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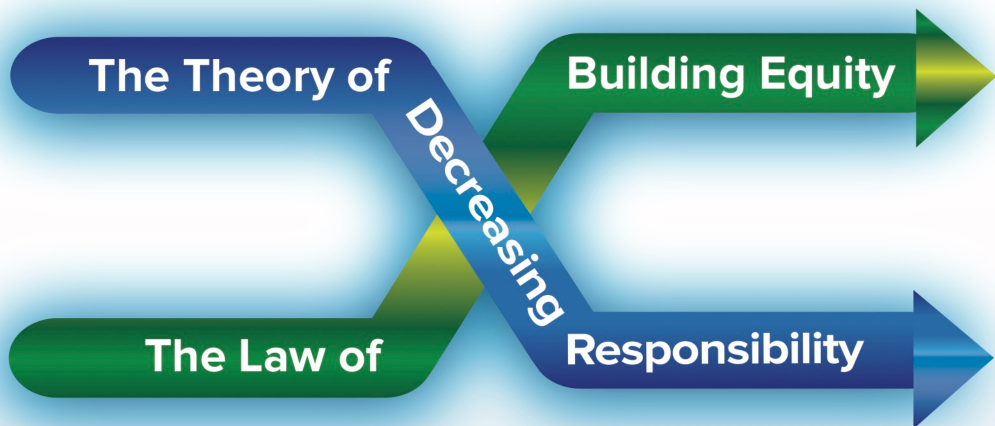
HEGEMON GROUP INTERNATIONAL

Conquer Your Financial Future

THE WEALTH FLOW FORMULA



Basic Principles for Building A Secure Financial Future

FIRST EDITION

HEGEMON[SM]
FINANCIAL
EDUCATION

Conquer Your Financial Future

First Edition

Revision 1

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INTRODUCTION

The United States is the best country in world. It is a land of freedom and opportunity. People come here from all across the globe to give themselves and their family a better life. They leave loved ones behind and go through unbelievable struggle to get here. Some don't even speak the language when they arrive here. But they have heard the story about a place where you can make all of your dreams come true. A place where if you work smart and take advantage of the Free Enterprise System, you can have almost anything you want. The sky is the limit.

This is the same story that many of us have also heard from our parents, grandparents and great grandparents. They too left their homes and relatives from Europe, Asia and other areas of the world to come and build a better life for their family. That is what America is all about – building a better life. Unless you have **Financial Freedom**, you will never truly be free.

For many, the pursuit of the American Dream has become the American Nightmare. We have become a nation that is "owned" by the debt that we have created. Every day, we are going to work to pay for the ongoing and seemingly endless pile of debt that we have found ourselves with. Many are spending thousands and thousands of dollars every month for our homes, cars, credit cards, loans, insurance, utilities and basic living expenses, with little leftover after everything is paid.

Most people to not have an Emergency Fund in the bank, and what little money they have, if any, is in their 401k plan, which when accessed triggers penalties and taxes from the IRS. Those who have started to build retirement funds do not understand the fees involved, the risks, or how their plans truly work. A loss of income due to death, disability or illness would cause pure devastation to a family. When money gets tight, we pay the credit card companies before our own family's financial security, further putting us at risk. We have scaled back the coverage on our auto insurance, dropped our life insurance, manage debt by transferring credit card balances over to new credit cards with 0% balance transfer offers *(with 3% - 5% transfer fees)*, and we buy shiny new cars by trading in old cars with negative equity.

The only form of financial planning most people have is an employee benefits package. These packages are not designed to lead a family toward **Financial Freedom**.

This book is to help educate and empower you on core financial concepts and strategies that you can start implementing now to change the course of your financial future. If you want to be wealthy, you must follow the strategies of the wealthy.

...It is time to Conquer Your Financial Future...

FINANCIAL BASICS

1. MONEY IS A PROBLEM FOR MOST PEOPLE IN AMERICA

The United States of America is the most prosperous country in the world, full of unbelievable opportunity. We all strive to achieve the "American Dream", but for so many hard-working Americans, the road to freedom has become an "American Nightmare". Take a look at the facts:

Debt

- Average household has credit card balances totaling $6,929.
- Average student loan debt is $47,671.
- Average total debt is $135,768 including mortgages.

Taxes

- In 2019, Americans will work until April 16th to pay its tax burden.
- Americans will spend more money on taxes than food, clothing and housing combined.

Inflation

- $1.00 in 1972 is worth less than $0.16 today.
- The average inflation rate from 1972 to 2019 was 3.93%.

Savings

- Americans save less than anyone in the world.
- Americans save about 5.4% of their income, compared to Germany at 9.8% and Spain at 11.78%.

Life Insurance

- If you died tomorrow, your family could be broke in a year.
- The average face amount of individual life insurance policies issued in 2018 was only $168,000

Long Term Care

- We are living longer and more likely to get a chronic, critical or terminal illness before we die.
- In 2019, the annual median cost of a Home Health Aide was $52,620 and the annual median cost of a Nursing Home with a Private Room was $102,204.

Retirement

- According to the U.S. Census Bureau, the average American 65 or older retires on incomes of $36,895 or less a year.
- 10% of all Americans retire in poverty.

2. CONTROL THE THINGS THAT YOU CAN CONTROL

There are many things in our financial life that we cannot control – such as the stock market, interest rates, the real estate market and economic policy. However, there are some simple things that can be done right now that can start to have an impact on your current financial situation.

Pay Yourself First

- Put yourself and your family before any other obligations that you have. Your credit card bill is not more important than your family's financial health.
- You will always have bills and financial obligations. Treat your savings like a bill and you will always have money.
- Set aside at least 10% of your income for the future. More if possible. You will need to allocate for an Emergency Fund, short and medium-term savings, and long-term retirement savings.

Earn Additional Income

- To speed up your success, consider part-time work and build a second income. There are many opportunities that you can explore. It might be the perfect time to start that business that you've always wanted to have.
- You can always create time in order to achieve financial success for you and your family.

Adjust Your Lifestyle

- Understand the difference between your "wants" and your "needs" and learn to save more and spend less.
- Avoid unnecessary expenses and trim back what is truly not needed.
- Do you really need to buy lunch at work every day? What about that cable or satellite TV bill. Do you really need to spend that much?
- Set priorities and develop a disciplined budget plan.

Avoid the Credit Trap

- Avoid the pitfalls of "plastic money." Stay away from balance transfer offers, 0% credit card offers, and other enticing offers to get you in the habit of relying on credit cards to purchase items that you do not need and cannot afford.
- Buy only what you can afford and pay with cash or a debit card or don't buy it at all.

Change Your Thinking

- Change your financial paradigm by changing the way you think about money.
- Educate yourself by reading books and finding a financial mentor.
- Know where every dime is being spent and manage your personal finances like a business.

"DON'T THINK ABOUT SAVING MONEY –
THINK ABOUT MAKING MORE MONEY!"

3. THE RULE OF 72 – THE MAGIC OF COMPOUND INTEREST

Have you ever wondered how quickly your money would double based on the interest rate that you are receiving? This can be easily calculated using the Rule of 72. It will help you determine the effect of compound interest over a number of years.

Simply take the number 72 and divide it by the rate of return that you are receiving on your money. The result is the approximate number of years it will take for your money to double.

$$\frac{72}{\text{Rate of Return}} = \textbf{Years to Double Your Money}$$

2%	4%	8%	12%
Money Double Every 36 Years	Money Double Every 18 Years	Money Double Every 9 Years	Money Double Every 36 Years
29 $10,000	29 $10,000	29 $10,000	29 $10,000
65 $20,000	47 $20,000	38 $20,000	35 $20,000
	65 $40,000	47 $40,000	41 $40,000
		56 $80,000	47 $80,000
		65 $160,000	53 $160,000
			59 $320,000
			65 $640,000

The banks and finance companies understand the Rule of 72, however they use it to their advantage by lending consumers money and charging them 8%, 10%, 12% or even

much higher! Then they pay you less than 1% on your money and keep the difference as profit. When this happens, you are on the **wrong** side of the Rule of 72, and it is being used against you. The "Magic of Compound Interest" works **against** you with debt. As time goes on, the interest charges compound and it becomes harder and harder to get out of debt.

Do you think that the wealthy understand how money works? Of course, they do. They take the time to learn and study the "rules of the money game" and then they place a plan into action to receive better returns on their money.

Many people in Middle America do not know the "rules of the money game". They do not have a financial plan for long term success. Most of the savings that they do have are earning low rates of return, so instead of having their money work for them, they spend a lifetime working for money.

4. TIME & CONSISTENCY

You may think that you will never earn enough money to have a true level of financial independence. All it takes is the right combination of time, consistency, and the "Magic of Compound Interest."

If you're like most people, you don't have a lot of money to invest. That's why time is so critical. When you're young, you can save small amounts and still end up with thousands of dollars at retirement. If you wait to begin saving, you must save much more. If you want to be financially independent, you have no choice – you must start now, or later you must save more. One thing is certain: you can't afford the high cost of waiting.

The High Cost of Waiting
$100 per month at 12%

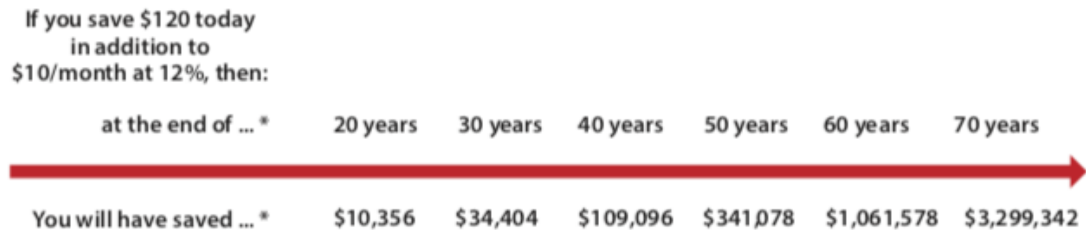
Start Saving at Age:	Total at Age 65	Cost to Wait:
25	$979,307	N/A
26	$873,241	$106,066
30	$551,083	$428,224

If you save $10/month beginning now, at an annual rate of 12%, then:

at the end of ... *	20 years	30 years	40 years	50 years	60 years	70 years
You will have saved ... *	$9,198	$30,809	$97,930	$306,398	$953,866	$2,964,806

Begin With A Lump Sum

There's one way to really give yourself a boost when you start your long-term savings program. If you start with a lump sum to begin with, your results will be significantly different. If you started your savings program with a 1 year lump sum of $120 ($10 per month x 12 months), you will be giving yourself a full year head start. Look at how dramatic the difference in results would be:



"RICH PEOPLE INVEST MONEY –
POOR PEOPLE SPEND IT"

5. SIMPLE VS. COMPOUND INTEREST

Simple vs. compound interest is easy to understand. Basically, **simple interest** is interest paid on the original principal only. **Compound interest** accrues on the principal amount and the accumulated interest of previous periods - it includes interest on interest.

P = Principal Amount

I = Simple Interest Rate

R = Compound Interest Rate (As a Decimal)

Y = Number of Years

N = Number of Times Interest Is Compounded Per Year

Look at the difference between a $10,000 investment for 10 years at 6% with simple interest versus the same investment with monthly compound interest.

