CPA Wealth PROVIDER

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# Permission Slip

**One estate planning attorney's lesson in retirement/wealth replacement helped him overcome major losses in the stock market and increase his post-retirement income by 35 percent.**

**By Edwin I. Grinberg**

When I walked in the door with my client and his CPA, I couldn't help but wonder, what am I doing here? So many times before, financial planners from around the country had approached my clients, claiming wonderful strategies that would increase their net worth. I was generally "underwhelmed," to say the least. Here we go again, I thought, another salesman trying to sell a client financial products that would only increase the financial planner's retirement. I wanted to run, not walk, back to my office, where I was swamped with tax and estate planning cases, and messages from clients who wanted immediate legal advice.

But then it happened. As I listened to the financial strategies presented to my client, something clicked. Could this guy be on to something? As he proceeded to unveil what he called an innovative wealth replacement strategy, I must admit I became intrigued. As I began to understand what he was proposing, I soon realized the impact this concept could have on many of my high-net-worth clients...CPAs... and even me. Little did I know then, that this meeting would change my life forever, and increase my retirement income by 35 percent.

Shortly after that meeting, I found myself returning to this financial planner's office, spending several more hours trying to understand why this retirement approach was so powerful and different than anything else I ever knew. It certainly was contrary to what I, as an estate planning attorney, believed, practiced, or advised my clients for 30 years. After all, retirement planning and wealth management, protection, and preservation belonged to financial advisors, certainly not attorneys.

So what exactly happened that day?

To my surprise, I learned a life-changing retirement strategy that has since benefited many of my clients and friends. In fact, it made such an impact, that at age 59, I made a major change to my retirement plan that will: 1) effectively replace the 30 percent I lost during the Enron, WorldCom, and Tyco scandals and the stock market nose dives of this new Millennium—with minimum risk; 2) allow me to actually spend part of my investment principa instead of living on only the interest, as many of us do, in our senior years; 3) increase my retirement savings, simultaneously; 4) erase the fear that many of us have, that my money will run out before I die; and 5) offer a sizable, tax-free, guaranteed death benefit to pass along to my wife and children.

Simply put, this wealth replacement strategy is a twist on an old, conservative financial vehicle that has been around for many years that: 1) protects financially from premature death; 2) provides liquidity to pay for estate and inheritance taxes; 3) funds children's educations and buy/sell agreements; and 4) replaces the large, supplemental retirement benefits corporations and banks give to senior level executives.

The concept is guaranteed whole or permanent life insurance. When linked with three or more other retirement investment strategies, this tool will serve as an economical, wealth replacement strategy that will provide me with three key benefits while I am alive: flexibility, financial freedom, and peace of mind. In addition, whole life insurance provides cash value, which will grow, over time, tax-free.

My philosophy before hearing this strategy was the popular "buy term and invest the difference." However, this concept did not work for me, since I didn't save and invest the difference. I spent it. In fact, many pre-retirees and retirees will suffer from that common advice since most do not invest the difference. In addition, term life often expires before retirement.

As far as I'm concerned, the lessons I learned in changing my thinking and adopting this plan is one that CPAs should consider for themselves and for their higher-net-worth baby boomer clients as they try to recover from their stock market disappointments and face the following reality: Will Social Security, my 401k and my investments be enough for post retirement?

## LIVING LONGER: CAN WE AFFORD IT?

Before we take a closer look at this concept, consider the following statistics from a 2005 U.S. Census Bureau report, which was commissioned by the National Institute on Aging:

- The population of Americans over the age of 65 is expected to double by the year 2030, to an estimated 72 million. I hasten to think what that will mean for the level of Social Security benefits available in 24 years.
- The fastest-growing group of Americans is the elderly, aged 85, and older. That means we're living longer—making running out of money a major concern of retirees.
- The wealthiest fifth of U.S. seniors had a net worth of only $328,432, excluding home equity. This means an annual income of little more than $16,000 for those who preserve their principal and earn a net gain of at least five percent annually.
- Fourteen-million senior U.S. citizens reported disabilities, largely connected to heart disease, arthritis, and other chronic and debilitating conditions. Such conditions, of course, can drain retirement income substantially—and that's not even considering illnesses that require long-term nursing or other assisted-living care.

