PART I

THE SYSTEM/ THE BOOK

CHAPTER ONE

WHY THIS BOOK SHOULD COST $5,000

This book allows you access to top advisors' secrets and strategies— and have them tailored to your Wealth Protection situation

Imagine for a moment that instead of reading this book you are opening the door of a ritzy professional office in a New York City corporate center. When you open the door, you are greeted by a receptionist, who asks you to sit in the waiting area while she offers you a cup of coffee and explains what will happen today.

First, you will meet with an asset protection, tax, and estate planning attorney from one of the top-rated law firms in the country. He graduated from the nation's best schools, has written two books on areas of his practice, and has lectured to fellow attorneys and accountants in professional seminars.

In your meeting with the attorney, he will take over an hour to ask you questions about your goals in the areas of asset protection, tax, and estate planning, analyzing what types of planning you have already done with prior attorneys or accountants. Once his questions are answered, he will give you an overview of the types of strategies and tools that might make sense in your legal plan. He will even give you articles and executive summaries on these solutions, so you can review them later at your leisure.

Next, you will break for 15 minutes and go to another office where, for another two hours, a leading financial planner will evaluate your investments, insurance, retirement plan, educational funding, and other financial issues. This financial planner, who has an M.B.A. from a leading university and is the author of over a hundred articles in his field, has just flown in from Beverly Hills, California, to meet with you.

In your two-hour meeting with the financial planner, he will ask you questions about your present financial situation. Your answers will help him provide you with recommendations for such issues as saving for retirement, reducing income taxes, protecting your family finances in the case of a premature death or disability of the breadwinner(s), saving for college education costs, saving for long-term-care costs for you and for your parents, using charitable gifts to benefit your family, and maximizing the estate you leave your heirs. Like the attorney with whom you met, the financial planner will give you materials to read so you can review them later and discuss them with your family members or advisors.

After this meeting, you will break for lunch. Meanwhile, the attorney and the financial planner will be discussing your case, coordinating their evaluations and recommendations into one cohesive Wealth Protection plan.

When you return from lunch, you will meet with both advisors, who will not only explain their coordinated Wealth Protection plan for you, but also provide you with this plan in the form of a clear, comprehensive write-up, which you can then evaluate at your leisure.

What would you expect to pay for this kind of tailored Wealth Protection advice from leading professionals? It's a good bet that the figure you choose would be closer to $5,000 than to the price of this book. Yet the detailed, tailored analysis of your plan from a coordinated legal-financial perspective is precisely what this book will provide for you, if you complete the risk factor analysis (RFA) and follow its results. (We'll discuss this more in Chapter 4.)

THIS BOOK WILL TRANSPORT YOU TO OUR OFFICES

Through this book, we have attempted to deliver to you the entire process just described, without the morning coffee or lunch break.

In fact, our goal is to make you feel that you are sitting right in our offices, where we ask you the same questions and give you the same detailed advice that we will in these chapters.

As we explained in our introduction, we feel strongly that families and individuals need to protect their wealth in order to avoid the problems our own families experienced. Every day, in our professional practices, we meet with clients, analyze their risks, and present a coordinated Wealth Protection plan to be executed.

When we set out to write this book, we wanted to recreate, to as great a degree as possible, the advisory experience we have with our clients in our own offices. This has been a challenging, but successful, task. The result of our hard work is a book that you can use not only to learn general principles, but also to create *your* Wealth Protection plan.

Of course, we welcome new clients in our practices and would like to meet with you to help you achieve your Wealth Protection goals. However, this is not always possible. This book can serve as a substitute for meeting with us personally, at least initially. Also, you can use the book to help you evaluate the type of "Wealth Protection specialist" you might need to help you achieve your goals—attorneys, accountants, financial planners, asset protection specialists, and others. This will prevent you from paying advisors who really don't have the expertise for your particular situation. In using the book in these ways, you may save yourself hundreds, if not thousands, of dollars in professional fees.

YOU NEED WEALTH PROTECTION PLANNING

You may think that you don't need this type of planning or won't benefit from meeting with the attorney and the financial planner. In our practices, we have assisted clients as varied as the entire population—from extremely wealthy families to individuals just starting their careers; from physicians and business owners to employees of Fortune 1000 companies, from high-profile celebrities to anonymous farmers. Moreover, our practices address goals from estate planning (like Dorothy and Tom, discussed in the Introduction) and asset protection (Karen and Steve also from the Introduction) to tax reduction, from retirement planning to benefits packaging, and more. From this vast experience, we can make this bold statement:

No matter your age, particular circumstances, or level of wealth, you need Wealth Protection planning.

