



Wealthy and Wise®

Executive Summary

To be credible, any form of wealth planning must be capable of addressing the following issues:

- ◆ Real wealth involves sustainable Cash Flow, and most people are more concerned with running out of money than any other financial issue.
- ◆ An effective wealth planning program must have the capacity to:
 1. Include the financial impact of a client's required after tax Cash Flow in the analysis (including a factor for inflation);
 2. Calculate the most efficient distribution from liquid assets to produce the required Cash Flow;
 3. Convert illiquid assets to liquid assets at any time a shortfall of required Cash Flow exists;
 4. Calculate Net Worth using realistic asset-by-asset client assumptions (*after accounting for required Cash Flow*);
 5. Provide a client-approved comfort zone of residual Net Worth in all years;
 6. Illustrate revisions to the asset mix to improve Cash Flow and maximize Net Worth;
 7. Integrate alternative recommendations now or in the future;
 8. Maximize Wealth to Heirs in coordination with the most efficient pre-death Net Worth;
 9. Illustrate varying levels of death taxes due to the unstable nature of federal estate taxes;
 10. Analyze all planning variations in “do-it-versus-don't-do-it” graphical comparisons;
 11. Provide year-by-year numerical backup for every aspect of the analysis so that professional advisers can easily audit any aspect of it.

There are many narrow gauge issues addressed by specialty programs (retirement planning, pension analysis, asset allocation, estate taxes, and charitable giving, to name just a few), and these programs retain their importance; however, effective wealth planning only takes place when the recommendations from these focused programs are integrated into an overall analysis containing the features noted above. This is because the key determinant of the effectiveness of any analysis must always be *don't run out of money before you run out of time*, and it is impossible to measure the impact of a narrowly focused recommendation on Cash Flow and Net Worth without integrating it into the overall plan.

For the client reading this report: Most advisers do not offer this type of analysis, but every single-issue financial strategy you consider must be looked at in this manner because *you don't want to run out of money before you run out of time*. Once you establish your initial *Wealthy and Wise* base line, it will be forever easy to “test drive” any new financial recommendations through the model to gauge its impact on your Cash Flow, Net Worth, and Wealth to Heirs.

For the marketing and compliance officers of financial institutions reading this report: The suitability of recommendations made to consumers is not complete unless those recommendations are evaluated within the context of a *Wealthy and Wise* analysis.

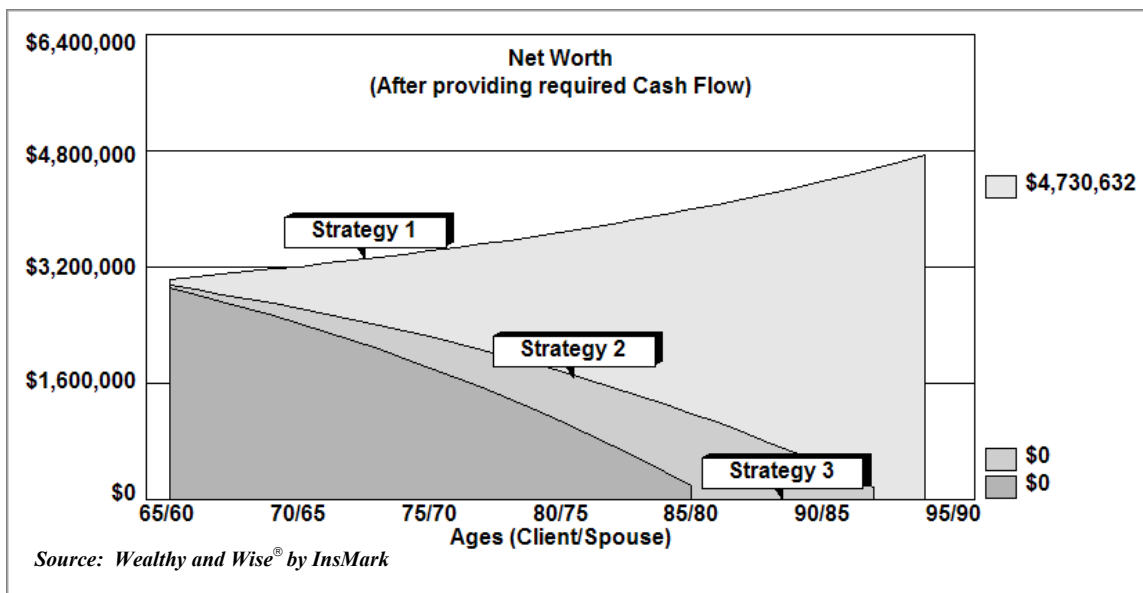
For the planning specialist reading this report: *If you are not using Wealthy and Wise logic, pray your competition isn't either.*

There is only one source for this dynamic evaluation, a *Wealthy and Wise* analysis.

