The 10 Most Common Estate Planning Mistakes & How to Avoid Them

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Post President Trump's Tax Cut and Jobs Act of 2018

Introduction:

Do you remember the short story of Rip Van Winkle as told by George Washington Irving? Van Winkle goes to sleep after a game of bowling and much drinking in the mountains with a band of dwarves. He awakens twenty years later, an old man. Back home, Rip finds that all has changed: his wife is dead, his daughter is married, and the American Revolutionary War has taken place.

Since the passage of the Taxpayer's Relief Act of 2012 and now with President Trump's surprising victory, and his tax cut and jobs act, the majority of wealthy Americans are using Rip Van Winkle as their role model. It seems that because estate tax exclusions per individual is over $11 million until 2026, they are content to sleep it off and wait until they wake up to do any estate planning. BIG MISTAKE!

First and foremost, estate planning is much more than just federal estate taxes. It is the premeditated decision to determine who gets what, when they get it, and how they get it. It is a true act of love and respect for those we leave behind. But if it is so important, why do 72% of today's affluent avoid estate planning altogether?

There is a litany of reasons, but top on the list is procrastination. Estate planning isn't an exciting task – that's true – but it's vital to the sanctity of the family. Archeologists have proven the ancient Egyptians wrong – YOU CAN'T TAKE IT WITH YOU! We all need an estate plan.

Second, estate planning appears confusing. Considering that the estate and pension tax laws have changed four times in the last five years, it's no wonder we are dumbfounded and frozen. But putting off the inevitable is dangerous.

Third, on the surface, with all the political rhetoric we heard during the election, it would appear that estate planning is all about taxes. That is a huge lie. The truth is, under the current federal tax laws, with the tax exemption now at $11,200,000 for individuals and $22,400,000 for married couples, only a tiny

fraction (.001 – 1,500) of Americans have the blessed problem of paying any estate taxes. We all should be so fortunate.

Even if Congress were to leave things alone, which they won't, because of the 2026 Sunset Provision we all need an estate plan. A directive for your family to follow that is coherently created with love and concern for their future is critical. It shouldn't be drafted on a napkin on your last day upon the earth. Upon death, legal fees, income taxes, federal estate taxes, state inheritance taxes and other estate settlement costs can strip away more than 70% of the assets intended for your family.

Proper planning is a requirement to create a meaningful, effective plan, and that takes time and action.

During my 46 years of planning estates of all sizes I have encountered mistakes that are repeated time and time again. In this book I identify the TEN mistakes that, in my opinion are the most grievous and the most common. Fortunately, they are easy to avoid. What follows is an overview of these errors, along with viable solutions that can be implemented so that when you pass on, your estate ends up where it belongs – in the hands of your loved ones.

My overall goal in providing this education is to make the complex easy to understand and motivate you into action.

Rip Van Winkle is a tale about an old man ill prepared for his departure, but a man who gets a second chance to make things right even after a long sleep.

Wake up! Switch off the "snooze button" and take affirmative action. With the current favorable tax laws, a new president that wants to also keep his wealth in his family, and a surging economy, it is time to make your move.

Your legacy depends on it. **Procrastination is dangerous to your wealth!**

Mistake 1:

Failure to have any plan at all, or having an antiquated or improper plan.

We often hear of families torn apart because a parent or grandparent fails to predetermine who gets what. "She wanted me to have it," claims one child. "No she didn't, she promised it to me," retorts another. Who is right? Only the

deceased knows for certain. Too bad she didn't write it down. Too bad she didn't take a few minutes to let her true wishes known.

At a time when we want the best feelings to exist, when we want them to find comfort in each other's arms, family members, out of selfishness, can foster the worst traits in the spectrum of human emotions. Anger, envy, jealousy – even hate – can be found when confusion is wrought because of a failure to preplan the distribution of even the most modest estate. Sins of omission are still sins.

Antiquated plans are just as problematic. A will drawn up 10 years ago is unlikely to reflect your current situation. Think of how much happens during that time. In fact, I have seen more problems resulting from outdated wills than any other situation. New marriages, new domiciles, new tax laws, growth, more children and grandchildren, retirement income, new investments; the reasons to update your plan are endless. Anyone who has a will or a revocable living trust that hasn't been reviewed since the passage of the Taxpayer's Relief Act of 2012 is asking for serious trouble. At a minimum, all estate planning documents should be reviewed every five years.

Improper plans also create problems, such as do-it-yourself kits that are never completely finished, non-funded revocable living trusts and/or multiple conflicting wills. All you accomplish with an improper plan is create confusion, making life difficult down the road for your heirs thus encouraging disputes.

Solution

The way to rectify these problems is to follow Nike's advice: **"Just do it!"** But do what? Where do you start? The first step with any foreign subject and new adventure is to gain an education. You shouldn't walk into an estate planning attorney's office and say," OK, I'm ready, plan my estate for me." Not only would that be a pricey mistake, you will end up with a plan that's not really yours.

Where do you get an education? You've already taken a major step in the right direction by reading this book. Books such as these are written to help the layperson make sense out of estate planning strategies. You can also visit our website, **www.epmez.com**.

Seminars are also a great source of ideas. But take heed: attend with an open mind, not an open checkbook. Many presenters push their CD's and books with

very little else to offer. Be careful. If you buy a lecture series, make certain you plan on listening to them. If not, you could waste hundreds of dollars that could have been better used to properly plan your estate.

Another word of caution: many seminars are given by estate planning hacks whose sole objective is to sell you an annuity or a "one-size-fits-all" Revocable Living Trust. Make certain that the "expert" is indeed an "expert" and that an estate planning attorney with credentials is part of the planning process.

Just Do It! Properly plan your estate. If you don't, the IRS and probate courts will do it for you and I guarantee you it won't be in your best interest or your family's. You have the power now to decide what kind of legacy you want to leave your heirs. Take control by being proactive and implementing your wishes – not the government's.

Mistake 2:

Believing that politicians will pass legislation that will permanently absolve me from any responsibility to properly plan my estate.

Remember: Estate planning is much more than taxes.

Most Americans can only dream that someday their estate will be significant enough to owe an estate tax to the federal government. Good heavens, with the federal exclusion as huge as it is today, only a handful of citizens dying this year will owe a dime in estate taxes to the IRS.

One constant that I know as an estate planner for the past 46 years is that tax laws are never permanent. I have seen the federal estate tax exclusion as low as $60,000 and the top estate tax bracket as high as 75%. Because of the gigantic deficit, the growing government monster needs revenue. There are those that want what you have and there are no lobbyists in the cemetery, so don't rest easy.

Estate Planning Commandment #1: It is the estate planning laws that are in place when you die that count, not what they are today. It is a fact that the rules will change.

While President Trump had hoped for a full repeal of all federal estate taxes, both the House and Senate reached a compromise that was included in the

biggest tax relief package ever adopted and now known as the Tax Cut and Jobs Act of 2018. Not only did we see some significant reduction to our income taxes, the federal estate tax exclusion for 2018 is set at an unprecedented $11,200,000 per individual, up from the previous lofty $5,490,000 exclusion of 2017. What this means is that a married couple can now pass, at the death of the surviving spouse an incredible $22,400,000 to their posterity, without any federal estate taxes.

Furthermore, and equally important, we can also gift the same amounts to our family while we are alive because the gift tax exclusion is the same as the estate tax exclusion.

If you have any desire to transfer assets to your family, now is the time to act because also stipulated in the Tax Act is a "sunset provision", set for January 1, 2026. Meaning that unless there is some permanent legislation passed, all of the tax changes created by the Tax Cut and Jobs Act, including the mammoth estate and gift tax exclusions, will be repealed and the exclusion will revert to an amount close to $6 million. As it was, prior to the change, only a meager 5,000 estates or .002 of those dying in 2017 owed any estate tax. Now, with the new exclusion it is estimated that only 1,800 or .001 estates will pay any federal estate tax.

Bottom line, don't fall prey to the federal "shell game", believing that the increased estate tax exclusion was a gift for America. Maybe for the extreme fortunate, but certainly not for the masses.

As you can see there is a full scope of possibilities on the table. In fact, I predict we will see several other variations before we see a bill and an eventual change.

While I want to constantly emphasize that estate planning is so much more than estate taxes, there are other taxes and expenses to consider when planning your estate. Most heirs will have to pay income taxes on all qualified accounts they inherit such as your IRA, 401k or 403b. Furthermore, 19 states still impose an inheritance tax, some as high as 19%. The state of your domicile at the time of your death determines whether or not your children will be taxed! Failure to plan for this tax could have serious financial consequences. To see if your state imposes an inheritance tax, call our office at 1-888-892-1102.

Another expense to consider is the cost of probate. Ranging from 3% - 10% it is calculated on your gross estate. This simply means that all mortgages and debt are included in the probate attorney's fee calculation.

Assets that are inherited through a simple will are subject to probate. Assets that are passed via a beneficiary designation or by way of a Revocable Trust are NOT subject to the costs associated with probate.

With Trump as President and a Republican-controlled Congress, one may logically put their guard down. Don't be duped into believing that you now have plenty of time to plan. No one knows the day and hour.