Add to that, volatility of the future stock market and interest rates, which can negatively affect conservative mutual funds and even the most conservative of municipal and other lower-risk bonds; inflation threats, the financial impact of war, ever-changing tax increases, especially for higher-net-worth individuals, the disappearance of employee pensions and even the unforeseen maintenance expenses for vehicles, homes, and other assets.

Admittedly, I didn't foresee the so-called Dot-Com bubble burst and neither did any of my clients. I certainly felt the impact on my portfolio—not something I, or many of my CPA clients, wanted to face, with retirement only a few steps away. For me, it was a disturbing wake-up call. A few of my clients panicked and pulled out their investments from the stock market altogether. But after my own initial shock, I tried to be more thoughtful in my own response.

## GUARANTEED WEALTH REPLACEMENT ASSET

Here's what I did. My original portfolio contained tax-free municipal bonds which earned five percent interest annually. Previously, I re-invested this interest into more bonds. When I learned about this economical, wealth replacement plan, I purchased a whole life insurance policy with a $1 million guaranteed, income tax-free death benefit, with the interest from my existing bonds paying most of the annual premium. As a result, I now have a dividend-paying, cash-value asset with a guaranteed permanent death benefit.* The net effect is that my wife will get $1 million upon my death which gives me "a permission slip" at retirement to choose one or more of the investment alternatives discussed below.

## FREEDOM TO CHOOSE

Under my original retirement plan, I could spend only four percent of my principal in retirement for fear of running out of money, a common concern of retirees. Once I had a guaranteed death benefit, I could choose other investment options, such as the following, which would increase my retirement income. These alternatives are now part of my retirement strategy, which I will use when I begin to live off my assets:

1. Spend your principal. The most obvious option is to

spend down a portion of your principal. The guaranteed death benefit gives you a "permission slip" to tap into the principal because the death benefit replaces the principal you spend. If you have a $1 million guaranteed policy, you could spend $1 million of your other assets, and upon your death, your spouse would have it replaced.

2. An annuity. Between the ages of 65 and 70, you could, for instance, invest $1 million into an annuity, which when annuitized, would pay out $76,000-$80,000 annually for as long as you live. This bets that you'll live longer than the 10 years it would take to recoup your entire investment. You can't really lose because if you die earlier, the $1 million death benefit kicks in for your spouse or beneficiary.

3. A reverse mortgage. This investment tool allows you to use the equity in your home to provide a regular income during retirement. Instead of obtaining a mortgage to buy your home, you slowly sell your home to the mortgage company, one income payment at a time over a period of years or for the rest of your life. The death benefit gives your family the liquidity to repurchase the family home or merely replace the value of the asset.

4. A Charitable Remainder Trust. If you're philanthropic, this is a great option. You can leave some of your financial assets to your favorite charity upon death. This trust works basically the same as an annuity. You turn over a predetermined amount of your assets to a trust which you create. In return, the trust pays you a set income each year based on the amount in the trust. When you die, the charity then keeps the remainder of the trust fund. Your family gets your life insurance death benefit...a win-win situation for everyone.

There are several tax advantages with all of these strategies including an income tax-free death benefit for the insured's beneficiary. In addition, you can now offer a value-added service to *your* clients to help them increase their post-retirement income so they can maintain their accustomed lifestyle far into their senior years.

I must add, that since this wealth replacement strategy helped so many clients and friends, my new professional mission now is to spread the word. I have become so passionate about what this can do for others, I left the law practice that I helped found 30 years ago to preside over a company that focuses both on protecting and preserving retirement portfolio principals and on wealth-replacement for clients' retirement needs—and dreams.

People like me who have adopted this strategy now have "permission," in retirement, to stop worrying about how they're going to live, and to dream—and dream bigger. That's something that the stock market and the Enrons of the world cannot take away from me. CPAWP

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