



**Missed Fortune**  
**A Starter Kit to becoming a Millionaire**

**Notes by Frumi Rachel Barr**

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**Author's Bio:** Douglas Andrew is a successful financial strategist, lecturer and consultant in practice for thirty years. He is the owner and president of Paramount Financial Services Inc., a comprehensive personal and business financial planning firm.

**Author's big thought:** The author dares to question the conventional wisdom on personal finance that most people accept. He reveals the way banks, credit unions, and insurance companies amass tremendous wealth - what they do and what they don't so. He shows you how to seize financial opportunities you never knew existed. He changes the way you view your house, your mortgage, our retirement plans, your investments, and your other assets.

**Chapter One: Barking Up the Wrong Tree**

- ◆ With the insights gained in this book, choose not to always accept conventional advice on your journey toward financial independence.
- ◆ Setting aside money in qualified retirement accounts, such as IRAs and 401(k)s, while paying down our home mortgage is like going down the highway with one foot on the brake pedal and the other on the gas pedal.
- ◆ There are two ways to handle new information: ignore it as false or increase your level of understanding to accommodate new ideas.
- ◆ The most important phases of retirement planning are the accumulation, distribution, and transfer phases. It is better to enjoy tax-favored benefits during the harvest rather than on the seed of a savings accumulation plan.
- ◆ Roth IRAs are a step in the right direction, but there are still too many strings attached.

- ◆ *Your IRA, pension, and 401 (k) benefits will probably be taxable at a higher rate at retirement, so don't postpone the inevitable and increase your tax liability.*
- ◆ *There are ways to receive tax-favored benefits during all four phases of retirement planning—the contribution, accumulation, distribution, and transfer phases.*
- ◆ *No method of paying extra principal on your mortgage is the wisest or quickest method of accomplishing financial independence.*
- ◆ *Dramatically enhance your net worth and generate an extra million dollars or more by safely using lazy, idle dollars trapped in the equity of your home.*
- ◆ *When we learn how to nurture all of our assets properly, we will create a new life for them that will live on into perpetuity.*
- ◆ *"True wealth" on the family balance sheet is comprised of human assets, intellectual assets, financial assets, and civic assets.*
- ◆ *Traditional estate planning focuses on the least important category on the family balance sheet: the financial assets. It has become a process of divide, defer, dump, and dissipate, as assets are transferred without responsibility or accountability.*
- ◆ *The government has provided ways for us to take a certain amount of control over how we allocate our social dollars. However, if we choose not to take control, the government will!*
- ◆ *The typical system for accumulating wealth and transferring that wealth to future generations almost always assures failure.*
- ◆ *Focus on the four Ps: preserve assets; protect true wealth; perpetuate it to future generations; and empower family members with stewardship and accountability of more than just financial assets.*
- ◆ *Families should develop and use a system designed to enhance the individual health, happiness, and well-being of each family member; support and encourage family leadership; capture family virtues, memories, and wisdom; and protect, optimize, and empower the family's intellectual and financial capital.*
- ◆ *It's more important that values are understood before assets are valued.*
- ◆ *We value a unique product more than just the commodity. We value convenience more than a unique product. We value a unique experience more than we value convenience. When we experience a meaningful transformation in our life, we value it most.*

## **Chapter two: Taxes Are Actually an Asset!**

- ◆ *The government has given us the opportunity to take a certain amount of control over the management of our civic assets.*
- ◆ *The secret to American wealth lies within the freedom to own assets with deeds, titles, and articles of incorporation.*

