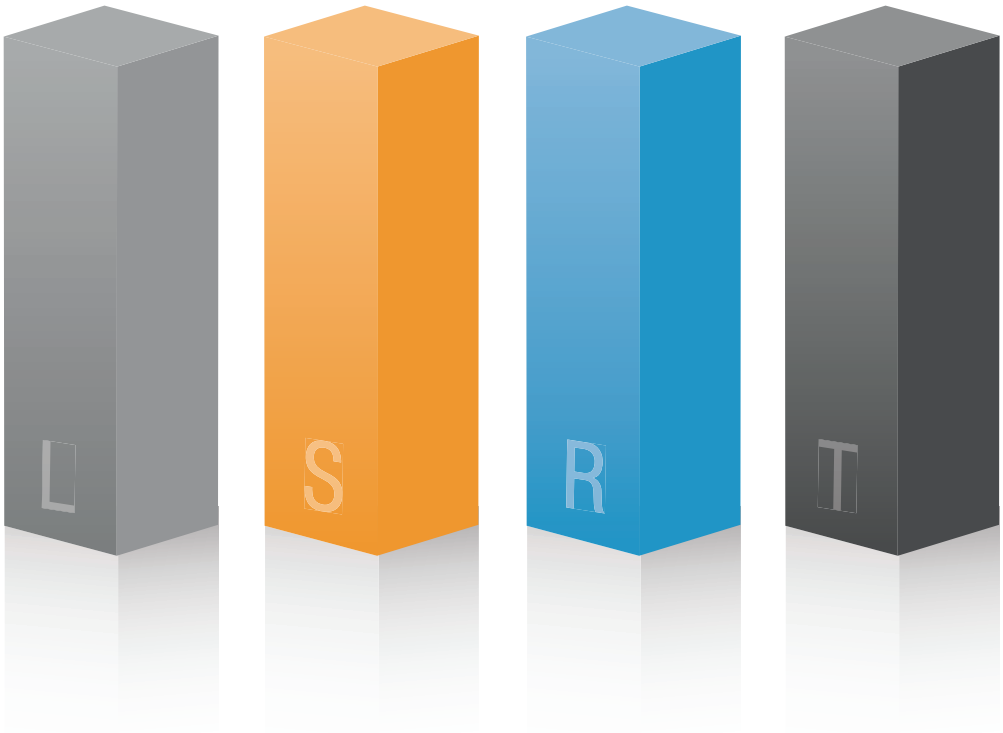
SECTION I

The Nuts and Bolts

[The Left-Brain Approach]

The LASER Fund

How to Diversify and Create the Foundation for a Tax-Free Retirement



Douglas R. Andrew

Emron D. Andrew

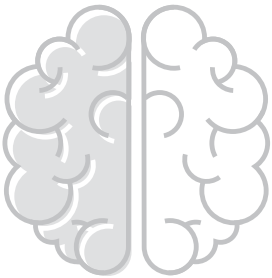
Aaron R. Andrew

VERSION 4

The LASER Fund

How to Diversify and Create the Foundation
for a Tax-Free Retirement

Section I
[The Left-Brain Approach]



Douglas R. Andrew

Emron D. Andrew

Aaron R. Andrew

Also by Douglas R. Andrew, Emron D. Andrew & Aaron R. Andrew
Millionaire by Thirty

Also by Douglas R. Andrew

Best-Sellers

Missed Fortune
Missed Fortune 101
The Last Chance Millionaire

Entitlement Abolition
Learning Curves
Secrets to a Tax-Free Retirement
Baby Boomer Blunders
Create Your Own Economic Stimulus
How to Have LASER Focus

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DISCLAIMER: With any mention of The LASER Fund, maximum-funded tax-advantaged insurance contracts, or related financial vehicles throughout this book, let it be noted that life insurance policies are not investments and, accordingly, should not be purchased as an investment.

Where appropriate, authentic examples of clients' policies have been incorporated, with names changed to safeguard privacy.

The materials in this book represent the opinions of the authors and may not be applicable to all situations. Due to the frequency of changing laws and regulations, some aspects of this work may be out of date, even upon first publication. Accordingly, the authors and publisher assume no responsibility for actions taken by readers based upon the advice offered in this book. You should use caution in applying the material contained in this book to your specific situation and should seek competent advice from a qualified professional. Please provide your comments directly to the authors.

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Special thanks go to Carl Woolston and the financial professionals at Live Abundant who are dedicated not only to the development and growth of our company, but also to increasing the abundance of others' lives through the Three Dimensions of Authentic Wealth. Thank you for working with us in our professional and philanthropic endeavors.

Suggestions for reading this book…

IF YOU LIKE A SOLID FOUNDATION
[Chapters 1-3]

Start with this deep-dive education that includes:

- Fundamentals of taxes and insurance
- What makes a prudent financial vehicle
- Why you want liquidity, safety, rate of return, and tax advantages in your financial vehicles

IF YOU LIKE TO FOCUS ON THE "MEAT"
[Chapters 4-10]

Delve into this section that provides:

- How The LASER Fund works
- How it plays out in illustrated scenarios
- How it compares to other financial vehicles

IF YOU LIKE TO KNOW MORE
[Chapters 11-14]

Read this section that explains:

- Why these proven strategies may be new to you or those you know
- How to safeguard your approach
- Why The LASER Fund isn't the only strategy you want ... and how to optimize your portfolio

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Introduction

WARNING: Are You Sure You Want to Read This Book?

Let's just start by asking, "Are you sure you want to read this book?"

We know most authors would never want to dissuade readers from picking up their book, but we offer this caution from the sincerest of places.

This is NOT your average, run-of-the-mill financial book. It will not contain conventional advice about traditional retirement vehicles. You won't likely feel reassured if you're like millions of Americans who have followed the crowd, adhering to widely accepted strategies when it comes to accumulating wealth and preparing for retirement.

While the principles contained have been helping the affluent achieve greater financial stability for decades—even during some of the nation's worst economic storms—they are not well-known. Mainstream financial professionals are often not familiar with these strategies, and sometimes look upon them with suspicion or doubt. These folks have even been known to dismiss the principles, saying things like, "I've never seen it before, so it can't be real." But that's where one must beg the question, "Have you ever seen gravity, or the wind, or your brain before? Then how can any of those be real?"

The LASER Fund principles we will discuss in this book are very real.

- They've provided people tax-free liquidity—access to their cash—for everything from business capital and children's educations to charitable giving and emergency funds.
- They've provided safety from market volatility when using this financial vehicle.
- They've provided rates of return that can consistently outperform other traditional vehicles.
- Plus, they've provided valuable tax advantages, and upon death, the opportunity for money to blossom and transfer to heirs income-tax-free.
- When we share the advantages of this approach, people invariably call it "a miracle."

That said, this isn't a one-size-fits-all approach. This isn't even the *only* financial vehicle we at Live Abundant would recommend.

And this isn't for the faint of financial heart. It's definitely not for financial jellyfish.

These principles are only for the abundance-minded, teachable, responsible, accountable, and self-disciplined. In fact, before we work with anyone, we have them consider whether they have the 8 Mindsets required to pursue this path. Figure I.1 is a condensed version of the 8 Mindsets Scorecard we share with prospective clients. You might want to take a peek to decide if this book is for … you.

NOTE: The official scorecard includes a range of responses for each mindset and the opportunity to score yourself. For brevity, we've included only the extreme ends of the scorecard here, so you can get a feel for where you are on the scarcity-to-abundance spectrum. Score yourself on a scale from 1 to 10, with 10 being superior.

