

CREATIVE

Wealth Maximization Strategies



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"Nothing will ever be attempted if all possible objections must first be overcome."

-- Samuel Johnson

What if...?

Pssst. If the beginning of this article seems too bland, too "normal," you know there's a twist coming, right? But where?...

All empirical evidence indicates most of us will encounter many common financial experiences; we will likely receive earnings, pay taxes, buy automobiles and homes, perhaps pay for our children's education, and maybe retire. While the personal details may in small ways vary, these financial events are quite likely to occur, and relatively similar to all of us.

We also know, either from personal experience or from those who have gone before us, that a measure of planning can make these financial encounters turn out better, and in some cases, be the key to making them possible. Given the inevitability of the future, financial planning is a logical response to the daily financial challenges of life. Theoretically, the better the financial planning, the better the financial outcomes.

But the intriguing irony of planning your financial future is that the future cannot be entirely planned for. In spite of sophisticated calculating devices, complex economic models, and volumes of statistical data, financial planning is not a scientific endeavor.

Scientific facts are observable and repeatable. In mathematics, $2 + 2 = 4$. In chemistry, water changes from liquid to a gas at 212° F. Always. In financial planning, events may be observable (i.e. the market is up, profits generate taxes) but not necessarily repeatable. Just because the market went up yesterday – and even if someone knows why it went up – does not mean the stock market will do the same thing tomorrow. Financial events are impacted by too many variables for any plan to accurately calculate, and no plan can guarantee repeatable results. Financial planning, no matter how sophisticated or elaborate, is essentially a projection of possible outcomes.

(Okay, okay, ho hum. It's generic, almost boring. Where's the hook?)

Even acknowledging the unscientific character of financial planning, it is still true that good planning can make a difference, because a good financial plan takes into account not only the most likely scenarios, but also leaves room for the unlikely or unexpected.

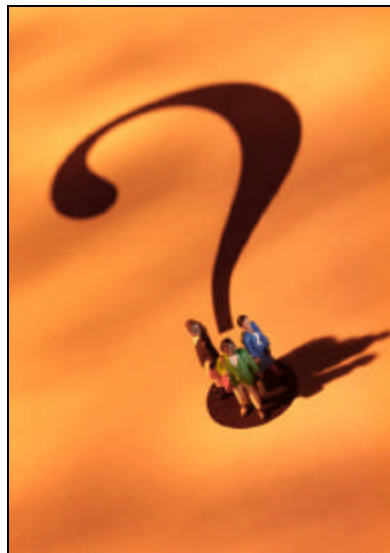
Over time, the similarities in "good" financial plans have become "standards" that comprise generic financial planning. These standards aren't truly scientific, but they often serve as de facto rules for financial planning because of their application to a majority of the population. Things like contributing the maximum to a qualified plan, or determining the amount of life insurance based on a multiple of one's annual income are standards. They are statements that have wide acceptance with both the experts and the public, and provide a foundation for working out the details.

This standardization in financial planning has definite practical advantages. In general, standardization lowers the cost of acquiring or using financial products and services. Can you imagine how difficult it would be to individually negotiate every automobile insurance policy, or establish a separate purchase procedure for each company's stock?

Standardization is also psychologically beneficial. Doing what others have done is often reassuring to those who are doing it for the first time. Even if it's not the first time (to invest, to take on a mortgage, etc.), there's comfort for many of us in knowing that our approach is considered conventional, and has the support of the majority. Following the standardized approach can be especially comforting from a psychological perspective when things go wrong, because while the material circumstances may be tough, there's no reason to doubt your decision-making. It's "just the way it goes" sometimes. The market goes down, mortgage rates go up, and your suffering is the same as everyone else who followed the standardized plan.

However...(ooh. Do you feel a turn coming?)

Since the standardized plans aren't 100-percent perfect, and since your financial situation might not perfectly fit the standardized model, it would seem normal, logical, even practical, to occasionally ponder financial approaches that at



least initially don't fit the standardized format. Simply put, you might want to look at the standardized program and say:

"Yeah, but what if ...?"

What if I pursued a different strategy? What if I wanted more (or less)? What if I did things differently?