How can we be so certain that you need Wealth Protection planning when we haven't had the opportunity to meet with you in our offices? We can be so certain because of the one principle we have each learned in our practices:

Every client wants to either build greater wealth or preserve existing wealth, or perhaps both.

Think hard. Does this axiom apply to you? Don't you want to build more wealth than you have today so you can enjoy it in retirement, leave it to your family, or give it to a worthy cause? If not, don't you at least want to preserve what you have already built so it isn't eroded by taxes, investment downturns, or lawsuits? If either of these goals seems worthy, then Wealth Protection planning should appeal to you.

Although you may think that your advisors have already put you in the right position in terms of Wealth Protection, we think that is unlikely.

YOUR ADVISORS HAVE NOT DONE ENOUGH

1. *Most advisors do a poor job, and their clients don't even know it.* You may feel that your present advisors are excellent, or perhaps competent. How can you tell? By their education? The size of their firm? Their reputation? Certainly, these are good criteria for screening an advisor, but they really don't tell you whether she's doing a good job once she is hired. How can you tell whether or not that trust you have will achieve the tax benefits it is supposed to? How can you evaluate whether this insurance product was really the best one for your situation? How can you tell if you paid too much in taxes this year be-

cause you neglected possible tax-saving strategies for your business? Often, there is no way for clients to truly evaluate any of these issues effectively. A new client of David's law firm recently discovered this costly lesson, although the ending was a happy one.

Case Study: David's Client— Real Estate Developer

A few years ago, David's law firm was retained to perform a self-imposed tax audit on a client. The client, an extremely successful businessman and real estate developer, was concerned when one of his business colleagues was found liable for back taxes and penalties because of mistakes by his accounting firm. Nervous that he might become an Internal Revenue Service (IRS) target soon, the businessman hired David's law firm to do an audit of his income taxes for the past five years, both for himself and for his various businesses. What David and his tax partners found was shocking—a $5 million mistake! To find out what this mistake was, turn to Chapter 16.

2. *Even our society's wealthiest, most prominent families get poor advice every day.* Anyone can be caught in the trap of poor planning. Let's examine some examples.

- Elvis's family lost over $8 million because of poor legal advice. Elvis Presley, one of the most famous celebrities of the twentieth century, was someone who should have had top legal talent advising his family on estate planning. In fact, the Presleys lost over two-thirds of their net worth to estate taxes and probate fees when Elvis died. In this way, poor planning cost Elvis's family over 65 percent of their net worth. If this doesn't have Elvis singing the blues from his grave, then we don't know what would.
- The Wrigley family is one of the best-known family names in the United States. They built a huge fortune in the twentieth century on the strength of their chewing gum empire. Nonetheless, William Wrigley (the third generation of the family) was forced to sell one of the family's most precious assets, the

Chicago Cubs baseball team, just to pay the estate taxes due when both of his parents died in 1977. Estate taxes are quite easy to plan for, as you'll see in future chapters. But this leading U.S. family did not engage in such planning, and their financial fortune was vulnerable.

- Willie Nelson, Francis Ford Coppola, Kim Basinger, Burt Reynolds, Larry King, Stan Lee, and numerous other high-profile people have filed for bankruptcy over the past 30 years. Obviously someone was not giving them the proper Wealth Protection advice.

3. *Even with top professionals, advice is rarely coordinated into one plan.* In the next chapter, you'll learn why proper Wealth Protection planning must be implemented by professionals from different disciplines, including law, tax, finance, insurance, and so on. You'll learn about a key diagnostic question that always shows how well individuals or families have their planning coordinated. The question is: Do your accountant, lawyer, insurance advisor, broker, and financial planner all meet together at least once annually to review your particular situation? If you answer "no," then our first two points are moot. In other words, even if your existing advisors are competent, or even excellent, in their own fields, if they are not coordinated, then your plan is lacking. If this is true, you need Wealth Protection planning, if for nothing else than to coordinate your existing planning and to fill in the gaps where the lack of coordination has left holes.

Throughout the Introduction and this chapter, we have used the term *Wealth Protection planning*. From our own family stories in the Introduction and the various references here, you may have a sense of what we mean by this term. However, if you are going to get the maximum benefit from this book, it is important that you have a specific knowledge of what Wealth Protection really means. We'll examine this in the next chapter.

CHAPTER TWO

WHAT IS WEALTH PROTECTION?