Simple Interest Calculation = P x I x Y

Simple Interest Calculation Including Principal = P x I x Y + P

Example Simple Interest Calculation: | **Total**

$10,000 (P) x 6.00% (I) x 10 Years (Y) = **$3,000** | $10,000 + 6,000 = **$16,000**

Compound Interest Calculation = **P (1 + R/N) $^{(NY)}$ - P**

Compound Interest Calculation Including Principal = **P (1 + R/N) $^{(NY)}$**

Example Compound Interest Calculation: | **Total**

$10,000 (1 + 0.05/12) $^{(12(10))}$ | **$ 18,193.97**

You can see from the above examples how powerful compound interest can be over time. In the above example, there was a $2,193.97 difference with a simple one-time investment. Imagine how drastic the difference can be with monthly contributions over a longer period of time.

6. MARKET LOSSES HURT YOU MORE THAN GAINS HELP YOU

If you have invested in the market, you have probably been subject to stock market fluctuations, but how do those negative fluctuations affect your long-term savings? Common sense would lead you to believe that if you **lost** 50% this year and you **gained** 50% next year, then you would be back to even, right? **Wrong**.

Let's look at this example below:

	Start Value	Rate of Return	Gain/Loss	End Value
Year 1	$1,000	-50%	-$500	$500
Year 2	$500	+50%	+$250	$750

You began in Year 1 with **$1,000** and lost 50% in the market. As you can see, in Year 2, you started out with only **$500**. A 50% gain on **$500** is only **$250**, leaving you with an end value of only **$750**. So even though the **annualized total return** is 0%, the **actual average return** after 2 years is **-25%!**

In order to get back to even in the above example, you would need to a **gain of 100%** in Year 2!!!

	Start Value	Rate of Return	Gain/Loss	End Value
Year 1	$1,000	-50%	-$500	$500
Year 2	$500	+100%	$500	$1,000

An **Annualized Total Return** is the geometric average amount of money earned by an investment each year over a given time period. It is calculated as a geometric average to show what an investor would earn over a period of time if the annual return was compounded. An annualized total return provides only a snapshot of an investment's performance and does not give investors any indication of its **volatility**. It does not factor in **actual losses**.

7. INFLATION

Inflation is defined as a rise in the general price level. In other words, prices of many goods and services such as housing, apparel, food, transportation, and fuel must be increasing in order for inflation to occur in the overall economy. If prices of just a few types of goods or services are rising, there isn't necessarily inflation.

As a result of inflation, the purchasing power of a unit of currency falls. For example, if the inflation rate is 3.00%, then a candy bar that costs $1.00 in a particular year will cost $1.03 the next year. As goods and services require more money to purchase, the implicit value of that money falls.

The average inflation rate in the United States from 1972 to 2017 was 4.01%. Since money is worth less over time due to inflation, it is important that you increase your investments and savings each year. Furthermore, when planning for your retirement, you need to factor in inflation and what your money will be worth in tomorrow's dollars.

If you want to retire on $5,000 per month in today's dollars, you would need to have **$10,977** per month in 20 years at the average 4.01% inflation rate to have the same purchasing power.

What Causes Inflation?

Economists distinguish between two types of inflation: Demand-Pull Inflation and Cost-Push Inflation. Both types of inflation cause an increase in the overall price level within an economy.

<u>Demand-Pull Inflation Indications</u>:

- Excess demand and too much money chasing too few goods.
- The economy is at full employment/full capacity.
- The economy will be growing at a rate faster than the long-run trend rate.
- A falling unemployment rate.

<u>Cost-Push Inflation Indications</u>:

- Higher price of commodities, such as oil and gas.

- Higher wages. Rising wages will push up prices as companies have to pay higher costs.
- Higher taxes.
- Higher food prices.

FACT!

Contrary to what many people may think, simply printing money doesn't cause inflation. Combining the printing of money with the velocity of money is what creates inflation.

8. TAXES

Taxes are probably the greatest threat to your financial success during retirement. It's not what you make and save that is important, it's what you **keep**. There are three main "buckets" of taxation – Tax-Now, Tax-Later and Tax-Advantaged.

Tax-Now

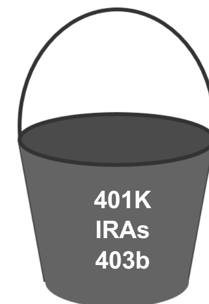
In the **Tax-Now** bucket, your contributions are from **After-Tax** dollars, meaning that you have already paid income taxes on the principal. Earnings from these accounts are taxed each year that earnings are realized. You must report and pay taxes each year. Bank accounts will usually issue a 1099-INT statement each year. CDs will issue a 1099-INT in the year that the term ends. You will receive a 1099-B in the year that you sell a stock and realize a gain. When a mutual fund distributes dividends, you will receive a 1099-DIV and it will be taxed as ordinary income **even if you do not sell the mutual fund**. When you sell the mutual fund and realize a gain, you will also receive a 1099-DIV from the IRS.

A **Realized Gain** is when an asset, such as a stock, bond, or real estate is sold at a price higher than the original purchase price. If a realized gain from an asset that was held one year or less, it will be taxed as ordinary income. If the asset was held for more than one year, it will be taxed as a long-term **Capital Gain**, which is generally at a lower tax bracket than ordinary income tax.

Keep in mind that if any of these accounts, including a mutual fund, are held in a Qualified Plan, such as an IRA or 401k, you will not receive any 1099 forms. These accounts fall under the **Tax-Later** bucket.

Tax-Later

In the **Tax-Later** bucket**,** your contributions are ***generally*** paid in **Pre-Tax** dollars, meaning that you have not yet paid income taxes on the principal. For employer retirement plans, such as a 401k or a 403b, contributions are automatically deducted from your paycheck and are not counted towards your taxable income on your W2 for that year. With IRAs and other individual retirement accounts such as a SIMPLE IRA and Keough, deductions are made when you file your income taxes each year.



401k plans, IRAs and 403b plans are known as **Qualified Plans**, which are Pre-Tax dollars and tax-deductible in the year of contribution.

If you take your money out of these plans prior to age 59 ½, the IRS will levy an early withdrawal penalty of 10%, and you will need to pay income taxes on the distribution at your current income tax rate.

While Tax-Later may seem like a great plan, there are several caveats that must be mentioned:

The IRS mandates that you must begin taking distributions from your Qualified Plan no later than age 70 ½. These are called **Required Minimum Distributions** (RMDs). Your RMD amount is determined by applying a life expectancy factor set by the IRS to your account balance at the end of the previous year. If you don't take the RMD, the IRS will levy a **50% Excise Tax** on the amount that you should have taken.

Distributions from Qualified Plans **may also cause your Social Security to be taxed**! This little-known fact can severely impact your expected retirement income. We will cover this topic in greater detail later.

If you place money directly into an annuity that is not under a Qualified Plan vehicle like a 403b, the contributions are after-tax and not tax-deductible. However, they are still in the Tax-Later bucket but are considered Non-Qualified. These Non-Qualified Annuities are still subject to the 10% penalty for distributions prior to age 59 ½.

Unlike stocks, bonds, real estate and other assets, distributions from these Tax-Later vehicles will be taxed as Ordinary Income at the time of distribution, **even if held for more than one year** – meaning that these vehicles are not **Tax-Advantaged**.

Tax-Advantaged

Tax-Advantaged accounts don't have many of the caveats that you will find in the Tax-Later bucket. These accounts are made with **After-Tax** dollars. Earnings in these accounts are not subject to income tax in the year of gain nor during retirement distribution. With Tax-Advantaged accounts, you are paying the income tax to the IRS on the funds used for the initial contribution, however upon distribution, there is no tax due on any of the funds received!

Distributions prior to age 59 ½ are not subject to the IRS 10% penalty and are not subject to Required Minimum Distributions since income tax was already paid on the contributions.

Lastly, distributions from Tax-Advantaged accounts will not cause your Social Security proceeds to be taxed! Using Tax-Advantaged accounts can possibly help you have a tax-free retirement!

So what vehicles are Tax-Advantaged? Some common ones are Roth IRAs, Section 529 College Plans, and Life Insurance.

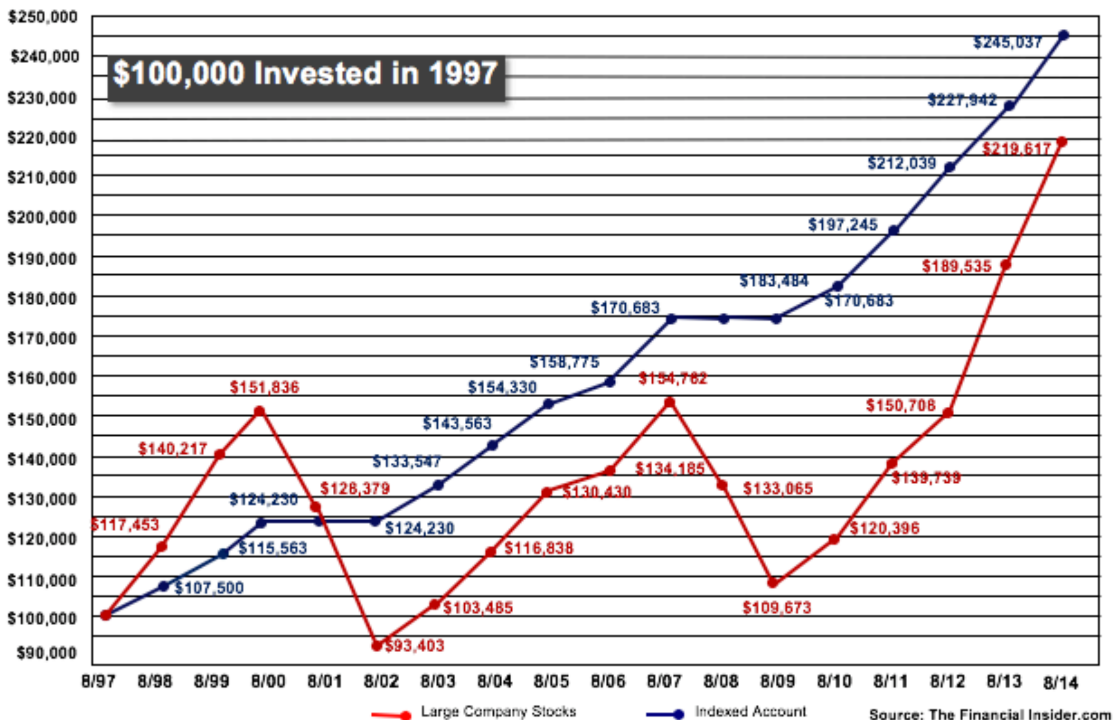
INDEXED ACCOUNTS

Imagine being able to participate in a percentage of the stock market while the market is performing well, and having the peace of mind that when the market goes negative, you are guaranteed not to lose the value of your principal or previously locked in gains. That is what Indexed Accounts provide. Indexed Accounts can be found in both **Indexed Universal Life (IUL)** and **Fixed Indexed Annuities (FIA)**.

Here is how it works. The cash value is **linked** to the performance of a stock market index, such as the S&P 500. The policyholder or annuitant's cash value is **not directly** investing in the stock market index; the cash value is credited based on the return of the selected index accounts.

Indexed Accounts all contain an incredible feature called a **floor**. A floor is a **zero-loss guarantee**, meaning that if the stock market index has a negative return, your cash value will be locked in and your **cash value will not lose value**. Some IUL and Fixed Indexed Annuity policies also have a guaranteed minimum interest rate.

Consider the following graph which compares an Indexed Account to Large Company Stocks from August 1997 until August of 2014. As you can see, when the market had losses, the indexed account was locked in and lost no value. **Remember, your losses hurt you more than your gains help you**.



These graphs depict hypothetical scenarios and are not necessarily representative of how these investment types perform.