Since financial planning is more of an art than a science, asking "what if?" on a regular basis can be a healthy and productive exercise. Not every idea is going to be a winner (*For example... What if you diverted all your retirement savings into lottery tickets?*), but new ideas and different approaches are often the seeds of new and different types of prosperity. And as much as you may feel your plan has a response for all situations, both likely and unexpected, a "what if" tweak could make everything a little better.

While you are free to ponder these financial "what ifs" at any time, doing so with other like-minded individuals can be even more rewarding. (The self-help gurus might call this "brain-storming.") A good place to drop a few "what ifs" might be the next time you meet with your financial professionals. Just in case your life gets too busy, we've provided a few "what ifs" to help you start the conversation. For example,

What if...

You focused on becoming wealthy instead of just saving for retirement? A lot of financial planning today assumes that the ultimate goal is to accumulate enough money to be able to retire at age 55, 60, or whenever. But what if you want to do more than work until you have enough money not to work? What if you wanted to own a business, develop real estate, or unveil a software program that makes Microsoft obsolete? How effective is it to just save for retirement if you have other aspirations?

Think these are far-fetched "what ifs"? Kelly Greene, in a March 18, 2004 *Wall Street Journal* article, writes:

In a sign of what retirement in the U.S. might look like in the coming decades, a new study shows that a growing share of older workers are starting their own businesses. The research, released today, was conducted for AARP, a Washington membership group for people age 50 and older, by Rand Corp., a think tank in Santa Monica, Calif.

About 16% of U.S. workers who are at least 50 years old, or 5.6 million people, were self-employed as of 2002, the study said. While the percentage is off slightly from 1998, it is still considerably higher than the 10% self-employment level of the overall work force, which counts 13.8 million (people) in business for themselves. Consequently, 50-plus workers accounted for 40% of all people in business for themselves.

Based on this information, at least one of every six workers might want to make financial plans for something other than retirement.

What if...

You put all your eggs in one basket – and watched the basket? Words like diversification and portfolio balance are part of the standard vernacular for investing. And when it comes to most equity products offered by financial institutions (i.e., stocks, bonds, mutual funds and the like), the advice to spread

things around makes perfect sense. Since you aren't a hands-on investor, you don't exercise daily control over business decisions. Your protection in this limited-control scenario is to spread your risk among several entities.

But what if you have a profitable financial investment that involves something over which you have significant control and great first-hand knowledge? Is it wise to diversify then? Should Bill Gates try manufacturing automobiles just to "diversify?" Should Tiger Woods play football? No. For business owners and people with special assets or skills, any diversification should be closely related to their core competencies.

Likewise, if you find something that's profitable – and something you can control – diversification might be the last thing to consider. At least until you retire.

What if...

You bought permanent life insurance instead of term?

You see it in newspapers, on television, and inserts in your mail box: Term life insurance is simple, cheap, and easy to apply for – and no salesman will call. It's the do-it-yourself solution to addressing a critical financial need, and when you don't need it anymore, you can get rid of it.

But what if there are other reasons for buying life insurance besides insuring a current need? Permanent (or cash value) life insurance policies will almost certainly entail higher premiums, but offer features beyond a death benefit. Cash values may have favorable tax status compared to other liquid assets, which some individuals have used for other investment opportunities. Further, many permanent policies are designed to be kept until the death of the insured, creating a "final transaction" that benefits the estate or makes the spending of other assets feasible as well. If your plan decides that keeping a life insurance benefit in force until death is desirable, term will most likely not be the answer – unless you die young.

What if...

You took a 30-year mortgage at the lowest possible interest rate and stopped making extra principal payments on your mortgage?

In the standardized plans, owning one's residence free and clear is usually held up as a desirable pre-retirement objective. Not having a mortgage payment is certainly a financial and psychological relief. And the home's equity can be a storehouse of ready cash for emergencies and opportunities. Further, paying the home off early, whether through a 15-year mortgage or additional principal payments, greatly reduces the interest paid.

But what if you decided to accomplish the same objective (paying off the mortgage) by establishing a separate savings or investment account, then using the accumulation to make a lump-sum payment in full at a later date? This option gives you greater control over the money, and decreases the monthly mortgage obligation (which could be a life-saver if someone is down-sized or takes a cut in pay).