5 key concepts are essential to understanding your plan

Before we begin addressing your Wealth Protection planning needs, it is crucial that you understand exactly what Wealth Protection planning is. Without a complete understanding of the field of Wealth Protection planning, it is nearly impossible to oversee your own wealth in an effective way for the long term. We have put together a working definition that will serve you throughout the book and in your personal planning:

***Wealth Protection planning* (WPP) is a multidisciplinary process of shielding your wealth from all internal and external threats.**

This is a fairly short definition, but there are five distinct concepts that you should grasp before continuing the book or beginning your individual Wealth Protection planning. After you truly understand what WPP is, you will have a greater appreciation for the value of this book to your overall financial situation.

Concept #1: Multidisciplinary

Protecting and growing your "wealth health" is like maintaining your physical health—you need to draw on the knowledge of many specialists with the oversight of a generalist. During your lifetime, you will undoubtedly spend more time with your primary physician than with any other doctor. However, the average person interacts directly with at least five other specialists and possibly indirectly with dozens more.

As a child, you may have developed allergies and visited an allergist or you may have broken a bone and seen an orthopedic specialist. As a teenager, you may have become concerned with your acne and consulted a dermatologist. At some point, you may have had your tonsils or appendix removed and had experience with a general surgeon and an anesthesiologist. Women will eventually consult a gynecologist and, perhaps, an obstetrician. As most people age, they will unfortunately have reason to consult a urologist, a cardiologist, an oncologist, or other specialist.

Throughout your life, you will probably consult with at least 5 to 10 doctors from different specialties and subspecialties. Different challenges require distinct expertise—and you will likely do the best you can to get the advice you need. In this way, your physical health demands a multidisciplinary approach. This doesn't make us hypochondriacs—it makes us smart!

The same principal of using a multidisciplinary approach should also apply to your financial "wealth health." Unfortunately, most of us are not as adamant about using this approach in our financial planning as we are for our health care. Believe us when we tell you that very few clients have addressed their "wealth health" with a combined legal-financial approach. Most prospective clients show the symptoms of a Wealth Protection plan that lacks a multidisciplinary interaction. Does yours?

How would you answer these questions?

- Do you write a check for any of your life insurance policies?
- Do you have separate firms handling different portions of your investments (pensions, IRAs, brokerage accounts, etc.)?

- Did you have a lawyer friend (not a specialist) draft your will or any of your more complex estate or tax documents?
- Have you put off funding any of your trusts or other legal entities?
- Is there a chance that your accountant, lawyer, insurance advisor, broker, and financial planner don't meet together at least once annually to review your particular situation?

If the answer to any of these questions is "yes," then you are a prime candidate for WPP, and you will benefit greatly from this book.

One of the reasons we have been so successful in our practices is that we coordinate the legal planning (David and his firm), the financial/insurance planning (Chris and his firm), and the accounting functions (typically, our contacts or the client's existing advisor) so that the client's plan works seamlessly. As an example, let's start with the first question.

If a client needs life insurance, Chris will search among thousands of products from hundreds of companies to find the right policy for the client. Meanwhile, David will draft the irrevocable life insurance trust (ILIT—the reason why is described in Chapter 20) to make sure that it complies with the client's goals and maximizes tax and asset protection. Then, Chris will make sure *the trust* purchases the policy to keep the proceeds out of the client's taxable estate and to avoid the IRS's three-year "look-back" restriction (discussed in Chapter 55). Finally, we will both make sure the client's accountant is up to speed on what the tax-filing responsibilities are. The benefit to the client from this simple transaction could be as much as $250,000 on a $500,000 insurance policy. Multidisciplinary, experienced, and coordinated—that is the way superior Wealth Protection planning should be delivered.

Concept #2: Process

Wealth Protection planning is not a one-time event. Rather, it is a process that continues from the beginning of one's earning years until at least one year after death. Just as life brings a constant flow of change, so is the challenge of Wealth Protection planning a continuous one.

One important reason that WPP is a continuous process is that your priorities will change over the course of your life. In the early stages of your career, before you have a family, wealth building may be the only focus of your plan. When you're only supporting yourself, you probably have little regard for an estate plan or for insurance planning (life, long-term-care, etc.). In the middle stages of your career, as a family enters the picture, a greater focus is shifted to providing for your family. At that time, creating a basic estate and insurance plan becomes important.

While nearly every homeowner has insurance on his or her house, very few have adequate disability coverage. Yet there is less than a 4 percent chance of a fire in the home, but over a 70 percent chance of the homeowner's disability some time during his or her working years.