- ◆ *The more choice and control we exercise over civic assets, the less government will need to tax us for social services.*
- ◆ The principles taught in this book remain the same regardless of changes that determine the precise tax bracket.
- ◆ Taxable income is calculated as gross income less personal deductions and exemptions.
- ◆ The tax bracket that your "last dollars earned" put you in is called your marginal tax bracket. To calculate the true tax savings achieved by virtue of a deduction, use the marginal tax rate.
- ◆ You pay higher tax rates only on dollars earned in excess of each tax threshold.
- ◆ Do not use the IRS as your forced savings vehicle.
- ◆ If you are sure you will not owe federal tax in any year because of deductions and exemptions, you can claim as many withholding exemptions as necessary to avoid unnecessary tax being collected.
- ◆ There are only three types of income subject to taxation: earned income, passive income, and portfolio income.
- ◆ A capital gain is not subject to tax until it is realized. . Money that accumulates in a non-taxed environment grows to a substantially greater sum than money taxed-even at 25 percent.
- ◆ There are many legitimate tax deductions and tax-favorable strategies allowed in the tax code for the taxpayer's benefit.
- ◆ When borrowing money, loan proceeds are not taxable.
- ◆ Tax-deductible interest is a preferred interest expense.
- ◆ A homeowner can deduct mortgage interest expense on Schedule A of an itemized tax return on loans up to \$100,000, over and above acquisition indebtedness on a qualified residence.
- ◆ Acquisition indebtedness is any debt incurred in acquiring, constructing, or substantially improving a qualified residence and is secured by the residence. There is a \$1-million limitation.
- ◆ Qualified residence interest is allowable as a deduction, without regard to the manner in which such interest expense is allocated.
- ◆ A taxpayer should always seek advice and confirmation as to the deductibility of interest from a competent tax advisor.
- ◆ A married taxpayer may exclude up to \$500,000 (\$250,000 if unmarried) of gain in the sale of a principal residence. This exclusion can generally be used only once every two years.

### **Chapter Three: Plan your Retirement – Not Uncle Sam's**

- ◆ Most Americans who have saved for retirement will find themselves in a tax bracket at least as high as-if not higher than during their earning years.

- ◆ Traditional qualified plans allow the taxpayer to contribute money with pre-tax dollars or receive a tax deduction for the amount contributed.
- ◆ Traditional qualified plans include IRAs, 401 (k)s, TSAs, 403(b)s,
- ◆ 457s, pension plans, and profit-sharing plans. *Qualified plans defer taxes, which results in increasing tax liability.* The four phases of retirement planning are the contribution, accumulation, distribution, and transfer phases.
- ◆ You can establish a non-qualified retirement planning alternative (funded with after-tax dollars) with tax-favored treatment during the accumulation, distribution, and transfer phases.
- ◆ *If future tax rates will likely be higher, why delay the inevitable?*
- ◆ All tax changes in the 2001 tax act will end on December 31, 2010.
- ◆ If estate transfer taxes are repealed, the current law providing a step-up in basis to fair market value will likely also be repealed.
- ◆ *Matching benefits may be useful for employees, but people need to examine the opportunity carefully-benefits have their limits.*
- ◆ Employers who want to offer benefits should be willing to match retirement savings in either a qualified or a nonqualified plan. .
- ◆ The younger generation will have to earn the income taxed for Social Security so it can provide benefits for retiring baby boomers.
- ◆ The Rule of 72 is used to calculate the number of years it takes to double invested money.
- ◆ At a 5 percent inflation rate, the cost of living will double every fifteen years, so it would require a \$12,000 monthly income thirty years from now to have the same purchasing power that \$3,000 has today.
- ◆ Depending on the lifestyle you desire in retirement, *you should put 10 to 20 percent of your income in long-term investments.*

#### **Chapter Four: Solve Your IRA/401(k) Dilemma**

- ◆ Predictably, most people are motivated to invest in qualified plans for tax-favored treatment during the contribution and accumulation phases of retirement planning.
- ◆ When traditional qualified plans are liquidated in retirement, they produce the taxable results the government predicted and intended.
- ◆ *It doesn't make sense to postpone tax for some perceived advantage in the future.*
- ◆ *Non-qualified retirement vehicles can provide greater net spendable retirement income.*
- ◆ If you live twenty or more years after retiring, you'll potentially pay back at least five times more in taxes during the distribution phase than the taxes saved during the contribution phase.