What if...

You raised the deductibles on your homeowners and automobile insurance to \$1,000 (or higher)? Auto and homeowner's insurance programs are lesser-of-two-evils situations. On one hand, no one wants an accident, and if every-

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News Digest

(Snippets from stuff we've read, including differing points of view, not all of which we agree with. Want to know more? Give us a call and we can provide you with the complete article.)

MEDICARE GOING BROKE FASTER?

Medicare will run out of money seven years earlier than experts had thought, becoming a headache for Americans long before Social Security does, according to an annual government report released Tuesday.



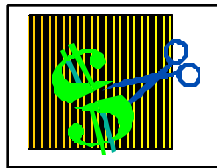
The health insurance program for the elderly will go broke by 2019, said trustees who monitor its financial health. It marked the second year in a row the trustees moved up the insolvency date, which was projected as 2026 last year and 2030 the year before that.

By contrast, Social Security is expected to remain solvent until 2042, which was the same year projected last year, the government trustees, said.

Francis X. Donnelly and Michael H. Hodges, *The Detroit News*, March 24, 2004.

SOCIAL SECURITY WILL HAVE TO BE CUT AS WELL

Federal Reserve Chairman Alan Greenspan on Wednesday said Congress should weigh trimming future Social Security benefits by raising the retirement age and offering less generous adjustments to future payments. The influential Fed chief's comments stirred political ripples, with Democratic presidential front-runner John Kerry saying he would never curtail benefits and Capitol Hill Democrats saying Bush Administration tax cuts were to blame. President Bush said he would safeguard those at or near retirement – something Greenspan suggested as well – but did not rule out reduced outlays in the future.



Greenspan warned a major budget crunch looms as early as 2008 as tens of millions of Baby Boomers, born after World War II, begin to qualify for early retirement benefits. "This dramatic demographic change is certain to place enormous demands on our nation's resources – demands we almost surely will be unable to meet unless action is taken," he said. "For a variety of reasons, that action is better taken as soon as possible."

Greenspan said if Congress were to opt to reduce social security benefits, it would be better to do so quickly to minimize the pain on Americans near retirement, and so others would have time to prepare for a smaller piece of the retirement pie. "If changes need to be made, they should be made soon enough so that future retirees have time to adjust their plans for retirement spending and to make sure their personal resources, along with what they expect from the government, will be sufficient to meet their retirement needs," he said.

Glenn Somerville, *Reuters*, February 26, 2004.

YOUNG AMERICANS AREN'T SAVING FOR RETIREMENT

Millions of young Americans aren't putting away any money for retirement, according to a new study released days after the top U.S. central banker warned federal retirement benefits may soon need to be cut. According to a study conducted by CIGNA Retirement & Investment Services, one third of all U.S. workers under the age of 25 are not participating in company retirement plans. Instead, they are spending their salaries on everyday expenses and saving a little for big-ticket items like new cars or houses, the study found.



For U.S. workers who aren't saving for the future now and face the prospect of receiving fewer benefits later, retirement may prove to be far less glamorous than many people had hoped. "We are definitely on a road to disaster here," said Rick Meigs, president of www.401helpcenter.com.

Svea Herbst-Bayless, *Reuters*, March 3, 2004.

YOUNG AMERICANS CAN'T SAVE BECAUSE THEY'RE PAYING FOR COLLEGE

This year, thousands of students will graduate and get that expensive piece of paper that says they survived college. And of those students, close to 85% will have a common fear: paying back all those student loans. The average graduate will be looking at a bill of \$18,900, according to a recent study by Nellie Mae. Graduate degree students, hold on to your hats: those extra few years in school cost an average of \$45,900.

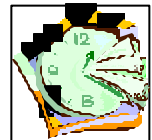


A student loan repayment bill can be as shocking as getting a fork stuck in a light socket, and often last longer. On top of that, student loans are harder to run away from than the FBI. School loans are almost immune to bankruptcy, and students that don't pay their bills face stiff penalties, such as poor credit ratings, IRS penalties, and garnishment of wages – not ways to begin life after college.