Policyholders and annuitants have the choice of a number of index accounts with different index crediting options. Two of the most popular are called the **Participation Rate Account** and a **Cap Rate Account.**

A **Participation Rate** account will generally pay a stated percentage of the performance of the index. For example, if the insurance company has a 60% participation rate and the index performs at 30%, the cash value will be credited 18% (60% x 30% = 18%).

A **Cap Rate Account** will generally pay 100% of the index performance up to a stated Cap. For example, if the insurance company has a 13% cap rate and the index performs at 30%, the cash value will be credited 13%.

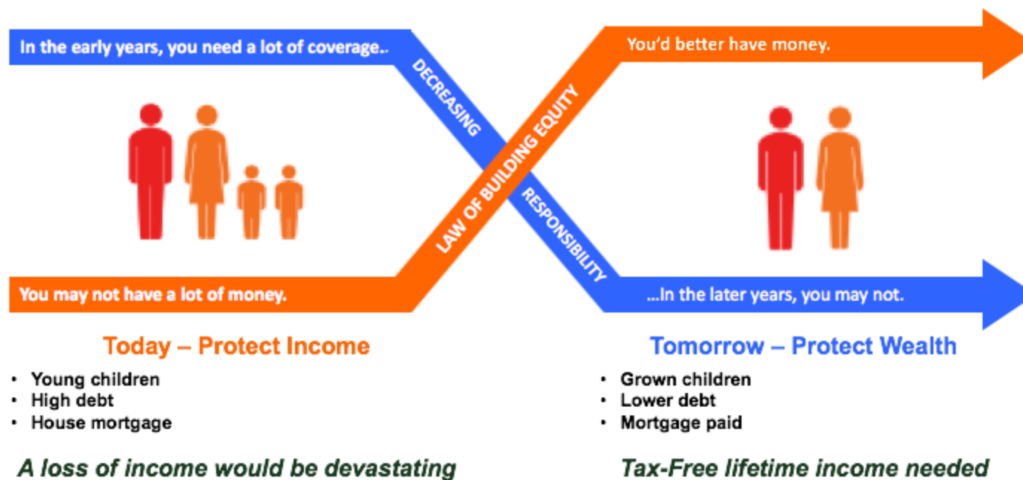
FACT!

An indexed account in an annuity or life insurance contract is not the same as an indexed mutual fund. An indexed mutual fund is variable and may lose value.

Why would you choose one account over the other? Different accounts perform best during varying economic times. Using the example above, if the index performed at 13%, the cash value would have received 13% in the Cap Rate Account but only 7.8% in the Participation Rate Account (60% x 13% = 7.8%). However, if the index performed at 25%, the Cap Rate Account would have capped the interest credit at 13%, while the Participation Rate Account would have paid 15% (60% x 25% = 15%). The key is diversification. With diversification, you do not need to worry about how the index is performing.

THE WEALTH FLOW FORMULA

This concept is a simple way to show the relationship between taking care of your responsibilities and building and preserving your wealth. The **Wealth Flow Formula** combines two concepts that address your changing long-term financial needs.



1. THE THEORY OF DECREASING RESPONSIBILITY

In the early years, since you haven't had the time to accumulate wealth, you must **rent** a substitute form of wealth called **Term Life Insurance**. With responsibilities such as young children, high debt, a mortgage and college to pay for, a loss of income from **death** or a **Chronic, Critical or Terminal Illness** would be devastating to a family. Even a non-working spouse needs to be protected in order to support a loved one and to ensure financial stability in the family.

2. THE LAW OF BUILDING EQUITY

Over the years as your financial needs change, you are beginning to accumulate wealth with the **Law of Building Equity** and your financial **responsibilities are decreasing** as your children become grown, your debt is reduced, and your mortgage is paid or nearly-paid. In the later years, as you have accumulated wealth, you need to protect against living too long, income taxes, lawsuits, garnishments, liens, judgements and estate taxes. To solve this need, **Permanent Life Insurance** is needed. The permanent life insurance protects your assets. Furthermore, as your Term Life Insurance expires, the Permanent Insurance will be there to not only provide you with a potential tax-free income stream, but you may access the death benefit while you are alive for a qualifying Chronic, Critical or Terminal Illness if your policy contains **Accelerated Benefit Riders** *(also known as Living Benefits).*

3. SELF-INSURANCE

As you can see, there is always a need for life insurance, however the purpose of how the life insurance is used changes over time. While the idea of “self-insurance” seems like it makes sense, when you break it down to the nuts and bolts as to why life insurance is used in the later years to protect wealth, the evidence is clear. If you had $1,000,000 of wealth, wouldn’t you want to protect it? Would you rather pay a smaller cost of insurance to an insurance company or a larger income and/or estate tax to the IRS? Life insurance gives you the power of leverage and the ability to mitigate your risk by shifting the risk of economic loss over to an insurance company. For the cost of a monthly premium, you can also protect your income from potential estate tax, probate court and income tax. Self-insurance cannot provide these benefits.

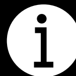
LIFE INSURANCE

The concept of Life Insurance is something that many people don't truly understand. There are lots of feelings and opinions about Life Insurance. Some feel like they can't afford it. Others feel like they don't need it. A few people feel that if they have attained enough assets, that they can drop their Life Insurance and become "self-insured". The truth is that Life Insurance is the basis for a strong financial plan. In fact, Life Insurance has more benefits than most people know. Life Insurance is the only financial tool on the planet that can literally create wealth **out of thin air**.

"MONEY ISN'T IMPORTANT UNTIL YOU NEED IT – THEN IT'S TOO LATE"

Some of the Uses for Life Insurance

- Pass assets and avoid probate, contested wills, and estate taxes.
- Offset potential estate taxes for the passing of 401Ks, IRAs, homes, businesses and other assets to someone other than your spouse.
- Pay for your mortgage, car payment, food, healthcare costs and other expenses due to a qualifying Critical, Chronic or Terminal Illness.
- May be used as part of a tax-free retirement plan.
- "Be Your Own Bank" – leverage cash value in an insurance policy as an alternative to bank loans and potentially avoid interest charge expenses.



FACT!

The cash value of a life insurance policy is not reported as an asset on the Free Application for Federal Student Aid (FAFSA).

Obtaining Life Insurance is much easier than it has ever been before. Some of the policies today include innovative features such as **Accelerated Benefit Riders**, which allow you to access your death benefit while you are alive if you have a qualifying illness. There are policies that do not even require the blood tests, instead relying on technology and automated underwriting.

The fact of the matter is that we do not know the date of our own death, nor do we know the day that we may become uninsurable due to a health condition. Therefore, you should buy Life Insurance as soon as you can get it while you are healthy and insurable and **secure your future insurability**. More on that later.

1. HOW TO DETERMINE HOW MUCH LIFE INSURANCE IS NEEDED

Placing a value on objects such as a home or car is easy. If your car is worth $40,000, then you should have enough Collision Coverage to cover a total loss. If your house is worth $250,000, you need enough Property Coverage to cover a total loss. How do we determine a value of our life?

The main purpose of life insurance is **income replacement**. The life insurance proceeds should be able to replace the primary bread winner's income for a given number of years, or in the case of a non-working spouse, the proceeds should cover child care, housekeeping, and other domestic costs. It can also be used to ease the financial burden on family members that may assist in the case of a tragedy.

In a perfect world, you would use the interest generated from a life insurance policy to pay for expenses in perpetuity. But in today's uncertain world, that may not be the best plan. No longer are people comfortable with a large sum of money placed in an "at-risk" investment, such as a mutual fund or a stock portfolio. Many people prefer to pay off the mortgage and all large expenses to ease the ongoing financial burden, which is a strategy that seems to be a valid one in today's economic environment.

The D.I.M.E.+ Method

In this method of determining the **Face Amount** for a life insurance policy, four basic financial components are used to determine what level of coverage is needed in order to protect your family in the untimely event of the loss of a bread winner.

- **D**ebt – Obtain the total amount of debt that you have including auto loans, credit cards, student loans, personal loans and other financial obligations.
- **I**ncome – Take your current income and multiply it by the number of years that you would need your family to benefit.
- **M**ortgage – Add up all mortgage balances.
- **E**ducation – Estimate the future cost of a 4-year college education and multiply by the number of children that you have.
- **+ R**etirement – Total dollars needed for retirement.

D.I.M.E.+ Hypothetical Example Case		
Debt	$75,000	*(Includes credit cards, auto loans, student loans)*
Income	$750,000	*($50,000 per year income replacement for 15 years)*
Mortgage	$275,000	*(Current mortgage balance)*
Education	$480,000	*($60,000 per year for a 4-year school, 2 children)*
+ Retirement	$1,500,000	*(To provide $150,000/yr. at 10% annual interest)*
TOTAL	**$3,080,000**	**Life Insurance Face Amount Needed**

As you can easily see, there is a huge need for life insurance in this case. With a mortgage balance, debt to pay, income to replace and an education to fully-fund for two children, a premature death to the family would be totally devastating. But the need for over $1.5 Million of life insurance may initially seem overwhelming and potentially expensive. That is not necessarily the case. This is where **Term Insurance** comes in.

2. DO CHILDREN NEED LIFE INSURANCE?

Yes. Remember that the primary purpose of life insurance is income replacement. With the premature death of a child, the death benefit proceeds will allow the parents to not have another burden, and that is a financial burden. The proceeds may be used to pay expenses that will continue during the time of grieving, such as the mortgage, car payments, loan payments, food bill, utility bills, etc… while the parents are not working. These death benefit proceeds allow a family time to properly grieve, eliminating the financial stress that could be a harsh reality if the insurance was not in place to begin with.

Life insurance on children prevents the family from financial devastation while allowing them to have the time away from work and the avoidance of depleting the family's savings or retirement plans.

In addition, purchasing insurance on a child while they are young and healthy **ensures their future insurability**. In other words, securing life insurance coverage while they are young will ensure that they will have at least some coverage when they become an adult.

3. DO SINGLE PEOPLE NEED LIFE INSURANCE?

Possibly. There are many reasons why people may need life insurance. One of the most important reasons is to **ensure their future insurability**. Things change. Life changes. Obtaining life insurance while you are healthy is essential to ensure that as your life changes, you have secured coverage in the event that you become uninsurable. A single person may not be single forever. They still have expenses. They still are at-risk for a Chronic, Critical or Terminal Illness. Bills still need to get paid.

Life Insurance is a financial tool that can be used for many reasons regardless of a person's relationship status.

4. MORTALITY CHARGE

In order to help determine the **Cost of Insurance (COI)** per $1,000 of coverage, insurance companies use a **Mortality Table** which shows the **Life Expectancy** for a person. Life Expectancy is based on the age, gender, smoker/non-smoker status, height/build/weight and medical history.

Mortality Charge is the amount charged every year by the insurer to provide the life insurance coverage to the policyholder on the life of the insured, based on the data found in the Mortality Table.

The older you get, the more likely you are to die; therefore, the COI increases each year to insure your life.