- ◆ There are basically four sources of money: people at work, money at work, other people's money (OPM), and charity.
- ◆ *Most wealthy people employ the use of other people's money.*
- ◆ There are basically five different savings or investment options:
  1. You can invest after-tax dollars in instruments that are taxed as interest is earned, dividends are paid, or gains are realized.
  2. You can invest after-tax dollars in investments that accumulate tax-deferred, and pay taxes on the gain when realized.
  3. You can invest after-tax dollars in investments that accumulate tax-free, and also use the money tax-free later.
  4. You can invest 100-cent pre-tax or tax-deductible dollars in investments that accumulate tax-deferred, then later pay tax.
  5. You can use 100-cent dollars because of indirect tax deductions and enjoy tax-free accumulation, tax-free use of the money, and transfer any remaining funds to your heirs tax-free.
- ◆ Option 5 far outperforms options 1 and 2 and can generate 50 percent more net spendable retirement income than options 3 and 4.
- ◆ *Having money that is tax-favored during the harvest years has the potential to generate a set amount of income into perpetuity, while taxable investments may require retirees to withdraw 50 percent more (in a 33.3 percent tax bracket) to achieve the same amount of net spendable income. Hence, a taxable account may become depleted, which can result in retirees outliving their money.*
- ◆ *Tremendous wealth can be created by doing what banks and credit unions do: borrow at one rate and invest to earn a higher rate.*
- ◆ Building memories at a 401 Cabin/Individual Retirement Abode (IRA) can result in more valuable deposits in a family bank than IRAs and 401(k)s, while enjoying the same tax benefits and growth.

#### **Chapter Five: Free Yourself from the IRA and 401(k) Trap**

- ◆ *. Develop a plan to strategically convert your qualified funds to non-qualified accounts at the most opportune time taxwise.*
- ◆ When they retire, people will usually find themselves in a tax bracket as high as or higher than they were in during their earning years.
- ◆ After age 59 1/2, it is usually advisable to get qualified money out, taxed, and repositioned into a tax-free environment, rather than to leave it in qualified plans, compounding the problem.
- ◆ Postponing tax until age 70 1/2 and then taking minimum distributions may result in paying substantially more in tax in the long run.
- ◆ A strategic conversion of your qualified accounts to a non-qualified status-over a five- to seven-year period-may result in up to 60 percent less tax than stringing the tax liability out over a lifetime.

- ◆ *Sometimes between the estate tax and income tax, surviving heirs realize only about 22 cents on the dollar from their parents' IRAs.*
- ◆ *You can pay the IRS now, or you can pay the IRS on a larger amount later. If you can get the same rate of return in a non-qualified account as you can in a qualified account-and enjoy tax-free growth and tax-free access to your account thereafter-you should consider discontinuing new contributions to any type of qualified plan.*
- ◆ *If you do not use the available room between your current taxable income and the next tax bracket threshold for possible qualified plan withdrawals, you will lose it for that tax year.*
- ◆ *Qualified plan roll-outs may hurt taxwise in the short term but can dramatically enhance retirement income in the long term.*
- ◆ *Retirees between the ages of 59  $\frac{1}{2}$  and 70  $\frac{1}{2}$  can arrange to have their qualified plans strategically taxed and repositioned in a tax-free environment to enjoy greater net spendable income.*
- ◆ *People preparing for retirement, or already in retirement, can alleviate or totally eliminate unnecessary income tax on some or all of their qualified retirement accounts, such as IRAs and 401(k)s.*
- ◆ *By successfully managing the equity in your home, you can reduce or eliminate the tax (through mortgage interest offsets) on qualified money as it is accessed. This strategy can substantially increase your net spendable retirement income.*

## **CHAPTER 6: Learn To Manage Home Equity Successfully**

- ◆ *Most people go about buying their home the wrong way-unnecessarily costing themselves thousands of dollars.*
- ◆ *Mortgage interest is your friend, not your foe.*
- ◆ *It is better to incur preferred (deductible) interest expense than non-preferred (non-deductible) interest expense.*
- ◆ *Wise investors do what banks and credit unions do: borrow money at low rates and invest it to earn higher rates.*
- ◆ *The liability of using OPM is a bank's greatest asset.*
- ◆ *You do not need to payoff your house to be considered "out of debt. Debt, managed wisely, can be good.*
- ◆ *Home equity, trapped in the house, does not contain the three elements of a prudent investment: liquidity, safety, and rate of return.*
- ◆ *Learn to separate and manage your equity to better increase liquidity, safety, and rate of return.*
- ◆ *The rate of return on home equity is always zero. Separate equity to conserve it, not consume it.*
- ◆ *You shouldn't prepay your mortgage with inflated dollars.*