Jose Vasquez, *Young Money*, October/November 2003.

LIFE INSURANCE CAN BE 'FINANCIAL WINDFALL' FOR SENIORS

Life settlements have emerged as an important financial planning tool that many individuals use as their personal finance needs change throughout the year. Whether you've made a life settlement this year or are looking for a solution to an existing non-performing life insurance policy, it's important to understand the state planning and tax benefits of the transaction.



A life settlement refers to the sale of an existing life insurance policy insuring a person over age sixty-five (65) to a third party funding group for a lump sum of cash. This represents the true market value and is always more than the policy's surrender cash value.

"An unwanted life insurance policy has proved to be a financial windfall for many seniors," said Jolene Fullerton, general counsel for Life Asset Group, one of the industry's leading life settlement brokers. "With the exponential year-to-year growth of this industry, more and more seniors will be able to turn their unwanted life insurance policies into cash."

Business Wire, December 4, 2003.

Things That Make You Go “Hmmm...”

On one hand, a March 11, 2004 *Wall Street Journal* article notes that audits of wealthy taxpayers rose “significantly” in 2003, which comes as “no surprise since the Bush administration wants another \$393 million in the IRS budget for audits of the wealthier, as well as small and midsize companies.”



On the other hand, sometimes the IRS can't get past its own bureaucracy when it comes to collecting additional revenue from these “wealthy taxpayers.”

Susan Ager, a columnist for the *Detroit Free Press* relates this personal story involving “a former CEO of one of Michigan’s biggest corporations.” In June 2003, this former executive (who wished to remain anonymous) received correspondence from the IRS, which told him he had made a mistake on his 2002 return, a rather large mistake. According to the IRS, he had overpaid his taxes. Enclosed was a check for \$925.99, which included 51 cents of interest.

Puzzled, the man called his accountant at Deloitte & Touche, a CPA who had prepared the executive’s tax returns for a decade. The IRS correspondence said the return had improperly calculated the capital gains that had resulted from several stock transactions. Recent changes in tax law have made the calculation of capital gains more complex, but after further review, the accountant insisted, “We’re right. They’re wrong.”

The ex-CEO did not cash the check. “The money wasn’t supposed to be mine,” he said. Instead, he composed a letter to the IRS, explaining his calculations and his belief that the IRS was mistaken in sending him a refund. He promised not to cash the check until he heard back.

Three months later, on September 9, he received a very brief response from the IRS: “Our records show that the refund we sent you was correct.”

Somewhat annoyed (and curious), he tried calling the 800 number listed on the correspondence. A recording told him the number had changed. When he tried the new number provided on the first recording, another recording told him his call could not be completed as dialed. Diligently, he found a general IRS listing in his local phone book. This call put him in “one of those endless menus with no option to talk to an actual human being.” Exasperated, he gave up his crusade.

Instead, a local charity received the check, along with a word of explanation. Some excerpts:

“In current economic conditions, the government obviously can’t afford to throw money away like this... Some poor citizen, probably much less comfortable than me, is trying to get a similar error of similar magnitude – but in the IRS’s favor – corrected with about the same level of success. While working to return the money, I get to listen nearly every day to politicians demonize those of us in the infamous ‘wealthiest 1 percent’ for allegedly trying to live a life of luxury on the backs of the poor and working classes.”

My wife and tax guy tell me I should lighten up and try to see the humorous side of all this.”

Hmmm... it may be an isolated incident, but why would citizens want Congress to authorize more money for audits when the IRS can’t effectively receive money from *honest* taxpayers?

Details That Make A Difference In Life Insurance

Stephen Leimberg, a Villanova professor and prominent expert on estate planning, is the primary author of the entire five book *Tools and Techniques* series, textbook-style volumes that address the details of various financial planning areas.