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8 MINDSETS – FROM SCARCITY TO ABUNDANCE

FIGURE I.1

MINDSET	STOP READING NOW	EMBRACE THE COMING PAGES	MY SCORE (1-10)
It's about "We" Not "Me" / Abundance-Minded	You believe that resources are scarce, your future is bleak, and nothing can change that. You envy the success of others and often think life is unfair to you.	You believe your greater future will be best achieved by collaborating with a team of experts and know that abundance breeds more abundance.	
Motivated to Learn & Change	You are comfortable with the status quo and like things the way they are. You feel that what you've learned is satisfactory to survive.	You are willing to seek for what you don't know, because you understand the progress that will come. You yearn to learn new things to constantly improve.	
Teachable	You are skeptical, doubtful, and usually don't trust others. You often "dig in your heels" and feel that people are trying to manipulate you to do what they want.	You make the time to learn and want to be influenced for a better path to a brighter future. You are willing to get out of your comfort zone to grow more.	
Independent Thinker	You don't know your own opinions. You're not sure what you stand for. You have a tendency to do what the mainstream does.	You think for yourself and don't follow the crowd. When you learn a true principle, you want to implement it immediately to improve and thrive more.	
Decisive	You are unwilling to make decisions, and you consistently second-guess the decisions being made, which causes you to worry and fret about all kinds of things.	You have the ability to weigh options and feel confident in the decision you make. You move forward with determination to make your decisions work for the best.	
Accountable & Responsible	You blame others when things don't go according to plan. You often justify why you can't accomplish things. You feel that nothing ever turns out right for you.	You take ownership for the decisions you make and the actions you take. You respond with all your ability, and you account to others who depend on you.	
Financially Disciplined	You often have too much month left at the end of the money. Things have just never worked out for you financially because you have more challenges than others.	You have a track record of saving and accumulating your financial assets. You recognize new opportunities and want to keep optimizing your assets.	
Courteous & Respectful	You are usually late; you have a hard time following through; and you rarely finish things that you start. You are quick to judge others.	You are always on time; you do what you say you're going to do; you finish what you start; and you are naturally polite and happy and seek to understand others.	

How'd you do? If you're scoring on the high end, congratulations and read on. If your score is low, you might want to put the book down now (or hand it to someone else who's ready).

1

Pursuing … More

Status quo. It's a term for "the existing state of affairs," or the way things have always been. As a general rule, mankind tends to stick to the status quo. We follow along known paths. We stay tucked inside our comfort zones. Even if our "existing state of affairs" isn't the best, we often go with the flow because change requires action, ingenuity, and sometimes outright courage.

But if there's a better way, why not challenge the conventional thinking? Thankfully, that's what abundance-minded people have dared to do throughout history.

PIONEERS IN LIFE

Looking back in time, for millennia there was no reliable way for mankind to fight even the simplest of infections. A small scratch could turn to infection, which could abscess, and ultimately lead to death. The same held true for pneumonia, rheumatic fever, and countless other infectious illnesses. Doctors could only stand by and hope for the best—that is until penicillin came along, thanks to an accidental discovery by Alexander Fleming, a British professor of bacteriology.

But it took more than Fleming's moldy petri dish in 1928 to start saving lives. Over the next two decades, it required the work of experts in Great Britain and the US conducting extensive research to develop, produce, and distribute penicillin as treatment.

The advent of penicillin ushered in the era of antibiotics, which changed the course of modern medicine in many ways. But it wouldn't have happened without people who were dissatisfied with the status quo, people who saw patients dying and thought, "We can and we must do better."

The same has held true for most major advancements in medicine, transportation, agriculture, technology, and even commerce. Take the automobile, for instance. During the late 1800s, the Germans and French honed the blueprint for the modern automobile, but it wasn't until Henry Ford wondered if there were a better way to mass-produce cars that the world really started moving.

Steve Jobs was another example of challenging the status quo. He didn't invent the cell phone. He just made a better one. He created one of the most popular cell phones and platforms used worldwide—advancements that have spawned millions of apps. Likewise, Jobs didn't invent the MP3 player. But when he saw the technology, he dared to wonder what would happen if Apple could put thousands of songs in everybody's pocket. At the time, the music industry viewed him as a threat. They resisted his idea that people could download individual songs on iTunes for a nominal fee. While the doubters were busy being scarcity-minded, Jobs started a revolution in the industry—one that continues today with streaming services like Spotify.

And just look at today's game changers in the entertainment industry. Blockbuster built an empire of video rental stores, dwarfing mom-and-pop shops and larger competitors. But then others dared to question the rental store model, and along came competition with things like Netflix's DVD shipping model and that pervasive little kiosk, Redbox. For nearly three decades, Blockbuster had been a video rental titan with as many as 9,000 stores worldwide, but it drifted into history, replaced by ever-advancing entertainment technology. Now streaming services like Netflix, Amazon, and Hulu are dominating. They are not only disrupting the way people get their entertainment, but entertainment itself, launching their own series and movies that rival the best programs on traditional networks, cable channels, and movie screens.

This same principle has also played out in the travel and lodging sector. When it comes to booking lodging, people used to visit with their travel agent, who made the hotel arrangements on behalf of their clients. The internet paved the way for hotels and travel sites like Expedia and Trivago to empower travelers in booking their own hotel stays. With further innovation, sites like VRBO and Airbnb have given travelers even more options, bypassing the hotel chains and empowering people to stay in private condos, homes, or timeshares.

The examples go on and on—including things like long-established taxi companies competing with Uber and Lyft as the "sharing economy" transforms our world. Suffice it to say that the status quo is not always necessarily the best. When pioneers in any area of life dare to explore new routes, it opens the way for others to thrive along better paths. These pioneers are engaging in something called "creative destruction," a term credited to Austrian American Economist Joseph Schumpeter.

CREATIVE DESTRUCTION

In 1942, Schumpeter published a work, *Capitalism, Socialism and Democracy,* in which he pointed out that creative destruction, was a "process of industrial mutation that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one." Essentially, he was pointing out this cycle of something newer killing off and replacing something older.

The financial services sector has benefited from its share of creative destruction. At one time, the only options to preserve your wealth were to bury it in the ground, lock it up, or put it in the bank where it could earn nominal interest. Over time, other financial vehicles emerged—CDs, money market accounts, and qualified investments like IRAs and 401(k)s.

Each of these vehicles has offered Americans a new path to accumulating wealth and saving for retirement, but they have their limitations. In 1980, E.F. Hutton caused another wave of creative destruction when the stock brokerage firm introduced a special kind of insurance policy that could provide a death benefit along with other benefits: cash accumulation, liquidity, safety, predictable rates of return, and tax advantages.

Despite its existence for more than three decades, this revolutionary policy is something relatively few financial experts know about—let alone understand how to properly structure and fund. And even though it has become one of the most valuable financial vehicles for thousands of successful people across the country—helping Live Abundant's clients get through the Great Recession without losing principal due to market volatility (and many of them even saw significant gains)—it's a strategy that is often misunderstood and even maligned.

But we ask, "Just because all the dogs may be barking up other trees, does that make those the right trees?" We'd rather catch the prize—a brighter financial future—in whichever way is best. In fact, that's what led us to where we are today, one of the nation's pioneers in suggesting a balanced approach to financial strategies that includes incorporating what we call The LASER Fund, which we'll explain more throughout this book.

We've been called creative disruptors for leading this charge. It's a role we'll gladly accept, because our path to developing these strategies has been hard-earned. These principles were borne out of the crucible of real-life experiences that proved to be turning points, defining moments that have benefited our clients, and even ourselves. We started this movement in the 80s, with Doug Andrew paving the way. These concepts garnered major national attention with the advent of Doug's first book in the early 2000s, *Missed Fortune.* From there, our team at Live Abundant taught thousands of financial services professionals these powerful strategies we're about to share with you in this book. Today, our strategies have gone on to help transform entire segments of the financial services and insurance industries—as well as countless lives.

TAKE OWNERSHIP OF YOUR FUTURE

Even when something good comes along in any aspect of life, you often see people clinging to the same old premises. They hold on to concepts or practices they're familiar with, simply because they tend to equate familiarity with comfortability. And we humans like to stay within our comfort zones.

The same holds true in financial planning. There are many principles that people adhere to, even though in actuality they're just myths, such as:

Common Myths

- Choose only tax-deferred financial vehicles because you'll be in a lower tax bracket when you retire.
- Keep all your money in the market. If you're losing significant amounts, just stay in there, and you'll come out ahead.
- The best way to get out of debt and get ahead is to send extra principal payments to the mortgage company to pay off your mortgage as soon as possible.
- During retirement, the best way to save on taxes is to stretch out your IRA or 401(k) as long as possible by taking Required Minimum Distributions (as required by the IRS).

Doug's comprehensive best-selling books explain why these and other myths simply aren't true. All three of us shared these principles in our book, *Millionaire By Thirty,* illustrating how other financial vehicles can provide more critical advantages than the traditional ones. Doug explores these strategies during his national weekly radio show. And our Live Abundant team delivers these principles at our regular seminars and full-day events.