- ◆ No matter how much extra you pay against your principal, the next regular payment is still due.
- ◆ *As a home appreciates, and the loan-to-value ratio goes down, the mortgage company's position becomes safer, but you become proportionately less safe.*
- ◆ Real properties with high equity and low mortgages get foreclosed on the soonest.
- ◆ In soft real estate markets, your home will likely sell more quickly and for a higher price with a high mortgage balance than with a low mortgage balance.
- ◆ *You don't earn interest on your down payment.* Paying cash for your home would be paying the largest down payment possible.
- ◆ *When you separate equity from your home, you increase your assets.*
- ◆ When you pay down your mortgage, you decrease your assets.
- ◆ *It's better to have access to home equity in a liquid side fund and not need it than to have it trapped in the house and be unable to get it.*
- ◆ Since you have no choice, it's better to incur deductible employment costs on home equity than non-deductible opportunity costs.
- ◆ *Arbitrage* is the lifeblood strategy of nearly all financial institutions, and most self-made millionaires have mastered it.
- ◆ A homeowner can safely make thousands of dollars' profit by borrowing money at one rate, such as 6 percent, and investing the loan proceeds at the same 6 percent, especially when two conditions exist: the borrowing interest rate is deductible and the investing interest rate compounds under tax-favorable circumstances.
- ◆ *Learning to control and manage equity successfully is the key to enhancing your financial net worth.*

#### **CHAPTER 7: Manage Your Mortgage to Create Wealth**

- ◆ *Keep assets in investments that are liquid* so they can be easily accessed in the event of an emergency.
- ◆ Maintain flexibility in order to ride out market lows and take advantage of market highs.
- ◆ *It's a lot better to have and not need than to need and not have.*
- ◆ Houses were made to house families, not to store cash.
- ◆ If you want to know how to become a self-made millionaire, study self-made millionaires.
- ◆ *Separate the maximum amount of equity as often as possible* to increase liquidity, safety, and rate of return.
- ◆ *Always position yourself to act instead of react to circumstances over which you may have no control.*
- ◆ Undisciplined borrowers who use home equity to consolidate credit card debt often end up consuming their equity. They may enter a cycle of debt proliferation, which can lead to bankruptcy.

- ◆ Every time you refinance your home, it's possible to accelerate the time to have a "clear and free" home on your balance sheet-sooner than you would with the previous mortgage.
- ◆ *Interest rates are relative.* When interest rates for borrowing are low, they are likewise low for saving and investing. Proportionately, when interest rates for borrowing are high, you can achieve higher rates of interest on savings and investments.
- ◆ *Use some of Uncle Sam's money instead of your own* (through tax savings) to reach your "freedom point" quicker.
- ◆ Earmark specific assets and assign them to a specific liability.
- ◆ *No method of paying extra principal payments to your mortgage is the wisest or most cost-effective way of paying off your home.*
- ◆ You can accumulate sufficient cash in a conservative, tax-deferred, mortgage acceleration plan to cover the liability of the mortgage on your home just as soon as or sooner than with traditional methods.
- ◆ The traditional methods most often used to accelerate the pay - off of a mortgage result in losing control of your home equity; increasing the after-tax cost; increasing your risk of foreclosure; reducing the return on your equity dollars; decreasing your ability to sell your home quickly; and extending the time required to become debt-free.
- ◆ A home can be considered "paid for" -even though it may be mortgaged to the hilt-if you have sufficient liquid *assets* in a safe environment that could wash out the liability of the mortgage.
- ◆ Any conceivable financial setback can likely be best resolved if your home equity is separated from your property rather than trapped in it.
- ◆ The best financing plan for a homeowner using the equity management strategies contained in this book will depend on factors such as the ability to make monthly payments, the amount of equity available, the interest rate on the current mortgage, and the expected length of residence in the current home. *Interest-only mortgages can provide some of the best leverage.*
- ◆ When acquiring a home or other properties, pay little or no cash down (if your budget allows), to leverage your dollars and establish the highest amount of acquisition indebtedness for tax deductibility.