Among his catchy titles:

?? *The Tools and Techniques of Employee Benefits and Retirement Planning*

?? *The Tools and Techniques of Estate Planning*

?? *The Tools and Techniques of Risk Management and Life Insurance*

?? *The New Book of Trusts*

?? *How to Settle an Estate*



While none of these books is likely to make Oprah’s best-seller list, Leimberg’s textbooks are exactly the type of books that financial professionals use as a reference. In his *Risk Management and Life Insurance* volume, Leimberg mentions several frequent and potentially costly mistakes individuals make in structuring their life insurance policy. By no means exhaustive, the following summarization of some of Leimberg’s points of emphasis makes a good checklist for policyholders to review with their insurance agent or financial professional.

Beneficiary designations

Problem No. 1: Naming your estate as beneficiary

If you name your estate as beneficiary of your life insurance policy, you are likely to create a three-for-one problem. First and second, naming the estate as beneficiary means the proceeds may be subject to federal estate taxes and state inheritance taxes. In addition, naming your estate will give your creditors needless access to your family’s money.

The solution: Clearly define the people and organizations you really want to receive the money, and name these individuals or entities as beneficiaries.

Problem No. 2: Failing to name at least two “backup” beneficiaries

Since life insurance is often something that is kept in-force for a long time, it is possible that some named beneficiaries may no longer be alive (or be desirable choices) to receive proceeds. Many policyholders neglect to name contingent beneficiaries, and don’t name backups to their primary and contingent beneficiaries. This leaves open the possibility of some significant problems.

If you and your spouse, assuming your spouse is the primary beneficiary, should die simultaneously, and the contingent beneficiary is no longer alive, proceeds from the life insurance would most likely be distributed to the deceased’s estate – which is Problem No. 1, the estate as beneficiary. Leimberg suggests using what he calls the “Rule of Two” to make sure every policy has a named beneficiary. With the rule of two, you name at least two backups for every person named in your life insurance policy as a beneficiary. That way, there will almost certainly be another primary beneficiary should the first or second one die.

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What If...?

(Continued from page 2)



thing goes right, no insurance will be needed. In hindsight, this means the premiums were “unnecessary.” On the other hand, the financial costs of an auto accident or home catastrophe could be substantial. In those circumstances, the only thing worse than no insurance is insurance that doesn’t cover the incident.

The deductible represents the portion of financial liability you are willing to bear. The lower the deductible, the higher the premium, since the insurance company is bearing more of the risk.

What if you have accumulated a sizable emergency fund? Couldn’t some of those funds be earmarked for paying deductibles, if there is a claim? Raising the deductible means lowering the premium, which means additional dollars can be saved instead of spent on insurance, especially the insurance you hope you never use.

What if...

You used something other than (or in addition to) a 401(k) or IRA as a retirement vehicle? Qualified government retirement plans may get most of the attention in the financial press, but that doesn’t mean they are the only methods of accumulating assets for retirement. For various reasons, individuals may find it desirable to develop alternative sources of retirement income.

These alternatives could be things like non-qualified annuities, life insurance cash values, rental income, and any number of other creative possibilities. Depending on your situation, each could have desirable features not found in qualified plans, often because the alternatives offer comparatively greater flexibility.

Some final thoughts: As was mentioned earlier, not every “what if” is a good one. Even the good ideas might not match your current circumstances. And running your “what ifs” past your financial professionals not only helps protect you from pursuing foolish ones, but also may provide the expertise you need to implement the good “what ifs” effectively.

What if... You don’t like the “what ifs” on this list, or have some other ideas of your own? The next time you meet with your financial advisers and professionals, ask them for their “what ifs”. Remember, good financial planning isn’t completely scientific. Good plans have the element of creativity in them, and one of the launching points for creative thinking is asking “what if?”



Details That Make A Difference

(Continued from page 4)

Beneficiary designations



Problem No. 3: Making policies payable outright to minor children or grandchildren

In many cases, state laws will prevent the proceeds of a life insurance policy from being distributed to a minor designated as beneficiary. Instead, the state will name a custodian or guardian and authorize fees to be paid for their services. The children or grandchildren will eventually receive the proceeds, but at the discretion of the custodian, which may or may not be in accordance with your wishes.

If the owner of the policy is intent on making the proceeds payable to a minor, Leimberg proposes two possible solutions: One option is to establish a trust for the spouse and children, naming the trust as the recipient of the proceeds. Another option is to instruct the insurer to pay the insurance benefit as a “settlement option,” in which the proceeds are doled out to beneficiaries over a long period of time according to a pre-arranged schedule.