Wealthy and Wise®

Detailed Analysis

Real wealth involves sustainable Cash Flow, and most people are more concerned with running out of money than any other financial issue: Net Worth certainly has value, but the amount of sustainable Cash Flow that can be produced from Net Worth is the real measure of wealth. Also keep in mind that the invasion of Net Worth to provide an unrealistic level of Cash Flow is bound to end up producing no Cash Flow at all. How are people to know? A *Wealthy and Wise* analysis tells the story as shown in the following graphic.



Male 65; Female 60

\$3,000,000 in Liquid Assets Available to Provide Retirement Income

Annual Retirement Cash Flow:

Strategy 1: \$100,000

Strategy 2: \$150,000

Strategy 3: \$200,000

As you can see from the Strategy 3 flag pointing to zero, \$200,000 in Cash Flow produces a mid-range disaster as the liquid assets producing Cash Flow disappear at ages 85/80. Strategy 2 hangs on longer, but it eventually dissipates as well. Strategy 1 more than supports its level of Cash Flow and also provides for a substantial inheritance for heirs.

This *Wealthy and Wise* analysis also calculates that Strategy 1 can support \$29,000 in additional annual Cash Flow with Liquid Assets never dropping below their starting point of \$3,000,000. The \$29,000 can be used for: 1) additional retirement Cash Flow; 2) gifts to heirs; 3) funding deductible gifts to charity in the amount of \$42,000 (31% marginal tax bracket assumed); or 4) a combination thereof.

Every individual contemplating retirement (or any other scenario that requires Cash Flow) must be certain to determine the sustainable level of Cash Flow that a given level of liquid assets will provide. In addition, a valid analysis must also illustrate the conversion of some or all illiquid assets (if present) to liquid assets whenever a shortfall of Cash Flow occurs. Only a *Wealthy and Wise* analysis has the capacity to illustrate these critical scenarios.

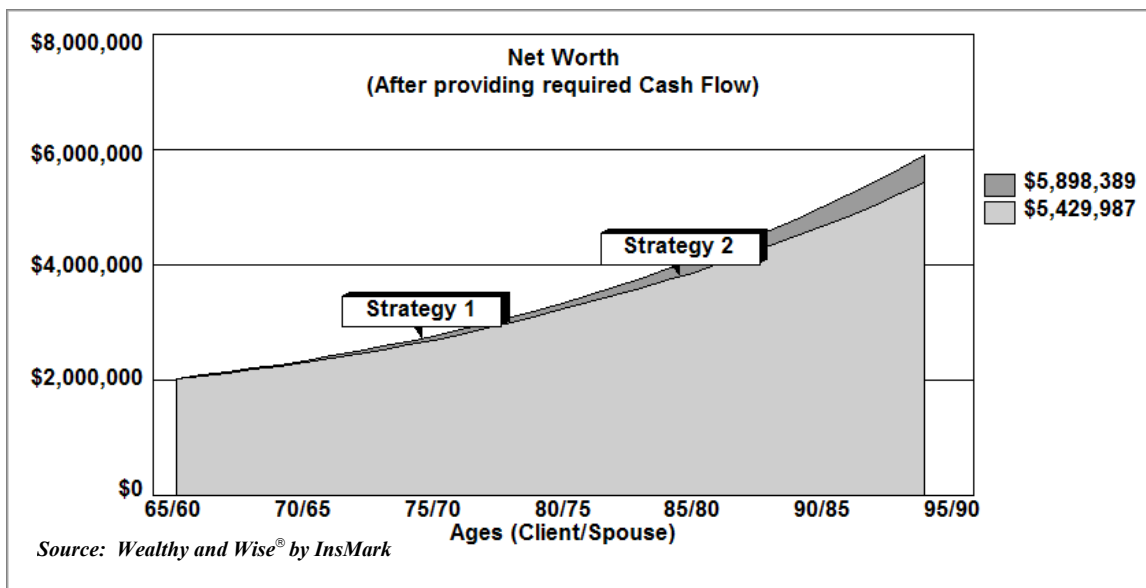
Informed decisions require a comparative analysis: The reason many well-intentioned single-issue recommendations are never implemented is because the planner or adviser neglects to include the impact of the recommendation on a coordinated evaluation of Cash Flow, Net Worth, and Wealth to Heirs.