COI Example

Age	COI per $1,000	$750,000 Policy
35	$1.00	$1.00 x 750 = $750 per year
36	$1.08	$1.08 x 750 = $270 per year
37	$1.10	$1.10 x 750 = $825 per year
38	$1.20	$1.20 x 750 = $900 per year
39	$1.34	$1.34 x 750 = $1,005 per year
40	$1.50	$1.50 x 750 = $1,125 per year

In the later years, the cost increases drastically

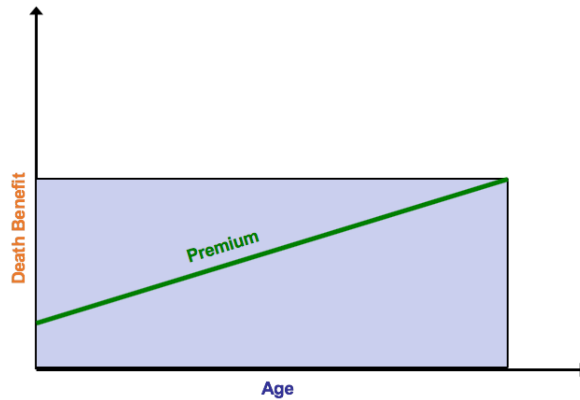
Age	COI per $1,000	$750,000 Policy
50	$6.00	$6.00 x 750 = $4,500 per year
60	$9.00	$9.00 x 750 = $6,640 per year
70	$20.00	$20.00 x 750 = $15,000 per year

5. TERM INSURANCE

Term insurance is pure life insurance coverage. Sometimes referred to as temporary insurance because it has a term or a set period of coverage and/or premium. There is no cash value accumulation. Simply put, term insurance is the most affordable type of life insurance for the lowest premium dollar. According to the **Theory of Decreasing Responsibility**, you should rent a substitute form of wealth *(Term Insurance)* while you are building your wealth.

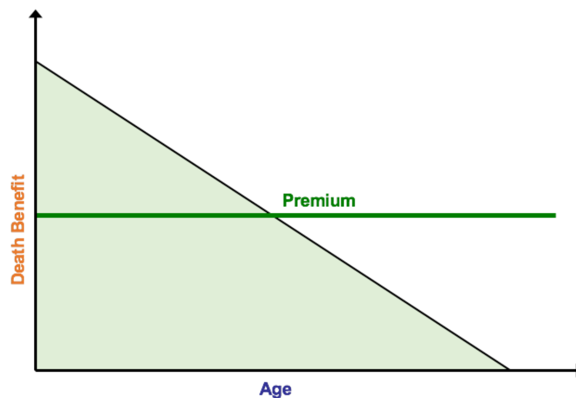
Annual Renewable Term

- The premium covers the **actual** mortality charge.
- The **death benefit remains level** every year.
- The **premium increases** every year with the increased mortality charge (COI).



Decreasing Term

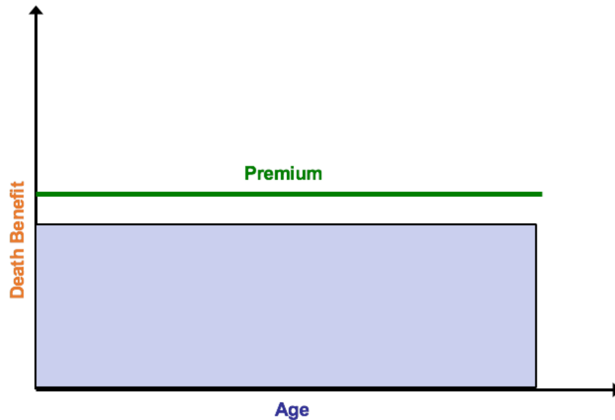
- The premium covers the **actual** mortality charge.
- The **death benefit decreases** every year.
- The **premium remains level** every year because we are purchasing less insurance due to the increasing annual mortality charge.



Level Term

- Comes in periods of 5, 10, 15, 20, 25, 30, 35 years.
- Your **premium remains level** for every year of the term, however…
- You are technically **overpaying** premium in the early years to **offset** the increases in mortality charges in the later years.
- The **death benefit remains level** every year.
- You are averaging out your premium to be level over the selected term period.
- The underlying mortality charge still increases.

- The excess premium is segregated into a fund and invested to cover the mortality charge in later years when the premium will be less than that needed to cover death claims. This is called **legal reserve**.



Return of Premium Term

This type of term insurance is typically a **Level Term** policy that has a provision that returns all of the premiums paid at the end of the term to the Policy Owner. It generally costs more than regular level term and does not typically pay any interest on the premiums paid into the policy. For example, if you paid $1,000 per year for 20 years, a Return of Premium term insurance would pay you $20,000 at the end of the term.

FACT!

The only policy that matters is the one that is in force on the day that you die. Less than 2% of term insurance ever pay a death claim.

Term Insurance Comparison

Type	Annual Premium	Death Benefit	Conceptual Description
Annual Renewable Term	Increases	Level	You pay **increasing annual premiums** for the **actual mortality cost** in order to keep the **same** death benefit.
Decreasing Term	Level	Decreases	You pay **level annual premiums** for the **actual mortality cost** and purchase **less** insurance each year.
Level Term	Level	Level	You pay a **higher-level annual premium** and **overpay** in the early years to offset the higher, **increasing mortality cost** in the later part of the term. Death benefit remains level.

6. PERMANENT INSURANCE

Also called Cash Value Life Insurance, there are various types of permanent life.

Mutual Insurance Companies

A mutual insurance company is privately held and is owned by its policyholders. If a mutual company has a profitable year, it may pay a dividend back to an insured's permanent life insurance policy. A life insurance dividend is a ***partial return of a deliberate overcharge of premium***, which is the reason that they are not taxable. So, if the insurance company has a profitable year, they may, at their discretion, return you some of the premium that you paid. As such, life insurance dividends are not guaranteed.

Stock Insurance Companies

A stock insurance company is a publicly traded company. Policyholders do not participate in any gains that occur to an insurance company's stock. In order to benefit from the profitability of a stock insurance company, you would need to purchase insurance company stock through a stock broker. **Do not confuse** stock dividends from stock ownership in a life insurance company, which may pay taxable stock dividends to stockholders. **That has nothing to do with a life insurance dividend issued to a policyholder by a mutual insurance company**.

Characteristics of all Permanent Life

- Designed to stay in force for the insured's lifetime.
- Based on age 121 *(most states).*
- Premiums are higher than term insurance in the earlier years.
- All permanent policies build cash value, even if it is minimal.
- Cash Value grows tax-deferred
- Withdrawals & Distributions are tax-free *(conditions apply)*
- Protected from creditors and lawsuits *(varies by state)*

Whole Life

Sometimes referred to as **Ordinary Life or Straight Life,** Whole Life insurance gives you guaranteed cash value amounts, guaranteed Cost of Insurance and a guaranteed death benefit. The basic idea of Whole Life is that the cash value and interest built up in the earlier years will offset the increased internal cost of insurance in the later years.

- Premiums are fixed and guaranteed.
- Face Amount is fixed and guaranteed.
- Generally Whole Life is the most expensive form of life insurance.
- Death benefit is the face amount only. You do not get both the face amount and the cash value.

Limited Pay Whole Life

These types of policies accelerate premiums into 10, 15 or 20 years; or they are accelerated to pay only up to age 65. Such policies have much higher premiums, however other than the compressed premium payments, they function essentially the same way that traditional Whole Life policies do.

Single Premium Whole Life (SPWL)

Single Premium Whole Life policies are a popular choice to pass assets to a beneficiary and completely eliminate estate taxes or probate. As mentioned earlier in this book, life insurance creates wealth out of **thin air**. Imagine being in your 70s and having the ability to turn $100,000 of cash in your bank account, that would normally be **taxable** and subject to estate taxes or probate, into a **guaranteed estate tax-free and probate-free death benefit** of $140,000. You can do this with the **magic of life insurance**.

Universal Life

Universal Life (UL) is similar to Whole Life but offers flexibility. Universal Life gives you the ability to increase, decrease or skip premium payments, providing there is enough **Cash Surrender Value** in the policy to pay the Cost of Insurance and other policy expenses. You can also increase or decrease the death benefit. Interest rates may fluctuate based on economic conditions, however many policies offer a guaranteed minimum interest rate.

These policies generally allow you to choose one of three potential **Death Benefit Options**:

- **Option A – Level Death Benefit**. This is for those seeking faster cash value accumulation. The underlying term insurance **acts like decreasing term insurance**, so as the cost of insurance increases each year, the amount of the insurance premium allocated to the COI stays the same, allowing the same amount of contributions towards the cash value to remain constant each year.
- **Option B – Increasing Death Benefit.** This is for those that want the death benefit to be a combination of both the initial death benefit plus the cash value. On the surface, this may seem to be the best choice, however it depends on the goal of the insured. The underlying term insurance acts like annual renewable term insurance, so as the cost of insurance increases each year, the amount of the insurance premium allocated to the COI increases, resulting in less of the premium going towards the cash value each year. This can be especially dangerous if a policy is minimally funded and interest rates remain low, particularly as the insured gets older and the cost of insurance drastically increases. Policies that have an Option B selection should always be **overfunded** to avoid such risk.
- **Option C – Return of Premium**. This option functions like an Option A plus a return of all premiums paid, net of any policy loans or withdrawals.

Variable Life

This type of insurance is similar to Whole Life, however in a Variable Life (VL) policy, cash value is actually invested in underlying mutual funds. These mutual funds are housed in a sub-account where an insured will have various sub-accounts to choose from. The cash value has the potential to grow as the market grows, however, just as in investing in mutual funds directly, the cash value may lose value.

With Variable Life, you lose the guarantees of Whole Life. In fact, even the Death Benefit can be less than originally purchased if the value of the cash value loses value. Some Variable Life policies will have a **Minimum Guaranteed Death Benefit** as a provision in the policy. Premiums are generally not fixed, meaning that you can increase or decrease premiums, however reduced premiums in a down stock market could compromise the status of the policy. As the cost of insurance increases and interest rates decline, it is possible that the premium payments are not enough to satisfy the COI and expenses of the policy. When this occurs, the additional funds will automatically be deducted from the cash value. With a

continued negative performance, the insured may be forced to significantly increase premiums, or the policy may potentially lapse.

In order to purchase a Variable Life policy, you will need to find a life insurance agent that has both a life insurance license **and** a securities license (Series 6/63).

Variable Universal Life

Variable Universal Life (VUL), as the name implies, is a combination of Variable Life and Universal Life, giving you the best of both worlds. You can choose one of the **Death Benefit Options** (A, B or C); invest the cash value into mutual fund subaccounts; increase, decrease or skip premium payments; and increase or decrease the Face Amount of the policy.

As with Variable Life, you will need to find a life insurance agent that has both a life insurance license **and** a securities license (Series 6/63) in order to purchase a VUL policy.

Indexed Universal Life

Indexed Universal Life (IUL) is one of the hottest insurance products on the market right now. It takes all of the benefits of VUL and adds a degree of **safety** to the cash value by allowing the cash value to be allocated into Indexed Accounts, which allows you to indirectly participate in the success of the stock market index, while avoiding the risk that is associated with a loss in the stock market index.

In order to purchase an Indexed Universal Life policy, you will need to find a life insurance agent that has only a life insurance license, since there are no underlying securities.

Permanent Insurance Comparison

Type	Premium	Cost Of Insurance	Death Benefit	Cash Value	Conceptual Description
Whole Life	Fixed and Guaranteed	Fixed and Guaranteed	Fixed and Guaranteed. Policyholder **cannot** increase.	Fixed and Guaranteed	Death Benefit is generally the Face Amount only. Includes Limited Pay and Single Premium Whole Life.
Universal Life	Flexible	Current and Guaranteed Rates	Interest-Sensitive. Policyholder **may** increase.	Interest-Sensitive	Cash Value has minimal guarantees. May choose Death Benefit Options (A,B,C)
Variable Life	Flexible	Current and	Variable.	Variable	Functions similar to whole

		Guaranteed Rates	Policyholder **cannot** increase.		life, except the cash value is invested in mutual fund subaccounts.
Variable Universal Life	Flexible	Current and Guaranteed Rates	Variable. Policyholder **may** increase.	Variable	Combination of Variable and Universal Life
Indexed Universal Life	Flexible	Current and Guaranteed Rates	Index Interest-Sensitive. Policyholder **may** increase.	Index Interest-Sensitive with a floor guarantee.	Benefits of VUL, without the volatility of directly investing in the market.