As you earn more income and accumulate greater wealth, you begin to focus more on asset protection planning and tax reduction. In the later stages of your financial life, retirement distribution planning will be primary. During retirement, most clients begin to focus on their estate planning—though you'll start earlier after reading this book.

Wealth Protection planning must continuously change in response to the dramatic events that always seem to invite themselves into our lives. The birth of a child, a divorce, a windfall investment, the premature death of a spouse, a large inheritance, a failing business, a disabling disease or injury—these are just a few of a thousand events that will require a significant modification to a family's Wealth Protection plan. In many cases, like the case in the Introduction of Tom's death, events cannot be anticipated. However, advanced planning can reduce the potential loss, and subsequent modifications to the plan can help put us back on track to reaching our goals. The case studies throughout the book will help illustrate this fact.

Concept #3: Shielding

The basic concept of *shielding* is simple—protecting what's yours. In this book, we will discuss how to protect your wealth from various risks. Chapters 25 through 34 cover shielding assets from lawsuits, Chapters 35 through 37 and 39 through 40 show how to protect your income from disability and death, and Chapter 38 shows how to protect savings against the devastating costs of nursing home care. In these examples, shielding means "protecting."

You may also think of shielding as "minimizing" or "reducing." When we discuss shielding investments from market risks (Chapters 17 through 24) or shielding income and wealth from taxes (Chapters 7 through 16), shielding means "reduction."

From our experiences, we have found that clients neglect the areas of tax reduction and investment downturns more than any other. Often, otherwise bright and capable advisors have no idea what strategies to employ to reduce income taxes. While over 99 percent of the people we poll at our seminars would like to reduce their income tax burden, fewer than 1 percent have heard of opportunities such as 412(i) plans, welfare benefit plans, or captive insurance companies. This book will fill those gaps and will introduce you to a whole new set of options to shield your wealth from unnecessary taxes.

Concept #4: Your wealth

Do you have the best handle on your wealth? Not necessarily. We have had many clients walk into our offices with significant misconceptions about their wealth. Fortunately, in most cases, they vastly undervalue what they are really worth. When completing our asset questionnaire (Appendix 5), clients often leave out certain bank accounts, fail to include a time-share condo ("because it isn't worth anything yet"), or simply forget about various life insurance policies that were put in place years ago.

If we were to discuss your wealth in our offices, we would need to know about *all* of your assets. We would go down an exhaustive checklist to make sure we did not overlook anything. We would also ask you to give us the present and the projected values of your assets and liabilities. Because your wealth may be increased or diminished by foreseeable events, we will need to consider this in our planning. For example, your wealth may increase by a future inheritance from an elderly relative, or it may decrease by a future debt that will come due. If so, such events must be weighed in the plan. Further, you may have contingent assets, which may or may not come to fruition (like an option to purchase land if the value increases). Again, these must be considered.

When you complete the risk factor analysis (the RFA) in Chapter 5, you will see how exhaustive our list of questions is. We do not want you to leave out, forget, or ignore any asset, regardless of how small or elusive it may seem. If a Wealth Protection plan is to be comprehensive, it must deal with *all* of your wealth.

Another important point we must make here regards the concept of wealth. We know many of you, like thousands of people we speak to in seminars every year, may be turned off by the word *wealth*. In fact, the same is true for many new clients we meet in our offices. Whether they be young or old, single or married, a certain percentage of people will say the same thing to us when we bring up the concept of WP: "Wealth?" they say, "Who's wealthy? We've got some assets, but we're not *wealthy*."

> This is the number-one Wealth Protection planning mistake people make: *They wrongly assume that they are not "wealthy enough" for Wealth Protection planning.*

Wealth Protection planning is not just for the admittedly wealthy. Not even close. From the 24-year-old just beginning her career to the multigenerational family with hundreds of millions in assets, the variation among our clients is astounding. Nonetheless, each, in his or her own way, needs some degree of WP. Whether it means developing a better risk/reward ratio in an investment portfolio, saving for college costs, reducing income taxes, protecting assets from liability, or simply creating an efficient estate plan, WPP impacts us all. Whether you are truly wealthy or just starting out, in a high income tax bracket or a low one, an individual or the head of a family, WPP in general—and this book in particular—has much to offer you. Do not get stuck in the "I am not wealthy enough" trap. It is the first financial land mine you must avoid.

Concept #5: All internal and external threats

The final concept in our definition of WP may be the most important. That is because you will only value the importance of planning if you truly understand what we are planning against—those internal and external wealth threats. Before you began reading this book, you probably had in mind certain concerns about your wealth (you may not have verbalized them as threats). Most of our clients consider income taxes or investment downturns as threats. Perhaps you had others, like estate planning or college funding, as well.

