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*wealth maximization strategies**

February 2019

Intrigued? Maybe you should plan for a sabbatical. Or, at the very least, explore ways to increase the leisure time in your life.

Would you be interested in…

Enhancing your professional and vocational resume?

Exploring a career change?

Dedicating some extended time to a special project?

Establishing a better work-life balance?

Enjoying some once-in-a-lifetime experiences – before age or declining health make those experiences impossible?

In This Issue…

The Sabbatical

A sabbatical is an extended break from your regular work, typically for a few months to a year. While a sabbatical may include travel, it is not necessarily a vacation. Rather, a sabbatical is "purposeful leisure"; a time to broaden your knowledge, try new things, or reflect on the direction and priorities of your life, without the pressures of deadlines or long-term commitments.

Sabbaticals have a long history in academia. Professors leave their teaching positions for one or two semesters to focus on research, study at another institution, or complete a thesis, then return to the faculty. While far less common among other employers, "the practice is now making its way into company benefits packages, from retail stores to tech startups to international manufacturing corporations," according to Dana Sitar, editor of a personal finance website (thepennyhoarder.com).

What do you do on a sabbatical? The possibilities are endless. You might burnish your credentials or enhance your economic value in the marketplace with advanced education. You could do volunteer work with a charitable organization. Maybe there's a seasonal job opportunity that allows you to live overseas. Some foundations offer sabbatical grants to recipients who do research or write papers.

Whatever the activity, a sabbatical is intended to inject a healthy dose of leisure in your life, not only to rest, but to live at a slower pace, to fully experience new things and contemplate different paths. Sabbaticals can be life-changing.

Reviving the Old Definition of Leisure

Today, "leisure" is often defined as a vacation, or a few days off to catch up on sleep. These are temporary breaks from working, whose primary purpose is to get us ready to go back to work. Josef Pieper, a mid-20th-century philosopher, lamented this culture of "total work," in which everything, including leisure, exists to increase our capacity to work:

The "break" is there for the sake of work. It is supposed to provide "new strength" for "new work," as the word "refreshment" indicates: one is refreshed for work through being refreshed from work. *(emphasis added).*

Historically, this was not the definition of leisure. Leisure was the free time to pursue other interests and contemplate life. Leisure was not considered an indulgence, but an essential component to a balanced life. In his book ***Rest: Why You Get More Done When You Work Less***, Alex Pang writes,

"The ancient Greeks saw rest as a great gift, as the pinnacle of civilized life. The Roman Stoics argued that you cannot have a good life without good work. Indeed, virtually every ancient society recognized that both work and rest were necessary for a good life: one provided the means to live, the other gave meaning to life."

Agreeing with ancient wisdom, Pang asserts that a leisurely life is often a more productive one. Multiple studies have shown that excessive work schedules rarely result in a corresponding increase in productivity or creativity. Anecdotally, Pang finds that some of the most productive and innovative individuals from history actually "did not work that much. Their lives were filled with leisure, activity and rest."

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Planning for a Sabbatical

Is your life filled with "leisure, activity and rest?" Probably not. Would life be better if you improved your ratio of leisure, activity and rest? If so, maybe you ought to plan for a sabbatical. And "plan" is the key word.

For employers who offer sabbaticals, there is usually a guarantee of a job upon your return (although not necessarily the same one). In some instances (such as the pursuit of an advanced degree or participation in an industry-related project), a sabbatical may actually be employer-sponsored; you will continue to receive some or all of your salary and benefits. In other cases, a sabbatical may require piecing together a new mix of compensation and benefits, with the biggest issues revolving around how to obtain or keep health insurance, or continue retirement saving.

But whatever the particulars, a sabbatical will most likely require personal funding. And most likely these funds won't come from qualified retirement accounts; before age 59½, the early-withdrawal penalties are too steep. Planning for a sabbatical means planning to save in other places.

Saving for a Leisurely Present

The ideas embodied in a sabbatical have broad implications for our relationship with work, money and retirement planning. A sabbatical emphasizes the value of leisure in the present or the near future, instead of postponing it until after we stop working. If we want to live more leisurely today, it probably requires a reexamination of our saving strategies.