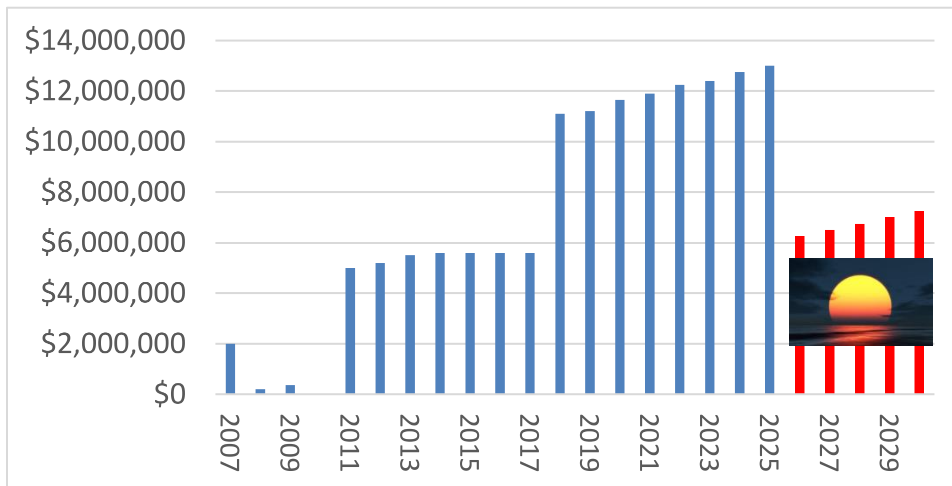
Don't be lulled into a false sense of security. Plan your estates immediately. Don't wait another minute.

Solution

First**,** have your estate professionally analyzed. An unbiased personalized Estate Analysis can give you a peek into the future by taking a snapshot of your assets today, calculate your net worth, and then offer personalized suggestions on which strategies would work best for you in order to maximize your estate and minimize estate shrinkage due to federal and state estate and income taxes and probate expenses. A well-thought-out Estate Analysis can be the road map that guides you toward proper estate planning, allowing you to keep your wealth in the family, while maintaining control.

Competent estate planners are generally well equipped to do such an analysis. **Estate Planning Specialists, LLC** has analyzed over 5,000 estates of every size from every state of the union. To complete your analysis profile form and order your own comprehensive personalized Estate Analysis simply go to our website: www.epmez.com, or call toll free 1-888-892-1102.

Federal Estate & Gift Tax Exemption
Past and Projected



Estimated number of estates impacted prior to tax law change = 5,000 = .002
Estimated number of estates impacted after tax law change = 1,800 = .001

Mistake 3:

Blindly leaving everything to your spouse because of "portability."

Since the Tax Act of 1981 and the introduction of the 100% marital deduction, the majority of America's affluent have elected to pass each half of their estate to their surviving spouse.

For decades the premiere tax efficient strategy of choice was to transfer, at the passing of the first spouse, up to the individual federal estate tax exclusion of the day, be it $1,000,000 or $3,000,000, into a Credit Shelter or By-Pass Trust (B Trust). The main reason for this move was to ensure that all future growth of the B Trust assets would be excluded from future estate taxes. An estate freeze strategy.

The surviving spouse would receive the remaining assets and place them in their A Trust to provide subsistence. The surviving spouse was also entitled to receive 5% of the value of the B Trust per year and whatever the trustee determined they needed for health, education and maintenance, **(see Figure 1)**.

While most employed the A/B Credit Shelter strategy to take full advantage of the federal and state estate tax exclusions, they usually were unaware of the many other estate planning benefits this simple move provided.

With the passage of the American Taxpayer Relief Act of 2012 and the introduction of the "portability" clause, the apparent need to set up the A/B Trust in advance has been questioned. Simply stated "portability" allows a couple to use both federal estate tax exclusions regardless of when the survivor passes away.

Many have fallen prey to this deceptive strategy and therefore have either abandoned their prior plans or ignored planning altogether. This is a dangerous trap. While it may be true that "portability" allows for the use of both federal estate tax exclusions, there are so many other reasons why it is prudent to establish an A/B Credit Shelter Trust now.

Solution

A few uninformed planners and politicians suggest that because of this new "portability" provision and given the fact that the federal estate tax exclusion is a whopping $11.2 million, a Credit Shelter Trust isn't needed. I asked Richard Durfee, founder of The Durfee Law Group, a national estate and asset protection law firm, to list the reasons why falling into the "portability" trap is such a bad idea.

Here are his answers:

- Portability merely makes the exclusion portable between spouses, nothing else. – the biggest effect is that a couple can have a single joint trust and hold their assets in common – provided it has credit shelter provisions, even in separate property states;
- All assets transferred to the B trust at the passing of the first spouse will not be subject to future estate taxes. If $2 million is transferred, it is always valued at $2 million for estate taxes even if it grows to $20 million;
- You still have to make an election even with portability;
- You still have to file The IRS Estate Tax Form 706 with portability;
- You still need to have a means of administering the exclusion even with portability;

- A Revocable Family Dynasty Trust (RFDT) provides the means of administration;
- A Credit Shelter Trust can permit the surviving spouse to retain an income interest and control over the assets, whereas they would otherwise just pass to the deceased spouse's heirs;
- A Credit Shelter trust can allocate and administer the deceased spouse's Generation Skip Transfer exclusion;
- A Credit Shelter trust may provide for some asset protection for the surviving spouse if properly crafted;
- A Credit Shelter trust may provide for Medicaid planning for the surviving spouse;
- A Credit Shelter trust can be part of "dynasty" planning which plans for protecting wealth over multiple generations, not just dealing with death and related taxes.

Ten convincing reasons why you should ignore the politicians' attempt to deceive Americans into believing that we don't need to plan our estates. As is evident, even modest estates should include an A/B Credit Shelter Trust as part of their RFDT or Revocable Living Trust. Furthermore, and most important as I stated earlier, estate planning is much more than estate taxes. It is planning the logical distribution of your assets, no matter how much or how little that may be.

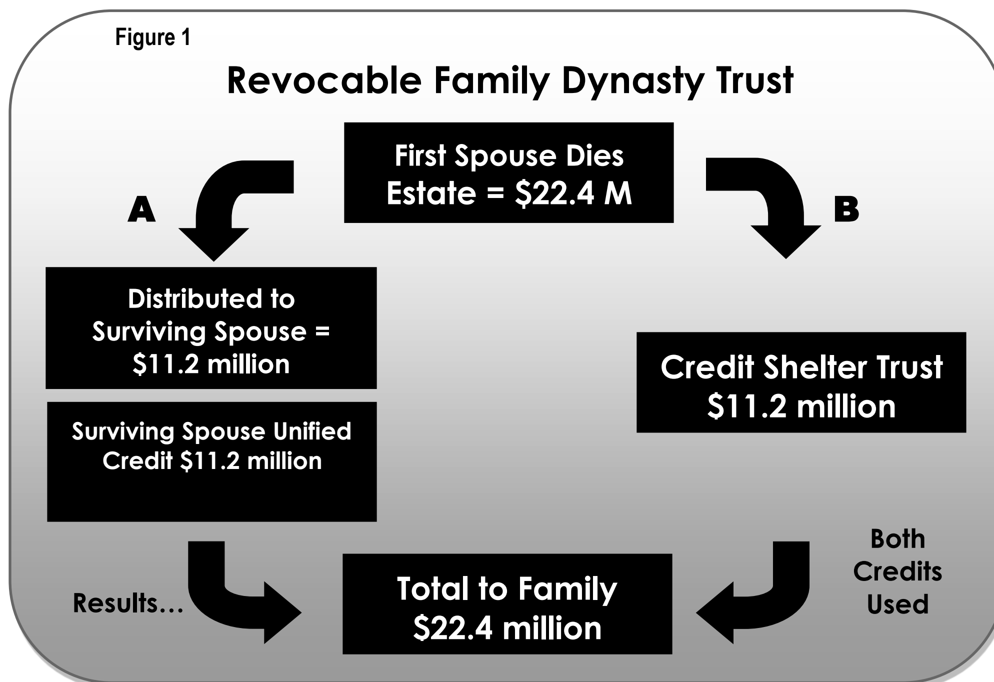
Another concern I often hear is that sudden wealth through an inheritance can spoil children and grandchildren. While we've all heard such horror stories, mostly in novels like John Grisham's book, *The Testament* or celebrity dramatics, they can be eliminated altogether with proper planning. Most problems are a result of zero planning. Competent estate planning attorneys recommend the establishment of incentive clauses in a trust. For example, it can be stipulated that a beneficiary's inheritance be received after certain life goals are achieved; such as, an annual income level, a college degree, marriage, etc. Age factors should also be considered, but not be the only provision. Of course, such clauses may not be needed if your heirs are older or are capable of handling an inheritance.

I recommend a simple Revocable Living Trust (RLT) for estates under $500,000 and a Revocable Family Dynasty Trust (RFDT) for larger estates. Many fret

over the up-front costs of such vehicles, and so they put it off and allow probate expenses to be assessed at death, usually 3% to 10% of the gross estate value. Financial tightness today will cost thousands tomorrow.

A properly attorney crafted RLT costs around $3,000 and a RFDT, $4,000. An estate comprising of a home valued at $300,000 with a $150,000 mortgage, a $200,000 investment account and real estate of $200,000, would have an estimated probate expense of $35,000. ($300,000 + $200,000 + $200,000 = $700,000 total gross estate x .05% in probate fees = $35,000). A properly designed RFDT is only $4,000, a savings to your family of **$31,000!**

For readers of this book we have negotiated special discounted fees for Revocable Living Trusts and Revocable Family Dynasty Trusts with The Durfee Law Group. *S*imply contact them at 1-480-324-8000 or rick@durfeelawgroup.com to obtain their easy-to-complete profile and fact finder. Mention this book: *The Ten Most Common Estate Planning Mistakes* to receive your discount.



Mistake 4:

Paying too much income and capital gains tax.

In an ideal world we would all pay the same percentage for the services we receive from our governments. But unfortunately the biggest burden seems to always land on the shoulders of the affluent. With the incomprehensible national debt, it is no secret that taxes are the ticket to cover that debt.

The more we pay in taxes the less we will have in our estates. A grave mistake that many fall victim to is that they simply pay too much. It is always wise to pay as little as legally possible, but the loop holes are closing and for those on salary, the wiggle room is tiny. For most the only tax saving area we have is with our investments. We need to find investments that do not incur a tax on the gains and the eventual income.