Take the simple example of Long-Term Care (“LTC”) policies being considered by John and Fran Sandor, ages 65 and 60. The combined premium for the recommended policies is \$5,800 (including an inflation rider).

Where does the money come from to purchase such policies? The typical presentation assumes the funding source is the Sandors’ current Cash Flow; however, this may affect the Sandors’ lifestyle in uncomfortable ways. When insufficient Cash Flow is present, the sensible approach is to access the assets that make up the Sandors’ Net Worth.

While this may make sense from a Cash Flow perspective, won’t a reduction in assets produce a corresponding reduction in Cash Flow? And won’t a reduction in assets increase the possibility of *running out of money before running out of time?*

These are all valid issues, and they can only be addressed with a *Wealthy and Wise* analysis. The following graphic represents the results of this approach for the Sandors.

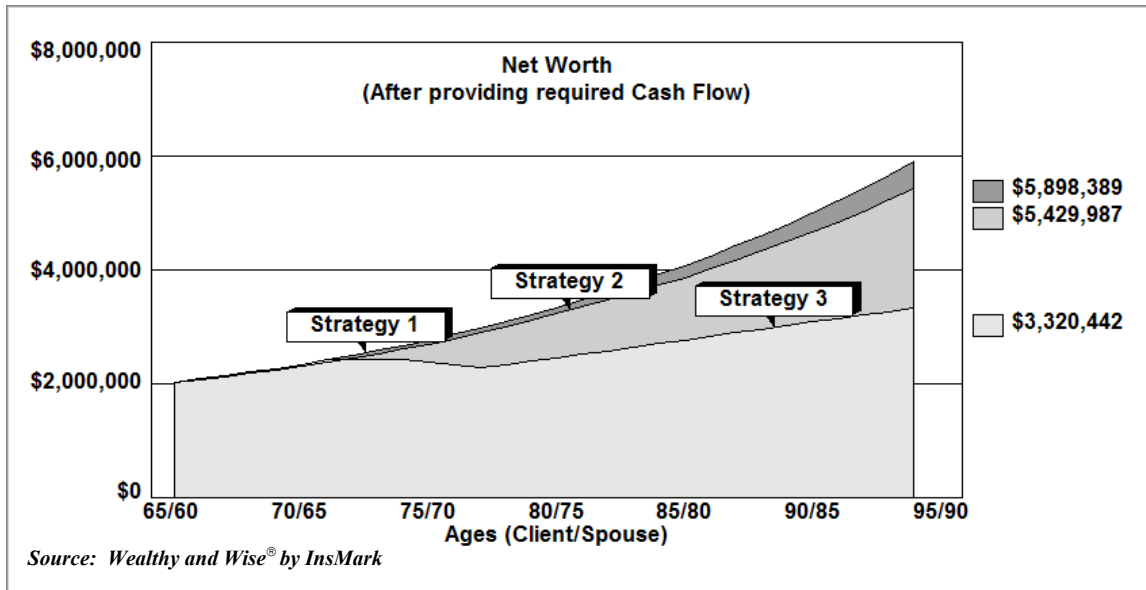


Strategy 1 shows the baseline analysis in which Net Worth is reflected after providing the Sandors’ required after tax Cash Flow during their retirement years without regard to the LTC premiums. The data creating Strategy 2 is in all respects the same as Strategy 1 except that the Cash Flow required has been increased by the amount of the LTC premiums. While the Sandors will have to decide for themselves, it appears that the slight reduction in Net Worth is certainly tolerable.

The next alternative to consider is self insuring the risk, so let’s introduce Strategy 3 which assumes:

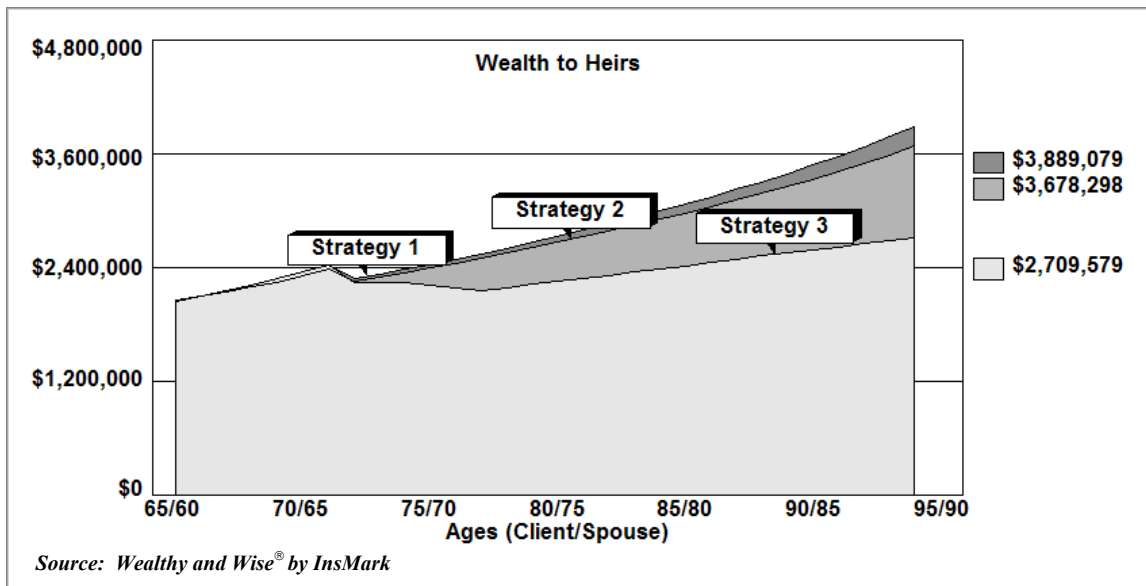
- ◆ One of the Sandors has an illness requiring institutionalized care starting in 8 years and lasting for 6.
- ◆ The self-insured costs for long-term care on a monthly basis are \$4,000 in today’s dollars -- and medical inflation averages 6% a year. (The current rate is 7.5%)

The Net Worth graphic below shows the comparative results of no claims and no premiums (Strategy 1), premiums paid via withdrawals from assets when necessary (Strategy 2), and self-insured costs paid via withdrawals from assets when necessary (Strategy 3).



The Sandors’ risk in excess of \$2,000,000 in long-range Net Worth by self-insuring, and this analysis makes it easy for them to make an *informed* decision about acquiring the LTC coverage.

The analysis also compares the varying impact of the three strategies on Wealth to Heirs after assessing the estate transfer taxes -- as illustrated in the following graphic.



In this case, acquiring Long-Term Care coverage is highly recommended, and it is only a *Wealthy and Wise* analysis that presents the decision-making information with such clarity.

Alternatives are always present with any financial decision, and the only reliable way to truly understand the impact of any financial technique is in the overall context of a “do-it-versus-don’t-do-it” analysis, whether the alternative is the *status quo* or a competing recommendation. Many financial propositions look different in context, and *Wealthy and Wise* provides this context.

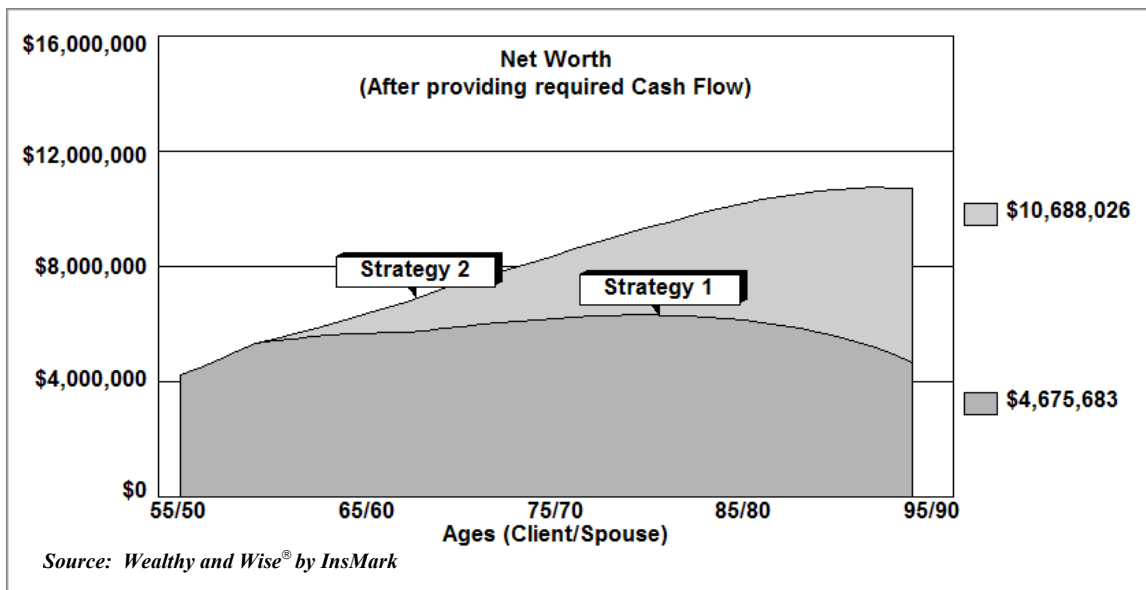
Maximizing Net Worth: Different income-producing assets produce Cash Flow in various forms and yields. A methodology is needed to determine the most efficient use of various assets in order to produce the required after tax Cash Flow while simultaneously maximizing Net Worth.