Why all this effort to help people learn, and let go of old ways of thinking? Because we don't believe in just selling financial products—we believe in empowering people to understand these concepts for themselves so they can make informed decisions. In fact, we often won't meet with potential clients until they've first attended one of our educational events. This is to help them determine for themselves if this is a path they're interested in—and if they're self-disciplined enough to take it.

Our clients actually get involved in their financial strategies. While we see our role as being their guides, we invite our clients to see themselves as competent partners in the process, taking personal accountability and responsibility for their finances, as well. Because there is at least some element of risk in virtually all financial vehicles, our clients are encouraged to do the homework necessary to gain at least a fundamental understanding of financial principles and strategies so they can make decisions for their individual situations.

Our financial professionals lead them through an 8-Step True Wealth Transformation process. The first step is the Enlightenment Experience, where clients learn the ins and outs of how to incorporate a blend

of strategies. Throughout the 8-Step process, most of our clients invest hours in studying these principles. This way they gain essential knowledge to move forward and have the opportunity to reap the rewards these strategies provide.

Taking this kind of personal ownership for one's financial path corresponds with Marshall Thurber's principle of "dealing above the line." Marshall Thurber, the revolutionary attorney, businessman, author, and educator (and personal friend of Doug's), explains that we must avoid living "below the line," dwelling in blame, shame, and justification. Instead we should live above that line, taking accountability and responsibility for our lives. When it comes to finances, this essentially means it's wise to partner with your financial professionals, essentially becoming "fiduciaries" together so you can take responsibility for your future.

Now the term "fiduciary" has become a hot button topic in ongoing legislative debates related to the future of the financial services industry. According to "The Free Dictionary," as an adjective, fiduciary means, "of or relating to a duty of acting in good faith with regard to the interests of another." As a noun, it means "a person bound to act for another's benefit."

Far too many Americans would rather turn the entire responsibility for their financial future over to their financial professional, essentially making the professional the sole fiduciary. They would rather assume their financial professional knows everything there is to know and is selecting optimal strategies for them—and all they have to do is sign on the dotted line and hope for the best. If anything goes south (which with market volatility, economic storms, rising taxes, and inflation, things often do), they want to be able to blame and penalize their fiduciary financial professional.

How much greater is it to take ownership of your own finances, gain an understanding for yourself, and then partner with like-minded financial professionals to pursue best-possible strategies that incorporate the three marvels of wealth accumulation we'll talk about in Section I, Chapter 3?

Stop and think: who has the biggest stake in your abundant future? You! Who has the most to gain or lose when it comes to the strategies you select? You!

So why wouldn't you want to know more, understand more, and have more control?

We'd like to empower as many Americans as possible to stand up and take ownership for their own brighter days ahead. That's what our company's mission is about. That's what this book is about.

This book is also about getting in motion, now. Not five years from now. Not ten years from now. Wherever you are in your journey toward retirement, you can never start too early—or too late—to adopt better strategies. We've helped thousands of clients break away from the herd and achieve better outcomes using The LASER Fund, which we'll be talking about in this book.

TRAILBLAZING A PATH FOR YOU

For decades, we've been blazing this trail, but industry trailblazers often have arrows in their backs. As one of the first to introduce these strategies, we've taken criticism and skepticism for years, but it's interesting to note that now others realize the path we've helped illuminate is better. We're seeing a migration in America's financial sector. More financial professionals are turning to the strategies we've been helping clients with for decades. What was once a chorus of naysayers has become a group of like-minded professionals.

In his popular series on creative destruction, nationally renowned Strategic Coach Dan Sullivan (a personal friend of Doug's) has cited the impact Doug and Live Abundant have had in the industry by saying:

> *Many of our previous industry transformers have continually focused on specific clientele within a specific market. Over a period of time, they are able to continually deepen their value of creation. Doug Andrew started off on his path, with his unique process, the True Wealth Transformer, focusing on helping his own clientele maximize their wealth creation opportunities. It wasn't long, however, before many other advisors began asking Doug to teach them how to transform their practices in the same dramatic fashion as he had his own. It was not too long after he began helping thousands of financial advisors to transform their practices that representatives from other financial subservices sectors made the same request.*

The ripple effect of our work is also seen in the growth of a sector of the insurance industry that provides one of the primary financial vehicles we recommend—the very vehicle you'll be learning about in this book. After Doug started teaching other financial professionals and agents across the nation to utilize this vehicle, some of the country's largest brokerages saw a significant increase in the volume of these policies. And according to industry leaders like LifePro, over the past ten years, the industry has seen an average growth rate of nearly 20% year-over-year on these policies.

As the leading company in the US to recommend these strategies, many of the nation's top insurance institutions now consult with our team at Live Abundant when updating their offerings—even flying their executive teams out to our Salt Lake City offices to meet with us in person. These are multibillion-dollar companies in a multitrillion-dollar global industry, with stellar track records we're proud to recommend.

WOULD YOU LIKE MORE OR LESS?

Often by the time people come to us, they've lost money in the market. They realize during retirement that they're in a tax bracket that is as high or higher than during their working years. Their finances are essentially in Stage IV cancer. While we can often offer the right "treatments" to help them secure a healthier financial future, how great would it have been if they'd taken advantage of prevention rather than seeking a cure? How much better is it to change out the oil regularly than replace the entire engine?

Many people don't realize how the reality of retirement can play out. Let's look at a quick illustration. Let's say you're thinking that in retirement, in addition to other sources of income (pension, Social Security, rental income), you want to pull $3,000 a month out of your 401(k) to cover the extras (travel, medical, charitable giving). That's $36,000 a year.

Now, do you know how much would you have to pull out of an IRA or 401(k) every year to net $36,000?

It's not $36,000. Those dollars inside your 401(k) are pre-tax dollars, so once you withdraw them, it's time to pay taxes. And because you're in a 27% tax bracket, you would need to withdraw almost $50,000 to cover the $13,500 in taxes to finally end up with that $36,000 you wanted

(except where noted, throughout this book we'll be using 27% as an average tax bracket, which is comprised of a 22% to 24% federal tax bracket for incomes over $75,000, and a 3% to 5% state tax bracket).

Let's look more closely at that: $50,000 is 4% of what? It's 4% of a $1,250,000 nest egg. If you're anything like us, we'd be frustrated having accumulated a nice big $1.25 million nest egg, only to be enjoying a measly $3,000 a month from the account during retirement.

But that 4% is consistent with what traditional financial professionals recommend you take every year. In the industry, it's called the 4% rule, something promoted by many "crowd-following" financial professionals who encourage clients to withdraw only 4% a year from their accounts. (The thinking is this will help clients avoid outliving their money during retirement. However, it's important to note that even the 4% rule has come into question within the last few years. Recent analyses and articles show that it may fail in preventing a good portion of retirees from outliving their money, due to market volatility and longer life expectancies.)

In this book, we'll show how it's possible to enjoy a 7% payout a year, on average—tax-free. This would mean with a $1,250,000 nest egg, you could be pulling out more than $87,000 a year to live on—again, tax-free. That's over $7,000 a month, which is more than two times what you would be getting from your IRA or 401(k) in this example.

So we beg the question: would you like access to more or less money when you need it most?

We're guessing your answer is *more.*

AS YOU TURN THE PAGES

This book is designed to help you learn how to achieve more. We want to help you prevent any further pain from less-than-optimal financial strategies. Throughout Section I, we'll discuss several financial vehicles—the most significant of which is The LASER Fund. We'll take an in-depth look at how it works, how it complies with IRS rules and guidelines, and how it can dramatically impact your financial future. We'll also discuss why you can't call The LASER Fund an investment (let us repeat, this is NOT an investment—but we'll get to that later).

In Section II on the book's flip side, we'll explore the numerous ways The LASER Fund can be utilized to empower you, your family, and even your business to thrive, including:

- Death Benefit
- Retirement Planning
- Working Capital
- School, Family, and Life
- Lump Sums
- Business Planning
- Life's Emergencies
- Estate Planning
- Real Estate
- Strategic Rollouts
- Tax Reduction

The principles, strategies, and knowledge in this book can help you diversify your retirement approach. This book can help you lay out a plan to revolutionize the Financial Dimension of your life. It can empower you to maximize your Legacy Dimensions (Foundational and Intellectual). It can bring you closer to the life you'd like to have now ... and down the road. Essentially, it can help you pursue ... more. Welcome to your opportunity for a more abundant future.