Solution

The first option to consider is tax deferred investments, those include: qualified accounts like an IRA or 401k and Single Premium Deferred Annuities. The problem with these deferred investments is that eventually income taxes have to be paid on the gain or the profit. Furthermore, if you die holding these deferred assets, your beneficiaries will be required to pay the income tax, sur taxes and of course the estate tax, both federal and state.

What compounds this problem is that your beneficiaries do not receive a "Step-up Carryover Basis" and their inherited deferred taxed asset will incur an income tax in the year following your death that will be added to their current tax liability. Just imagine for a moment; your $500,000 IRA drops into the lap of your attorney son who is already making a good living. This income infusion can throw your beneficiaries into the highest bracket on all of their income overnight.

The second option is to defer more income today for distribution at a later date when your income is less. Again qualified accounts like an IRA or traditional deferred compensation plans like a 401k allow you to take income off the top and have it accumulate in a tax deferred environment. It is important that you take full advantage of these strategies because they lower your top line income and can place you in a lower bracket. The problem is that the maximum limits are relatively small and can have little impact on the high wage earner.

If you are self-employed and have few employees you should consider a Defined Benefit Plan, Defined Contribution Plan, or a 412e3 deferred account because you can take a significantly greater amount of income off the top line than the traditional IRA, SEP IRA. The more you take off the top, the lower your bracket, resulting in a lower tax today. Interest will accumulate tax deferred. A word of caution, however, with a deferred account taxes will have to be paid when you access the funds or when they are passed to your beneficiaries.

Another option is to invest in real estate and stock investments. As your investments appreciate in value no taxes are due. Of course you pay current income taxes on the rental income and dividends, but no taxes are due on the appreciation until you sell the asset. At that time either short or long term capital gains taxes will be assessed depending on how long you held the asset. You could continually defer capital gains on this type of investment by never selling it and, based on current law, when you pass it to your heirs they would, receive a Step-up Carryover Basis, only paying capital gains tax on going-forward appreciation from the day it was inherited.

The third option is to find investments that spin off income and provide healthy income tax offsets, like oil and gas partnerships. Beneficiaries currently will receive a Step-up Carryover Basis so any capital gains will be calculated based on the current value of the asset when it is inherited.

The fourth option is to invest in precious metals and collectibles. Currently, if the price of precious metals or collectibles increase, no taxes are incurred until they are sold. There is a higher capital gains tax due for collectibles, so usually these types of investments are better for the long haul. If metals or collectibles are passed to a beneficiary, they also currently receive a Step-up Carryover Basis.

The fifth option and frankly one of the most sensible and one that is available to all wage earners, is to invest in life insurance. I know this may be a hard pill to swallow for some, but in reality it is the **<u>only</u>** investment in the country that allows for ***tax-free growth***, ***tax-free income*** and a supercharged life insurance benefit that can be passed to your beneficiaries totally ***income tax*** and ***estate tax free***.

In the past, life insurance has been relatively boring, but effective none-the-less. Today, with the advent of Indexed Universal Life, improved participating Whole Life policies and ***The Family Bank Strategy,*** life insurance backed with

superior tax advantages, has come into its' own and in my opinion is the best "safe-money" financial vehicle available. I cover this option in detail in **Mistake 8**, *Lacking Liquidity to Cover Estate Settlement Expenses*.

Mistake 5:

Not properly using the IRS-approved annual and lifetime gift allowances.

Many of affluent Americans don't comprehend the need to share their wealth with their loved ones while they are still alive. Furthermore, they don't understand the power that "leverage" can create and the many tax benefits that can and will be realized if they apply this simple concept. In fact, in most cases, by leveraging the IRS gift allowance, all estate shrinkage can be totally eliminated, and their financial legacy can live on. Yet only a handful of prudent taxpayers utilize this basic, but powerful, strategy.

Each and every American can, by current law, gift $15,000 annually – completely tax free – to anyone they want. I often joke in estate planning seminars that I can legally drive up to a homeless man on the corner and really make his day by telling him that by virtue of the gifting laws, I would like to cut a check in his name for $15,000 that would be totally income, gift and estate tax free.

Of course, doing so may not be the wisest move. But it would be very effective in shrinking one's estate. Consider how such a gift would benefit those you really care about, at the same time reducing your estate annually by the amount of the gift. A married couple can each gift this allowance, meaning that they could gift up to $30,000 per year per beneficiary. A couple with five children, five grandchildren and two great grand-grandchildren, can gift up to $360,000 per year. By maximizing this tax free strategy annually, one's estate could shrink with relative ease.

Annual gifts are a "use it or lose it" proposition, with no carry forward provisions into the next year. Another option that is still on the table is to consider transferring all or a portion of your **lifetime gift allowance**, currently unified with the estate tax exclusion of $11.2 million. By transferring assets today via an Integrated Family Dynasty Trust, you will be able to retain control, continue to receive income and <u>FREEZE</u> the transferred asset so that all future growth is out of your estate. Of course, once you have used your lifetime gift you cannot use

it again when you die. Transferring your lifetime exclusion in an Integrated Family Dynasty Trust is an advanced estate planning strategy and should be discussed with a top notch estate planning attorney. Call us toll-free at 1-888-892-1102 for a referral.

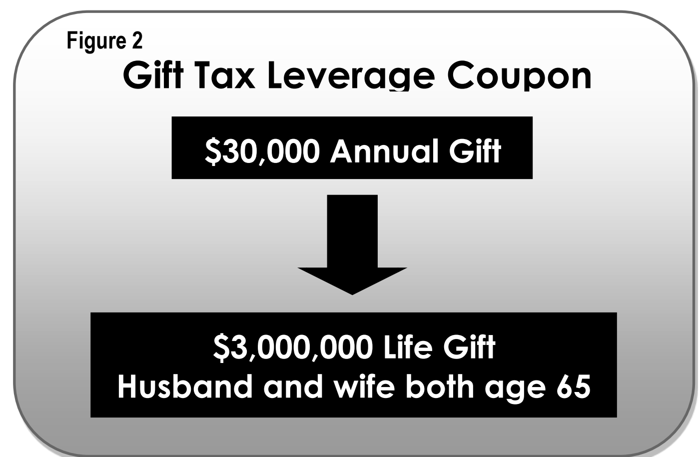
True, some might question the wisdom of gifting these funds to your family while they are young, believing that if they start to depend on the annual or lifetime gift they will become counterproductive. However, there is no law requiring that the recipients must actually receive the gift in cash; nor do they need to have access to the gift immediately.

Solution

My transferring the gift inside an irrevocable trust, such as a Spousal Support Family Dynasty Trust (SSFDT), an Integrated Family Dynasty Trust (IFDT), or an Irrevocable Life Insurance Trust (ILIT), it can be stipulated that while the gift is given today, it cannot be accessed until certain parameters are achieved, or the recipient reaches a given age. You should maintain as much control as you can over these gifts for as long as possible. Never let your beneficiaries dictate what should be done with your gift to them as this usually spells disaster. You are the benefactor and should always maintain control, even after you are gone.

Another idea: rather than giving the gift outright to your heirs today to do with it as they please, invest today's gift in something that immediately significantly multiplies. This strategy is known as "The Gift Tax Leverage Coupon" and can be implemented for a married couple or those that are single.

For example, if a couple, aged 65, set aside a simple gift of $30k a year to just one child, that money would mushroom to over **$3,000,000** of tax-free cash for delivery when the surviving spouse dies (see Figure 2). This is accomplished by establishing a Joint and Survivor (JLS) Life Insurance policy inside an ILIT, SSDT, IFDT, or by gifting it directly to the children, and using the $30k gift each year to fund the insurance premium. The tax free life insurance proceeds could be used to pay future income taxes, create a guaranteed estate, replace assets gifted to charities, cover debt, etc. An enhanced version of The Gift Tax Leverage



Coupon (GTLC) is found in ***The Family Bank Strategy*** that is explained in detail in Mistake 8, and in my book titled: ***The Family Bank Strategy.*** You can order a copy through Amazon for $24.95 or via our website, www.epmez.com, at a discount.

The GTLC concept is easy, effective and can allow your estate to remain intact and out of the hands of the federal government. To see how the "Gift Tax Leverage Coupon" can work for you, give us a call, toll-free 1-888-892-1102, and we'll prepare your personalized example specific for your situation.

Mistake 6:

Not properly preparing for the exorbitant cost of long-term medical care.

According to the Health Insurance Association of America, roughly 70% of Americans over age 65 and 80% of women will require some form of long-term care. If you're married and over 65, there is a 91% likelihood that one spouse will experience a long term event. With the cost for home care averaging $25 per hour, and the national average annual cost for a nursing home soaring past $100,000 and patients with dementia spending almost twice as much, it is no wonder that having enough cash on hand to cover long term medical expenses is now the number one concern of retirees. A lengthy illness could wipe out most estates, especially considering that before you can be eligible for government financial assistance for long term care, you must first "spend down" all of your assets.

Are you prepared to take the chance that your assets will endure the potential costs of long term illness or an accident? Have you taken any steps to shield your investments from a long-term care event?

My Great Aunt Mary took care of my brothers and me when my mother worked outside the home. She was a wonderful, loving caregiver. Later in life, she suffered from severe arthritis and Alzheimer's, requiring constant care. My mother and her sister would take turns caring for Aunt Mary, rotating every year. She had a modest estate, but she was proud of what she had put away and made it known that the money was going to my mother and aunt for their benevolent guardianship. The money was to be her legacy and payback.

As her health declined, it became painfully obvious that we couldn't adequately care for her by ourselves. We needed help. Furthermore, my usually active parents were confined to the house in order to provide the vigilance that Aunt Mary's condition needed. After months of worrying, the difficult decision was reached; Aunt Mary would be admitted into a nearby nursing home to receive the constant care she deserved. It was a tough choice, but ultimately the best for all concerned.