For example, concern often exists about the quality of the tax deferred funds contained in an IRA, 401(k), or Keogh. The tax deferral is great, but the death tax can be staggering since it combines estate and income tax. This often causes these accounts to be the target of what many call “pension predators” who recommend various financial alternatives funded by withdrawals from the tax deferred funds.

Let’s review this in some detail.

Harry and Angela Dorsey are ages 55/50 and intend to retire in five years. They have \$800,000 in an IRA as part of their current liquid assets of \$4,000,000. Assume they want \$100,000 in today’s dollars in after tax retirement Cash Flow indexed for annual inflation at 4%.

Examine the following graphic:



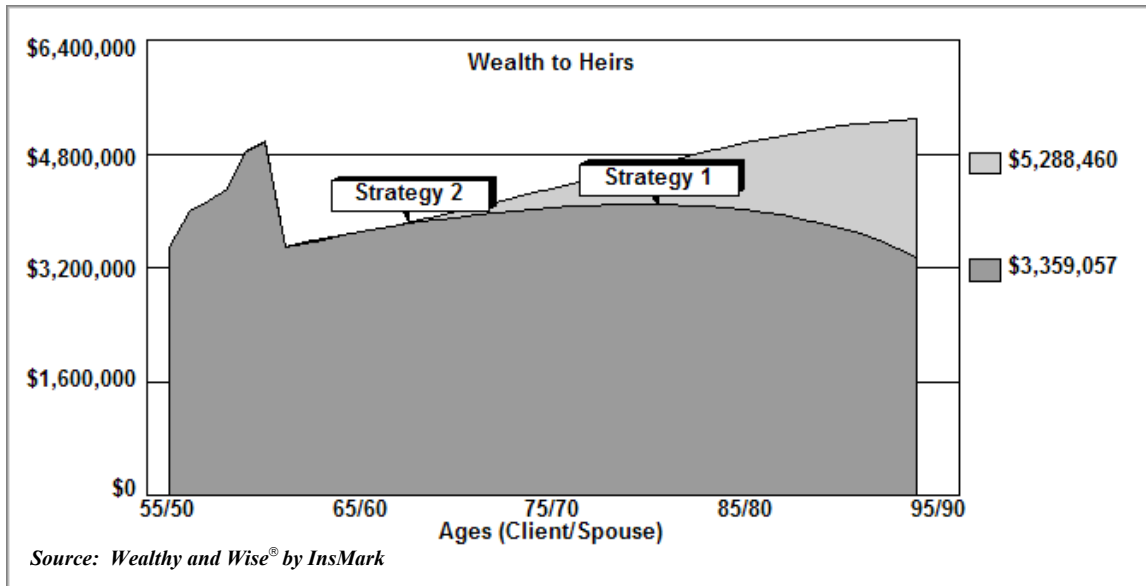
Strategy 1 illustrates the withdrawal of money from the IRA first to support their required after tax Cash Flow, and it reflects incredibly poor advice -- yet “IRA first” is a common planning recommendation.

Strategy 2 illustrates the withdrawal of required minimum distributions only from the IRA and, compared to Strategy 1, this procedure enhances their long-range Net Worth by more than \$6,000,000.

Only *Wealthy and Wise* evaluates and compares these two alternatives within the context of Net Worth.