7. OTHER USES FOR LIFE INSURANCE

Life insurance is a financial planning tool not only for income replacement, but there are other valid uses for life insurance. Here are some of the practical applications of life insurance:

- **Buy/Sell Agreement:** To fund a Buy/Sell Agreement in the case of premature death of a partner of a business. These are used to buy out the interest of the insured's ownership in a business upon death.
- **Executive Bonus Plan:** An incentive program that employers can offer to select key employees, which allows them to be **discriminatory** and limit it to only **certain key people**, unlike a 401k plan. It allows employers to pay for the policy and deduct their contributions from the employer's taxable base. If the employee accesses the cash value, it is claimed and taxed as Ordinary Income. These plans are typically used to attract and retain executive or high-profile employees.
- **Business Loan Collateral:** Funds the outstanding business loan balance in the case of a premature death.
- **Final Expense Insurance:** This is a special version of a whole life insurance policy that is primarily used to pay for funeral costs. These plans are typically sold to seniors on a limited budget that may not qualify for traditional insurance due to health issues. Final Expense policies usually have a limited or **graded death benefit** for the first two years in order to help offset the higher risk that an insurance company has with these types of policies.
- **Joint Life Insurance:** This is a life insurance policy that covers the lives of two people on one policy. There are two types of joint life policies available: **First to**

Die and **Second to Die** *(sometimes called a Survivorship Policy)*. The cost of such a policy is cheaper than having two separate policies and is frequently used as part of an estate plan. Second to Die policies can sometimes cover someone that typically could not qualify for life insurance on their own due to bad health.

- **Key Employee Insurance:** Purchased by a business on the life of a key employee of that business. It protects the business from financial loss in the event of a premature death of a key employee. The business is the policy owner and premium payor as well as the beneficiary.
- **Charitable Uses:** To leave a legacy for a charity, church, or other cause.

8. LIFE INSURANCE RIDERS

You may add additional features and benefits to your life insurance policy by adding a **rider**. A rider is usually a feature that is provided at an additional cost, however some riders may be free and automatically included. Below is an example of some of the most common riders:

Guaranteed Renewability

Term Insurance only. This allows a policy the ability to renew at the end of the term and pay the actual cost of insurance as already stated in the policy regardless of the insured's insurability. This is usually a no-cost rider and is automatically included on most modern term insurance policies.

Guaranteed Convertibility

Term Insurance only. This allows a policy the ability to convert all or a portion of the term insurance Death Benefit into permanent insurance, regardless of one's insurability. This is usually a no-cost rider and is automatically included on most modern term insurance policies.

Waiver of Specified Premium

All Policy Types. In the event that a policyholder becomes disabled for 6 months or more, this rider will pay for the actual premium that the insured is scheduled to pay. For permanent insurance, this will allow cash value to continue to grow. This rider usually expires at age 65.

Waiver of Monthly Deduction

UL/VL/IUL. In the case that a policyholder becomes disabled for 6 months or more, this rider will pay only for monthly deductions (Cost of Insurance and Policy Expenses) that the policy incurs. It will **not** add premium to the Cash Value. This is a less costly option for Permanent Insurance than the Waiver of Specified Premium. This rider usually expires at age 65.

Paid-Up Additions

Permanent Policies Only. For a mutual insurance company that pays a dividend, you may have the dividends purchase an additional paid-up Death Benefit.

Lifetime Income Option

Permanent Policies Only. This rider allows the insured to take a specified guaranteed lifetime income for the remainder of their life. Once an insured has elected this option, they usually may not make any additional premium payments to the policy. One of the great benefits of this rider is that it functions *similar* to an annuity; however, it has the tax advantages that only life insurance can offer.

9. LIFE INSURANCE LIVING BENEFITS

Life Insurance has typically only provided a payment of a claim upon the death of the insured. Living Benefits, sometimes called Accelerated Benefit Riders, is a relatively new feature that is added to some life insurance policies that allow the insured to place a claim against their policy while they are alive for a qualifying **Chronic**, **Critical** or **Terminal Illness.**

Chronic Illness

Usually defined as losing 2 or more of your Activities of Daily Living (ADL): Bathing, Dressing, Toileting, Transferring, Continence, Eating; or a severe cognitive impairment such as Alzheimer's disease and Dementia.

Critical Illness

Usually defined as one of the following conditions: Major Heart Attack, Stroke, Major Organ Transplant, Coronary Artery Bypass, Invasive Cancer, End Stage Renal Failure, Paralysis, Coma or Severe Burn.

Terminal Illness

Generally defined as an incurable disease that cannot adequately be treated by a physician and is reasonably expected to result in the insured's death within 24 months *(12 months in some states)* from the date of diagnosis.

Imagine being able to place a claim against your life insurance policy if you suffer from any of these conditions. Policies with this rider have been described as "*Life Insurance That You Don't Have To Die To Use.*"

Unlike **Long-Term Care insurance**, which has premiums that increase with age and only covers approved reimbursement expenses, Living Benefit awards can be used to pay

anything: *the mortgage payment or pay it off completely, auto loans, groceries, healthcare, travel, or anything else that you want*. The benefit is **not coordinated** with any other healthcare, and may be **tax-free**, subject to current IRS Regulations.

FACT!

Living Benefits are available on both term and permanent insurance policies.

10. LIFE INSURANCE TAX ADVANTAGES

The IRS defines what is considered life insurance policy based on two criteria, providing the policy was placed in force after June 20, 1988:

1. It must meet the statutory definition of life insurance; and
2. The policy must meet the requirements of the Technical and Miscellaneous Revenue Act of 1988 (TAMRA) 7-pay test.

If it does not meet the above qualifications, it is considered a Modified Endowment Contract (MEC) and it will lose many of its tax-advantages.

Tax-Free Death Benefit

Upon death, the death benefit, including any applicable cash value, is passed to the named beneficiary income tax and estate tax-free. Cash Value in a life insurance policy is not part of an insured's estate and will bypass probate court.

Tax-Deferred Earnings

Earnings in a permanent life insurance policy are generally not taxable. A taxable event will occur if the policy is surrendered or lapsed, and the proceeds returned are in excess of the **cost basis** *(the total of the premiums paid)* of the policy.

Tax-Deferred Withdrawals

Your cost basis can be withdrawn **tax-free**, as this was already paid with After Tax dollars, providing there is available **cash surrender value**.

Tax-Deferred Loans

Policy gains may be taken out as a **Policy Loan** and will remain **tax-free** as long as the policy stays in force for the lifetime of the insured. When a loan is taken against a life insurance policy, the insurance company will charge an interest rate to "borrow" the money.

Many Universal Life based policies offer **zero-cost** or **wash loans**, effectively eliminating the cost of these loans.

Also available are **variable loans**, which allow the cash value to continue to earn interest while the policy loan is outstanding.

FACT!

A life insurance policy loses its tax advantages if its premiums exceed federal tax law limits. This is known as a Modified Endowment Contract.

11. BE YOUR OWN BANK

Life insurance policy loans can be a great way to avoid traditional banking loans and keep money in your pocket.

Let's say a you wanted to purchase a new auto from a dealership that is charging 5% for an auto loan. Instead of pursuing that loan, you could look to your Indexed Universal Life insurance policy. Assume that the cash value was earning 8% and the policy loan rate was 6%. You could "borrow" the money for the car, and your cash value would still earn 2%, placing you in an **arbitrage** position.

	Auto Loan	**IUL Variable Policy Loan**
Interest Rate	-5% Loan Charge	+8% Index Credit -6% Loan Charge **+2% Arbitrage**
Flexible Payments?	No	Yes
Repayment Required?	Yes	No

"IF YOU DON'T GET SERIOUS ABOUT YOUR MONEY – YOU WILL NEVER HAVE SERIOUS MONEY"

12. BUY TERM AND INVEST THE DIFFERENCE

An alternative to cash value insurance is to use a strategy called **Buy Term and Invest the Difference**. The premise of this strategy is to separate the life insurance and savings into two separate vehicles – a term insurance policy and a separate savings account, usually in a mutual fund or indexed annuity.

The first order of financial planning should always be ensuring that an insured has enough **living and death benefits** to cover a loss. Term insurance does a great job of covering this risk while the insured's financial responsibilities are high.

If the insured has enough term life insurance and can afford it, the next step is to take whatever money is remaining that is available for investment *("the difference")* and begin consistent contributions.

This is a great strategy for many people, especially when they may not have enough cash flow to properly invest. There are a few considerations to keep in mind with this strategy:

- Less than 2% of all term insurance policies ever pay a death claim. This is because we are generally younger and healthier when these products are the most affordable.
- To keep term insurance in force at the end of the term will be more expensive, especially for 15 year and higher terms.
- Investments in an IRA or Roth IRA are limited by earned income and have annual contribution limits. 401ks also have limitations.
- An IRA, Roth IRA and 401k are all part of the policyowner's **estate**. Unless the assets are passed to the spouse, there could be a huge estate tax problem.
- Annuities, even Indexed Annuities are taxed as **Ordinary Income Tax** rates, the highest tax in America.
- Distributions from Non-Qualified Annuities are taxed on a **LIFO** basis – Last In, First Out. This means that you will pay Ordinary Income Tax on the earnings first. When the earnings are fully paid out, your cost basis is then returned to you.

Using the Buy Term and Invest the Difference strategy can be a great way to begin your road to financial independence, however discipline and consistency to invest is the key. If you think that you may want to change strategies in the future to a permanent plan, you may want to avoid investing in a Qualified Plan or an annuity.

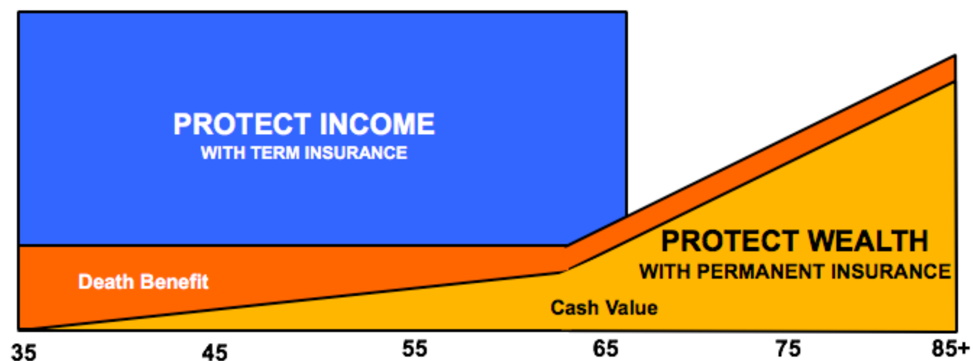
FACT!

There is no such thing as a "bad insurance product!" There are just bad applications of great products!