Then reality hit. Where was the money going to come from to pay for her stay? We were asked to complete a financial statement in which her savings and investments were listed. The nursing home informed us that before Medicaid would give a dime, Mary's small fortune – Mom's and Auntie's inheritance – would have to be used.

Yes, it was a blessing that she had the foresight to save some money for her "rainy day," but was this what she really wanted? Was her goal to have her assets confiscated in order to qualify for Medicaid's long-term medical care assistance?

It is estimated that Medicaid is currently paying for 43% of all Long Term Care. What does that tell us? Most have not properly prepared for this day, this eventuality, and as such most are required to become an impoverished pauper in order to qualify for government assistance. They have painted themselves into a corner, with no options, other than going to a government assigned care facility or having family members step in and help.

Before we can even reach that conclusion, consider these alarming factors:

1. A spouse is six times more likely to suffer from anxiety of depression if they are the primary caregiver.
2. One in four Americans will live into their 90s.
3. Four in ten American's are or were caregivers.
4. One in three caregivers also provide financial support to those they care for.

This end is not my choice, and not my choice for my family and those I love. Even a modest estate needs a plan.

Solution

Four simple words – LONG-TERM CARE INSURANCE. If you are relatively healthy and between the ages of 50-80, you are an ideal candidate for long-term care insurance (LTCI). The premiums however are pricey, are considered an expense, a "use it or lose it" proposition, and underwriting approval can be a significant challenge.

Fortunately, there are a few insurance carriers that are now offering an avant-garde long-term care strategic power move referred to in general as **Asset Based Care Plans (ABC) or Leveraged Care Solutions (LCS).** With The Leveraged Care Solution plans you simply transfer an existing cash asset, either in a lump sum or over a specified number of years from your left pocket into your right and with that transfer, provide the much needed LTC benefit. At a minimum, if the LTC benefit is never triggered during your lifetime, either your deposit is returned to your beneficiaries at your passing or they receive an increased Life Insurance Benefit. In other words, your transferred cash is still an asset on your balance sheet, and is NOT an expenditure like traditional LTC insurance.

The first Leveraged Care Solution option is ***The Life Legacy/LTC Strategy***, and includes the following features:

- You can transfer a lump sum – CD/money market, mutual fund, securities account, or elect to make annual deposits from any cash source including your IRA.
- An immediate and perpetual guaranteed increase in your estate. For example, a 60-year-old male depositing $100,000 would supercharge his estate to $400,000.
- The monthly tax-free long term medical care benefit is equal to 2% of the supercharged increased estate benefit, ($400,000 x .02 = $8,000 per month for 50 months). Any unused balance is paid out tax-free to your beneficiaries.
- The monthly LTC benefit is an indemnity benefit. All that is required to trigger the payout is to not be able to perform 2 of the 6 Activities of Daily Living (ADLs or by becoming cognitively impaired, no medical or care giving expenses are needed.

- An optional Tax-Free Family Bank cash accumulation account can be created.

The Life Legacy/LTC Combo offers a rare three-for-one: 1) Life Insurance, 2) Tax-free cash accumulation and 3) Long Term Medical protection, making it virtually needless to spend your savings purchasing a stand alone Long Term Care policy.

Another option I really like is the ***LTC Annuity.*** With this plan you take a liquid asset and transfer into a federally approved, HIPAA compliant, Single Premium Annuity, where it will earn tax-deferred interest. Should you trigger the long term medical provision by not being able to perform 2 of the 6 ADLs or are cognitively impaired, your annuity value will expand up to three times and will create a TAX-FREE monthly long term benefit that will be paid out over 5 to 11 years.

For example, a 60-year-old female that deposits $100,000 will see that annuity increase to $135,969 by age 80, based on current interest. Should she trigger the LTC benefit at that time she would receive a monthly benefit of $5,665 per month for 72 months, which translates to a total LTC pool of $407,908, an increase on her original deposit of four times!

Should you be fortunate and never trigger the LTC benefit, the full annuity value will pass to your beneficiaries, unlike the "use it or lose it" stand alone LTC policies.

How to turn Tax-Deferred into Tax-Free: As of January 1, 2010, President Bush's *2006 Pension Protection Act* (PPA) stipulated that you can take withdrawals from an annuity tax-free, as long as the withdrawals are used for Long Term Care expenses. The caveat is your annuity must be PPA compliant and meet all of the Long Term Care Annuity requirements. Today, there are only a few annuities that meet the PPA LTC/Annuity qualifications. Those that do, provide an excellent opportunity to turn old tax-deferred annuities into tax-free long term care income.

It's not uncommon for us to come across clients who have deferred taking withdrawals from their annuities for 10, 15 even 20 or more years. I've seen some with as high as a 500% gain because most folks simply don't want to bite the annuity income tax bullet. Unfortunately, all of that tax-deferred gain is taxed on a – Last-In-First-Out (LIFO) basis – at your ordinary income tax rate. It's no

wonder that less than 10% of all annuity money is actually withdrawn during the annuitant's lifetime.

The power play is to do an IRC Section 1035 tax-free exchange. Move your old annuity with built up gain into a PPA compliant LTC/Annuity. You'll not only leverage your deposit to increase its' value up to three times in Long Term Care Benefits, but you'll also be able to withdraw your interest gain, 100% tax-free should you trigger the LTC benefits.

The creativity genius inherit in the insurance industry is amazing, refreshing and extremely beneficial. Leveraged Care Solutions have been evolving since inception, giving Americans a total pallet of choices.

One such choice is what we refer to as **The 844 LTC Plan**, that has as its' main focus a robust monthly Cash Indemnity LTC benefit with a return of premium feature and a minor life insurance benefit.

With The 844 LTC Plan you reposition passive assets for the purpose of creating an LTC pool of tax-free cash that, depending on your age, and the inclusion of an inflation rider, can be **valued as much as 10 times your deposit.**

The foundation of The 844 LTC Plan is a life insurance policy that is immediately worth more than your initial deposit. Whenever you pass away, the tax-free life insurance benefit is paid out to your beneficiaries. Unlike the Legacy Life/LTC option. However, the life insurance benefit provided in The 844 LTC Plan is incidental in order to take advantage of Section 844 of the Pension Protection Act.

The 844 LTC Plan wasn't designed to earn cash value through the years like the other Leveraged Care Solutions, but it does offer a full return of premium should you need to exit the plan after five years. The primary focus of The 844 LTC Plan is to provide a strong LTC benefit and because you are transferring a passive asset it creates enormous leverage that the transferred asset doesn't have.

For example. Ron, a 65-year-old male, has a $200,000 CD currently paying .005. This year he will earn in taxable interest a mere $1,000. Should he experience an LTC event he would have $201,000 to help finance his care. As an alternative, he transferred the $200,000 into The 844 LTC Plan and selects the 6 year benefit period, his LTC benefit pool immediately increases to **$838,224** resulting in a monthly benefit of **$11,642** for 72 months.

Because this is a Cash Indemnity plan, when filing a claim, if you show you've incurred at least $1 of covered long-term care expenses, you'll receive a monthly benefit payment that you can choose to spend however you wish. And if you choose to receive less than your maximum monthly benefit, the difference stays in your policy, extending the length of time your benefits may last.

Unique to The 844 LTC Plan is an inflation protection provision that can help your policy benefits keep up with rising costs. One A+ carrier that we work with provides three inflation protection options: 3% simple interest, 5% simple interest and 5% compound interest.

For example, had Ron deposited $200,000 into The 844 LTC Plan and selected the 5% compound inflation protection option, his immediate life insurance benefit would be $292,900 and his first year monthly LTC benefit would be $7,868 for 72 months. In 15 years at age 80, because of the 5% compounding, his monthly LTC benefit would have increased to $15,578 for a total LTC pool of $1,271,497 – **Six times his initial transfer of $200,000!**

As you can see the main focus of The 844 LTC plan is to provide for strong LTC benefits by repositioning a passive asset.

One concern that I hear when discussing repositioning a stagnant asset into a Leveraged Care Solution option is the potential need to use transferred money for an emergency. Exclusive to one carrier we work with is a full return of premium feature that is available beginning in the sixth year. Complete liquidity of your deposit is available at that time. In addition the same carrier offers a $1,000 caregiver training benefit, a $5,000 Home Modification Benefit and a minimum life insurance benefit equal to 10% of your initial face amount o a maximum of $10,000 should you use up all of your LTC eligibility.

To qualify for The 844 LTC Plan, eligible applications pass a simple 30 minute phone interview with no exam of lab tests.

With either The Legacy Life/LTC Strategy, the LTC Annuity, or The 844 Plan you are taking an unproductive asset, like an under-performing CD and exchanging it for a "safe-money" investment that will make certain you will not need to dip into your other assets to take care of a potential financially devastating long term illness or medical condition.

CALL TO ACTION: Call today 1-888-899-1102 to request a personalized Leveraged Care Solution Strategy Comparative Analysis and receive a complimentary copy of our Special Report: Leveraged Care Solutions – Answers to Today's Long-Term Care Crisis.

POLICY TYPE	PREMIUM DEPOSIT	YEAR	LEGACY BENEFIT	CASH LIQUIDITY VALUE	DURATION OF CARE	MONTHLY CARE BENEFIT	TOTAL CARE POOL	BENEFIT WAITING PERIOD	CARE PAYOUT METHOD
LTC/ ANNUITY	$100K	1	$101,219	$93,122	72 Months	$4,217	$303,658	Zero Calendar Days other, 90 Days	Reim-bursment
		6	$107,542	$103,214		$4,481	$322,627		
		20	$127,429	$127,429		$5,310	$382,286		
LIFE LEGACY/ LTC	$100K	1	$288,902	$86,071	50 Months	$5,778	$288,902	90 Calendar Days	Indemnity
		6		$103,887					
		20		$166,945					
The Ultimate 844 LTC Plan	$100K	1	$146,450	$81,560	72 Months	$3,934	$321,096	90 Calendar Days	Indemnity
		6	$158,079	$100,000		$5,021	$409,809		
		20	$121,495	$100,000		$9,941	$811,393		

Mistake 7:

Failure to properly plan the distribution of your pension/retirement accounts.

