

# CREATIVE Wealth Maximization Strategies



Alliance Financial Group  
14021 Metropolis Ave.  
Fort Myers, FL 33912  
Phone: (239) 561-2900  
www.johnbellino.com  
john@johnbellino.com

OCTOBER 2005

***“The man who thinks he can and the man who thinks he can’t are both right. Which one are you, son? Which one are you?”***

*- Coach Leroy Coleman, in the Nike commercial “Football Matters”*

## TO BECOME WEALTHY, YOU NEED A GOAL BIGGER THAN RETIREMENT

*As summer officially ends and fall begins, it’s time for another rant against the “conventional” method of planning of your finances.*

*At least once a year (okay, maybe more than once a year) there’s a build-up of outrage in this publication against the “herd mentality” of financial media, and it needs to be vented. Hopefully this venting comes out in a way that causes our readers to say:*

*“Yeah! Tell it like it is!” “Wow! I never thought of it that way, but now that you point it out, you’re right!” Or at least say, “Huh. That’s different.”*

*Besides, if this newsletter was just a repeat of most of the other stuff that you could buy at the newsstand or watch on television, why would you read it?*

*So, on with the rant...*

### ***What is this obsession with “retirement?”***

Look at the cover of any personal financial magazine. Retirement is one of the featured topics, isn’t it? And all this political blather over the future of Social Security and the alternative, Personal Retirement Accounts is one big discussion of retirement demographics. In addition, how many retirement calculators (each with a different answer) are on the Internet?

Well, to paraphrase a classic line from the 1976 movie *Network*,

***“I’m mad as hell at retirement, and I’m not going to take it anymore!”***

Please don’t misunderstand. Saving is a good activity. Preparing for the future and protecting one’s assets are not only prudent actions, they have the potential to be very profitable as well. (After all, if you don’t save, don’t plan and don’t protect your assets, you are probably going to suffer financial distress.) But why connect those positive behaviors with something as mundane as “retirement?”

Making retirement the primary goal of planning almost guarantees you will not achieve your financial potential. To put



it more bluntly, if retirement is your financial objective, you will almost certainly under-perform. Here’s why:

“Retirement,” as typically presented in the conventional financial media, is a need- and comfort-driven activity. The typical planning question is: “How much do you **need** to save to retire **comfortably**?” The answer to this question might compel some to rearrange their financial lives (begin saving, buy life insurance, etc.), but once the perceived needs and/or comfort levels have been attained, the plan can falter.

It’s like the factory worker who is offered overtime. Time-and-a-half, at \$40 bucks an hour, is great pay, and in the beginning, he may take as much as he can get. The extra money helps pay off credit card balances, puts extra cash in the savings account, and allows him to buy the boat he’s always wanted. Then, one day the factory worker stops taking the overtime.

Why?

Has it become less profitable for him to work? No, it’s still time-and-a-half.

But he doesn’t **need** to work overtime anymore. His old debts are paid, he’s got money in the bank, and he’s got a toy to play with on weekends. He’s **comfortable**. From his perspective, he sees no reason to continue working the extra hours.

But what if, after satisfying some needs and realizing some comfort, the factory worker has larger aspirations? Maybe he wants to buy a resort home, open a business, or fund a special charitable project. Given greater goals, he may be motivated to increase his productivity. And with greater productivity,

*(continued on next page)*

may find he can retire with more money and more options for the future.

Following this example of human behavior in the factory worker, **doesn't it seem likely that people who have greater financial aspirations than a "comfortable retirement" would achieve greater financial success?**

Yes. Definitely.

Lou Tice is the founder of the Pacific Institute, an "international corporation specializing in performance improvement and professional growth, change management and leadership development. The guiding principle of The Pacific Institute is that individuals, during their lifetime, have a virtually unlimited capacity for growth, change and creativity."