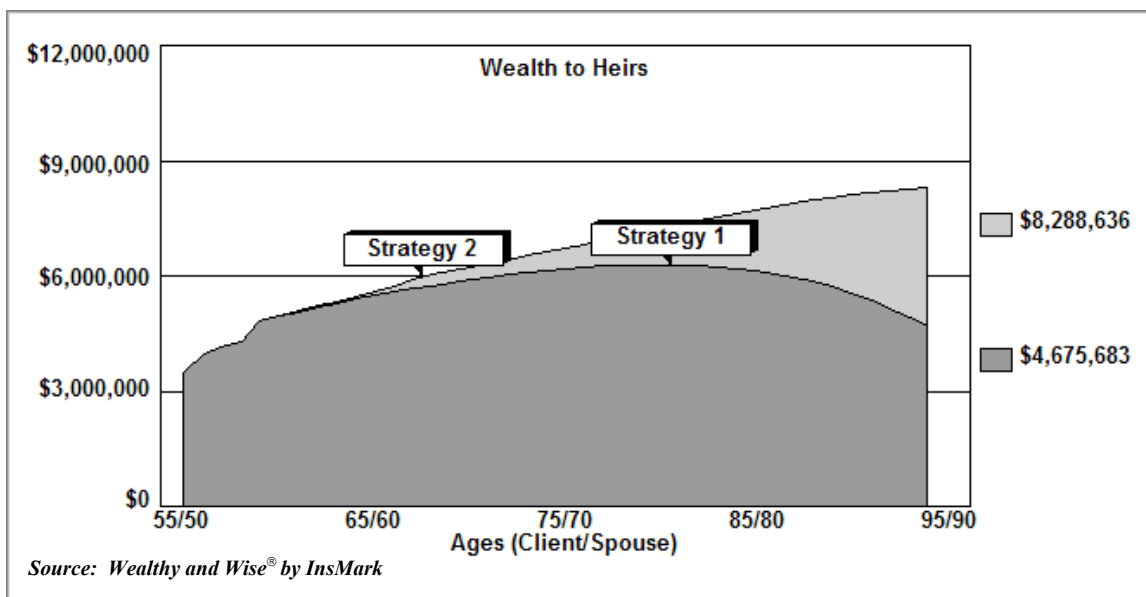
Wealthy and Wise evaluates the most efficient distribution sequence for all liquid assets. Using a unique algorithm, the program tests distribution sequences of various liquid assets solving for the one sequence that produces the maximum Net Worth at the end of the analysis. This involves a *factorial* solve in which, for example, eight different liquid asset accounts require 40,320 solve routines to obtain the answer. (1 x 2 x 3 x 4 x 5 x 6 x 7 x 8 = 40,320). Ten different liquid assets accounts require 3,628,800 solve routines (add 9 x 10). Only *Wealthy and Wise* performs these unique Cash Flow calculations.

The poor results of Strategy 1 are also carried over to the Dorseys' heirs as you can see below. The planner who makes the "IRA first" recommendation to the Dorseys is, through bad advice, confiscating almost \$2,000,000 in long-range Wealth to Heirs.



Note: The spike in Wealth to Heirs during the initial years of the graph is due to the sharp decrease in estate taxes scheduled through 2009 with no estate tax at all scheduled for 2010, after which the tax reverts to its previous high levels.

The future of estate taxes: Most commentators believe that Congress will craft a compromise between no estate taxes and high estate taxes, and *Wealthy and Wise* can illustrate this effect. Assume, for example, that a revision to the tax law freezes the level of estate taxes scheduled for 2009 for all years thereafter (a very generous assumption). Using the same asset data as above, the following graphic shows the results:

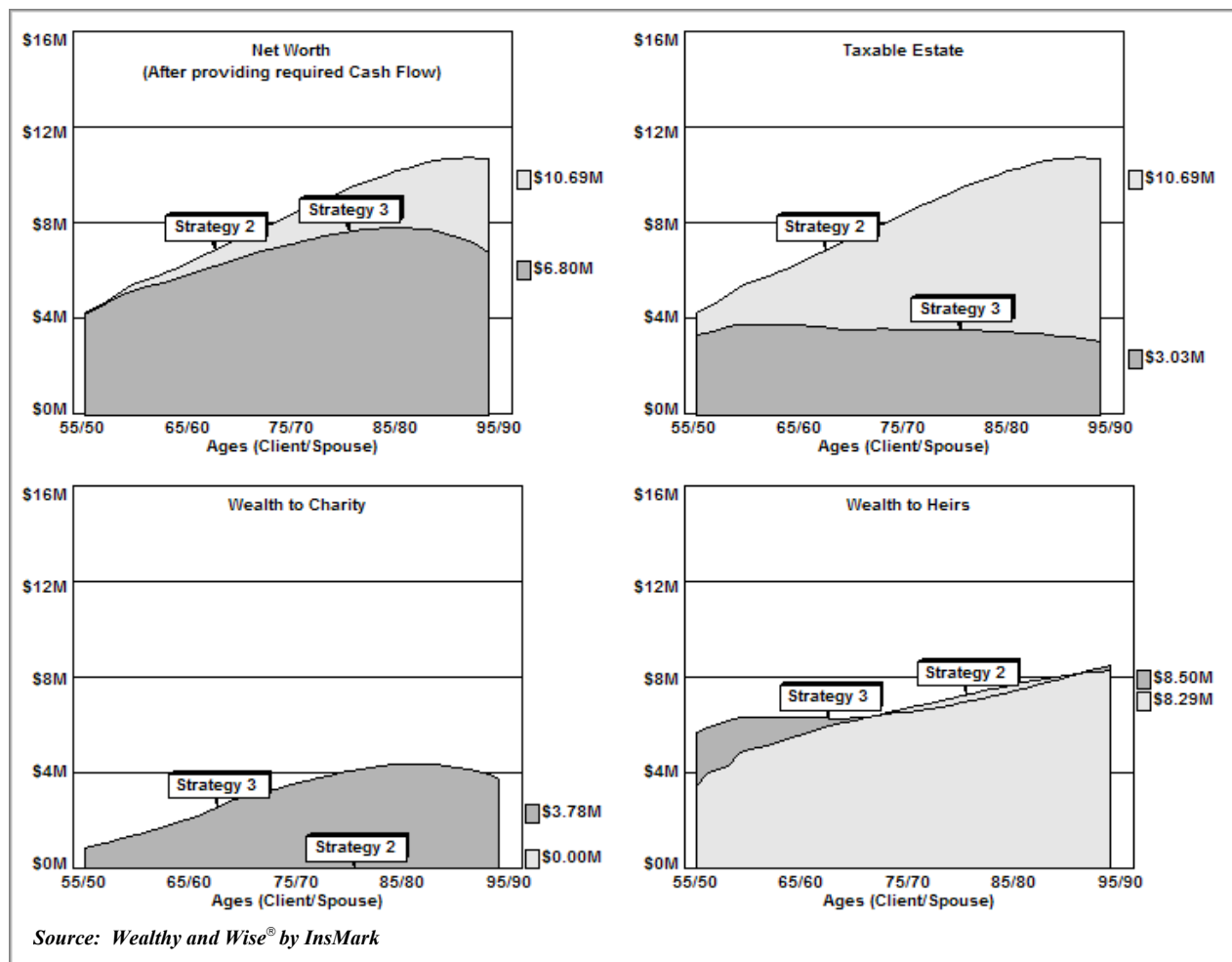


The current instability of estate taxes causes many clients to postpone important planning decisions. Only *Wealthy and Wise* can provide a client with alternative estate tax scenarios.

Adjusting Net Worth in favor of a charitable cause without penalizing Wealth to Heirs: Since an IRA (and any other tax deferred account, e.g. 401(k), Keogh, tax deferred annuity) is heavily taxed at death -- in some cases, as high as 80% -- many charitable commentators recommend leaving it to a charity *at death* so no such taxes are imposed -- and replacing the value of the tax deferred asset to heirs with tax free life insurance owned by a wealth replacement irrevocable trust (formed on behalf of heirs) that bears no income or estate tax.