How would you like to toil your entire life, build a sizeable estate with $2 million in your IRA that you had rolled over from the lump sum you received at retirement from General Mills, only to have Uncle Sam confiscate $1,000,000 of it at your death? **That's 50% gone forever!** Nobody wants that, and yet, an alarming 80% of all "qualified" pension/IRA monies are transferred at death – and thus taxed – to named beneficiaries. That means only 20% of the nation's IRA monies are actually used as retirement income.

In other words, we build our fortune, set aside our IRA funds to provide a safety blanket for us just in case we need it, and then we usually don't touch it. The problem is compounded by the fact that, because of investment gains, these retirement funds can grow to astronomical numbers. IRAs in excess of $4 million aren't rare these days. Yet only a few investment advisors, accountants and stockbrokers know the art of extracting these funds, or how to pass them to the next generation without the government first tearing away the lion's share. That's because most are not aware of what I call the **Five Retirement Time Bombs**.

The first three time bombs explode during our lifetime.

1. Income tax. Up to 40% of federal income tax (plus state tax where applicable) is levied on distributions made while we are alive.

2. The "too early" 10% tax. Distributions of taxable qualified assets before age 59½ are subject to an additional 10% excise tax intended to discourage spending tax-subsidized retirement savings before retirement.

3. The "too late, too little" or 50% penalty tax. A 50% penalty is imposed for a failure to distribute a minimum amount of qualified assets each year beginning at the participants required beginning date (April 1 following the year in which they turn 70 ½). This is known as the **required minimum distribution (RMD).**

   The last two bombs detonate after death.

4. Income in respect of a decedent (IRD). Accounts are taxed for income in respect of a decedent (IRD) if distributed to the named beneficiaries after the death of the participant. Before 2007, only a spouse was allowed to roll over the inherited retirement account into their own personal IRA. But now *all* beneficiaries can do the same (stretch) as long as they follow certain, IRS guidelines allowing them to spread their inherited IRA over their lifetime.

5. Estate tax/death tax. We've discussed this time bomb already. But as it relates to retirement funds, take note: The worst thing you can do is require that your heirs pay estate taxes with your retirement account. Not only will they be paying the estate taxes – federal and state – they will also be required to pay income taxes on the funds used to pay the estate taxes. *Depending on the size of your estate, this taxation could result in an automatic loss of 500% of the overall value of your retirement account.*

IRA Required Minimum Distribution Table

Age	IRS Distribution Factor	Age	IRS Distribution Factor
70	27.4	93	9.6
71	26.5	94	9.1
72	25.6	95	8.6
73	24.7	96	8.1
74	23.8	97	7.6
75	22.9	98	7.1
76	22.0	99	6.7
77	21.2	100	6.3
78	20.3	101	5.9
79	19.5	102	5.5
80	18.7	103	5.2
81	17.9	104	4.9
82	17.1	105	4.5
83	16.3	106	4.2
84	15.5	107	3.9
85	14.8	108	3.7
86	14.1	109	3.4
87	13.4	110	3.1
88	12.7	111	2.9
89	12.0	112	2.6
90	11.4	113	2.4
91	10.8	114	2.1
92	10.2	115 or older	1.9

Solution

Spend it! That should be the first order of business. When you turn 70½, the government requires that you begin extracting required minimum distributions based on the published RMD table. (See table). If you fail to take your RMD, as previously stated, a tax bomb of 50% is imposed.

I love the bumper sticker on those massive RVs that reads, "I'm driving my children's inheritance." That's the way it should be. But, if your investments do well, it can be very difficult to spend it fast enough.

Think about this. A $3 million IRA growing at 5 percent will produce $150,000 in annual income. When you add in other retirement income sources, such as social security, retirees can find it difficult to spend that kind of money and, as a result their estate keeps growing and the TAX TIME BOMBS keep on ticking. So what's the real solution?

First, unless you have a prenuptial agreement, your spouse should always be the first in line as your primary beneficiary so he or she can roll the funds they inherit from you into their own IRA at your death. *If you are married*, *never name a Revocable Living Trust as the beneficiary* or "*To My Estate*." In each situation, the surviving spouse may have to pay income tax in the year it is received.

Second, by virtue of recent tax law changes, distributions from a deceased taxpayer's IRA/401k to a non-spousal beneficiary can now be made in one of three options: 1) a single upfront lump sum, 2) spread over a five-year period, or *3) over the life expectancy of the <u>children</u> beneficiary after rolling the inherited funds into a separate new individual IRA.*

Prior to 2001, all IRA/401k beneficiaries received a lump sum and were required to pay income taxes at their tax bracket, the year after receiving their inheritance. They had the choice to take the distribution and thus pay the tax on the full amount or over a period of five years. This included the surviving spouse.

Now, the income tax liability can be spread or ***stretched*** over the beneficiary's lifetime. Furthermore, because of the ***stretch*** concept, you can now predetermine how and when the money is to be received. In other words, you can now control it and its' distribution for **multiple generations.** The only hitch; you need to plan today while you are here, and most custodians don't provide "stretch" payments to beneficiaries, only paying out lump sum amounts. If you want to control the distribution of your IRA when you are gone, you need to be proactive today. Only by using a special type of "see-through" IRA Trust or certain annuities for non-spousal beneficiaries, can you actually specify who, what and when.

TAX ALERT: During the past few years Congress has been considering changing the rules of engagement with regard to the distribution of qualified funds (IRA, 403b, 401k), to non-spousal beneficiaries (children and grandchildren).

Considering the huge national debt and the fact that there is an estimated **$16 trillion in IRA** and retirement funds alone, Congress cannot continue to allow non-spousal beneficiaries the luxury of "Stretching" the distribution over their lifetime. The federal government needs the tax revenue now. Several bills have recently been presented to Congress on this issue. You can expect that very soon Congress will pass a law to tax these accounts, when they are inherited, over a **maximum of 5 years**. You need to prepare for this inevitability by creating

liquidity to pay the tax bill, see Mistake 8 to learn the best way to cover this future liability.

What to do With Your RMD?

The vast majority of our clients suffer extreme pain and anxiety when receiving their IRA Required Minimum Distribution. They know it is coming but have done little to plan for it. Because many don't need it, when added to other sources of income, they consider their RMD a dreaded nuisance that shoves them into a higher tax bracket.

So what are your options when it comes to your IRA Required Minimum Distribution (RMD)? What should you do with it?

- You could spend it. After all you have to pay taxes on it, so why not go on that cruise you have on your bucket list. **Remember however,** once it is spent it is gone forever and it can never create any more dollars for you or your posterity.
- You could roll it into a regular taxed investment. Of course, your investment will have risk and could be reduced with adverse markets conditions. Furthermore, you will be required to pay capital gains taxes and investment fees throughout the year. In the final analysis it is important to **remember however,** an investment account is **only** worth what an investment account is worth.
- You could give it to a charity. In fact, late in 2015 Congress passed a tax bill that permanently extended the Qualified Charitable Distribution (QCD) provision, that gives those over age 70½ the opportunity to transfer up to $100,000 each year from their IRA to charity while they are alive (not a Donor-Advised fund or private foundation) and have it count as their RMD without increasing their adjusted gross income. **Remember however,** once "qualified" money has been donated to a charity, you have lost all future earning power and have **totally disinherited your family forever.**
- You could give it to your children or grandchildren. Again, since you have already paid taxes and you personally don't need it, why not give it to those you love? As a grandfather of 9, I like this option. Why not bless your posterity? **Remember however,** a dollar given today is only worth a dollar and can't be controlled once it has been gifted.

- **Best Option:** *Why not give it to your children or grandchildren in future Tax-Free multiples via The RMD Leverage Strategy. Rather than just giving them $1 today and let them waste it, guarantee that someday in the future, instead of receiving just $1, they will receive a guaranteed Tax-Free inheritance valued 3 to 20 times more. In addition, at your option, you could control their distribution based on age, certain achievements, life's choices (addictions), etc. Note: It is a fact, beneficiaries that know an inheritance is conditional, will most likely rise to the challenge.*

Introducing: The RMD Leveraged Strategy

As stated earlier, based on the current federal gift tax laws, we can currently make an annual gift to anyone we want up to $15,000 without paying a transfer gift tax. A couple with one child could give $15,000 each or $30,000 combined. Once the gift has been made, no future federal or state estate tax can ever be levied against the principle or the growth.

Rather than frivolously waste your RMD, why not leverage the annual mandatory allocation and the annual gift allowance to guarantee a **magnified**, controlled and premeditated future distribution for your beneficiaries? Let me give you an example:

RMD Leverage Strategy Example – George and Sara

George and Sara, both age 71, are in relatively good health. George's IRA is valued at $1,000,000. His first RMD is $36,496 ($1,000,000 ÷ 27.4 = $36,496). They pay 25% in income taxes, so their net spendable IRA RMD income is **$27,372.** Because of their other investment, retirement, and Social Security income they don't need his RMD. George and Sara have one son, Steve, and three grandchildren ages 11, 13 and 15. They would like to establish a TAX-FREE leveraged inheritance for their grandchildren that would be there to help them with life.

Even though George's RMD factor will most likely increase each year, they decide to transfer (gift) the same amount, $27,372 annually to Steven. But rather than giving him the cash outright to spend each year on themselves, they secure a **$1,521,471** Joint & Survivor (JLS) Wealth Creation style life insurance policy through our firm on their lives for the benefit of their grandchildren.