DISCLAIMER: With any mention of The LASER Fund, maximum-funded tax-advantaged insurance contracts, or related financial vehicles throughout this book, let it be noted that life insurance policies are not investments and, accordingly, should not be purchased as an investment.

TOP 5 TAKEAWAYS

1. To achieve a meaningful transformation in any aspect of life, you must dare to step outside your comfort zone, shake up the status quo, and be willing to re-think your thinking.
2. Creative destruction has led to significant advances in everything from medicine to media to financial services.
3. As you take ownership of your own life and invest in exploring powerful knowledge, wisdom, and strategies, you are empowered to create a present—and future—with more abundance.
4. Many Americans do not realize that they are at risk of outliving their money when following conventional retirement planning.
5. As you turn the pages of this book, you will discover financial (and abundant living) strategies that can be life-changing, not just for you, but for your posterity.

2

Escape the Tax Trap

One of our favorite places to go is Alaska—it's an outdoor paradise. As avid fishermen, the chance to catch Pacific salmon as they surge up Alaska's pristine rivers is unparalleled. From herds of caribou to black wolves (one of which Doug came face-to-face with—a story he shares in his book, *Learning Curves*), breathtaking wildlife is everywhere. And so are brown bears.

There was a time when trappers made their living snaring bears like these in leg-hold traps. Steel-jawed, with razor sharp teeth and a vice grip—these traps were strong enough to keep an unsuspecting 1,500-pound beast tethered once caught. For humane reasons, these toothed traps have been outlawed throughout much of North America.

But there's another kind of trap, equally menacing, that's perfectly legal and snares millions of Americans ... the tax trap.

Too many Americans fail to comprehend that at retirement they will likely find themselves in a tax bracket that's as high or higher than during their working years. Why? We call it the Deduction Reduction.

Many will have paid down or paid off their mortgage by the time they retire. This means they're no longer enjoying those tax deduction benefits.

Their children are usually grown and have moved away, along with their dependent deductions. For many, their former business write-offs have also retired. And many stop contributing to their IRAs or 401(k)s, losing that annual deduction (which could be as high as $24,500 for maximum contributions to a 401[k]). It's often not until retirees start accessing money from their tax-deferred accounts that they realize they're being taxed in a higher tax bracket than they anticipated—and those taxes are taking a sizable chunk of the very retirement income they were counting on.

PROCRASTINATING & PARTNERSHIPS

You may still be thinking, "I should be good. I've got tax-advantaged retirement plans in place, like my IRAs and 401(k)s." Sure, these are technically tax-advantaged. But notice *when* those advantages take place: when you're putting your pre-tax dollars into these accounts. Everyone tells you this is great, because you can put in more now, and worry about paying taxes down the road, when you access your money during retirement. That's why these accounts are also called "tax-deferred."

Still hoping it sounds good, right?

Not so much. Postponing taxes is essentially *procrastinating taxes.* In some cases, traditional "tax-deferred" strategies should be called "tax-procrastinated" strategies.

Think back to your school days. When did procrastinating a big report or project ever make things better? Or at work, is it ever beneficial to procrastinate resolving an issue with employees or clients? Procrastinating only tends to compound problems, rather than alleviate them. And when it comes to your money, the only compounding you want is positive interest.

Think about it: who designed tax-deferred accounts like IRAs and 401(k)s? The same guy who set that trap, Uncle Sam. And why would that uncle of yours want you to procrastinate your taxes? Could it be that there's something in it for him? By putting your money into traditional accounts like IRAs and 401(k)s, you're essentially making Uncle Sam your partner in your wealth accumulation endeavors.

Is he really the kind of partner you want?

We often offer the following proposition to our audiences, saying, "Let's say you and I go into business together. You're going to do all the work, but I'm your partner. If the business struggles along the way, you're on your own; I won't offer any financial protection. And from the word go, whatever you build this business to be worth, when you sell it or liquidate it, I get one-third. Okay? I get a third guaranteed, but if I'm hard up at the time, I reserve the right to increase my percentage. And if you want to sell early, I'll charge a 10% penalty in addition to my third. And if you want to sell it later than I want you to, I can force you to sell and pay me my portion sooner than later. How many of you would go into business with somebody like that?"

The crowd always laughs—until we say, "I just described an IRA or 401(k) to you." Consider this: when it comes to your IRA or 401(k), who earns the money that goes into your account? You do—along with matching 401(k) funds from your employer, in many instances. If the economy tanks, your account tanks, too. When you begin to take distributions during retirement, who takes about one-third of your withdrawals in taxes? Uncle Sam. Could that tax rate increase? You bet it can, and many experts think it will. (Uncle Sam DOES have a huge pile of debt with more than 20 trillion reasons to hike the tax rates in the future.) If you withdraw money before age 59½, you get a 10% penalty in addition to your taxes. And after age 70½, you MUST take Required Minimum Distributions—or face a 50% penalty—so Uncle Sam can start taxing your withdrawals.

Now we're not entirely disparaging IRAs and 401(k)s. They can have a valuable place in comprehensive wealth accumulation strategies, particularly with company matching benefits. As a side note, we would not recommend putting in anything above your company's match. If you have extra money to set aside beyond that, consider putting it into financial vehicles like The Laser Fund. This will diversify your retirement tax base, as well as further diversify your retirement strategies. That said, IRAs and 401(k)s should be handled with caution. Let us explain why with an illustration.

Let's assume that you have $1 million saved in your 401(k) for retirement. To be generous, we'll say that your million bucks is earning an average return of 10% a year. With $100,000 a year in interest, most people could live fairly comfortably. You'll be able to pay for the necessities of

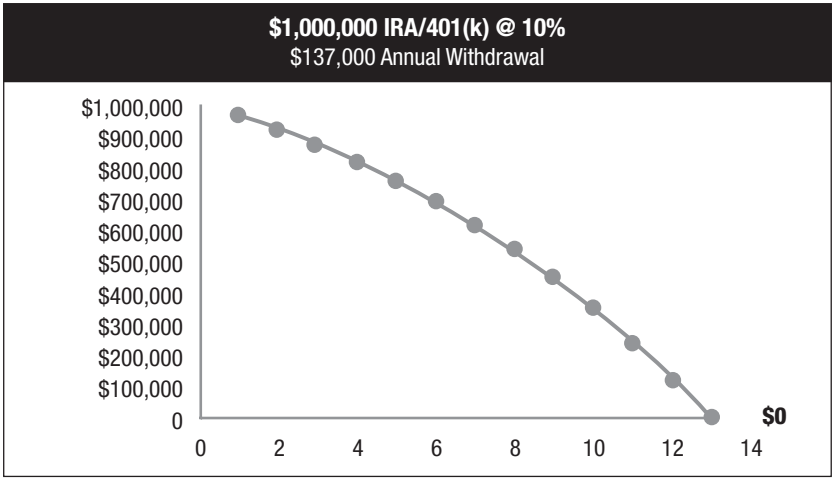
life, as well as travel a bit, donate to your favorite charities, and create a strong family legacy.

But you must consider inflation—it can take a toll on your retirement planning. That's because inflation increases your cost of living. Thus, ten, fifteen, and twenty years down the road, that $100,000 income will buy you less and less. But even worse, the real danger is the amount of taxes you could be paying.

Many Americans are in 25% to 30% tax brackets between what they pay in federal and state taxes. For the sake of this illustration, we'll use a 27% marginal tax bracket. At that tax rate, how much would you need to withdraw from your 401(k) in order to net $100,000? The answer is $137,000, because roughly a third of your money will be going to pay taxes. If you live in California or New York, your marginal rate will be more like 33% between federal and state. If that is the case, you would need to withdraw $150,000 in order to net $100,000.

Going back to our million-dollar example, as you can see in Figure 2.1, if you take $137,000 to $150,000 a year, but your money is only earning $100,000 a year, it would take you just twelve to thirteen years to deplete your hard-earned nest egg. And even if you withdrew less in order to make your nest egg last, the government will continue to collect taxes on whatever you withdraw from your IRA or 401(k)—and those taxes will likely be going up.