*(Yes, Tice is a "motivational speaker" and "personal coach," not a professional planner. But read on...)*

Tice has a regular publication called *Winner's Circle Network*. Here's an excerpt from August 5, 2005:

***Today, I want to give you the best advice you will ever get on how to become financially and mentally wealthy. Here is a true story that should interest you...***

***Some time ago, a random sampling of 1,500 graduating college seniors were surveyed to find out what they would base their career choice on.***

***83 percent said that financial gain was the first thing they would base their career choice on and following their dream, or their passion, would be second. 7 percent said that following their dream would be first and financial gain second. In a follow-up study on actual net worth 20 years later, what do you think they found?***

***Well, 101 of the 1,500 had become millionaires. But only one of those millionaires had come from the group that put financial gain first, while one hundred of them came from the group that followed their dreams.***

To close the loop, selecting retirement as your primary planning objective is like making a career choice based primarily on financial gain. Maximum productivity, either in work or financial strategies, is motivated by dreams and passions, not by minimal financial requirements.

Choosing retirement as your comprehensive planning focus may help you secure your needs and comforts. That's not a bad thing. But it's like only exercising enough to avoid a heart attack, instead of taking on a fitness regimen that will invigorate your life.

- ♦ "Good" comprehensive planning offers modest hope for a modest and reasonably secure retirement.
- ♦ "Great" comprehensive planning offers opportunities to realize financial dreams.

There is a difference. "Good" comprehensive planning, with its excessive focus on retirement, often does a disservice to people in that it neglects to inform them of the "great" financial possibilities that are also available.

**So why is there so much emphasis in the mainstream media on the "good" comprehensive planning approaches and so little on the "great?"**

From this perspective, it's simply demographics.

Go back to the Lou Tice excerpt. 101 of 1,500 college graduates became millionaires – that's less than 7 percent of an already select group. For whatever reason, "success" – i.e., prosperity, wealth, etc. – is rare. From a marketing perspective, there are a lot more prospective customers looking for their needs and comforts to be met. For financial institutions, it is just good business strategy to pursue a large market, and provide services and products that satisfy those needs and comforts.

But if your financial aspirations are higher than needs and comforts, it doesn't mean you have to settle for "good" planning when you could have "great."

### **Why should you consider "great" comprehensive planning?**

For some, the reason might simply be a desire for comfort at a higher level. The prospect of winters on the Riviera is more appealing than winters in Fort Myers. (Of course, once you reach that higher level, you'll probably ease off, because you've reached your comfort level. But it's still a step up.)

But pursuing financial strategies that aim beyond simple needs may end up taking you against the herd, and who wants that aggravation? If you're going to swim against the tide of convention, you need a strong reason, a dream, an ambition, a desire for something greater than what you have now.

### **Other reasons to pursue "great" comprehensive planning.**

We achieve our best when our commitment is to something greater than ourselves. In good marriages, husbands and wives will sacrifice personal desires for the good that comes from being together. Good parents will make great sacrifices for the benefit of their families. True believers make sacrifices for their causes and passions. And from such sacrifice and commitment comes our greatest achievement and fulfillment.

Retirement is a somewhat self-centered financial ambition. Oh, maybe it's for you and your spouse, but the scope of interest doesn't go much farther. It's a limiting objective, because once you have achieved your desired comfort level, what's the point in doing any more?

People who achieve great things, even great financial success, usually are not driven by an amount of money. If you want to achieve great financial objectives, you must be financially committed to, or passionate about, something that is greater than your own retirement.

Think about the impact you could have by providing a financial legacy to your children and grandchildren, to a college, a church, or some other charitable organization. For a variety of reasons, the financial impact of inheritance tends to get downplayed, but consider the far-reaching impact of many of today's charities, foundations and trust funds – established by people long since departed. Their past planning continues to make a difference today. Some of the best applications of financial products and planning strategies occur in these situations. Your decisions today could resonate positively through successive generations.