## **CHAPTER 8: Homemade Wealth**

- ◆ By leveraging your property safely, you can:
  1. Have a liquid side fund to use as an emergency fund or to use for home improvements.
  2. Have great safety of principal in down markets because a larger portion of equity is separated.
  3. Have greater property portability, with the potential to sell your house more quickly and for a higher price in a soft market.

4. Convert some of your non-preferred debt to preferred debt, thereby increasing the return on your money.
  5. Establish a home equity retirement plan, which can increase your net spendable retirement income by as much as 50 percent over IRAs and 401(k)s, as explained in chapters 3 and 5.
- ◆ There are more factors to consider when financing a home than just interest rates and closing costs.
  - ◆ Through strategic refinancing and proper equity management, homeowners can reduce the time to achieve a "debt-free" home on their balance sheet and substantially enhance their net worth.
  - ◆ *Separating equity with a higher mortgage can be accomplished, many times, without requiring an increase in monthly outgo. To manage home equity successfully, it is advantageous to use long-term amortized mortgages or interest-only mortgages.*
  - ◆ You can create tremendous wealth by borrowing money at a particular interest rate and investing it at the same interest rate-or even less-provided two conditions are met: the interest paid on the borrowed funds is deductible, and the investment in which you invest those funds earns compound interest. If the investment is tax-favored, the potential for growth is even greater.
  - ◆ You can systematically stack up \$1 million or more over a thirty-year period by borrowing \$100,000 at 6 percent tax-deductible and investing the loan proceeds at 8.5 percent compounding free of tax.
  - ◆ Likewise, you can accumulate over \$1 million by borrowing \$160,000 at 7.5 percent interest and investing the loan proceeds at 7.5 percent interest.
  - ◆ Likewise, if a \$200,000 home appreciates at an average of 5 percent a year, you can accumulate over \$2 million if you begin with \$100,000 of equity and continue to separate equity every three to five years.
  - ◆ If home equity is repositioned to a liquid side fund, it will allow you to peel off dollars to meet a house payment if the need arises.
  - ◆ The primary reasons people get into trouble from leveraging property are they have either consumed the capital they borrowed or not kept the money in a liquid environment.
  - ◆ Borrow funds with the most attractive terms possible. An interest-only loan is the most desirable to maximize tax deductibility.
  - ◆ Invest in a safe environment, yet earn the highest rate of interest possible. *Invest in tax-deferred or tax-free low-risk vehicles.*
  - ◆ The power of successful equity management is in the compounding of your investment in a tax-favored environment, as well as in the tax benefit achieved through borrowing funds in a tax-deductible environment.

## CHAPTER 9: Choose the Right Investments

- ◆ *Annuities, some mutual funds, and investment-grade life insurance contracts are the three categories of investments that pass the liquidity, safety, and rate of return tests.*
- ◆ Most annuities are simply savings accounts with insurance companies that accumulate money on a tax-deferred basis. LIFO tax treatment means the last money you earned (the interest) is treated as the first money you are withdrawing. Regular annuities do not blossom in value at death. Under a life-only option, the annuity pays only throughout the annuitant's lifetime.
- ◆ *Home equity should not be invested in securities such as mutual funds, variable annuities, or variable life insurance products.*
- ◆ While the market generally goes up over the long term, there are also many ups and downs in the short run-much like a person with a yo-yo walking up a flight of stairs.
- ◆ *For most people, timing the market doesn't work;* investor returns do not equal investment returns because investors' holding periods are too short.
- ◆ Mutual funds pool money from investors, allowing small amounts of money to be diversified over many companies.
- ◆ Unless mutual funds are qualified accounts or tax-free, they are taxed as dividends are paid or capital gains are realized.
- ◆ *The biggest mistake investors make is choosing short-term investments for long-range goals or choosing long-term investments for short-range goals.*
- ◆ Choose financial instruments that will provide the most money at the time in life you will likely need the money most.
- ◆ Many major life insurance companies are not much different from a conservative mutual fund type of asset management company.
- ◆ An insurance company is more conservative and will likely earn a lower rate of return with less deviation than a mutual fund.
- ◆ *Wise investors are turning more to insurance companies for tax-favored, long-term savings and capital accumulation.*
- ◆ The insurance industry in America is a trillion-dollar industry, a stabilizing economic factor, and the financial backbone of America.
- ◆ You can maximum-fund a life insurance policy in order to use it primarily as a living benefit rather than a death benefit. Cash-value life insurance was designed to accommodate an overpayment of insurance premiums during the early years, thus allowing an underpayment of premiums in later years.
- ◆ Cash-value life insurance provides equity buildup inside the policy, which in turn provides a liquid fund that can be used for emergencies or to supplement retirement income on a tax-favored basis.
- ◆ A unique feature of permanent life insurance is that the accumulation of cash values in the contract are tax-advantaged.