When the surviving spouse passes away, the life insurance company guarantees that they will send three separate checks to each grandchild for $507,157 totally income and estate Tax-Free. The grandchildren will be able to use their share of their guaranteed inheritance to pay for their education, make a down payment on a home, pay for medical expenses, pay for their children's education, generate a lifetime income stream, or for any purpose you can think of.

As an option, the RMD Leverage policy could be placed inside a Family Dynasty Trust to ensure the proceeds are distributed as you wish. You could even include distribution qualifications rules, such as being free from substance abuse for a period of time, etc.

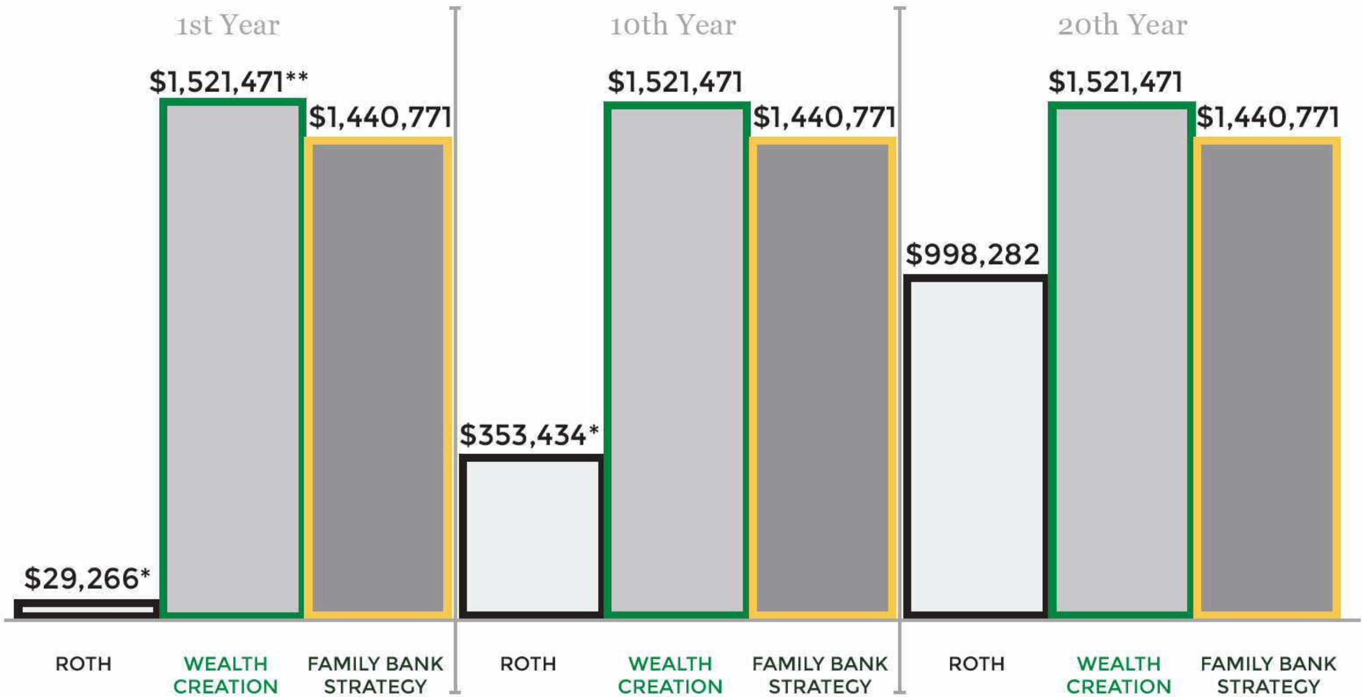
Because George and Sara were married, the use of a Joint and Survivor – JLS (Second-to-Die) policy was the most economical approach, creating maximum leverage. Of course, if you are single, or one spouse is in poor health you can create comparable leverage with an individual permanent life insurance policy.

CALL TO ACTION: Call today: 1.888.892.1102 to discuss how you can significantly multiply your annual RMD for your spouse, children and grandchildren through our proprietary RMD Leverage Strategy.

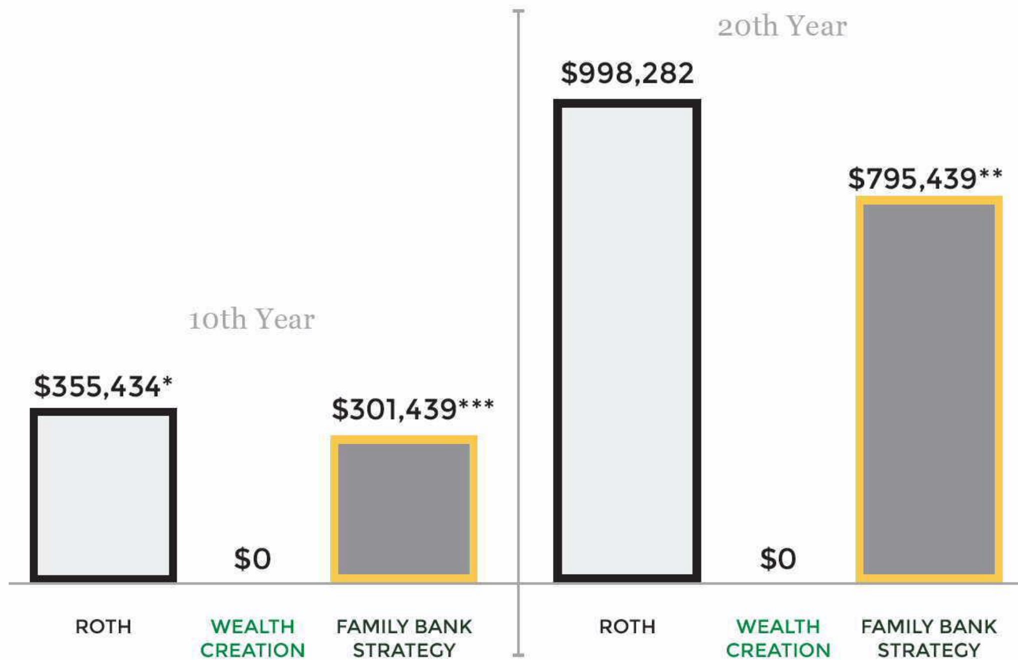
ROTH IRA vs. Wealth Creation/Family Bank Strategy

JOINT OPTIONS (JLS) | $27,372 ANNUAL NET REQUIRED MINIMUM DISTRIBUTION (RMD)
MALE AGE 71, FEMALE AGE 71 (GEORGE AND SARA)

VALUE TO BENEFICIARIES



ACCOUNT VALUE COMPARISON



*ASSUMING A GROSS RETURN OF 6.92% @ WITH A 1% INVESTMENT FEE. **GUARANTEED LIFE INSURANCE BENEFIT TO AGE 121.
***ASSUMING AN AVERAGE INDEXED RETURN OF 5.92%

Mistake 8:

Lacking liquidity to cover estate settlement expenses.

On the day you leave this existence, there will be a financial assessment. Whether you have debt, owe taxes, need to replace your income, have legal fees or owe probate fees, your heirs will need cash. Consider these facts:

- 70% of today's affluent Americans don't have a sound estate plan;
- 52% do not have any life insurance at all;
- Of the 48% that do have insurance, they are only insured on average for 2.7 times their annual income, experts recommend a minimum 8 to 10 times;
- The majority of assets are not liquid;
- The economic downturns of 2001, 2002 and 2008 have exposed the vulnerability of non-guaranteed assets;
- Americans are living longer and are in serious danger of running out of money.

It is statistics like these that truly concern me. The lack of liquidity coupled with the insecurity of the markets, uncertainty of estate tax laws, unfounded bias and longevity have created the "perfect storm." Future generations of Americans will pay the price for our lack of motivation unless we wake up and become proactive.

Term life insurance is a vital estate planning tool when protecting the loss of your income while raising your family, covering debt or insuring any temporary need. But Term has its' limitations. At some point, when the term period expires, coverage either becomes cost prohibitive or unavailable.

The other day I was working with a couple in Iowa on their estate plan. They were in their early 70's with a farm valued well over $30 million, with zero liquidity. The husband was now uninsurable due to an illness, with a life expectancy of 5 years. They had acquired a 20-year Level Term policy on his life to pay the future estate tax liability, but unfortunately that policy was set to expire in two years. Term Insurance is a viable option when used to insure temporary needs, but creating estate liquidity is not temporary.

After presenting to them the virtues of permanent insurance the wife lamented, "I wish we would have met you when we were healthy and younger. It is evident that my husband will outlive his term policy and we will be left with no protection."

Now with the federal estate tax exclusion at $11.2 million many will let their guard down and assume that their children and grandchildren will not have a tax liability. That may be so today, but remember it isn't the tax exclusion today that counts, it is the exclusion amount and the laws that are in effect when you pass away that matter and the estate tax exclusion is scheduled to reset in 2026 back to $6 million. Furthermore, we need to account for investment growth. Yielding 7%, an investment will double every 10 years. It is the wise person that *plans for the worst and prays for the best*.

Of equal concern, (as we learned in Mistake 7), is the income tax liabilities that will be created with qualified accounts (IRAs, 401k) when they are passed to non-spousal beneficiaries. In addition, there is the matter of state inheritance tax (19 states currently impose a state transfer tax at death). Where is the cash going to come from to pay these taxes?

Which assets will be sold first? Faced with time constraints, (heirs have nine months to come up with the cash) will they command top dollar?

What if the markets decline during liquidation? Will the family summer cabin survive the tentacles of the IRS? These are the type of questions we will force our heirs to answer if we don't have a strategic plan in place beforehand.

If you are fortunate to have sufficient liquidity, such as cash or highly marketable securities, your heirs could theoretically use those assets to pay the bills, including taxes. But is that really prudent? Isn't there a better way than paying 100 cents on each dollar and ending any potential future earning power?

