smith in our example is not an old school spender and is truly interested in trying to reach CCM).

Dr. Smith, who makes \$400,000 a year, has a stockbroker at Merrill Lynch whom he tries to give \$30,000 a year in an effort to build a large stock portfolio for retirement. Dr. Smith also has an online trading account where he day trades stocks (usually tech stocks or pharmaceutical stocks off of tips from the local drug reps) in an effort to beat the market and get rich quick. Dr. Smith has no other investments except his brokerage account, his online account, and his new five-bedroom, 5,000-square foot house.

Dr. Smith in the above summary is the classic physician investor. It would be typical if the stock broker never beat the indexes like the S&P 500. Even though the broker does a marginal job for Dr. Smith, he/she manages to make a nice living when buying all the new “hot” stocks and selling the out-of-favor stocks (churning the client). All along the way, Dr. Smith paid capital gains taxes and dividend taxes on the money invested with his broker, thereby, cutting down his effective rate of return each year.

Dr. Smith, when day trading technology stocks, always seems to do well in an up market but can never seem to “take profits” and, therefore, in the long run usually does much worse than the stock market indexes. Again, Dr. Smith, when day trading, incurs a significant amount of short-term capital gains, thereby, reducing his effective annual rate of return on his investments.

Investing

Most clients think the only way to create a sizable nest egg for retirement is to max out their 401(k)/profit sharing plans and take the rest of their money home after tax and invest it. While there is not necessarily anything wrong with that type of thinking, the client would have several advantages if he/she could figure out a way to get more money invested in a tax-favorable manner.

Let’s look at an example of post-tax investing vs. pre-tax investing. Assume our Dr. Smith, age 45, invested \$60,000 in a brokerage account post-tax, or invested \$100,000 pre-tax, and let the money grow until age 61 before he accesses the money for retirement purposes.

Which way would be better for Dr. Smith? Obviously, the answer is by investing \$100,000 pre-tax (even if we assume Dr. Smith was still in the 40% tax bracket when he retired). Here are the numbers assuming an 8% pre-tax rate of return on the \$100,000 investment and the typical blended capital gains and dividend tax rate on Dr. Smith’s post-tax investment account (\$60,000) earning 8% gross each year.

Amount invested	Account value at age 61
\$100,000 (8% in tax favorable environment)	\$370,000
\$ 60,000 (growth taxed with blended tax rate)	\$151,000

Remember, the \$370,000 has not been taxed yet; and so IF Dr. Smith took money out of a tax-favorable account and paid a lump sum tax, he would have \$222,000 left (which is \$71,000 more than the post-tax brokerage account or an improvement of 47%).

The above example is not a real-world example because there is no way to put \$100,000 away tax-deferred without “other costs”—other costs typically being contributions to a “qualified” plan for employees.

You will read about “income tax reduction” plans in this book that will allow you to defer \$100,000 with only a 5% fee as well as plans that are more tax favorable than the \$100,000 example outlined above. This portion of the book is simply meant to get you in the right frame of mind and, most importantly, to have you thinking of how you will get to CCM with the tools discussed in this book.

Principal protection

Getting to CCM is much easier if clients, with their pre- or post-tax investing, never have to worry about the down years of the stock market. How many clients who did not protect their investments lost millions of dollars when the stock market tanked between 2000 and 2002? If those clients would have protected their investments, they would be much closer to CCM than those who did not.

Many of the topics in this book revolve around implementing investment strategies (pre- or post-tax) that protect investments from downside growth but still allow an investor to partake in the upward movements of the market. Whenever an investor hedges the downside of the market, there is a cost (which varies depending on the product).

Because many of the topics in this book show clients how to put money aside in a tax-favorable manner, there is no need to “roll the dice” in an effort to get higher returns. Because more money is invested, receiving returns of 5-8% works very well when building a conservative model in an effort to help a client reach CCM.

Asset protection

A higher income/higher net-worth client cannot reach CCM unless he/she is completely asset-protected. Can you imagine how depressing it would be if a client with wealth (who was not asset-protected) had saved for 10-20 years to reach CCM suddenly got hit with a \$5,000,000 lawsuit that ended up wiping out several million dollars of the client’s personal wealth?

We spend nearly 75 pages of this book explaining to readers how to asset-protect themselves. While saving money on income taxes and reaching CCM might seem like the most important goals to set after reading this book, we submit to you that reaching CCM without being asset-protected only gets you half way towards reaching CCM. Without a proper asset protection plan, the chances of you reaching CCM are reduced significantly.

Tools used to reach CCM

There are many tools that you can use to reach CCM. Some of the tools at the top of our list are Equity Harvesting (see page 261), a 401(k)/Profit Sharing Plan (see page 171), a 412(i) Defined Benefit Plan (see page 185), Section 79 Plan (see page 210), Leveraged Bonus Plan (see page 184) a Freeze Partnerships (see page 155), the Maximizer (see page 254), and Captive Insurance Companies (see page 230).

We suggest as you read through this book that you mentally think about how to reach CCM and what tools, as you read about them, make the most sense in your particular situation.