FIGURE 2.1



Does this reality leave you worried that your future might not look as bright? Are you feeling a bit stuck? Snared in a vice grip? Well, guess who left that trap lying around? Yep, Uncle Sam.

And why would he want to trap you, ensuring he can continue to tax you handsomely, even during your retirement years?

Because he's spending himself silly, and he needs your money to support his out-of-control habits. No matter which side of the political aisle you find yourself on, it's pretty much a consensus that even if taxes temporarily go down, they will eventually go up again—often without the deductions that were previously allowed.

WHAT GOES UP ... AIN'T COMIN' DOWN

Because of the runaway national debt, experts agree that despite temporary tax cuts (often politically motivated for the short-term), we will be entering an overall era of rising taxes. In 2007, the national debt reached $9.2 trillion. With approximately 100 million taxpayers in America then—if every American were to have paid his or her equal share of the national debt—every single American taxpayer would have had to write a check for $92,000 to eliminate the national debt.

Since then, the debt has escalated to more than $20 trillion (at the time of the printing of this book), with US unfunded liabilities escalating in the hundreds of trillions, as well. US unfunded liabilities include what the government owes those of us who have faithfully paid into the system for programs such as Social Security and Medicare. The government has withheld the money for these programs from our paychecks throughout our working careers, and it now owes all that in future Social Security and Medicare benefits to us. The reason that this is referred to as unfunded liabilities is because the government technically does not have that money in its coffers to provide future Social Security and Medicare benefits to retirees. And the only place the government can get money to fund these programs in the future? Taxes. Unlike the national debt, the government cannot print money to cover the cost of Social Security and Medicare. It must come from taxes.

And then there's defense spending. With unrest throughout the world and the US's involvement in several foreign conflicts, national defense

is a hefty budget item—one that's not likely to decrease soon. If an all-out war were to break out, taxes could surge. If history is any indication, around the time of World War I and World War II, according to Tax Foundation, federal income taxes were over 90% for the nation's top earners.

It's not out of the realm of possibility for taxes to skyrocket in the coming years. In its "Solutions 2016" report, The Heritage Foundation announced that our national debt is three-quarters the size of the US economic product, adding, "The Congressional Budget Office estimates that without fiscal restraint, public debt could exceed 100 percent of GDP by 2030, within less than one generation." The report also cautioned, "Projected deficits are large and growing, and raising taxes to pay for this spending would require doubling tax rates even for the lowest income brackets. Such a policy would deal a devastating blow to the economy." Our nation is effectively in a scarcity spiral, which could cause another big crash.

Indeed, with an escalating national debt; ongoing military action; unfunded liabilities; costly healthcare programs; and anticipated low returns to a recession (or worse!), it's a pretty good bet that your taxes won't be going anywhere but up in the long run.

Think of that example, the $1 million nest egg tucked into your IRA or 401(k). You'd like to have $100,000 a year to pay for all your living, travel, medical, and other costs during retirement (which as we pointed out, you'll need that much because of inflation). And let's say you're in a 33% combined tax bracket. To cover the cost of taxes and net $100,000, you would have to pull out an additional 50% from your IRA or 401(k), or $150,000 a year.

Because you're pulling out that extra 50%, your nest egg will be cracked, empty, and dried up in just twelve years. Twelve years. Most people think $1 million will be enough to last throughout retirement.

Sadly, many Americans will outlive their money, especially considering increasing life expectancies. You may be thinking, "What about Social Security—that should help, right?" The reality is folks are living longer than when Social Security was first introduced. Back then, they were expecting men to only live seven years beyond age 65. Now, at least one individual in a baby boomer couple is likely to live until age 96.

This makes it clear why financial strategies that use post-tax dollars for contribution on the front end—and provide distributions that are income-tax-free on the back end—are critical for maximizing your financial future.

TAXES ON THE SEED VS. THE HARVEST

Let's explore this principle a little more. Imagine you're a farmer. Winter is about to give way to spring's warmer days, and you're getting ready to prepare your fields for the growing season. As you look out across your acres, you can picture the seedlings that will take root. You can see summer's sun radiating life into your emerging crops. You can even look ahead to the fall, when you'll be harvesting your bounty.

Here's a question for you: when would you rather be taxed? Would you rather pay taxes on the front end, when you purchase your seed? Or would you like to wait until the harvest, when you're selling your crops?

Now apply this same question to the issue of financial planning. Would you rather pay taxes on your earnings before you "plant" them in a financial vehicle to give them a chance to grow? Or would you prefer to pay taxes on your "harvest," when you go to withdraw money for retirement or other ventures?

Most Americans choose the harvest. They listen to traditional advice and follow the crowd—often without realizing there's any other way to do it. They put their pre-tax dollars into their IRA, thinking it's better to put as much as they can into the account during the contribution phase. Then when they get to the distribution phase and access their money after age 59½, they pay taxes on those withdrawals. As we've discussed, that's when most Americans find an ugly surprise: they're often in a tax bracket that's as high or higher than during their earning years. Now they're taking the full brunt of those taxes on their distributions at a time in life when they need the income the most. They're enjoying less of a harvest than they anticipated. And they're often worried the pantry will run dry before it's time.

This is why we recommend paying taxes on the seed rather than the harvest on a portion of your retirement portfolio, in order to be tax diversified.

This goes along with the idea of prevention rather than a cure, a point that is well-illustrated in one of our favorite poems, *A Fence or an Ambulance.*

A Fence or an Ambulance
by Joseph Malins (1895)

'Twas a dangerous cliff, as they freely confessed,
though to walk near its crest was so pleasant;
but over its terrible edge there had slipped
a duke and full many a peasant.

So the people said something would have to be done,
but their projects did not at all tally;
some said, 'Put a fence 'round the edge of the cliff, '
some, 'An ambulance down in the valley.'

But the cry for the ambulance carried the day,
for it spread through the neighboring city;
a fence may be useful or not, it is true,
but each heart became full of pity
for those who slipped over the dangerous cliff;

And the dwellers in highway and alley
gave pounds and gave pence, not to put up a fence,
but an ambulance down in the valley.

'For the cliff is all right, if your careful, ' they said,
'and if folks even slip and are dropping,
it isn't the slipping that hurts them so much
as the shock down below when they're stopping.'

So day after day, as these mishaps occurred,
quick forth would those rescuers sally
to pick up the victims who fell off the cliff,
with their ambulance down in the valley.

Then an old sage remarked: 'It's a marvel to me
that people give far more attention
to repairing results than to stopping the cause,
when they'd much better aim at prevention.

Let us stop at its source all this mischief, ‘ cried he,
‘come, neighbors and friends, let us rally;
if the cliff we will fence, we might almost dispense
with the ambulance down in the valley.’

“Oh he’s a fanatic,” the others rejoined,
“Dispense with the ambulance? Never!
He’d dispense with all charities, too, if he could;
No! No! We’ll support them forever.

Aren’t we picking up folks just as fast as they fall?
And shall this man dictate to us? Shall he?
Why should people of sense stop to put up a fence,
While the ambulance works in the valley?”

But a sensible few, who are practical too
Will not bear with such nonsense much longer;
They believe that prevention is better than cure,
And their party will soon be the stronger.

Encourage them then, with your purse, voice, and pen.
And while other philanthropists dally,
They will scorn all pretense, and put up a stout fence
On the cliff that hangs over the valley.

Better guide well the young than reclaim them when old,
For the voice of true wisdom is calling,
“To rescue the fallen is good, but ‘tis best
To prevent other people from falling.”

Better close up the source of temptation and crime
Than deliver from dungeon or galley;
Better put a strong fence ’round the top of the cliff
Than an ambulance down in the valley.

"AT-RETIREMENT" TAX BILL

Since the amount of taxes you pay during retirement can have a significant impact on the quality of your Financial Dimension during your golden years, it is helpful to consider your "at-retirement" tax bill. We're talking about how much you'll pay in taxes throughout your retirement years, based on your financial portfolio strategies.

Once you have a projection of your at-retirement tax bill based on your current strategies, you can look at diversifying your at-retirement tax bill. You can make adjustments to ensure your financial portfolio is not top-heavy with financial vehicles that are taxable as you take out money for retirement income. Instead you may want to aim for a balanced approach during the distribution phase, using a blended financial portfolio featuring up to four different types of income:

- Investment income
- Real estate income
- Guaranteed income
- Tax-free income

This can help you increase your net spendable retirement income during perhaps one of the most critical times of your life. We'll touch more on this in Section I, Chapter 14.