The bulk of mainstream commentary on personal finance focuses on retirement saving, with a few toss-off comments on reducing credit card debt and maintaining a small emergency fund. The costs of a two-week vacation can be paid from cash flow, or spread out on a credit card for a few months after. But you can't expect to cash flow a sabbatical. Paying for a sabbatical is more like making the down payment on your first home; it's a bigger savings project that might take a few years to achieve.

A sabbatical isn't the only avenue for adding healthy leisure to your life. A vacation home, a boat, or a recreational activity can provide similar benefits. But truly enjoying these options is only possible if you save for them; borrowing for leisure often adds financial stress, and is counter-productive.

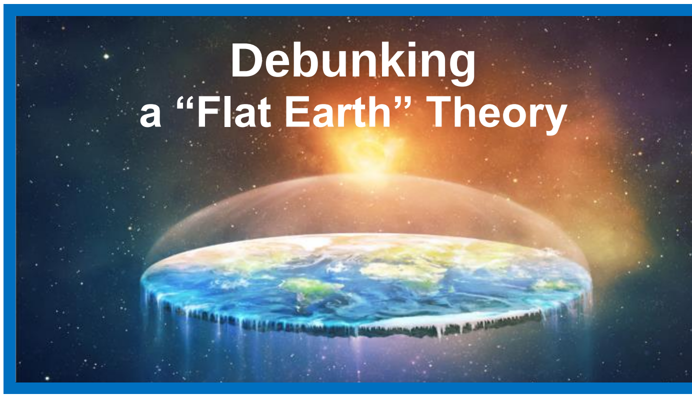
If you pay attention to marketing messages in the financial services industry, you'll note that some ads touch on planning for a leisurely present. It's the father who realizes a swimming pool will reshape family life, or the couple that takes their daughter on a life-changing tropical adventure. The cynical might see this as one more ploy to collect customers and deposits, but perhaps there's more to it.

There's something lacking in a financial philosophy that postpones leisure until retirement. Yes, delayed gratification is necessary. But if we wait until 65, 70, or 75 before having extended periods of leisure, we may be too old to enjoy it. And it's not just a problem of being too old. Some studies show that after years of working – and never learning how to live leisurely – many find they are poorly equipped to enjoy retirement.

Some might argue that saving for a leisurely present can jeopardize saving for a secure future. But remember Pang's statement: a leisurely life is often more productive as well. Savings that fund a sabbatical may be the catalyst for a lifetime of greater productivity.

If you have mastered the basics of saving, maybe it's time to allocate some of it to a sabbatical or other life-changing leisure pursuit. ❖

Debunking a “Flat Earth” Theory



Due to some ambiguously provocative statements from a few celebrities and professional athletes, there has been a revival of “Flat Earth” theories in public discussion. In one form or another, these ideas postulate that the Earth is not a sphere, but a flat disc that bends on itself.

Even though there is strong evidence to discredit them, Flat Earth theories persist because they align with our perception that the Earth is flat. So when a “new” version of Flat Earth comes along, it’s easy for us to say, “Well, you know…that sort of makes sense” – even though this iteration isn’t much different than others that have been discredited.

The “Flat Earth” Statement of Retirement Planning

Similarly, flawed theories exist in personal finance. Despite facts to the contrary, these ideas persist because, at first hearing, they sort of make sense. For example, there’s this one, which first appeared in the mid-1970s, with the introduction of the Individual Retirement Account (IRA):

“You’ll be in a lower tax bracket in retirement.”

Sounds like it ought to be true, right? A primary motivation for making tax-deferred contributions today is the belief that the taxes due when the funds are withdrawn will be less than the deduction received on the deposits.