Ownership issues

Problem No. 1: Owning all the insurance

If a person’s estate is large enough to be exposed to federal estate taxes, Leimberg says owning life insurance in their name could add to the tax burden, even though someone other than the estate is named as beneficiary. Some policyholders may not consider the additional estate tax cost a problem – since the insurance claim is a cash payment, a portion of the insurance proceeds can simply be used to pay the additional taxes – and they may place a higher value on maintaining control over the policy.

But for those who want to maximize the financial benefits paid to heirs, and minimize estate tax costs, an alternative is to have a trust or an adult beneficiary purchase and own the life insurance policy, as well as be the recipient of the proceeds.

Problem No. 2: Failing to check if the business can buy insurance

Most people, especially those who are now in business for themselves, fail to realize that they can use business dollars rather than personal after-tax dollars to purchase life insurance. This can be a complex area of insurance planning, and Leimberg suggests that business owners consult with a competent professional so they can accurately evaluate the different types of policies available, including death-benefit only, group term carve-outs, and split dollar life. “There are all kinds of ways to shift the burden of premiums,” he adds. Different business insurance structures can substantially change the nature of both the premiums and the death proceeds, so thorough scrutiny of these plans is a must.

Administrative issues

Problem No. 1: Failing to check your policies at least every three years

Life insurance policies aren’t set-it-and-forget-it items. They need to be reviewed regularly because of the inevitable changes
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Details That Make A Difference

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in one's life. Yet many people may go years without checking or updating the names of their life insurance beneficiaries. And for seniors, this neglect can result in many problems, especially when the primary beneficiary is no longer alive or is an ex-spouse.

Review the beneficiaries with your insurance agent. Make appropriate updates, store the document in a place where it won't get lost in the shuffle. Resolve to check policies, if not yearly, at least every three years. You cannot afford to mishandle what could be, for you or your heirs, a significant financial transaction.

Problem No. 2: Buying life insurance as if it were a commodity

Notwithstanding all the "geckos" that sell life insurance, buying a policy is not the same as picking up groceries at the local supermarket, or grabbing a burger at the drive-thru window. You need a competent professional to help match your life insurance program to your situation. Concludes Leimberg: "You wouldn't go to a lawyer who didn't go to law school or a doctor who didn't go to medical school. The same is true with insurance. Use someone who has years of experience, rigorous training and professional credentials."

Giving As An Investment

Sure, we talk a lot about your money and how to save it, keep it, and grow it. But the value money holds is only revealed when it is used. The number on a balance sheet or account statement doesn't change anyone's life in a material way until the money



is spent, and converted to something of value.

One of the ways money can be converted to something of value is when it is used as a gift.

From a purely financial perspective, there can be practical reasons to giving. There are tax deductions for many types of giving. But just as one shouldn't participate in an investment solely for tax reasons, deciding to give shouldn't be considered as just a tax strategy.

The real reason to give is a sincere belief that sharing some of your good fortune makes a difference to the people and programs that you support. It can't be quantified mathematically, but if your gift helps bring about a better world – less poverty, more morality, better education, etc. Those changes not only pay dividends for those who receive the gifts, but they also come back to you. You and your family live in a safer, more secure environment. There are more productive people with whom you can transact business. Seeking to improve the general welfare of society improves your personal welfare.

In addition, giving individually to promote the general welfare means you can give specifically to the causes that mean the most to you. If you have a special interest in the cure of a specific disease, or the care of a specific group of people, your giving can reflect that.

This opportunity to give specifically should not be overlooked. When a society doesn't give sufficiently to promote and support the general welfare of the populace, government often steps in and taxes its citizens to provide the same support. Unfortunately, government-supervised assistance is usually accompanied politics, red tape, and mismanagement. In general, numerous studies support the claim that private non-profit organizations do a better job than governmental bodies in providing social assistance. In theory, an increased emphasis on personal giving would reduce personal taxes. Wouldn't that be a great return!

So along with your commitment to save on a regular basis, why not consider giving regularly as well?

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Wealth Maximization Strategies

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