- ◆ *Life insurance death benefit proceeds are usually free of income tax. The secret to wealth accumulation is not the rate of return, but the ability to put money aside, keep it aside, and put it to work for you.*
- ◆ The cost of insurance may consume only a small portion of the overall interest earned on an over-funded life insurance contract.
- ◆ The mortality and expense charges associated with a properly structured life insurance contract can be covered by a portion of the interest that is earned (money that would otherwise be paid in income tax).

## **CHAPTER 10: Structure Your Life Insurance to Perform as a Superior Investment**

- ◆ *Properly structured life insurance contracts can be used for tax-favored capital accumulation and tax-advantaged retirement income, in addition to providing income-tax-free death benefits.*
- ◆ To use a cash-value life policy for tax-free capital accumulation, TEFRA and
- ◆ DEFRA guidelines dictate the minimum death benefit.
- ◆ Use the "back-door approach" to design an insurance contract to accommodate the amount of capital you wish to transfer/reposition.
- ◆ The guideline single premium is the maximum total allowable premiums you can pay into a universal life insurance contract the first eleven years.
- ◆ The cost of insurance, which allows the investment to qualify under the definition of life insurance and remain tax-free, is a critical component for achieving the most attractive results.
- ◆ Over a twenty- or thirty-year period, an investor can achieve a net rate of return, cash on cash, of 7 to 8 percent on an over-funded life insurance policy crediting an average of 8 to 9 percent interest.
- ◆ It doesn't matter how old you are, the spigot on the bucket (life insurance contract) can be designed to drain out about the same percentage of your interest.
- ◆ A fixed universal life policy structured correctly to accommodate the full capital invested (will likely outperform a fixed annuity on the back end, provided it is maximum-funded under IRS guidelines.
- ◆ To accumulate the greatest amount of capital at the highest rate of return, you should take only the minimum death benefit required, and then fill the bucket to the maximum level as soon as possible.
- ◆ Establishing a life insurance policy that will accommodate the amount of capital you will eventually sock away may allow you to be grandfathered, if Congress ever changes the tax law affecting it.
- ◆ You can nurse along an insurance contract with minimum premiums until impending capital comes in, such as an inheritance.

- ◆ A life insurance policy funded sooner than TAMRA allows results in the policy becoming a MEC, wherein cash values accumulate and transfer tax-free, but access to cash is taxed under LIFO treatment.
- ◆ You can comply with the TAMRA Seven-Pay Test with as few as four or five annual installments to fund the guideline single premium of a universal life contract.
- ◆ A policyholder can over-fund an insurance contract in excess of TAMRA and then "perfect" the contract within sixty days of: the policy anniversary by requesting a refund of the overage paid.
- ◆ A life insurance contract may be regarded as *investment-grade* if it is structured to perform as an investment with minimum death benefits under TEFRA/DEFRA parameters.
- ◆ Agencies used for rating the strength of insurance companies are Standard & Poor's, AM Best, Fitch, Moody's, and Weiss.
- ◆ Besides the insurer, there are four roles involved with an insurance policy: the insured, the owner, the beneficiary, and the premium payor.
- ◆ *Life insurance can be used as an estate multiplier*, which can be far more beneficial than stretch IRAs that postpone tax.
- ◆ *You do not need to be insurable to be the owner of a life insurance policy* that provides tax-advantaged growth and access to money.
- ◆ Generally, the level death benefit option should be selected if the primary objective is to achieve the highest rate of return possible and the insured is expected to die later rather than sooner.
- ◆ Under most circumstances, *it is advisable to start with the level death benefit option*. If desired, it can be changed later.
- ◆ *Life insurance contains tremendous flexibility*. At one end of the spectrum, you can minimum-fund the contract as an inexpensive way to have insurance for your entire life. At the other end of the spectrum, you can use it to accumulate money in a tax-favored environment to use for supplemental retirement income.