Financial success can be so much more than quitting a job at 60, and picking up a monthly check from an annuity. If

**If you're going to swim against the tide of convention, you need a strong reason, a desire for something greater than what you have now.**

someone decides that retirement planning is enough for them, fine. But the “great” plan for your financial future can open the doors to countless other possibilities. “Great” planning can help make great dreams possible. Don’t let “good” get in the way of “great”.

- Do you have a financial dream bigger than retirement?**
- Have you been settling for good planning, instead of planning for financial greatness?**
- Is it time to adjust your ambitions?**

***Prosperity means never having to think about retirement.***

## WHAT CAUSES “DISABILITY” IN THE UNITED STATES?

Most Americans are aware that they would face severe financial hardship if they were unable to work due to a disabling illness or accident. Many Americans may have insurance coverage to help alleviate some of the financial suffering that could occur in the event of a disability. But what are the most likely causes of disability in the United States?



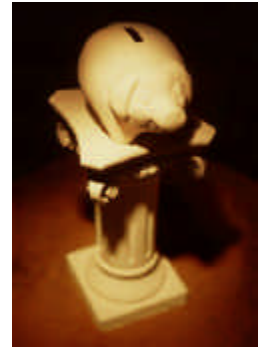
A recent report released by UnumProvident detailed the company’s disability claim history in 2004. The report divided its claims into two categories: long-term disability, defined as absence from work for more than 90 days, and short-term disability (less than 90 days).

<b>LONG-TERM DISABILITY</b>	
<b>Cause</b>	<b>% of all claims</b>
Cancer	12
Complications of pregnancy	10
Joint/muscle/connective tissue diseases	10
Back injuries	9
Cardiovascular disease	8
<b>SHORT-TERM DISABILITY</b>	
<b>Cause</b>	<b>% of all claims</b>
Pregnancy	21
Injuries (not including back)	9
Digestive/Intestinal diseases	8
Back injuries	7
Reproductive/urinary system diseases	7

*UnumProvident noted that its results were based on nearly 450,000 new disability claims in 2004. For the fourth consecutive year, cancer was the leading cause of long-term disability.*

## THINGS THAT MAKE YOU GO “HMMM...”

### When does saving become counter-productive?



The United States is the undisputed largest national economy in the world. Japan is No. 2. But the two countries could not be more dissimilar in their financial attitudes and practices. And the contrast makes one wonder (“hmmm...”) if both countries aren’t a bit out of whack – at either end of the spectrum.

An August 30, 2005 *Associated Press* article by Yuri Kageyama details some of philosophical and financial differences between the two countries, and some of the consequences.

In general, it is fair to simply say that Japan is a cash-based financial society, while the United States is credit-based.

- Most personal financial transactions in Japan are executed in cash. In fact, Japanese almost never use checks. In the U.S., credit- and debit-card transactions exceed cash transactions.
- While nearly all American homeowners take out mortgages, just one-third of Japanese households do so.
- Here’s a most startling statistic illustrating the cash-credit difference: The United States has twice the population of Japan – but **23 times** as much credit card debt.
- The Bank of Japan says that 55% of the country’s \$13 trillion in assets are held in cash, with only 9% invested in stocks. By contrast, Kageyama notes that only 13% of American’s assets (estimated at \$36.5 trillion) are cash, and 34% is in stocks.

The nationwide impulse/obsession of the Japanese to avoid borrowing and hold cash has some interesting consequences, both large and small.

Kageyama notes that American culture emphasizes entrepreneurialism and risk-taking, while the Japanese stress stability and lifelong employment. He states that “while Americans pile up mortgages and credit card debt, Japanese are reluctant to borrow at all, creating the problem of economic stagnation.” Even though Japanese banks are willing to loan money at virtually no interest, few Japanese are willing to borrow. With no borrowers, Japanese savers receive almost no return on their bank deposits.