When IRAs (and their employer-sponsored cousins, like 401(k)s and 403(b)s) first appeared, no one really knew if “You’ll be in a lower tax bracket” was true. But after 40-plus years, enough individuals who saved in qualified retirement accounts have transitioned to retirement, to arrive at a definitive conclusion: **Those who do a good job saving during their working years will most likely *not* be in a lower tax bracket in retirement.**

What the Numbers Say

In November 2018, The Nationwide Retirement Institute released findings from a “Tax and Retirement Income Survey,” based on data collected by The Harris Poll. The respondents came from three groups: Those retired for more than 10 years, those retired for 10 years or less, and those who expected to retire in the next 10 years.

Each group was asked to assess their tax rate in the first five years of retirement compared to either their current tax rate if still working, or their tax rate in the five years prior to retirement. Across the board, **three out of five respondents said their tax rates were either about the same or higher in retirement.** Here are the exact percentages:

Retired for 10 or more years: **59 percent**
Retired for 10 years or less: **58 percent**
Planning to retire within 10 years: **61 percent.**

Why might this be? Well, consistent savers most likely have other good financial habits. They systematically reduce or eliminate debt, and live within their means. By the time they retire, these households have accumulated enough money to continue living as they did when they were working. And there aren’t any compelling reasons to further delay gratification or decrease lifestyle just to stay in a lower tax bracket. Realistically, the only retirees who can anticipate a lower tax bracket are those who didn’t save enough while they were working.

Another possible reason many retirees find themselves at the same level of taxation or higher: They ignored the distribution aspect of retirement planning. Believing the lower-tax-bracket-in-retirement mantra to be accurate, savers sought retirement plans offering up-front deductions, assuming whatever taxes to be assessed at distribution would be less.

In hindsight, many retirees recognize they should have given taxes a closer look. The survey found that only 25 percent of older retirees (those who had been retired for more than 10 years) considered themselves knowledgeable or very knowledgeable about how their retirement income was impacted by taxes. The numbers for the other cohorts were slightly higher, but across all groups, there was an expressed need for better tax planning.

These comments highlight a critical nugget of financial wisdom: taxes at distribution can make two accounts with the same balance spend differently. For example, the true after-tax cost of a bucket-list trip to Europe could be $20,000 or $25,000, depending on which account is used to pay for the trip.

Eric Henderson, a Nationwide executive, points to the disproportionate public emphasis on accumulation as telling only half the retirement planning story: “It is also important to determine how to spend your retirement income. Building tax flexibility into a retirement income plan is crucial. Doing so allows you to use different types of investments and retirement accounts (taxable, tax-deferred, and tax free) to potentially avoid higher tax brackets.”

Flat Earth Theories Persist, but That Doesn’t Make Them True

With 60 percent of retirees finding they aren’t in a lower tax bracket, it’s perhaps prudent to retire the idea of “You’ll be in a lower tax bracket,” or at least be a bit skeptical about the claim. Yet just like the persistence of Flat Earth theories, some in the financial service industry continue to exhort consumers to maximize contributions to a qualified retirement plan.

Saving is a good thing, but so is tax flexibility. ❖

Taxes at distribution can make two accounts with the same balance spend differently.

Based on the evidence, successful savers are probably ***not*** going to be in a lower tax bracket in retirement. A better approach: consider retirement accumulation options with different tax treatments on distributions. ❖

Can You Adjust Your Biological Age?

Age might be just a number, but age-related numbers are important markers in personal finance, particularly in retirement. For example:

- **59½** is the age at which penalty-free withdrawals can be made from qualified retirement plans.
- **62** is when most Americans become eligible to receive reduced Social Security Benefits.
- Sometime between **66** or **67**, depending on your birthday, is your Full Retirement Age, when you can receive your full Social Security benefit.
- In the year you turn **70½**, you must commence with Required Minimum Distributions from qualified retirement plan accumulations.

These age requirements for retirement benefits, like the ones that determine your eligibility to vote or right to consume alcohol, are somewhat arbitrary. But because these age-based benchmarks exist, they often become default standards for retirement planning.

However, because everyone is unique, retirement planning should also consider one's biological age as well.

Chronological vs Biological Age

Chronological age is simply how long someone has lived, measured in hours, days, months and years. **Biological age**, sometimes referred to as ***physiological age***, is an assessment of your physical and mental function relative to your chronological age. A 65-year-old leading a healthy and active life may be physiologically similar to the average person who is 55 chronologically. Thus, we might say this healthy 65-year-old has biological age of 55.