FAIR TAXES, YES – UNNECESSARY TAXES, NO

You deserve to have a consumer advocate to help protect you from the tax trap. And while we'll always encourage you to avoid financial pain and protect yourself, let us clarify that we're not vilifying taxes altogether. We see taxes as an asset. Every time we as fortunate Americans drive down a highway; take off from an airport; take our children to the library; watch our young ones graduate from public high school; send them off to fine state universities; call on police and firefighters; and benefit from the service and protection of our men and women in the armed services—all of these are made possible by the taxes we pay. It is a privilege to enjoy these advantages in a blessed country like America, and for that, we believe we, as Americans, should pay our fair share of taxes.

At Live Abundant, we're strong believers in the necessity and power of a tax-paying nation. However, we also believe there are positive, productive ways to contribute to society other than paying unnecessary taxes. By escaping the tax trap and saving on taxes where legally prudent and possible, it frees that money to be put to use for charitable efforts to benefit those in need. It empowers Americans to put their resources in business and capital investments that can go on to create jobs, and to create self-sufficiency in healthcare and retirement living.

In the next chapter, we'll examine the marvels of wealth accumulation and delve into the impact of taxes, lending critical knowledge to help you avoid the drain of unnecessary or untimely taxes, empowering you to maximize your financial future.

TOP 5 TAKEAWAYS

1. Postponing taxes is more like procrastinating taxes. Arriving at retirement with only tax-deferred accounts can play a role in putting you in a tax bracket that is as high or higher than your earning years.
2. Uncle Sam can prove to be a selfish "partner" when it comes to your retirement strategies, taking more in taxes than you anticipate at a time when you need money the most.
3. With a rising national debt, unfunded liabilities, and out-of-control government spending, it is likely taxes will increase over the long-term.
4. Americans would do well to consider that it is advantageous to pay taxes on the seed, rather than the harvest.
5. To avoid outliving your money during retirement, it is important to plan for your "at-retirement" tax bill to understand your net spendable retirement income.

3

What Successful Folks Know

Here's a little exercise we often do with our audiences. Ready? Pick a number, any number, between one and ten. Now take that number (the one you chose between one and ten), and double that number. Next, add eight to that number. Now divide that total in half. What number do you have? Next, subtract the original number you started with from your latest number.

You should have a final number in your head now. Take that final number you arrived at, and pick the corresponding letter of the alphabet that number represents. For example, if your last number was one, that would be the letter A. Two would be B; three would be C; four would be D; and so on. So what is your letter of the alphabet?

Now take that letter of the alphabet and pick a country in Europe or the Baltics (using the American name for countries) that starts with that letter. It's going to be near the beginning of the alphabet, so you can choose from countries like England, Germany, Ireland, France, Belgium, Czechoslovakia, Austria, and Italy. Up in the Baltics, you've got Finland, Denmark, and Estonia.

Now think of the country that starts with the letter of the alphabet you ended up with. Take that country, then think of the last letter of that

country's name. Now pick a zoo animal—an animal that is not indigenous to the United States but one you'd probably find in a zoo in the United States—that starts with that letter (the last letter of your country you chose).

Do you have a zoo animal in your head? Now take the last letter of that zoo animal and pick a common fruit that starts with that letter, okay? So, you should have a country, a zoo animal, and a common fruit.

Now when we do this with our audiences, we know what 80% of people are thinking: Denmark, kangaroo, orange. Is that what you thought? (Maybe you thought Denmark, koala, apple.) Either way, you're like 80% of people who perform this exercise.

Why is this? It's called predictability. Most of the time, 80% of people will get to these three items when they arrive at the number four. (If you did not get to four as the final answer on your number, well, maybe consider brushing up on your math.)

Predictability is critical in many aspects of life. In business, delivering predictable results with your company's service, products, and marketing is integral for retaining and growing a customer base. In relationships, predictably providing kindness, compassion, honesty, and trustworthiness is paramount to maintaining those bonds that matter most. And when it comes to planning for your financial future, paying attention to factors that are predictable is likewise critical.

While economists do their best, unfortunately there's no crystal ball that can accurately forecast exactly how the economy and market will perform in five, fifteen, or thirty years. But in planning for your financial future, there are some things that are predictable, like taxes. We can bet: 1) they'll always be there; 2) they're likely going up over time; and 3) during retirement, you're likely going to be in a tax bracket that is as high or higher than during your earning years. When you plan for that likely inevitability, you'll be prepared to escape the unnecessary tax trap.

Conversely, you can also apply predictability to employ sound financial strategies—like utilizing the three marvels of wealth accumulation—to give yourself the opportunity to enjoy abundance rather than scarcity.

These three marvels are what affluent and successful folks have implemented for generations. They are:

- Compound interest
- Tax-favored accumulation
- Safe, positive leverage

THE MARVEL OF COMPOUND INTEREST

The first marvel of wealth accumulation is compound interest. Many people think they understand interest. They know it's the amount that a bank or credit union pays you for the privilege of "holding" your money (which the bank then invests, or puts to work). Conversely, it's the amount of money you pay the bank for using its funds, with tools like business loans or mortgages.

But what many don't understand is there are two methods of computing interest—simple and compound. When you borrow money for your house, it is usually calculated as simple interest as you make payments on the debt. When you deposit money in a bank, you earn compound interest.

The difference between simple and compound interest can be the difference between paying hundreds of dollars on a simple interest, declining balance that may be tax-deductible (as in your mortgage), versus thousands of dollars climbing exponentially, in a financial vehicle that provides compounding interest, which we will explain later.

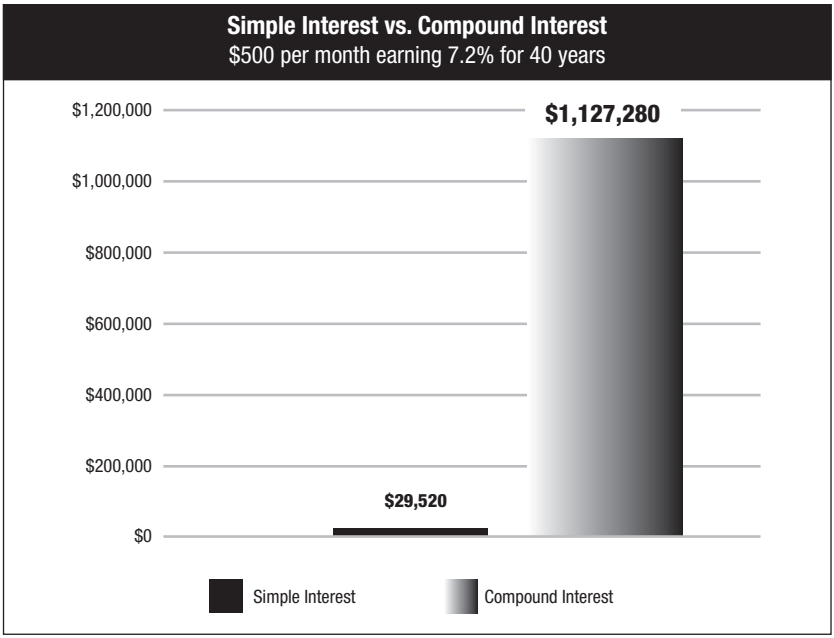
Here's why: simple interest is calculated on the original balance or principal. But when you earn compound interest, you make money not only on your original deposit, but also on your accumulated gains.

As an illustration, let's say you're putting away $500 a month, earning 7.2%. With simple interest, after ten years, you have set aside $60,000 and earned $1,980 dollars in interest, for a total of $61,980. With compound interest, however, you have earned $28,026.51 in interest, for a total of $88,026.51.

That difference of roughly $26,000 between simple and compound interest may not seem too significant after ten years, but watch what happens over a longer period of time, say forty years. Over forty years, you

will have set aside $240,000 of principal. With simple interest, you will earn $29,520 in interest, and your principal-plus-interest total would be $269,520. With compound interest, you will earn $1,127,280 in interest, and your principal-plus-interest would be $1,367,280 (see Figure 3.1 for the difference in interest earned).