Flexibility in planning

Of the tools listed in the previous paragraph, some are flexible and some are not. Our opinion as CWPPs™ is that, the more flexible the plan, the better. The best wealth-building plan would be one that is tax favorable and one that can be varied at the end of each corporate year.

When implementing a plan, it would be ideal for a client to be able to identify “**surplus**” money that is not needed for the client and his family to live on. Figuring out how much surplus you have at the end of each year can be accomplished by using a simple flow chart (See page 346).

The following chart is for Dr. Smith, age 40, who makes \$325,000 gross income from the medical practice. Dr. Smith has a spouse and two children.

Listed are “personal” business expenses that Dr. Smith subtracts from his earnings which leave him with his “gross” income of \$325,000 at the end of the year.

<u>Expense</u>	<u>Cost</u>
Auto lease	\$7,000
Health insurance	\$8,500
Other expenses (food, cell phone, misc.)	\$6,000
Continuing Education (including travel expenses)	\$3,500
401(k)/profit sharing	\$40,000
<u>Total Costs:</u>	\$65,000

The following are Dr. Smith's after-tax (except the mortgage expense) expenses from his household.

<u>Expenses</u>	<u>Cost</u>
Home mortgage (including property taxes and insurance)	\$25,000
College savings plan for children	\$ 5,000
Automobile payment	\$ 6,000
Trips/Vacations (entertainment)	\$ 5,000
Household spending (food, clothing, cable, etc...)	\$25,000
Student loans (for the younger physicians)	\$ 0
Utilities	\$ 3,500
Charitable gifts	\$ 5,000
Other investing (brokerage account)	\$50,000
Miscellaneous	\$ 5,000
<u>Total Costs:</u>	\$129,500

Dr. Smith's take-home pay (\$325,000 x 0.6) if he was in the 40% tax bracket: \$195,000

If Dr. Smith takes \$195,000 and subtracts \$129,500, he has \$65,500 left, which is his post-tax "surplus". Because the \$65,500 is an after-tax number, we need to calculate how much pre-tax "surplus" Dr. Smith could use to obtain his goal of CCM. $\$65,500/0.6 = \$109,166$.

Total pre-tax "surplus" for Dr. Smith: \$109,166

If you are making \$325,000 gross income with a wife and two children and you are looking at the above chart saying to yourself that you do not have \$65,500 left at the end of the year, that's because you spend more than Dr. Smith in the example above. Dr. Smith is a fairly standard physician making and spending what most physicians would in his position. Dr. Smith wants to reach CCM by the time he reaches 55 years old and, therefore, he is not spending lavishly like many physicians. On the other hand, Dr. Smith

right now is not really trying to cut back his expenses so he can reach CCM quicker than he would otherwise.

You can create your own “surplus” calculation; and if you would like a blank chart to use, please e-mail one of the authors who will forward one to you.

If you look at the chart closely, you will notice that Dr. Smith only put \$50,000 a year into a brokerage account. Many clients who are 40 years old have a \$750,000 house, and much of the “surplus” is used to pay down the debt on the house. While this is not a bad thing, the better alternative would be to use the surplus in a tax-favorable manner and instead pay down the mortgage (your only major tax deduction on your personal tax return) over a 30- to 40-year period.

What could Dr. Smith do with his “surplus?” He has many options. Which option(s) will work best will depend on the size of his practice, when he wants to reach CCM, and how “locked” in he wants to be when funding a tax-favorable funding vehicle. Some of the best income tax reduction/wealth building solutions are not the most flexible. All the pre-tax tax reduction plans are covered in Section 3 of the book (starting on page 171).

What happens when you reach CCM?

That is a good question to ask and a good problem to have. The simple answer is that once you reach CCM you can do whatever you want (within reason) with your finances and not have to worry about running out of money in retirement. If you want to retire immediately, you can. If you want to continue to work for 1, 2, 5 or 10 more years, you can. If you want to work 1-3 days a week (which many clients will opt for), you can.

Once you reach CCM, it is very important that you have the proper investment mix so you do not end up being forced back to work in the event of a stock market crash (talk to your older friends who did not do this prior to 2000).

Typically what happens when you reach CCM is that you shift modes to seriously look at your estate plan (if you haven’t already) so as to minimize estate taxes and maximize wealth transfer (if that is one of your goals).

Charitable giving

Some clients are charitably inclined; and so a few years before retiring, they should start seriously looking at how they want to set up a charitable giving program. More clients would be charitably inclined if they knew of the concept of Simplified Planned Giving (SPG). SPG is client focused, not charity focused, and can be very beneficial to clients by creating tax deductions **now** and a guaranteed stream of income in the future (retirement).

Clients who give to charity typically want their children and, potentially grandchildren, involved (in an effort to make sure their heirs have a sense of giving themselves). We discuss very specifically a unique way to use charitable giving in a manner to maximize the tax savings (both income and estate taxes) while setting up a scenario where a client's heirs can help direct how the gifted money is used. (You can read about charitable giving on page 204.)

Again, how do you reach Critical Capital Mass?

The first step to CCM is to understand the tools available to get there, and you have already taken the first step by purchasing this book.

And so without further ado, enjoy the book; and when you are done reading it, you will be ready to sit down with a qualified advisor (hopefully a CWPP™) to map out your road to **Critical Capital Mass**.