Ironically, this lack of domestic lending has encouraged Japanese banks to continually finance United States debt, by buying U.S. Treasury bonds, for example. And as Japan buys U.S. debt, it keeps the dollar stronger in relation to the yen, which makes it easier for Japanese manufacturers to sell their products in the U.S. for a profit. In some ways, the excessive savers of Japan and excessive spenders of the United States seem to be in a co-dependent relationship.

At a micro level, the difference between the two financial cultures shows up as well. Global retailers design wallets and coin purses especially for the Japanese, who like to carry large amounts of cash. In contrast, American billfolds have more room for credit cards, less for paper money and coins.

*Hmmm...* Solomon noted in one of his proverbs that “the borrower is servant to the lender.” Yet he also said “there is one who scatters, yet increases more, and one who withholds more than is right, but it leads to poverty.” Excessive debt and excessive hoarding are both counterproductive.

# 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.)

## HIGHER EDUCATION COMES AT A MUCH HIGHER COST

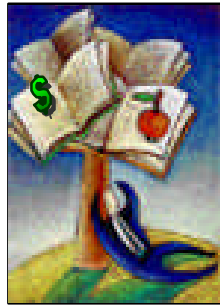
Here's a pop quiz for students heading back to college this week: What goes up but never comes down, defies the rules against perpetual motion, and increases even faster than grade inflation?

Answer: Their tuition bills.

When it comes to price increases, few products or services can match higher education. Not only are tuition prices rising, but they have been for decades and at a rate that is far faster than inflation.

Consider this comparison: Despite recent price increases at the pump, the cost of gasoline is still lower, in inflation-adjusted terms, than it was in 1980. Meanwhile, during the same period, the average tuition price at a four-year public university has almost tripled, after adjusting for inflation.

Timothy Lamer, *World*, August 27, 2005.



## AN UNRESOLVED AMERICAN CONFLICT: TO SAVE OR SPEND

We see movies like "War of the Worlds," "Star Wars" and "Lord of the Rings" as metaphors for the global wars raging among powerful cultural ideologies. But psychologists tell us movies are actually projections of our own unresolved conflicts.

And if there's one place the internal wars rage on, it's with our personal finances. We chant the grand mantra "Save 10%." But we're saving nothing.

For example, in the past year we've seen eight separate research studies, all with the same bottom line: Only 20% to 35% of us are saving enough for retirement, and the latest Commerce Department figures tell us America's average savings rate has dropped to zero.

Paul B. Farrell, *MarketWatch*, August 7, 2005.



## FINANCIAL INFLUENCE OF GRANDPARENTS IS EXPANDING

For many American families, intergenerational help is now moving in a new direction. "Thirty, 40 years ago, the money went up: you helped your grandparents, you bought them this or that, they might have moved in with you," said Timothy M. Smeeding, a professor of public policy at the Maxwell School of Syracuse University. "But now, all the money comes down. Most elderly people today are better off



than they thought they would be, with the booming stock market of the 1990's the rising value of homes and the changes in Social Security. Meanwhile, their kids are worse off. So grandparents help out."

There is, of course, nothing new about grandparents helping to support their children's families; one way or another, grandparents have always pitched in. But as demographic changes have reshaped life paths for both older people and their adult children, the influence of grandparents has expanded.

Tamar Lewin, *New York Times*, July 14, 2005.

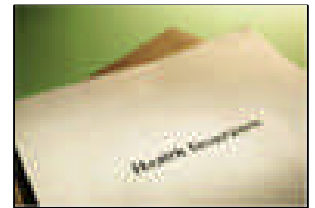
## AMERICANS PAY MORE FOR HEALTH INSURANCE

U.S. workers who get health insurance coverage through their employers paid an average of 79% more in 2003 than they did in 1996, according to a report published on Wednesday. And employers paid an average of 89% more, the U.S. Agency for Healthcare Research and Quality found.