There are any number of ways to measure biological age, from on-line self-assessments to comprehensive medical evaluations. Most biological age assessments are based on a combination of:

- physical condition (measurables like height, weight, blood pressure, vision, physical fitness)
- lifestyle (exercise and diet habits, stress levels, relationship status, i.e., single, married or divorced)
- heredity (the lifespans of others in the family tree, and the prevalence of specific diseases or illnesses)
- location (the climate, level of personal safety, and access to health services).

Impact on Personal Finance

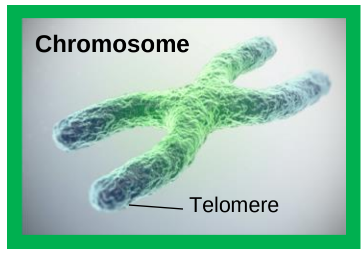
None of these biological age measurements are as exact as chronological age. But your biological age could be the deciding factor in many retirement decisions. For example…

1. A biological age lower than chronological age projects to a longer life expectancy. This probability could change your retirement planning in several ways, such as:

- Anticipating a longer life, you might need to save more.
- Or, with the expectation of good health, you might want to work longer.
- A lifetime annuity could be attractive for retirement income, because there's a financial benefit for living beyond chronological life expectancy.

2. Conversely, a biological age that is higher than your chronological one might prompt other decisions.

- Taking Social Security at 62, rather than waiting until you reach Full Retirement Age.
- Selecting an aggressive spend-down schedule that increases your retirement income.
- Restructuring your life insurance plans to ensure a death benefit for a surviving spouse.



You Can Change Your Biological Age

Chronological age is immutable; the only way to change it is with a fake ID (which is both sketchy and illegal). On the other hand, most individuals can adjust their biological age through better lifestyle choices. It's all about taking care of your telomeres.

Telomeres are protective structures at the end of our DNA strands. As we age, our telomeres get shorter. When telomeres get too short, the DNA is no longer protected, and cell regeneration processes break down, leading to cancer and other chronic medical conditions.

Fortunately, we can preserve telomere length and reverse aging at the cellular level. Dr. John Day, a cardiologist and author of "The Longevity Plan," lists six actions that improve telomere health, and the degree to which these changes can adjust your biological age.

1. Managing stress saves up to 10 years of telomere decay. A University of California at San Francisco study found that "Those who perceived they were under the most stress for the longest periods of time, prematurely aged their telomeres by about 10 years." Another study from the same researchers showed that meditation and relaxation techniques could reverse this premature aging.

2. Exercise can preserve 10 years of telomere life. An English study of 2,401 twins found that regular exercising slowed telomere aging by about 10 years when compared to their non-exercising sibling.

3. A healthy diet can reverse telomere aging by 5 years. Diets high in vegetables, fruits, fish, nuts, seeds, and legumes can protect our telomeres. Sugar, processed foods, and processed meats have the opposite effect.

4. Maintaining an ideal weight is worth 9 years. Obesity is another cause of premature aging. Excess weight causes oxidative stress, or "rusting," which results in telomere shortening. Maintaining an ideal body weight can lengthen telomeres by 9 years.

5. Sleep at least 7 hours. Sleep is recuperative. One study found that older people who slept at least seven hours each night had the telomeres of middle aged people.

6. Maintain social connections. Social isolation is a strong predictor of heart disease and telomere shortening. Staying connected to friends and family slows the aging process.

Biological Age Is a Huge Planning Variable

Because it can't be quantified on a spreadsheet, biological age doesn't get much attention in retirement planning. But health and wealth are intertwined. Adjusting your biological age could dramatically impact every facet of retirement planning.

Particularly for those who haven't been able to accumulate adequate savings, lowering your biological age could play a key role in catching up, because it theoretically expands your window for working and saving. And in retirement, a lower biological age translates to a higher quality of life, for a longer time. ❖

> Chronologically, time marches on, but by adjusting your biological age, you have some control over the cadence of your life, both physically and financially. Manage your biological age like a financial asset.