FIGURE 3.1



If this comes as a surprise to you, you're not alone. We've found that many CPAs, tax attorneys, and financial professionals—people who are astute in so many areas—think they understand the power of compound interest. But a quick test proves they are not as well-versed as you would think. In training classes, we've asked them to imagine taking an 8.5" x 11" sheet of paper and folding it in half once, then in half again.

We then ask them to picture folding that sheet of paper in half a total of forty-eight more times. We invite them to estimate how thick that piece of paper would be, folded a total of fifty times. Many of these sophisticated CPAs and tax attorneys who work with numbers on a daily basis give us typical answers such as: one-quarter of an inch, half an inch, or three inches. Once in a while someone who understands compound interest will reply, "Well, it's probably a mile or two high."

FIGURE 3.2

Folding a 26 lb (97.83 g/sq meter) Sheet of Paper 50 Times				
# of Folds	Equivalent # of pages	Thickness		
		Inches	Feet	Miles
0	1	0.005	0.00	0.00
1	2	0.01	0.00	0.00
2	4	0.02	0.00	0.00
3	8	0.04	0.00	0.00
4	16	0.08	0.01	0.00
5	32	0.17	0.01	0.00
6	64	0.34	0.03	0.00
7	128	0.67	0.06	0.00
8	256	1.35	0.11	0.00
9	512	2.7	0.22	0.00
10	1,024	5.4	0.45	0.00
11	2,048	10.79	0.90	0.00
12	4,096	22	1.80	0.00
13	8,192	43	3.60	0.00
14	16,384	86	7.20	0.00
15	32,768	173	14	0.00
16	65,536	345	29	0.00
17	131,072	691	58	0.00
18	262,144	1,381	115	0.02
19	524,288	2,763	230	0.04
20	1,048,576	5,526	460	0.09
21	2,097,152	11,052	921	0.17
22	4,194,304	22,104	1,842	0.35
23	8,388,608	44,208	3,684	0.70
24	16,777,216	88,416	7,368	1.40
25	33,554,432	176,832	14,736	2.79
26	67,108,864	353,664	29,472	5.58
27	134,217,728	707,327	58,944	11.16
28	268,435,456	1,414,655	117,888	22
29	536,870,912	2,829,310	235,776	45
30	1,073,741,824	5,658,619	471,552	89
31	2,147,483,648	11,317,239	943,103	179
32	4,294,967,296	22,634,478	1,886,206	357
33	8,589,934,592	45,268,955	3,772,413	714
34	17,179,869,184	90,537,911	7,544,826	1,429
35	34,359,738,368	181,075,821	15,089,652	2,858
36	68,719,476,736	362,151,642	30,179,304	5,716
37	137,438,953,472	724,303,285	60,358,607	11,432
38	274,877,906,944	1,448,606,570	120,717,214	22,863
39	549,755,813,888	2,897,213,139	241,434,428	45,726
40	1,099,511,627,776	5,794,426,278	482,868,857	91,452
41	2,199,023,255,552	11,588,852,557	965,737,713	182,905
42	4,398,046,511,104	23,177,705,114	1,931,475,426	365,810
43	8,796,093,022,208	46,355,410,227	3,862,950,852	731,619
44	17,592,186,044,416	92,710,820,454	7,725,901,705	1,463,239
45	35,184,372,088,832	185,421,640,908	15,451,803,409	2,926,478
46	70,368,744,177,664	370,843,281,816	30,903,606,818	5,852,956
47	140,737,488,355,328	741,686,563,633	61,807,213,636	11,705,912
48	281,474,976,710,656	1,483,373,127,265	123,614,427,272	23,411,823
49	562,949,953,421,312	2,966,746,254,530	247,228,854,544	46,823,647
50	1,125,899,906,842,620	5,933,492,509,061	494,457,709,088	**93,647,293**

In actuality, if a sheet of copy paper, which is five-one-thousandths of an inch thick, were to be folded in half fifty times, the thickness of the sheet of paper would double fifty times. The ensuing pile of paper would be equivalent to more than ninety-three million miles high—in other words, from here to the sun. If you could fold over the piece of paper one additional time (to a total of fifty-one times), it would be from here to the sun and back (see Figure 3.2).

Here's another analogy: imagine a pond, and in the middle of the pond a single lily pad appears. The next day there are two. The following day, four. Every day the lily pad patch doubles in size. Forty-eight days later, the entire pond is covered in lily pads. So if it took forty-eight days to take over the surface of the pond, how many days did it take to cover just half the pond? Most people burst out with: twenty-four. But not so. The answer is: forty-seven. The day before, the pond was half-covered, and then it doubled the next day, covering the entire pond.

Here's one you might want to use the next time you're on the golf course. Ask your pals when you're starting a round, "Hey, what if we bet twenty-five cents on the first hole, then doubled it every hole?" They're likely to say yes ... until you let them know that would mean they'd owe $32,000 if they lost the eighteenth hole alone.

People who understand the dynamics of money—those who realize how money socked away and left to earn compound interest can burgeon into wealth—are more likely to be making headway toward a livable retirement.

THE MARVEL OF TAX-FAVORED ACCUMULATION

Once you grasp the power of compound interest, you're ready to see how it relates to the next marvel, tax-favored accumulation. Let's do that by comparing money compounding in a tax-favored versus taxed-as-earned environment.

Imagine you start with one dollar; yes, just one little dollar, that will double every period for twenty periods in a tax-favored environment. It becomes $2, then $4, then $8, and so on for a total of twenty periods. Believe it or not, that $1 will grow to $1,048,576. That's the power of compound interest in a tax-favored environment.

FIGURE 3.3

$1 Doubling 20 Times			
Tax-Favored	Taxed-As-Earned at 25%	Taxed-As-Earned at 33.3%	Tax-Deferred
$2.00	$1.75	$1.67	$2.00
$4.00	$3.06	$2.78	$4.00
$8.00	$5.36	$4.63	$8.00
$16.00	$9.38	$7.72	$16.00
$32.00	$16.41	$12.86	$32.00
$64.00	$28.72	$21.44	$64.00
$126.00	$50.27	$35.73	$126.00
$256.00	$87.96	$59.55	$256.00
$512.00	$153.94	$99.25	$512.00
$1,024.00	$269.39	$165.41	$1,024.00
$2,048.00	$471.43	$275.70	$2,048.00
$4,096.00	$825.01	$459.50	$4,096.00
$8,192.00	$1,443.76	$765.86	$8,192.00
$16,354.00	$2,526.58	$1,276.45	$16,354.00
$32,768.00	$4,421.51	$2,127.46	$32,768.00
$65,536.00	$7,737.64	$3,545.84	$65,536.00
$131,072.00	$13,540.88	$5,909.85	$131,072.00
$262,144.00	$23,696.54	$9,849.95	$262,144.00
$524,288.00	$41,468.94	$16,416.90	$524,288.00
$1,048,576.00	**$72,570.64**	**$27,362.05**	**$1,048,576.00**

Figure 3.3 shows what happens when that same dollar doubles every period for twenty periods—but this time it's in a taxed-as-earned environment (meaning you pay taxes on any gains as your money earns a positive rate of return).

Let's start at the beginning again. One dollar doubles to two dollars—but you have to pay a 25% tax on that gain, so you only have a $1.75 after taxes. During the next period, your new balance of $1.75 doubles to $3.50, at which point you have to turn around and pay 25% tax on that gain; you only result in $3.06.

If we look at the twenty-period results, a dollar doubling for twenty periods, taxed-as-earned in a 25% tax bracket, only grows to $72,571 (only 7.2% of its potential value). What if the taxes are higher, as in 33.3%? If that dollar doubles every period for twenty periods but is taxed-as-earned in a 33.3% tax bracket, the ending value equals just $27,362. It only grows to 2.7% of its potential value.

When people hear us teach this, they say, "My money in my IRAs and 401(k)s grows tax-deferred. Isn't that better than taxed-as-earned?" Well, it is better during the accumulation phase. But it still doesn't help

you during the distribution phase (we'll discuss the 4 Phases of Retirement Planning—Contribution, Accumulation, Distribution, Transfer—a little later in this chapter).