The agency's Medical Expenditure Panel Survey found that health insurance premiums have increased every year since the start of the survey in 1996. "The average employee contributed \$2,283 for family coverage in 2003, compared to only \$1,275 in 1996. Even when adjusted for inflation, this was a 51.2% increase over the seven year period," the AHRQ said.

An estimated 63% of Americans get their insurance through their employers or through a family member's job.

Reuters, August 24, 2005.



## THE "THREE-LEGGED STOOL" RETIREMENT MODEL ISN'T HOLDING UP

For years, the conventional wisdom about retirement income was that it could be compared to a three-legged stool: the first leg was a pension or employer-sponsored retirement program; the second leg was Social Security benefits, and the third leg was the individual's personal savings.

Because the United States has one of the lowest personal savings rates in the world, planners in the past have focused on warning those approaching retirement of the danger of a 2-legged "retirement income" stool – i.e., entering retirement without having the third leg of personal savings.

In the current political and economic environment where politicians are planning sweeping changes to the second leg, even to the point of declaring there is no trust fund for Social Security, seniors may find that if they are to have a 3-legged stool, they may have to provide 2 of the legs themselves.

Kristen L. Falk, *National Underwriter*, April 18, 2005.



## WILL ESTATE AND INHERITANCE TAXES DISAPPEAR? (DON'T COUNT ON IT)

You are taxed your entire life, and when you die, the government takes a few more slices. How fair is that?

In 2001, Congress enacted changes in federal tax laws regarding the taxation of estates. Under these changes, the size of estates that would be exempted from federal tax would continually increase each year (for example, \$1.5 million in 2005, \$2 million in 2006) until 2010, when no estate taxes would be assessed. Estate tax rates would also decline as well, dropping from 55% over the 10-year period to 45%. However, in 2011, the estate tax would return, with only a \$1 million exemption and 55% tax rates.

This quirky law has produced its share of sarcasm (“*Gee, Dad it would really mean a lot to the family if you could die before January 1, 2011.*”) and cynicism about the ability of government to enact logical tax regulations. Depending on one’s political and philosophical perspective, the looming 2011 “sunset provision” stands as either a prime legislative opportunity to permanently repeal the federal estate tax, or to restore it in some uniform, non-fluctuating status.

In the meantime, some financial commentators have begun to shape their estate planning strategies around the possible disappearance/repeal of estate taxes. From their perspective, traditional estate-preserving devices such as trusts and life insurance policies will no longer be needed, and in fact, may add unnecessary expense with little benefit. Anticipating an estate-tax free future (either because the tax will be permanently repealed or the exemption threshold will be so high so as to affect very few Americans), these commentators have begun to take a “wait-and-see” attitude, recommending that any planning be postponed until these issues are clarified.

However, when it comes to estate planning, it’s not only the federal estate tax that matters. There’s also the estate tax law of individual states. Some states have no estate taxes. Others have tied their tax rates to the federal regulations. A few states have their tax rates that are applied independent of any federal taxation.

In addition to estate taxes, there may also be inheritance taxes to consider. While estate taxes are applied to the assets of the deceased, inheritance taxes may be imposed on the beneficiaries of the estate. Some states grant exemptions to any bequests made to direct descendants (children, grandchildren, etc.), while property destined for brothers, sisters or sibling-in-laws is assessed a tax.

Further, even smaller estates may be required by state law to be probated. In a September 2005 *Think About It* article by Stephen Leimberg, the author notes that “in the broader scope, ‘probate’ refers to the entire process of the court-supervised administration of an estate, from the initial probate of the will to the distribution of estate assets and the official discharge of the decedent (i.e., the executor named in the will...)”

This requirement that one’s estate be probated is often triggered by a much smaller number than is applied to estate tax provisions. In California, most estates larger than \$100,000 must be probated. In Florida, the threshold for simplified probate is \$75,000..