PREMIUM FINANCING: Leverage for Life Insurance

Almost everyone who enjoys a measure of financial success has at some point borrowed to facilitate their plans. Debt provides financial leverage to control or acquire more assets, and the opportunity to multiply productivity. Very few people "pay cash" on their way to creating a fortune.

Which is why some high net-worth households or businesses may opt to borrow to implement their life insurance plans.

Premium Financing

Premium financing is exactly what the term implies: an individual or business borrows from a bank or other lender to pay life insurance premiums. Because financing can reduce immediate out-of-pocket costs while preserving capital and cash flow, it may be an attractive option for wealthy individuals or growing businesses to immediately address pressing life insurance issues.

When businesses and high net-worth households have large life insurance needs, the premiums can be substantial, particularly if the individuals to be insured are older. Yet while the business or estate may have the assets to pay large premiums, cash may not be readily available. Assets may be illiquid, like real estate or equipment. Or the assets may be liquid, but highly profitable (such as an appreciating stock), making the owners reluctant to cash out. In a similar way, a business may have plenty of assets and cash flow, but wants to allocate these profits to further expansion, not premiums. In all these circumstances, premium financing can be a prudent approach to establishing the life insurance today without requiring other assets to be sold or reallocated.

The Basics

An application for life insurance is submitted. When the coverage is approved, the prospective owners of the policy solicit funding offers, either from a bank, or other lenders that specialize in premium financing.

Terms will vary, but premium loans are typically of short duration, like 3-5 years, at a variable rate, with options for renewal. The typical payment terms are often interest-only, with the principal balance due at the end of the term.

Depending on the person or entity that owns the policy and secures the loan, the premium financing arrangement may require integration with a legal document, such as an Irrevocable Life Insurance Trust, a Grantor-Retained Annuity Trust, or a Charitable Lead Trust.

An Example

In a February 2017, wealthmanagement.com blogpost, CFP Aaron Hodari provided the following hypothetical premium financing scenario:

Jay is a successful business owner who wants $10 million in permanent life insurance, for which the annual premium is $100,000. If he writes a check to cover the premium, his out-of-pocket cost in Year 1 is $100,000. But his true out-of-pocket costs could be even greater if he has to liquidate other assets to pay the premiums; a sale could result in a substantial capital gain, triggering additional taxes. Jay also incurs an opportunity cost because he loses the additional earnings the liquidated assets might have generated.

Instead, Jay finances the premiums with a 3-year loan that charges 4 percent interest. With interest-only payments, his out-of-pocket cost in the first year is just $4,000, which allows $96,000 of personal assets to remain invested. In Hodari's hypothetical, the investment does very well, spinning off a 12 percent return, growing to $107,520. At the end of Year 1, Jay has increased his assets and secured $10 million in life insurance. (This simple accounting does not consider any cash value that may have accrued in the policy.)

But Remember…Loans Must Be Repaid

Leverage in the above example is significant: A $100,000 premium is paid with an out-of-pocket cost of just $4,000. But another premium will be due in year 2, and the interest-only payment will now be $8,000, or perhaps more if interest rates

have changed. The interest payments increase again the following year, at which time the lender may call the loan and demand full repayment of the principal ($300,000 at the end of Year 3).

This simple example shows why every premium financing scenario should include a clear idea of how the loan will be repaid. Ultimately, the success or failure of a premium financing arrangement hinges on repayment of the loan.

Repayment plans typically include pledging a portion of the death benefit, should the insured die while the policy is in force. Other options might use loans or withdrawals from the policy's cash values*, a side account funded by gifts to a trust, or the sale of specified assets from the business or estate.