#### **CHAPTER 11: Access Your Money Tax-Free at Retirement**

- ◆ When structuring an insurance contract for investment purposes, the death benefit can provide an incredibly high return, at death, on premium dollars-but that is *the sad way to access your money*.
- ◆ *The advantage of investment-grade insurance contracts is that when you withdraw your money, it is treated with FIFO taxation* (first in, first out), so your withdrawals are tax-free up to the basis.
- ◆ *The dumb way to access money* from an insurance contract would be to continue "withdrawing" your money after you have recovered your basis, because it would trigger unnecessary tax.

- ◆ *The smart way to access money* is for the owner to change the "withdrawal" to a "loan"-simply a change in nomenclature. Loan proceeds are not deemed earned, passive, or portfolio income.
- ◆ Insurance companies can loan you the equivalent of the interest you are earning each year to avoid tax on the distribution of your cash.
- ◆ Loans on insurance contracts can be open until death, at which time the loan balance is deducted from the death benefit automatically.
- ◆ A taxable event can be permanently avoided if a life insurance policy has enough cash value remaining in it at death to keep the life insurance in force by covering the mortality costs.
- ◆ Preferred loans were created specifically for retirement income.
- ◆ *Preferred loans can be totally "zero cost" or "zero spread" loans.* Insurance companies may credit the same interest on the cash value used as collateral for the loan as the interest charged on the loan.
- ◆ *New money can be reinvested into a life insurance contract that has an outstanding loan balance by simply "repaying the loans." Properly structured and properly used investment-grade insurance contracts can be the best retirement vehicles for providing liquidity, safety, and tax-favored rate of return.*
- ◆ Because of the tax-free accessibility of cash values that can be used for retirement income, *maximum-funded insurance contracts can far outperform alternatives like IRAs, 401(k)s, annuities, and mutual funds.*
- ◆ A taxable investment would likely need to earn as high as 12 percent average to match the net, tax-free income generated by an insurance contract crediting an average of only 7 to 8 percent.
- ◆ In a 33.3 percent tax bracket, you would need to take 50 percent more retirement income to net the same amount as tax free vehicles. , .
- ◆ Generally, there are five types of cash-value life insurance on the market: whole life, variable life, and three kinds of universal life- fixed, variable, and equity-indexed.
- ◆ Variable life has a death benefit created by term insurance with an equity investment side fund.
- ◆ Universal life was created with flexibility in mind-both premium payments and insurance death benefits may be varied.
- ◆ Fixed universal life tends to be more stable, responding slowly to market swings.
- ◆ *Home equity should not be invested in variable contracts* because they are vulnerable to market downturns and loss of principal.
- ◆ Equity-indexed universal life was designed to help investors have a guaranteed floor on the minimum rate credited on their cash values and yet have the potential to participate indirectly in the market.

- ◆ Indexed universal life often carries slightly higher expense charges than a fixed universal life policy, but lower than a variable policy.
- ◆ If you change from one residence to another and obtain a new mortgage on the new home, you don't have to worry about the deductibility of interest on a new mortgage up to \$1 million.
- ◆ A taxpayer who desires to deduct interest from a cash-out refinance on an existing home (where the loan proceeds are invested in an insurance contract) should avoid having the life insurance classified a "single premium insurance contract" by complying with TAMRA.
- ◆ *Use fixed or indexed life insurance contracts when repositioning home equity* rather than variable life insurance contracts.
- ◆ Because a person's particular set of circumstances can be unique, *each person should seek competent legal and accounting advice.*
- ◆ Modern cash-value life insurance can be designed to accumulate and store cash safely and provide tax-favored living benefits, as well as income-tax-free death benefits, while maintaining liquidity and safety and achieving an attractive rate of return.