Solution

A well planned life insurance portfolio should be in every estate. The only possible exception is the individual that is totally uninsurable, but that in and of itself is a mistake, because at some point in most everyone's life they are insurable. Some just miss the boat because they didn't understand the immense leverage power of life insurance.

As stated previously, Term Life insurance is a vital strategic tool that should be in all estates with young children, to cover debt, replace income and protect other temporary needs. But when the need for coverage ends, so should the policy. In other words, the Term Life policy should end when your last child graduates from college.

Until 2013, estate planners exclusively used low cost Guaranteed Lifetime Permanent Insurance, (Permanent Term), with <u>minimum</u> premium and <u>maximum</u> coverage to create the instant tax-free liquidity needed to pay estate settlement costs. We refer to this type of limited cash value policy as the Wealth Creation Strategy, and for decades it was considered by many to be the most cost efficient form of permanent protection. That was the case until January 1, 2013, when the insurance commissioners of America, implemented Regulation AG-38 that required carriers to keep more premium in reserves. The net effect of this law was a 25% to 40% increase in premium for new policies. Because of that increase, even though the net after tax Internal Rate of Return (IRR) for the Wealth Creation Strategy is never lower than 8%, it only provides one financial dimension, the guaranteed death benefit, and therefore has lost some of its popularity.

I have always espoused the benefits of permanent insurance. But lately because of the closing of other available income tax loopholes, permanent life insurance with its unique Tax-Free qualities has moved to the top of the leader board.

I consider it as a multi-dimensional "safe money" investment that should be inside every estate plan.

The Family Bank Strategy

A few months ago, Don a 72-year-old patriarch of a family asked me to analyze his estate. His wife Janet was 67; both were in relatively good health. After everything was tabulated, it was determined that based on current values, their total estate was valued at a little over $3 million. Not a gigantic estate, but still in the top 1% of all Americans. I pointed out that if they didn't spend their $800,000 IRA first, there could be an income tax levied on their three children of approximately $300,000, and that based on current trends, there most likely wouldn't be a federal estate tax.

I then proceeded to introduce to them the multi-dimensional ***Family Bank Strategy*** that they immediately implemented. At 72, his $800,000 IRA required

minimum distribution will be $31,250 this year. He wasn't using his RMD to live on, so he decided to leverage this money to fund ***The Family Bank Strategy*** over 10 years. The results were amazing:

- An **immediate** Supercharged Joint and Survivor life insurance benefit of $1,000,000. The $1,000,000 will pass to their children and grandchildren income and estate tax free through a special Family Dynasty Trust (IDT) that we arranged for them. Note: The FDT is optional as the life insurance benefit could go directly to the children, Tax-Free.

- A **future** Supercharged Joint and Survivor life insurance benefit of $1,000,000 that will be **paid up** in 10 years. That $1,000,000 will pass to their family income and estate tax free through their IDT. No matter what happens to their investments, interest rates or to the real estate market, no matter how much of their estate they spend, The Family Bank Strategy will provide the cash their family can use to pay future taxes or simply guarantee an inheritance.

- A **tax-free cash accumulation** account that will become their personal ***Family Bank***. In the future, should they need or want to access funds to supplement their retirement, they would be able to do so INCOME TAX-FREE. Furthermore, should family members need funds for emergencies education or opportunities, etc., the cash withdrawals will be available, via their trustee's authorization, totally INCOME TAX-FREE.

  Since the money to fund their Family Bank was coming from Don's RMD, it was as if he was converting the RMD to a Roth, but a Roth on Steroids. Let me explain: Had he taken the $31,250 RMD and simply invested it, all he would have to show for it would be the value of the investment account. By establishing the Family Bank Strategy, he created an instant and perpetual $1,000,000 life insurance benefit and a viable "safe money" investment.

Don and Janet's Family Bank Strategy Tax-Free Cash Account:

10 years	$368,304*
15 years	$499,869*
20 years	$642,716*

*Assuming an indexed return of 7%

Let's fast forward 10 years. Don and Janet's granddaughter Abby, who is now 11, celebrates her 21st birthday by announcing to the family that she has been accepted to medical school. After the congratulatory celebration she asks the big question, "How am I going to pay my tuition?" Don answers with assurance, "Let's take your annual tuition from our Family Bank, that's why we created it." By virtue of the policy loan provision, they borrow the tuition from the insurance company each year, using the Family Bank's life insurance policy cash value as collateral, and receiving the funds **income tax-free** and **cost free**. You read it right… income tax-free and cost free!

Don then tells Abby, "When you graduate and begin to make a decent living you can pay the money back into the Family Bank if you want." In reality if she doesn't pay the loan back, it would eventually be subtracted from the gross life insurance benefit, which would have been part of Abby's inheritance someday in the future.

The Family Bank Strategy can provide cash for schooling, a new business, a real estate opportunity, a down payment on a home, a quick start in life, etc. By using the unique provisions, a properly designed permanent life insurance can afford, even your retirement income can be TAX-FREE. A true **Family Bank!**

How does the Family Bank Strategy compare with other financial vehicles? The best way to vet any financial instrument is to find out what the projected Internal Rate of Return (IRR) is through the years and compare it to other investments. Because the Family Bank Strategy is multi-dimensional it has two IRR calculations, the guaranteed life insurance benefit and the Tax-Free cash accumulation. Each case is different, but with Don and Janet, their after taxed IRRs are:

After Tax Internal Rate of Return The Family Bank Strategy	
Life Insurance Benefit	Cash Value Benefit
10 years = 20.47%	10 years = 3.02%
20 years = 7.64%	20 years = 4.7%

No other financial instrument compares with the IRR of The Family Bank Strategy

What this means is that you would have to earn a gross 10.18% before tax, year after year in another investment to match the 20 year IRR of 7.64% that is realized in The Family Bank Strategy, an unlikely scenario. In fact, to my knowledge there isn't a comparable guaranteed investment anywhere on the planet that can compare to the IRR of The Family Bank Strategy.

Another client, Carl, recently asked that I set up the Family Bank Strategy for them. To their disappointment it was determined that neither spouse was insurable. Their children were well off so it was decided that we would create a guaranteed inheritance and Family Bank Strategy for their grandchildren. We insured the two healthiest children for over $1,000,000 each by transferring Carl's RMD and creating a tax-free Family Bank that can be used in the future for family emergencies or opportunities.

Should either child pass away, the grandchildren's Family Dynasty Trust would receive a cash infusion of $1,000,000, income tax and estate tax free. But that wasn't why Carl transferred his RMD into The Family Bank Strategy. Carl wanted to create a tax-free bank for him and his family, so that tax-free cash would be available in the future.

Important Notice: There can actually be a **fourth dimension** to The Family Bank Strategy. You can add a Long Term Medical Benefit rider that will generate a tax-free long term care benefit up to $11,000 per month that is derived from the life insurance benefit. This is referred to as the Life Legacy/LTC Plan in Mistake 6.

Should you ever be in a position where you cannot perform 2 of the 6 Activities of Daily Living or you become cognitively impaired you can access the life insurance benefit for a period of 50 months, tax-free. Should you dodge the LTC bullet throughout your life, which is everyone's goal, your beneficiaries would eventually receive the life insurance proceeds, creating a win – win opportunity for you and your family.

Neither The Family Bank Strategy nor The Wealth Creation Strategy should be looked at as an expense. Both strategies should be viewed as simply the transferring of a portion of your assets into a different investment. This leveraged investment will produce a return that pales any other "safe money" investment.

Call to action: To understand The Family Bank Strategy or Wealth Creation Strategy more fully, call *Estate Planning Specialists* toll-free at 1-888-892-1102 and request my best-selling book, *The Family Bank Strategy,* view my YouTube MoneyShow workshop, (CLICK HERE), and order a complimentary personalized example.

The Family Bank Strategy

Joint & Survivor Version

Insured's Age - Health	**$1,000,000 Tax-Free Life Insurance Benefit**			
	Continuous Deposits			
Male Age 55 – Female Age 55 Preferred N/T	Survivorship Life Benefit Male - Female			
	$6,523			
	10th Yr. CV	DB IRR	20th Yr. CV	DB IRR
	$56,554	48.11%	$194,762	17.06%
Male Age 65 – Female Age 65 Preferred N/T	$11,867			
	10th Yr. CV	DB IRR	20th Yr. CV	DB IRR
	$112,470	37.37%	$350,471	12.35%
Male Age 75 – Female Age 75 Preferred N/T	$23,989			
	10th Yr. CV	DB IRR	20th Yr. CV	DB IRR
	$231,442	25.05%	$530,394	6.57%

Insured's Age - Health	**$1,000,000 Tax-Free Life Insurance Benefit**			
	10 Deposits			
Male Age 55 – Female Age 55 Preferred N/T	Survivorship Life Benefit Male - Female			
	$12,370			
	10th Yr. CV	DB IRR	20th Yr. CV	DB IRR
	$137,816	36.63%	$264,330	13.93%
Male Age 65 – Female Age 65 Preferred N/T	$21,200			
	10th Yr. CV	DB IRR	20th Yr. CV	DB IRR

	$242,235	27.20%	$445,419	10.25%
Male Age 75 – Female Age 75 Preferred N/T	$38,525			
	10th Yr. CV	DB IRR	20th Yr. CV	DB IRR
	$435,864	16.84%	$661,455	6.24%

(CV – Cash Value DB – Death Benefit IRR – Internal Rate of Return NT – Non-Tobacco)