13. BUY TERM AND THE REST IN PERM

If you take the same basic strategy of Buy Term and Invest the Difference, and instead of taking "the difference" and placing it into a Qualified Plan *(such as a Roth IRA, IRA or 401k),* or an annuity, you placed it into a fully-funded permanent insurance product such as an **IUL**. This strategy's key considerations:

- It has a high term insurance living and death benefit to cover the insured during the years where they need it most.
- Purchase a term policy that has a term expiration close to your 65th birthday if possible.
- "The Difference" is used to purchase a **fully-funded** permanent insurance product, such as an IUL. The permanent insurance product is not being used primarily as an income replacement tool at this point, rather it is built as a cash accumulation vehicle. Using an IUL with an Option A Death Benefit Option usually keeps the policy expenses very low.
- Since the IUL is fully-funded, additional premiums cannot be added without making the policy a **Modified Endowment Contract (MEC)**. If you want to make additional contributions to a fully-funded IUL, use the Guaranteed Convertibility rider on your term insurance policy to increase the death benefit on the IUL. The IRS will now allow you to contribute higher premiums.
- Any Living Benefit claims while the term insurance policy is in force should be made against the term insurance policy, not the permanent policy. This will ensure that the cash value in the permanent policy is unaffected.
- The cash value is protected from creditors, lawsuits and more.
- The cash value is now excluded from your estate and upon death can pass to your named beneficiary as an income tax and estate tax-free life insurance benefit.
- Most importantly, you now have the ability to have a tax-free retirement!



OTHER INSURANCE

1. LONG-TERM CARE INSURANCE (LTC)

By the time you reach 65, chances are about 50% that you will have expenses related to Long-Term Care. If you pay out of pocket, you would spend $140,000 on average. Yet many people have not planned for that financial risk. Only 7.2 million or so Americans have LTC insurance, which covers many of the costs of a nursing home, assisted living or in-home care.

Medicare and health insurance will cover rehabilitation, nursing home care and immediate health care costs. However, it won't cover custodial or intermediary care.

Medicaid will cover custodial and nursing home care; however, this is reserved for those who are in financial need. In order to be eligible for Medicaid, you would need to **spend down** your assets to roughly $2,000 *(depending on the state you live in)* before you could qualify for Medicaid. Once qualified, only the cost of a Medicaid-approved nursing facility would be covered.

Long-term care is an issue because people are living longer. As people age, many times they need help with everyday activities of daily living or require supervision due to severe cognitive impairment. This impacts women even more since women often live longer than men and by default, they become caregivers to others. Long-Term Care Insurance can pay for expenses incurred when you have a severe cognitive impairment such as Alzheimer's Disease or dementia, or if you lose the ability to perform two out of six of your **Activities for Daily Living (ADL):** *bathing, continence, dressing, eating, toileting and transferring*.

You can purchase LTC insurance as a stand-alone policy or as a **rider** on some life insurance policies.

2. DISABILITY INSURANCE

Disability Insurance, sometimes called **Disability Income Insurance,** is an insurance policy that insures based on your earned income against the risk of a disability that would prevent you from performing the core functions of the insured's work. Disabilities that are incurred "*on-the-job*" are not covered by Disability Insurance - these disabilities would be covered under the employer's **Workman's Compensation** insurance policy.

Disability Insurance can be short-term, with coverage lasting from 3-6 months; or it can be long-term, for periods of 6 or more months.

There are two main types of Disability Policies:

Any Occupation

This policy pays if you are unable to do any kind of work. If you are capable of still working, even if it is at a much lower-paying job, this type of policy would not pay benefits.

Own Occupation

This policy covers your specific occupation with no other stipulations. If you are unable to perform the material and substantial duties of your pre-injury occupation, the benefit is paid, regardless of whether you choose to work elsewhere.

Coverage for disability insurance can be purchased from some employers, as well as individually or as a rider.

In order to be able to sell disability insurance as a stand-alone policy, a health insurance license is needed. To sell most disability riders on a life insurance policy, such as Waiver of Specified Premium, a health insurance license is not required.

ANNUITIES

An annuity is offered by a life insurance company. Many times, the true value of annuities is misunderstood. When used properly, annuities can be a great part of a solid financial plan. In fact, fixed annuities can be used to create a **guaranteed income for life**! And if the annuity is set up as a Roth IRA, the fixed annuity can create a **tax-free guaranteed income for life**.

Annuities can be **Qualified or Non-Qualified.** Regardless of how it is set up, you cannot take distributions from an annuity prior to age 59 ½ without being penalized an early withdrawal fee of 10% from the IRS. That is true for all annuities, **except Single Premium Immediate Annuities (SPIAs).**

Cash value from a life insurance policy can be rolled over into an annuity contract without creating a taxable event. This is called a **1035 Exchange**. Note that it is not allowed the other way around. Annuity cash value cannot have a 1035 exchange into a life insurance contract.

There are 3 Main Types of Annuities:

- **Fixed Annuities:** An annuity with a fixed rate of return.
- **Fixed Indexed Annuities:** An annuity where the cash value is linked to a stock market index. Such an annuity will have a choice of Indexed Accounts such as a Participation Rate Account and a Cap Rate Account. There is a guaranteed 0% loss floor, meaning that if the index has a negative return, the cash value will not suffer a loss.
- **Variable Annuities:** An annuity where the cash value is invested in mutual fund subaccounts. As with any variable investment, there is risk of loss.

Annuities can be further broken down into two main categories: Deferred and Immediate.

Deferred Annuities

This is an annuity that begins payments to an **annuitant** after a specified period of time following the initial purchase. A deferred annuity can be funded with installments **<u>or</u>** it can be a one-time **Single Premium** *("lump-sum")* contribution.

Immediate Annuities

An immediate annuity is an annuity that is purchased with one **Single Premium** *("lump-sum")* contribution and income payments begin usually within 30 days.

1. ACCUMULATION PHASE

This is the period of time that an annuitant makes contributions to the annuity to build up the cash value. The more contributions that are made to an annuity during the **Accumulation Phase**, the more income will be received by the annuitant during the Annuitization Phase. The longer an annuitant postpones income payments by going into the Annuitization Phase, and the longer the Accumulation Phase is, the more income will be received by the annuitant.

2. ANNUITIZATION PHASE

When an annuitant decides to begin income payments, he enters the **Annuitization Phase**, sometimes referred to as the Payout Phase. An annuitant can receive income payments in different ways:

Life Only Option

This option typically has the highest payout because the payout is based solely on the life of the annuitant. When the annuitant dies, no further payments are made.

Joint and Survivor Option

This option will continue to make income payments to the spouse upon the death of an annuitant. The income payment will be less than the Life Only Option because the income calculation is based on the life expectancy of both spouses.

Period Certain Option

This option will ensure that the income payments from an annuity will pay for a guaranteed number of years, even if the annuitant dies during the period. When this happens, payments will continue to a named beneficiary. Common periods to select are 10, 15 and 20 years.

Life with Period Certain Option

This option is similar to the Period Certain Option, however if the annuitant lives past the chosen Period Certain, the income payments will continue for as long as the annuitant lives.

Net Refund Option

Upon the death of an annuitant, this option will pay a named beneficiary the difference between what was already paid out to the annuitant and the total amount that the annuitant originally paid in premiums. This is sometimes called a **Cash Refund Annuity,** a **Pure Life Annuity** or a **Straight Life Annuity**.

Annuities can be a powerful financial tool when used **properly**. It is the "opposite" of life insurance. With life insurance, you are betting that you will ***die too soon***. With an annuity, you are betting that you are going to live too long.

Unlike a life insurance policy, annuities can be an option for a Qualified Plan **rollover**. Moreover, Qualified Annuities can be **converted** into a Roth IRA which can help put a person on the road to a tax-free retirement. The annuitant would have to pay taxes on the rollover, so a careful review with a financial professional would be **required** in order to determine the feasibility and suitability of such a move.

TRADITIONAL INVESTMENTS

Most people are familiar with these types of traditional investments. The expectation of these investments is capital appreciation, dividends or interest earnings.

1. STOCKS

A stock is an instrument that signifies an equity ownership in a corporation and represents a claim on part of the corporation's assets and earnings. A single share of the stock represents fractional ownership of the corporation in proportion to the total number of shares.

2. BONDS

A bond is an instrument of indebtedness issued by governments or companies which promise to pay an annual return until the debt is repaid. The value of the investment changes as the level of general interest rates fluctuate, causing the bond to become more or less valuable. The most common types of bonds include municipal bonds and corporate bonds. Bonds are a form of loan where the bond is the lender (creditor), the issuer of the bond is the borrower (debtor), and the coupon is the interest.

3. MUTUAL FUNDS

A mutual fund is a professionally managed investment fund that pools money from many investors to purchase securities. Mutual funds have advantages and disadvantages compared to direct investing in individual securities. The primary advantages of mutual funds are that they provide economies of scale, a higher level of diversification, they provide liquidity, and they are managed by professional investors. On the negative side, investors in a mutual fund must pay various fees and expenses.

4. EXCHANGE-TRADED FUNDS (ETFS)

An exchange-traded fund is an investment fund traded on stock exchanges, much like stocks. An ETF holds assets such as stocks, commodities, or bonds and generally operates with an arbitrage mechanism designed to keep it trading close to its net asset value, although deviations can occasionally occur. Most ETFs track an index, such as a stock index or bond index. ETFs may be attractive as investments because of their low costs, tax efficiency, and stock-like features.

5. THE DOW JONES INDUSTRIAL AVERAGE

The Dow Jones Industrial Average (DJIA), usually referred to as simply "The Dow", is a price-weighted average of 30 large, publicly owned companies traded on the New York Stock Exchange (NYSE) and the NASDAQ.

The DJIA is one of the oldest, single most-watched indices in the world and includes companies such as the Apple, Home Depot, Wal-Mart and Boeing. When the TV networks say "the market is up today," they are generally referring to the Dow. The DJIA is an indication of the American economy, however it does not include smaller companies. The DJIA was invented by Charles Dow in 1896.

Dow Companies As Of 2020		
3M Co,	**Goldman Sachs Group, Inc.**	**Pfizer Inc.**
Apple, Inc.	**Home Depot, Inc.**	**Procter & Gamble Co.**
American Express Co.	**IBM Corp.**	**Travelers Cos., Inc.**
Boeing Co.	**Intel Corp.**	**Walt Disney Co.**
Caterpillar, Inc.	**Johnson & Johnson**	**UnitedHealth Group, Inc.**
Cisco Systems, Inc.	**JPMorgan Chase & Co.**	**United Technologies Corp.**
Chevron Corp.	**McDonald's Corp.**	**Verizon Communications**
Coca-Cola Co.	**Merck & Co., Inc.**	**Visa, Inc.**
Dow, Inc.	**Microsoft Corp.**	**Walgreens**
Exxon Mobil Corp.	**NIKE, Inc.**	**Walmart**

6. THE NASDAQ

The NASDAQ Stock Market, also known simply NASDAQ, is a global electronic marketplace for buying and selling securities, as well as the benchmark index for U.S. technology stocks. It is the second-largest exchange in the world by market capitalization, behind only the New York Stock Exchange located in the same city. NASDAQ was created by the National Association of Securities Dealers (NASD) to enable investors to trade securities on a computerized, speedy and transparent system, and commenced operations on February 8, 1971. The term “NASDAQ” is also used to refer to the NASDAQ Composite, an index of more than 3,000 stocks listed on the NASDAQ exchange that includes the world’s foremost technology and biotech giants such as Apple, Google, Microsoft, Facebook, Amazon, Tesla and Adobe.

7. THE S&P 500

The Standard & Poor's 500, often abbreviated as the S&P 500, or just the S&P, is an American stock market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ. The S&P 500 index components and their weightings are determined by S&P Dow Jones Indices. It represents all major sectors of the US economy including technology, healthcare, manufacturing, energy,

pharmaceuticals and financials. The diverse index accurately reflects the U.S. economy much better than the Dow.

8. ASSET ALLOCATION

We have all heard the phrase "*Don't put all of your eggs in one basket.*" That is the basic premise of Asset Allocation. The idea is to balance out risk versus reward by diversifying your investments among different **strategies**, adjusting the percentage of each asset in an investment portfolio according to the investor's risk tolerance, goals and investment time frame. The focus is on the characteristics of the overall portfolio. Such a strategy contrasts with an approach that focuses on individual assets.