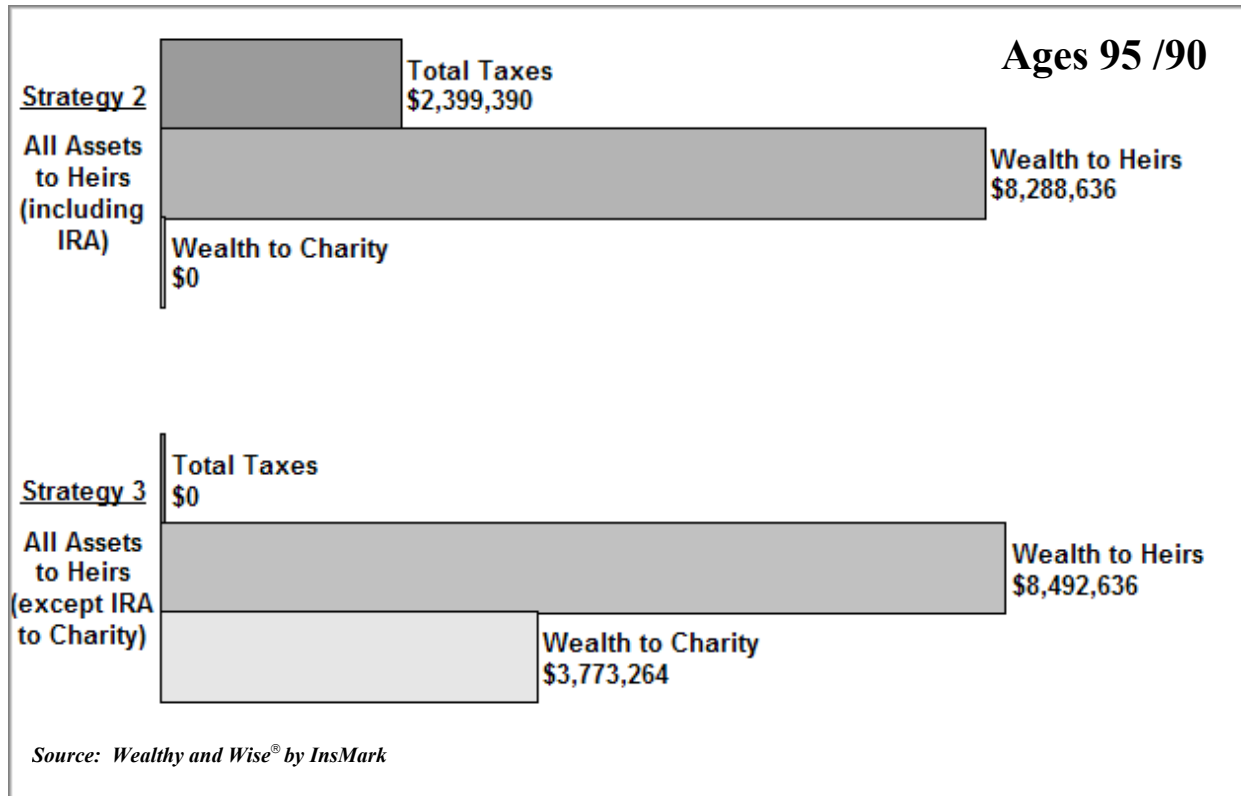
If the Dorseys change the beneficiary of the IRA to their favorite charity (or, perhaps, a Family Foundation) to take effect only after they both die, 100% of the residual value of the IRA is preserved for a favorite charitable cause. Prior to death, the asset remains an accessible liquid asset.

Strategy 3 (a so-called “Charitable IRA”) produces the comparative results shown below. Federal estate taxes are illustrated using the “freeze” of estate taxes scheduled for 2009 discussed above, and a \$2,500,000 life insurance policy with an increasing death benefit has been injected into Strategy 3 with the wealth replacement irrevocable trust as policy owner and beneficiary. Gifts to the trust to fund the policy’s annual premium of \$35,000 have been added to the Cash Flow requirements of Strategy 3.



Strategy 3 produces a significant gift to charity with an improvement in Wealth to Heirs in most years; however, for the arrangement to be acceptable, the Dorseys must have a strong charitable motivation and must also be able to tolerate the reduction of their long-range Net Worth (caused by the additional Cash Flow required for the gifts to the trust). Without a *Wealthy and Wise* analysis, the Dorseys would have great difficulty in gauging the impact of this particular approach in the context of their overall Cash Flow, Net Worth, Wealth to Heirs, and Wealth to Charity.

Below is another way to look at the results -- dollars to the IRS or dollars to a favorite charity?



Conclusion: With the growing commoditization of financial products, some financial advisers increasingly tend to recommend products and strategies in a vacuum instead of integrating them into an overall plan. A *Wealthy and Wise* analysis is the only mechanism that allows a client to evaluate a recommendation in the context of its overall impact on Cash Flow, Net Worth, Wealth to Heirs and, if part of the consideration, Wealth to Charity. Acting on any financial recommendation that is not integrated in this fashion should be delayed until such an evaluation occurs and satisfactory conclusions are reached. *Wealthy and Wise* is not necessarily designed to replace other financial software programs; however, once any program generates a recommendation, planning is not complete until that recommendation becomes part of a *Wealthy and Wise* analysis.

Note: *Wealthy and Wise* also has the capacity to reflect the so-called “stretch-out” option which provides that the residual values of an IRA can be inherited by the next generation with its income tax deferred status intact. In this event, income taxes are not assessed at the death of the parent(s) -- only when heirs withdraw funds. A Charitable IRA in conjunction with a wealth replacement irrevocable trust is generally a preferred approach since, in addition the benefit to charity, heirs inherit a capital account rather than an account on which income taxes are still due.

Note: The software program used to produce these reports is named -- appropriately -- *Wealthy and Wise* published by InsMark, Inc., based in San Ramon, CA. To review more information about this product, [click here](#) or call an Account Executive at 1-888-InsMark (467-6275). For information about corporate accounts, call David A. Grant, Senior Vice President - Sales, at 1-925-543-0513.

Note: Information in this report is educational, and data used to produce the graphics is hypothetical.