The Family Bank Strategy

Individual Life Version

Insured's Age-Health	$1,000,000 Tax-Free Life Insurance Benefit					
	Continuous Deposit					
Age 55 – Preferred N/T	Male			Female		
	$11,018			$9,285		
	10th Yr. CV	DB IRR	20th Yr. CV	10th Yr. CV	DB IRR	20th Yr. Cv
	$94,276	38.68%	$230,079	$81,442	41.73%	$203,834
Age 65 – Preferred N/T	Male			Female		
	$20,119			$16,751		
	10th Yr. CV	DB IRR	20th Yr. CV	10th Yr. CV	DB IRR	20th Yr. Cv
	$154,851	28.11%	$342,639	$142,313	31.30%	$325,990
Age 75 – Preferred N/T	Male			Female		
	$41,592 - Protective			$35,915 - Protective		
	10th Yr. CV	DB IRR	20th Yr. CV	10th Yr. CV	DB IRR	20th Yr. Cv
	$238,912	15.51%	$597,305	$231,794	18.06%	$567,210

Insured's Age-Health	$1,000,000 Tax-Free Life Insurance Benefit	
	10 Deposit	
Age 55 – Preferred N/T	Male	Female
	$22,328	$19,274

	10th Yr. CV	DB IRR	20th Yr. CV	10th Yr. CV	DB IRR	20th Yr. Cv
	$94,276	26.30%	$373,444	$72,996	28.85%	$183,834
Age 65 – Preferred N/T	Male			Female		
	$35,105 - AIG			$29,984 - AIG		
	10th Yr. CV	DB IRR	20th Yr. CV	10th Yr. CV	DB IRR	20th Yr. CV
	$320,646	18.45%	$506,006	$290,093	21.18%	$463,644
Age 75 – Preferred N/T	Male			Female		
	$62,036 - Principal			$54,924 - Principal		
	10th Yr. CV	DB IRR	20th Yr. CV	10th Yr. CV	DB IRR	20th Yr. CV
	$550,885	8.53%	$760,126	$530,357	10.66%	$716,893

Mistake 9:

Estate Shrinkage due to investments losses.

If one of your goals is to actually leave your heirs an inheritance, you should consider the overall safety of your investment portfolio. Too often we see sizeable estates reduced to ashes overnight because of risky investments.

Back on March 10, 2000 the NASDAQ composite reached its all-time high of **5,132**. By October 10, 2002 it had fallen to just **1,108**. A hypothetical **$100,000** invested during its high and held to its low, would have fallen to a dismal **$21,590**. That's a loss of more than **78%**! To make matters worse, it would require a return of **463%** growth just to break even. Assuming 8% return, it would take nearly **20 years** to recoup the loss.

It has been a full ten years since the 2008 market crash, which wiped out $2 trillion, or 20% of American's retirement savings. Since then, the market has returned to historic highs. And now, with the election of President Trump, there is a sense of euphoria, mingled with an enormous amount of fear.

The truth is that Americans have lost 49% of the value of their stock portfolios, TWICE since 2000. Knowing that and seeing where the market is today, it is only a matter of time before a major correction happens.

Financial advisors generally recommend that the older we are the more we should have in safe investments. For every year of age an equal corresponding

percentage should be in non-risk investments. For example, a 70-year old's investment mix should be 70% in safe guaranteed investments and 30% at risk.

Today, that 70% "safe money" investment is becoming harder and harder to find. With bond rates near all-time lows, is it really considered "safe" to take the traditional route and invest in bonds? Remember the value of your bonds decrease as interest rates rise. With the 10-Year Treasury Note hovering around 3%, there is only one direction rates can go…up. Conversely, only one direction for your bonds.

So where can you invest today that provides true safety on the downside, should we experience severe market corrections, yet offers enough upside growth potential to combat the eroding purchasing power caused from inflation? I'll give you a hint: You won't find it at your local bank. CDs paying 1% and money markets paying 0.05% aren't going to help.

Solution

Fortunately, today the financial industry has created new investment opportunities installed with safety guardrails that allow you to participate in market linked returns without the risk of plummeting into peril.

These "safe money" vehicles are Indexed Annuity and Indexed Universal Life. With both products you'll earn income tax-deferred stock market-linked interest returns if the market goes up. But if the market goes down, you are guaranteed to never lose a dime. This guarantee is made possible because of four specific guardrail features:

- First, your principal is backed by the assets of the insurance company issuing your Indexed Annuity or Indexed Universal Life.
- Second, you are contractually guaranteed to never participate in any downturn of the market. Some plans provide a minimum interest of 2%. While most guarantee that your earning for the year will never be below zero in a negative market.
- Third, all upside growth is locked in periodically (you select the time frame, usually on an annual basis) with no possibility of ever losing any gains you previously earned.

- Fourth, recent improvements have been made to both strategies, offering the option to generate a lifetime income stream for both you and your spouse. These new provisions can be set to guarantee a growth rate as high as 7% on the balance that determines your future income payments. Even if you live to the age of Methuselah, your pension like guaranteed income will continue to pay, month after month as long as you live!

Indexed Annuities and Indexed Universal Life are the only products that provide both a guarantee to never lose on the downside, with the ability to participate in the upside. It is for this reason Mark Skousen, editor of *Forecast and Strategies* recently stated, "In my opinion, now would be a great time to take some of your chips off the table and lock-in your gains with an Indexed Annuity or Indexed Universal Life."

Call 1-888-892-1102 and ask the President of our firm, Todd Phillips for a copy of his book: ***The Future of Retirement Savings*** and to receive information on his recommended "Annuity of the Month."

Mistake 10:

The improper use of jointly held property.

For some reason, many feel that if they transfer ownership of their holdings to a close relative, the transaction will side step probate. Perhaps they saw this strategy on some movie or heard about it on a talk show. Don't be tempted! If your joint tenant or co-owner is sued or files bankruptcy, creditors will attack your valued asset and you will lose it, even if it is your home. Furthermore, a spouse from a second marriage could totally disinherit children from a previous marriage. Again, proper prior planning avoids these mishaps, but it does require thought and action.

Solution

A professionally drafted Revocable Living Trust (estates under $500,000) and a Revocable Family Dynasty Trust (estates in excess of $500,000) will not only avoid probate, they will give you control of the asset distribution after you depart this world. Of course you have to transfer your assets into your trust, but if it is properly crafted it will not be contested, and that makes for a clean, effective estate plan.

A will, no matter how intricately designed, is always subject to probate and the associated costs. In addition, a will can be contested and becomes public knowledge. Drafted correctly, a RLT and a RFDT can be totally insulated.

The Durfee Law Group, a national estate planning law firm has designed an extremely economical, easy-to-implement system that provides the basic tools virtually every estate should have in place. Tools such as a Revocable Family Dynasty Trust, Credit Shelter Trust, QTIP Trust, Pour-Over Will, Medical Power of Attorney, Durable Power of Attorney, IRA Dynasty Trust, Irrevocable Life Insurance Trust, Spousal Support Irrevocable Trust, Multi-Generational Trust, Integrated Dynasty Trust etc. To receive further information and/or to receive their Client Profile Form, simply contact them at 1-480-324-8000 or by email to rick@durfeelawgroup.com. Mention this book to receive the Estate Planning Specialist Discount. Estate planning really can be that easy.

Conclusion:

Procrastination will be dangerous to your wealth!

Why is it that the vast majority of America's affluent fail to successfully distribute their assets to the next generation? Why haven't you properly planned your estate?

There isn't just one answer. Fear, lack of education, cost, denial, etc., all contribute to one human trait – **procrastination**.

Webster defines **procrastination** as: "postponing or deferring taking action." I must admit I have fallen victim to procrastination just like any other human being. I even have daily, weekly, monthly and annual checklists and so often the item in question has been on my list for ages. It happens to all of us. *But when you procrastinate your estate planning… eventually there isn't a tomorrow to turn to.*

Estate Planning Specialist, LLC was established in 1988 to make **ESTATE PLANNING EASY!** Visit our website: www.epmez.com to review comments from experts and a few of our clients. They, along with thousands of other clients, all started their estate plan at the beginning by sending in our *easy-to-complete* one-page **Estate Analysis Profile** which provides us the information necessary to produce your professional, personalized **Estate Analysis.**

To get started and obtain your Estate Analysis Profile form, simply log on to www.epmez.com, or call our toll-free number **1-888-892-1102.**

It's that easy!

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Biography

Bob Carlson is editor of the monthly newsletter and website, *Retirement Watch.* He has served on the Board of Trustees of the Fairfax County Employees' Retirement System since 1992 and been chairman since 1995. The system has more than $4 billion in assets. Carlson was a member of the Board of Trustees of the Virginia Retirement System, which oversaw $42 billion in assets, from 2001-2005. He was appointed to the Virginia Retirement System Deferred Compensation Plans Advisory Committee in 2011.

His latest book is the revised edition of "The New Rules of Retirement" (Wiley, 2016; first edition 2004). He also co-authored "Personal Finance after 50 for Dummies" (with Eric Tyson; Wiley, 2015) and wrote "Invest Like a Fox…Not Like a Hedgehog" (Wiley, 2007).

He has written numerous other books and reports, including "The New Rules of Estate Planning," "Securing Your Lifetime Stream of Income," "Tax Wise Money Strategies, Retirement Tax Guide," "How to Slash Your Mutual Fund Taxes," "Bob Carlson's Estate Planning Files" and "199 Loopholes That Survived Tax Reform." He also has been interviewed by or quoted in numerous publications, including *The Wall Street Journal*, *Reader's Digest*, *Barron's*, *AARP Bulletin*, *Money*, *Worth*, *Kiplinger's Personal Finance*, the *Washington Post* and many others. He has appeared on national television and on a number of radio programs. He is past editor of *Tax Wise Money*.

Carlson also was a Commissioner on the Fairfax County Redevelopment and Housing Authority. Carlson is an attorney and passed the CPA Exam. He received his J.D. and an M.S. (Accounting) from the University of Virginia and received his B.S. (Financial Management) from Clemson University. He also is an instrument rated private pilot. He is listed in many editions of *Who's Who in America* and *Who's Who in the World*.

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