Consider a one-time investment of $20,000 divided up into 5 different investment strategies, each with an equal $4,000 allocated, invested for 20 years:

Allocation	Rate Of Return	Ending Balance
Investment Strategy #1	-100%	$0
Investment Strategy #2	0%	$4,000
Investment Strategy #3	3%	$7,224
Investment Strategy #4	5%	$10,613
Investment Strategy #5	11%	$32,249
	Total After 20 Years:	**$54,086**

The above example shows how with diversification, you can still wind up ahead over time, even when some investments lose money and perform badly. While you can diversify into different investments, asset allocation involves different investment **strategies** or **objectives**. Examples of investment strategies are:

- **Conservative Strategy:** 65% invested in Fixed Income, 35% in large company stocks.
- **Moderate Strategy:** 50% invested in Fixed Income, 50% in large company stocks.
- **Moderate Growth:** 30% invested in Fixed Income, 50% in large company stocks, 20% in mid-cap stocks.
- **Aggressive Growth:** 30% in large company stocks, 35% in mid-cap stocks, 35% in small-cap stocks.

As things change in your life, you can adjust your asset allocation. Generally, when you are younger, you may be more aggressive since you have the benefit of time. As you get older, you tend to become more conservative, thus you constantly should adjust your asset allocation as you are willing to take less risk.

9. DOLLAR COST AVERAGING

Determining when to get into the market is nearly impossible, as you never know when the market is at its highest high, or its lowest low. Dollar cost averaging is a strategy that involves systematically investing each month to help offset the market risk associated with purchasing variable investments, such as stocks, mutual funds or other equity investments. Dollar cost averaging is not always the most profitable way to invest a large sum of money, but it minimizes downside risk. The idea is to lower the average cost per share by averaging your purchase price over time.

As the number of shares that can be bought for a fixed amount of money varies inversely with their price, dollar cost averaging leads to more shares being purchased when their price is low and fewer when they are expensive. As a result, dollar cost averaging may lower the total average cost per share of the investment, giving you a lower overall cost for the shares purchased over time.

Month	Monthly Contribution	Share Price	# of Shares Purchased
January	$200	$200	1
February	$200	$100	2
March	$200	$50	4
April	$200	$25	8
May	$200	$100	2
June	$200	$50	4

Total Contributions: $1,200

Average Cost per Share: $525 ÷ 6 months = **$87.50**

Total Shares Accumulated: 21

You can see that even though the share price started as high as $200 per share and ended up as only ¼ of its original price, 21 shares were purchased, and the risk was averaged out. The more shares that you have, the better off you will be when the shares rise back up. Keep in mind that this example only shows a 6-month period. During a prolonged down market, the recovery may take much longer. Selling at the bottom makes you **realize** a loss. As with any investment, you must make calculated decisions based on your goals and risk tolerance.

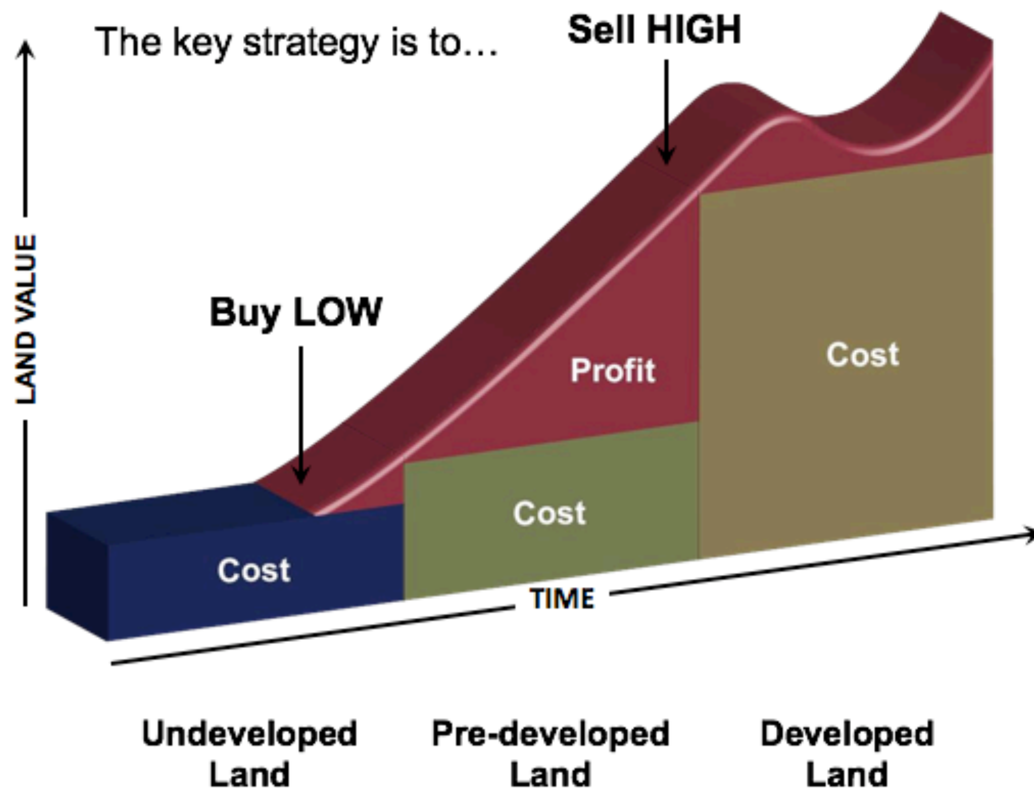
ALTERNATIVE INVESTMENTS

An Alternative Investment is an investment in asset classes other than stocks, bonds, mutual funds, exchange-traded funds or cash. An Alternative Investment may include tangible assets such as real estate, land and precious metals, and also includes financial assets such as life settlements, land leases and tax lien certificates. Many of these Alternative Investments can be held in a **Self-Directed IRA** or a **Solo 401k**.

1. LAND BANKING

Land banking is the acquisition of parcels of land for future sale or development. This has been widely popularized in Southern California with **pre-developed** commercial land. The idea is to purchase land that is already in the path of great growth, with level usable land, infrastructure, and near major population centers, hold it for a number of years, then finally sell it for a profit.

History has shown that significant asset growth can be accomplished through holding real estate assets, however the main driver of the value is with the land, **not** in the value of the house.



The following 10 key indicators should be present when deciding to invest in Land Banking:

- Level, usable land.
- Close proximity to a major metropolitan area.
- Growth industries should already be in place and expanding.
- An abundant water supply.
- Adequate utilities designed for massive growth.
- Accessible to mass-transportation, airports, trains, etc.
- Large commercial and residential development.
- Studies projecting a healthy population growth.
- Educational facilities
- Regional master plan for community and municipal infrastructure.

Land Banking, when chosen wisely as indicated above, can be a rather a safe and secure long-term strategy that is incorporated in a diversified financial plan.

2. LAND LEASES

A Land Lease is essentially an agreement between parties to allow a Lessee (the oil and gas company and their crew) to have access to the property and minerals (oil and gas) on the property of the Lessor. The lease agreement is a legal contract of terms. It contains certain elements, which confirm all the terms of the agreement. An investor may purchase a Land Lease in the form of a Promissory Note that may be secured by the real property or mineral rights. Since the investor has no ownership in the actual land or the oil and gas that it may produce, the Land Lease is a debt instrument, functioning similar to a bond. This promissory note will typically pay the investor fixed monthly payments for a specified term.

3. OIL & GAS INTERESTS

Oil & gas interests are where you can purchase equity ownership into an oil or gas limited partnership that is expected to produce revenue from the sales of the petroleum products that it extracts. While there is significant upside potential as well as great tax benefits, such an investment is not for everyone due to the potential risks involved.

4. LIFE SETTLEMENTS

A Life Settlement gives an investor the right to receive from a third-party beneficiary a portion of the death benefit payable under a specific policy once paid to that beneficiary by the life insurance company that issued the policy. The life settlement asset class has been in use by institutions and the super wealthy for large financial firms for well over 100 years.

5. MERCHANT CASH ADVANCE

Merchant Cash Advance is a loan that is given to small and medium-sized businesses as an alternative to a bank loan. The loan is secured by the accounts receivable of the business that borrows the money. MCA companies pool many of these loans into a fund and package it for accredited investors to invest in. These investment pools will generally pay the investor a very favorable interest rate on a monthly basis.

6. SECONDARY MARKET ANNUITY PAYMENTS

This investment is a stream of income purchased at a discount from the original annuitant of a structured settlement. Structured settlements are created when the plaintiff in a lawsuit or lottery winner agrees to a financial award, ordered by court of law, which establishes one or more annuities to provide payments, monthly or lump sum, on an agreed-upon timetable. Investors may purchase one of these instruments and receive fixed and guaranteed income payments which are usually backed by a court order.

7. TAX LIEN CERTIFICATES

A tax lien certificate is a certificate of claim against a property that has a lien placed upon it as a result of unpaid property taxes. Tax lien certificates are generally sold to investors through an auction process. The term of tax lien certificates typically ranges from one to three years. The certificate enables the investor to collect unpaid taxes plus the applicable prevailing rate of interest, which can range from 8 to more than 30 percent, depending on the jurisdiction.

RETIREMENT PLANS

There are two basic categories of retirement plans:

- **Defined Benefit Plan:** A defined-benefit plan is an employer-sponsored retirement plan where employee benefits are computed using a formula that considers several factors, such as length of employment and salary history. These types of plans, also referred to Pensions, are expensive for the employer. Many companies have eliminated these types of plans in favor of 401k plans.
- **Defined Contribution Plan:** A retirement plan that's typically tax-deferred, like a 401k or a 403b, in which employees contribute a fixed amount or a percentage of their paychecks in an account that is intended to fund their retirement. The employer may match a portion of employee contributions as an added benefit to help retain and attract top talent. These plans place restrictions that control when and how each employee can withdraw from these accounts without penalties. The employer is known as the **sponsor**. The plan **administrator** is usually a mutual fund company, brokerage, or an insurance company.

Below are some of the most common types of retirement plans available:

1. 401K PLAN

- Offered through employers.
- Contributions are tax-deductible.
- IRS 10% Penalty for withdrawals prior to age 59 ½.
- Required Minimum Distributions at age 72 or 50% Excise Tax applies.
- Distributions are taxed as Ordinary Income Tax rates.
- Some plans offer 401k loans.
- For elective deferrals, you may contribute up to $19,000 in 2019, increasing to $21,000 if you are age 50 or older.
- For defined contributions, you may contribute up to $56,000 in 2019.

2. INDIVIDUAL RETIREMENT ACCOUNTS (IRA)

- Sometimes referred to as a Traditional IRA.
- Contributions are tax-deductible.
- Contribution eligibility not limited by your income.
- IRS 10% Penalty for withdrawals prior to age 59 ½.

- Required Minimum Distributions at age 72 or 50% Excise Tax applies.
- Distributions are taxed as Ordinary Income Tax rates.
- You may contribute up to $6,000 in 2019, increasing to $7,000 if you are age 50 or older.

3. ROTH IRA

- Contributions are **not** tax-deductible.
- No 10% Penalty for withdrawals prior to age 59 ½ on the Cost Basis.
- Withdrawals of any realized gains prior to age 59 ½ are subject to an IRS 10% Penalty.
- Contribution eligibility limited by your income.
- No Required Minimum Distributions or Excise Tax.
- Distributions are income tax-free.
- You may contribute up to $6,000 in 2019, increasing to $7,000 if you are age 50 or older.