While probate serves a legitimate purpose in that it provides legal procedures to properly identify creditors and beneficiaries, settle conflicting claims and distribute assets, it can be costly and time-consuming. In a July 3, 2004 article, Liz Pulliam Weston of the *Los Angeles Times* noted that the typical estate in California can take 12 to 18 months to probate (and that Marilyn Monroe’s took 18 years). Fees for attorneys and executors vary from state to state, but costs 3-4% of assets probated are not uncommon.

Given the variation in state statutes, for both estate and inheritance taxes and probate, the problem can be compounded if assets, such as homes, are held in different states. “Where you actually are when you die isn’t relevant,” says Martin Nussbaum, of Ernst & Young of New York in a July 13 *Wall Street Journal* article. “It’s where you are domiciled and where

your property is located. Even if you’re legally domiciled in one state, your estate may be subject to tax in another state depending on where your assets are physically located.”

Some estate planning issues involve more than money. Probate also makes the affairs of one’s estate a matter of public record. Assets are inventoried, and beneficiaries are identified. As Leimberg notes, “privacy is a bona fide reason to avoid probate.”

Depending on your individual situation, there may be ways to avoid or negate the financial and emotional impact of these “death taxes.” Some assets may be titled jointly, trusts and similar legal documents established, and life insurance may be purchased to pay costs and preserve assets. But in order to be effective, these actions must be coordinated and properly executed.

Some of these legal and financial events placed in motion by one’s passing

can seem overwhelming, and just plain wrong. But more than likely, estate costs – be they taxes, fees, etc. – aren’t going to disappear.

Willie Sutton was a notorious bank robber, who, in a period spanning four decades (the 1920s through the 1950s) stole from over 100 banks. When asked why he continued to rob banks, even after several arrests and prison terms, he is purported to have responded, “That’s where they keep the money.”

Thus, **WILLIE SUTTON’S LAW:**

*Wherever wealth is accumulated,  
someone will try to steal it.*

The accumulation and transfer of wealth always attracts attention – from governments, creditors, interested (and disinterested) third parties. To fail to acknowledge the necessity of estate planning is allowing someone else to determine and execute your estate plan.

## The Illusion of Certainty



Depending on your individual situation, there may be ways to avoid or negate the financial and emotional impact of these “death taxes.”

As this edition goes to press, millions are still reeling from the effects of Hurricane Katrina and Hurricane Rita. In the duration of one storm lasting several hours, many have literally lost everything – their homes and possessions, jobs, and loved ones. It is stunning to contemplate how quickly the status quo of so many lives can be disrupted so quickly.

That hurricanes move through the Gulf every fall is known. That some hurricanes can be damaging is also known. But the last time two Category 4 storms hit the mainland of the United States was 1915. Katrina and Rita together were a possible event, but not a probable one. And because many were unprepared for the improbable, many will suffer improbable consequences. Who could have imagined it would be this tragic?

To a lesser degree, this same scenario plays out in planning your finances. There is a difference between preparing for the probable, and preparing for the possible.

- In the next year, or five years, or ten years, the stock market probably will go up, but it is possible it will go down.
- Over the same time period, you probably will be employed, but it is possible you may not.
- And all things considered, you will probably be alive, but as the events of the past week have shown, it is possible that you may not.

Good planning must take into account the possible, even while acknowledging it is more likely that things will probably go somewhat according to plan.

**Ignoring the possible because it is improbable can result in tragedy.**



# CREATIVE

**Wealth Maximization Strategies**

**John J. Bellino III**  
Alliance Financial Group  
14021 Metropolis Ave.  
Fort Myers, FL 33912  
Phone: (239) 561-2900  
[www.johnbellino.com](http://www.johnbellino.com)  
[john@johnbellino.com](mailto:john@johnbellino.com)

Material discussed is meant for general illustration and/or informational purposes only and it is not to be construed as tax, legal or investment advice. Although the information has been gathered from sources believed reliable, please note that individual situations can vary, therefore the information should be relied upon when coordinated with individual professional advice.