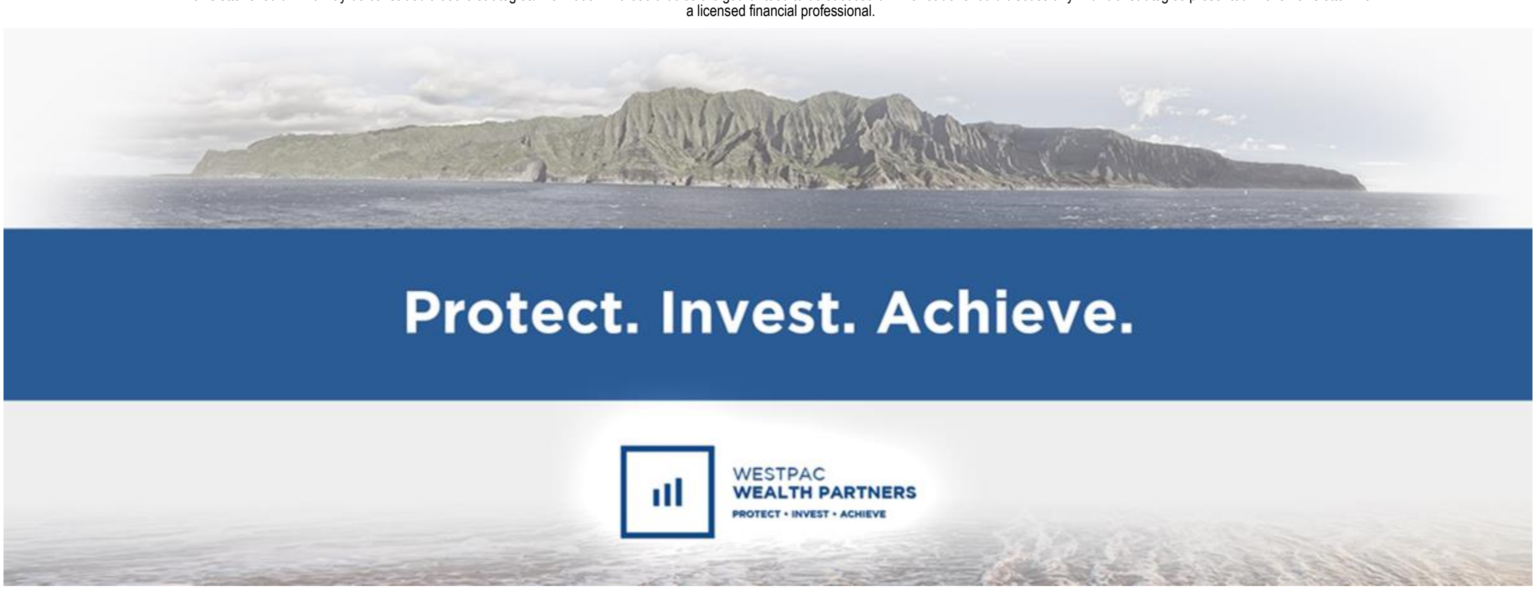
Big Numbers? It's Just Business

Life insurance is a financial instrument based on leverage; a small premium secures the right to a much larger benefit. Premium financing magnifies that leverage, making the initial outlay even smaller. Used judiciously, premium financing can be a great option for maximizing protection with minimum disruption to existing estate and business plans.

For the average consumer, $100,000 annual premiums, and a decision to borrow to pay those premiums, may be hard to comprehend. But in large estate and business applications, life insurance is just another asset that needs to be acquired and properly positioned in a portfolio or business plan. And sometimes, the expedient way to acquire assets is to take advantage of the financial leverage in borrowing. ❖

> Because the financial circumstances of each estate or business are unique, premium financing is a strategy that requires the coordinated professional assistance of life insurance agents, tax specialists and legal experts who are well-versed in the details of trusts or executive compensation agreements.

* Policy benefits are reduced by any outstanding loan or loan interest and/or withdrawals. Dividends, if any, are affected by policy loans and loan interest. Withdrawals above the cost basis may result in taxable ordinary income. If the policy lapses, or is surrendered, any outstanding loans considered gain in the policy may be subject to ordinary income taxes. If the policy is a Modified Endowment Contract (MEC), loans are treated like withdrawals, but as gain first, subject to ordinary income taxes. If the policy owner is under 59 ½, any taxable withdrawal may also be subject to a 10% federal tax penalty.



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