4. ROTH 401K

- Offered through some employers but not very common.
- Contributions are **not** tax-deductible.
- No 10% Penalty for withdrawals prior to age 59 ½ on the Cost Basis.
- Withdrawals of any realized gains prior to age 59 ½ are subject to an IRS 10% Penalty.
- Contribution eligibility limited by your Modified Adhusted Gross Income (MAGI). Phaseouts begin at MAGIs of $122,000 for single filers in 2019, and you can't contribute if your MAGI tops $137,000. Limits for married taxpayers filing joint returns increase to $193.000 and $203,000.
- No Required Minimum Distributions or Excise Tax.
- Distributions are income tax-free.
- You may contribute up to $6,000 in 2019, increasing to $7,000 if you are age 50 or older.

5. SIMPLE IRA

- Acronym for "Savings Incentive Match Plan for Employees".
- Designed for small businesses with 100 or fewer employees.
- The Maximum employer match is $13,000 on the first 3% of employee deferred compensation.
- Employers can provide a matching contribution.
- Contributions are tax-deductible.
- Contribution eligibility not limited by your income.
- Distributions taken within two years of opening can result in a 25% Penalty.
- 10% Penalty for withdrawals prior to age 59 ½.
- Required Minimum Distributions at age 72 or 50% Excise Tax applies.
- You cannot borrow from a SIMPLE IRA.
- Distributions are taxed as Ordinary Income Tax rates.
- You may contribute up to $13,000 in 2019, increasing to $16,000 if you are age 50 or older.

6. SEP IRA

- Acronym for "Simplified Employee Pension" IRA.
- Designed for an employer or self-employed individual.
- Employers can provide a matching contribution.
- Contributions are tax-deductible **by the employer**. Employees cannot contribute.
- Contributions made by the employer are 100% vested to the employee.
- Contribution eligibility not limited by your income.
- 10% Penalty for withdrawals prior to age 59 ½.
- Required Minimum Distributions at age 72 or 50% Excise Tax applies.
- Distributions are taxed as Ordinary Income Tax rates.
- In 2019, you may contribute up to $56,000 or 25% of income – whichever is less.

7. 403B / TAX-SHELTERED ANNUITY

- Also referred to as a **Tax-Sheltered Annuity** (TSA).
- Specific to public schools and other tax-exempt organizations.
- Employers can provide a matching contribution.
- Contributions are tax-deductible.
- A 403b is an annuity contract.

- Contribution eligibility not limited by your income.
- 10% Penalty for withdrawals prior to age 59 ½.
- Required Minimum Distributions at age 72 or 50% Excise Tax applies.
- Distributions are taxed as Ordinary Income Tax rates.

Employer-sponsored Defined Contribution Plans such as the 401k and 403b are increasing in popularity, however very few people truly understand how these vehicles work. Furthermore, participants rarely understand the tax implications of such plans.

Many Retirement Plans can be rolled over from one type to another, however that is not always the case. Refer to the below **Rollover Chart** to see how what is allowed.

		ROLLOVER TO								
		401(k) Plan	403(b) Plan	457(b) Gov't Plan	457(b) Non-Profit	SEP IRA	Traditional IRA	SIMPLE IRA	Roth IRA	Designated Roth Account (401k/403b/457b) In-Plan Rollover
ROLLOVER FROM	401(k) Plan	Yes	Yes	Yes	No	Yes	Yes	No	Yes	Yes
	403(b) Plan	Yes	Yes	Yes	No	Yes	Yes	No	Yes	Yes
	457(b) Gov't Plan	Yes	Yes	Yes	No	Yes	Yes	No	Yes	Yes
	457(b) Non-Profit Plan	No	No	No	Yes	No	No	No	No	No
	SEP IRA	Yes	Yes	Yes	No	Yes	Yes	No	No	Yes
	Traditional IRA	Yes	Yes	Yes	No	Yes	Yes	No	Yes	No
	SIMPLE IRA [1]	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	No
	Roth IRA	No	No	No	No	No	No	No	Yes	No
	Designated Roth Account (401k/403b/457b) In-Plan Rollover	No	No	No	No	No	No	No	No	Yes [2]

For informational purposes and only and is not legal, tax or investment advice. You should consult a tax advisor for more information. [1]Rollovers from SIMPLE IRAs are allowed after 2 years of participation. [2]Only if it is a direct trustee-to-trustee transfer.

SOCIAL SECURITY

Social Security is an important part of the Old-Age, Survivors, and Disability Insurance (OASDI) program. This is a social welfare and insurance plan managed by the U.S. federal government that pays benefits to retirees, as well as to workers who become disabled and to survivors of deceased workers. Social Security's benefits include retirement income, disability income, Medicare and Medicaid, and death and survivorship benefits. Social Security is one of the largest government programs in the world, paying out hundreds of billions of dollars per year.

Based on the year someone was born, retirement benefits may begin as early as age 62 and as late as age 70. The amount of income received is based on "average indexed monthly earnings" during the 35 years in which you earned the most. Spouses are also eligible to receive Social Security benefits, even if they have limited or non-existent work histories. A divorced spouse can also receive spousal benefits, if the marriage lasted 10 years or longer.

1. PROVISIONAL INCOME AND TAXATION OF SOCIAL SECURITY BENEFITS

To understand why our Social Security gets taxed, it's important to understand Provisional Income. Provisional income includes all of the following:

- All earned income.
- Distributions from Qualified Plans (IRAs, 401Ks, etc.).
- Required Minimum Distributions (RMDs).
- 1099 income.
- Pension income.
- Rental income.
- Interest from Municipal Bonds.
- One-half of your Social Security income.

The IRS adds up all of your Provisional Income and, based on that total, and your marital status, determines what percentage of your Social Security benefits will become taxed. That percentage of your Social Security is then taxed at your highest marginal tax rate.

2020 Provisional Income Thresholds (Married Filers)

Provisional Income	Percent of Social Security Subject to Tax
Under $32,000	0%
$32,000 to $44,000	50%
Over $44,000	85%

2020 Provisional Income Thresholds (Single Filers)

Provisional Income	Percent of Social Security Subject to Tax
Under $25,000	0%
$25,000 to $34,000	50%
Over $34,000	85%

Example of Social Security Taxation

Bob and Mary's Provisional Income is as follows:

- Pension: $50,000 per year
- Required Minimum Distributions: $20,000 per year
- 1/2 of Social Security: $15,000 per year

Total Provisional Income: $85,000

Because Bob and Mary breached the $44,000 threshold, 85% of their Social Security became taxable at their highest marginal tax bracket.

Assuming a 25% federal tax rate *(Most states do not charge state tax for Social Security),* and assuming a Social Security benefit of $30,000, then 85% of that amount would be subject to taxation. 85% of $30,000 is $25,500. When we multiply $25,500 by 25%, we find that Bob and Mary's total Social Security tax bill is **$6,375 per year**!

Because of Social Security taxation, Bob and Mary experienced the following:

- Lost $6,375 in yearly Social Security benefits
- To compensate, they would likely have taken distributions from their IRA
- At 30% tax rates, this totals $9,107
- Total cost of Social Security Taxation = **$9,107 per year!**

The Long-Term Costs of Social Security Taxation

The damage doesn't stop here. Bob and Mary not only lost $9,107 because of Social Security taxation, they lost what it could have earned for them had they been able to keep it and invest it over the balance of their retirement.

If Bob and Mary had been able to keep that $9,107 every year and invest it at 8% over the next 20 years, how much better off could they be? $450,094 better off! So, the total cost of Social Security taxation can take a huge toll on one's retirement over time.

2. AVOIDING SOCIAL SECURITY TAXATION

Given the realities of Provisional Income, is there any possible way to avoid Social Security taxation? The key is to keep your Provisional Income below the thresholds which cause Social Security to be taxed.

This can be done by repositioning a portion of your assets into vehicles that do not count as Provisional Income, such that your remaining streams of income keep you below these thresholds. By accumulating the right amounts of money in the right types of vehicles, you can reduce your Provisional Income to acceptable levels and keep your Social Security free from tax!

Ensure that Your Provisional Income Stays Below Thresholds

The following vehicles do not count as Provisional Income:

- Roth IRAs.
- Roth 401ks.
- Roth Conversions.
- Permanent Life Insurance, such as Indexed Universal Life.

ESTATE PRESERVATION

Everyone has an estate. Your estate includes your house, bank accounts, personal possessions, retirement accounts, personal ownership interests in a business and more. The value of your estate is reduced by your liabilities, such as mortgages and loans. Without careful planning, items that are in your estate may pass in a manner where someone else, such as a judge, makes the decisions.

There are several important planning steps that you can utilize to preserve your estate:

- **Establish a Will.** A will, also known as a Last Will and Testament, is a legally enforceable declaration of how a person wants their property and assets distributed after death. In a will, a person can also recommend a guardian for their minor children and make provisions for any surviving pets. Without a will, a probate judge will decide how to distribute your estate.
- **Establish a Living Trust.** Also called a **Revocable Trust**, a living trust is often used to avoid probate. It's designed to allow for the easy transfer of the trust creator or settlor's assets, while bypassing the often complex and expensive legal process of probate. Living trust agreements designate a **trustee** who holds legal possession of assets and property that flow into the trust. This type of trust can be changed or revoked at any time during the lifetime of the person who set it up.
- **HIPAA Authorization:** HIPAA is the Health Insurance Portability and Accountability Act of 1996, a federal law that protects a person's private medical and mental health information. A HIPAA Authorization is a document that designates a person who may receive another person's private medical and mental health information.
- **Living Will Declaration:** Also called an **Advance Directive**, is a document that instructs your physicians and loved ones as to your intentions relative to life support *(i.e., artificial nutrition, hydration and respiration)*, in the event that you are permanently unconscious or have a terminal condition.
- **Establish a Power of Attorney:** This is a document which names and authorizes a person *(the attorney-in-fact)* to make financial decisions, property decisions or medical decisions for another person *(the principal)*. The Power of Attorney is frequently used in the event of a principal's illness or disability, or when the principal can't be present to sign necessary legal documents for financial transactions.
- **Healthcare Surrogate Designation:** Also called a **Health Care Power of Attorney**: A Healthcare Surrogate Designation is a document naming a person

to make health care decisions for another person *(the principal)* when the principal is no longer able to do so.

- **Permanent Life Insurance:** Cash value inside a life insurance policy is excluded from your estate and will pass to a named beneficiary, even without a will!

SUMMARY

Everyone has the ability to achieve real financial independence. You can start right now by making small adjustments in your daily life and committing to becoming financially educated. Financial independence is a choice which will require discipline and sacrifice. It will require you to pay attention to your finances and finally take control, instead of relinquishing control to employers, human resources departments, and your long-lost cousin who is an accountant. It's time to stop making decisions based solely from TV and radio financial gurus and become empowered yourself by learning how money truly works. Remember, nobody cares about your money more than you do.

Start immediately by controlling the things that you can control – increase your cash flow, reduce or eliminate unnecessary expenses, start paying yourself first before your credit cards, avoid the credit card trap…. Stop financing furniture for 24 months interest free! Stop buying a car that is too expensive and that you really don't need! Stop buying a new smartphone every time a new version is released! Only buy what you can afford in cash. Stop wasting money on the things that you want and start using your money on the financial products that you need.

The journey to Financial Independence is a lot like exercising. It can be very painful as you begin. You will be tempted to quit along the way. However, as you force yourself to be disciplined, especially when you don't want to, it eventually becomes easier. With enough perseverance and commitment, it becomes a part of who you are. It becomes part of your DNA.

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Conquer Your Financial Future

Basic Principles for Building A Secure Financial Future

FIRST EDITION

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