#### **CHAPTER 12: Give New Life to Your Assets - Develop the Proper P.L.A.N.**

- ◆ *What you don't know can hurt you.* The worst form of ignorance is rejecting something we know little or nothing about.
- ◆ *We either progress or retrogress.* We must increase our talents and abilities or those we have will wither and die.
- ◆ There is enough to spare for everyone to have an abundant life.
- ◆ Capitalize every category of assets on the family balance sheet by developing a system that helps to do the following: enhance each individual's health, happiness, and well-being; encourage family leadership; capture family virtues, memories, and *wisdom*; and protect, optimize, and empower your family's intellectual and financial assets.
- ◆ *Empowered living is simply a process of teaching children how to love, learn, give, and earn.* "Family retreats with a purpose" are a powerful method to teach and enhance true principles.
- ◆ First understand *why* you should cultivate a Perpetual Life of Asset Nurturance before learning details of *how* to accomplish your P.L.A.N.
- ◆ *Establish a liquid side fund* to accumulate the funds required to payoff your mortgage, maintain flexibility, achieve substantial tax savings, and accumulate excess cash.
- ◆ Separate as much equity from your home as feasible to increase liquidity, safety, rate of return, and tax deductions. Use the difference between preferred and non-preferred interest expense to make interest work *for* you instead of *against* you.

- ◆ *Use debt wisely as a positive lever for equity management purposes, conserving and compounding equity rather than consuming it.*
- ◆ *Choose to incur deductible employment costs rather than nondeductible opportunity costs.*
- ◆ *Use the principle of arbitrage by employing equity to earn a rate of return higher than the net cost of separating that equity. Refinance your home as often as feasible to accelerate the process of accumulating the resources to cover all your debts.*
- ◆ *Always maintain as high a mortgage with flexibility-on your home as feasible to keep it marketable, especially in soft markets.*
- ◆ *A common myth is that" life insurance is a poor investment. The reality is, life insurance is an excellent place to accumulate cash.*
- ◆ *Your house payment can become your retirement contribution.*
- ◆ *You should periodically evaluate repositioning some or all of your qualified plan contributions or distributions into a nonqualified fund.*
- ◆ *You can minimize, even eliminate, the payment of unnecessary tax.*
- ◆ *Avoid being "house rich, cash poor" during your retirement years.*
- ◆ *A reverse mortgage is a safe and easy way for seniors to turn their home's equity into an additional source of income to meet needs.*
- ◆ *Elderly affluent retirees can often secure guaranteed returns of 6 to 9 percent by using a single premium immediate life-only annuity Coupled with an asset-replacement life insurance policy.*
- ◆ *The Ultimate Arbitrage Plan ® can be used with affluent seniors to raise millions of dollars for charitable foundations without the donors having to use any of their own cash.*
- ◆ *Successfully managing equity can substantially enhance cash flow management, credit management, asset management, risk management, tax planning, and estate planning.*
- ◆ *Never underestimate the merits of having adequate life insurance.*
- ◆ *Make a meaningful transformation as you give new life to all the assets on your family balance sheet. Develop a Perpetual Life of Asset Nurturance (P.L.A.N.).*

For more information on how to optimize your human, intellectual, financial, and civic assets, visit [www.missedfortune.com](http://www.missedfortune.com) or [www.empoweredwealth.com](http://www.empoweredwealth.com). You may contact Douglas Andrew via email at [info@pfs-inc.org](mailto:info@pfs-inc.org) or call toll free, 1-888-987-5665.

**Recommendation:** I went to a Missed Fortune seminar and was blown away enough to buy the book and implement the strategies put forward. It really did change my view on my personal finances.



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My associates and I specialize in and have a passion for working with successful accounting firms. Our concentration is on what are commonly called the "soft skills." Through our experience we have demonstrated that what is true for Fortune 500 companies is also true in creating a competitive advantage for accounting firms.

We specialize in working with those firms who want a competitive advantage in recruiting prime talent, retaining their key employees and developing their partners, managers and staff. Frumi & Associates provides a formal measurable coaching program to address the specialized needs of growing firms.

Unlike other coaching firms our associates all have an intimate knowledge of the accounting profession and the challenges they face.