> The average four-year college tuition in 2020 will be $273,000 (over $500,000 for Ivy League schools).

Regardless of what your specific "top of mind" threats were, it is imperative that you go beyond this initial gut feeling and realize *all* of the threats that could seriously jeopardize your wealth. It may turn out, in fact, that the threat that eventually does the most damage to your wealth is one that now seems insignificant. All the more reason why this factor is so crucial—*systematically recognizing all of the threats to your wealth is actually the first step in protecting it.* In the arena of Wealth Protection planning, ignorance is not bliss. It is foolish.

> This is Wealth Protection planning mistake number two: *Falling into the trap of ignoring wealth threats.*

Although it will take time and money to learn about and to protect against the threats that make your wealth vulnerable, this investment will reap great rewards. You've taken an important first step by buying this book. Now take the time to read it, to complete the RFA, and to implement the planning where you need it most. You and your family will truly benefit.

You may already be convinced that you need to dig deeper and to investigate where your current plan is vulnerable. How do you know which wealth threats are lurking in your present plan? The answer to this question will depend on your job, your family situation, your level of wealth, and a host of other factors. When you take the RFA and read your score, you will get a thorough sketch of the key threats that make your particular situation vulnerable. That is still a few short chapters away, though. Let's make sure you thoroughly understand the types of threats that exist before you move on.

In our analysis of a client's situation, we differentiate between "internal" and "external" wealth threats. The difference, essentially, is the source of the threat. Internal threats come from your own situation or that of your family, whereas external threats are created by outside forces. Here are some common internal and external threats. The RFA will elicit specific threats particular to your situation.

Internal Threats

- Premature death or disability.
- Need for nursing home care.
- Divorce.
- Mismanagement of investment funds (poor allocation, speculation, etc.).
- Lack of professional guidance.
- Poor choice of advisors.

External Threats

- Downturns in the investment markets.
- All types of taxes.
- All types of lawsuits and claims.
- College and other educational expenses.
- Estate costs and administration fees.
- Divorce, disability, or death of a business partner/key financial source.

CHAPTER THREE

FINDING YOUR PERSONAL ECONOMY

To build and preserve wealth, you must focus on your *Personal Economy.*

IT'S *YOUR* ECONOMY THAT COUNTS

As a result of the bull market of the 1990s, Americans have become obsessed with the stock market and the nation's economic performance. CNBC, market updates, and "fed-watchers" have become a ubiquitous presence in our lives. Tracking the health of the economy is a daily soap opera, and the supposed experts on talk radio and television are household names. According to recent studies, the ups and downs of the market create a "wealth effect" on how positively or negatively we feel about our own economic status. If the market is up, we feel wealthy (as in 1999). If the market is down (as in 2000), we feel poor. Are you susceptible to this phenomenon?

Here's a quick test. Assume a financial news program is reporting these stories:

- Experts fear the economy is sliding into a recession.
- The Dow Jones Industrial Average (the DOW) dropped by 20 percent.
- The Nasdaq closed down 300 points.

- Alan Greenspan appeared on Capitol Hill and announced another change in the prime rate.

At the same time:

- A little-known change in the tax law eliminates a large deduction your business had been taking.
- Your mother was just diagnosed with Alzheimer's, and you have little savings and no long-term-care coverage to pay future medical bills.
- Your accountant informs you that you failed to heed his advice about the tax liabilities associated with retirement plan distributions.
- You need back surgery that may prevent you from traveling for work.

WHICH EVENTS ARE *REALLY* MORE IMPORTANT TO YOUR PERSONAL FINANCIAL SITUATION?

Of course, the second set of events is significantly more important to the security of your Financial Fortress than the first set is. While this may seem obvious, most people disregard this simple realization. Millions of us, in fact, behave as if the overall market news is a more significant factor in our personal finances than details of our own lives! Many of us succumb to the uneasiness surrounding the volatility of the market, which, in turn, makes us feel powerless to change our own Wealth Protection situation. This can become a vicious cycle where all planning is avoided.

> We have now come to Wealth Protection planning mistake number three: *People focus on the macroeconomy of the nation, rather than paying proper attention to their own personal economy.*

The concept of the personal economy

When we talk about stimulating your *personal economy*, we aren't talking about making decisions on the type of career to follow, ways to move up the corporate ladder faster, whether to get married or to have children. These are some of the life decisions you will have to make on your own. What we are talking about is, regardless of what choices you make, how you can make the best of your personal situation by building and preserving your wealth.