Let's look at what that dollar does in a tax-deferred vehicle (in these vehicles, you don't pay taxes on your money before you put it in the account, or while it grows in the account; you only pay taxes when you withdraw money out of your account). So in a tax-deferred vehicle, that one dollar doubles twenty times to $1,048,576. Now let's say you're in retirement, and you'd like to withdraw your interest earnings to live on. Let's assume it's earning an 8% annual average rate of return. You could pull out about $80,000 a year, right? But is all of that $80,000 yours to use as you please? No. Keep in mind you now have to pay tax on that $80,000—especially if your money is in an IRA or 401(k)—because those funds were only tax-deferred.

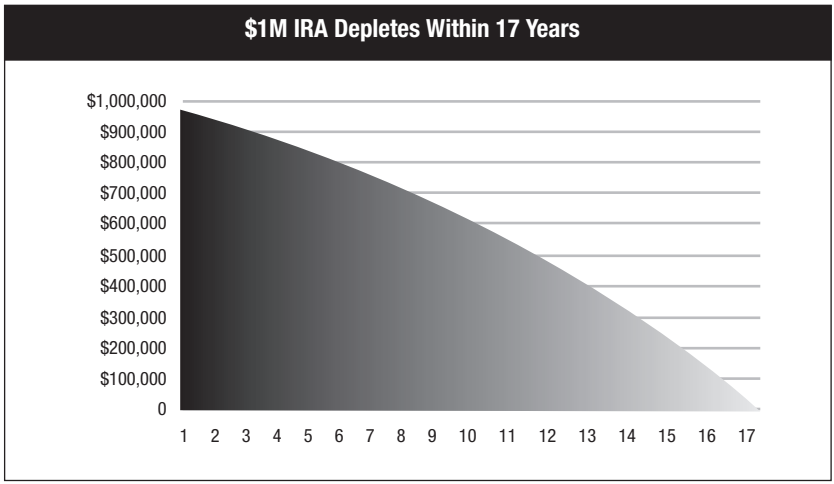
To explore this concept further, let's change our illustration. Let's say you have a million-dollar nest egg averaging a rate of return of 7.2%. You want to withdraw just your interest earnings (so you don't deplete your principal of $1 million), which would be $72,000 per year, or $6,000 per month. What if that $72,000 is on top of other income, such as Social Security or a defined benefit pension? You would have to pay tax of probably about 27% to 29% on that $72,000. Doing the math, after paying tax in a 29% tax bracket, your $72,000 would only net $51,120. Therefore, a taxable distribution of $72,000 would create a tax liability of $20,880, just under one-third of the $72,000.

Now you can see how that $6,000 per month is not all of your money. The government has had a permanent tax lien on your IRAs and 401(k)s the entire time that you were accumulating and saving that money. In other words, $6,000 a month of income would require a tax of $1,740, only netting you about $4,260 a month to buy gas, groceries, prescriptions, and golf green fees during your retirement years.

But what if you need to have a net of $6,000 a month after paying tax? In a 29% tax bracket, you would need to withdraw $101,408 and pay $29,408 in income tax to Uncle Sam to enjoy your net $72,000 a year. You might be thinking that sounds doable. But not for long. Because now you're withdrawing more than your interest earned, which means you're beginning to deplete your $1 million nest egg. Which means it won't last as long. Which means you're at risk of outliving your money during your retirement years.

In a survey conducted by Allianz Life Insurance Company of North America, 61% of boomers surveyed said they feared outliving their retirement money more than they feared death ("Reclaiming the Future: Challenging Retirement Income Perceptions," May 2010). Why is this such a big fear? Because it will be a reality for far too many Americans.

FIGURE 3.4



Based on withdrawing a net after-tax income of $6,000 per month on a $1M IRA earning 7.2%, in a 29% tax bracket.

As you can see in Figure 3.4 where the million-dollar nest egg is depleted within 17 years, taxes can have a profoundly negative impact on retirement income. If your retirement planning vehicle is tax-free during the harvest (as explained in Section I, Chapter 2), that million-dollar nest egg earning 7.2% would allow you to withdraw $72,000 per year tax-free and never deplete your million-dollar principal. This is why it's important to optimize when and minimize how much you're taxed—but more on that during our discussion of the 4 Phases of Retirement Planning, later in this chapter.

THE MARVEL OF SAFE LEVERAGE

Think of the last time you had to change a flat tire. Unless you called AAA to replace the tire, you could have either: 1) called six of your strongest buddies and asked them to lift the car for you, or 2) gone to the trunk,

pulled out your jack, and raised that two-ton-plus vehicle far enough off the ground.

There's a reason everyone chooses Option #2: safe leverage. Safe leverage is something the nation's wealthiest banks, companies, and individuals use every day. It's the idea of taking something relatively small to gain something greater.

There's a saying, "There are two kinds of people in the world—those who pay interest, and those who earn it." Actually, there is a third kind of person in the world, one who understands leverage and is willing to pay some interest to earn even more interest.

Even though leverage is one of the three marvels, many people cringe when they hear "pay interest." Why? Because their parents and teachers warned them against debt, urging them to avoid paying interest wherever possible. We, too, are strong opponents of borrowing to consume—paying useless interest on credit cards or loans to acquire luxuries like TVs, laptops, or vacations. However, we are proponents of borrowing to conserve—using prudent leverage to get ahead.

This very principle is taught in The Bible, in the Parable of the Talents. In Matthew 25:14-30, the verses tell the story of a man who gives one servant five talents, another two, and a third servant just one talent. The first servant grows his five talents to ten; the second grows his to four; the third buries his in the ground until his master's return. The master praises the first two for "being faithful" over what he has given them and promotes them to be a "ruler over many things." The third he chastises for being "slothful" and gives the one talent away to the first.

Clearly, this principle of leverage has been around for millennia, and it's something you're likely implementing without even realizing it—with your mortgage.

Most people don't usually buy a home outright with cash—even if they have hundreds of thousands or more to cover the listing price. Why? They understand that if they hand all the money over at once, it would be tied up in the house, leaving zero liquid cash for emergencies or other ventures.

Instead, most people put a down payment on a house and finance the remainder of the purchase price with a mortgage. This is leverage in action. They're using a small amount of cash to own or control a greater asset.

Just like with your down payment and mortgage, banks and credit unions use leverage every day. They essentially "borrow" the money you've deposited with them, paying you nominal interest for your savings account. They then turn around and put that money to work to earn greater interest—and the difference is their profit. Banks are actually glad to pay you that interest, because it accelerates their accumulation of money.

To illustrate, say you deposit $1 million in the bank. They pay you 1% interest on your money, or $10,000. Someone else goes to the bank to get a million-dollar loan. The bank lends her that $1 million and charges her 5% interest. The bank will earn $50,000 in interest on that loan. How much more is five than one? Don't be tempted to say four; it's five times, or 500%.

Would you hire an employee for $10,000 if the employee made you $50,000? Would you buy a widget machine for $10,000 if the widget machine made you $50,000? The answer is: YES.

The nation's top banks put at least 30% to 40% of their Tier 1 assets to work in financial vehicles that earn rates of return that are six times or more what they are paying for those assets. Can you do the same thing? Can you bypass the middleman on your serious cash and earn 6% or more—and get safety and liquidity to come along for the ride? The answer is: YES.

Keep in mind: leverage is good—in fact, it's what makes the world go around. But leverage without matching liquidity is stupidity. We'll explain later why liquidity is the No. 1 feature to look for in prudent strategies.

LIFT, THRUST & DRAG

To summarize the power of the three marvels of wealth accumulation, we can compare them to the principles of aerodynamics. In order to overcome the weight of an airplane, the plane has to overcome gravity (which we compare to taxes and inflation) by using three other forces:

- **Lift** – The Bernoulli Principle explains how air flowing over and under the wings of an airplane creates lift. Because of the wing's shape, the faster moving air on top creates less air pressure; the slower moving air on bottom has more air pressure. This difference in air pressure causes the plane to lift upward. This is just like the effect of compound interest, raising your balance higher and higher.

- **Thrust** – As air flows through an airplane's jet engine or propeller, it creates thrust, moving the plane forward at high speeds. Tax-favored accumulation is like thrust. Tax-deferred accounts (like IRAs) would be like flying in a propeller engine aircraft, whereas tax-free would be more like soaring in a jet engine plane.

- **Drag** – Drag is caused by the friction of the air surrounding the plane. Most people don't understand why it's necessary to have drag, but without that friction or resistance, your airplane would never get off the ground. We compare drag to paying interest. When you use drag—safe, positive leverage—by borrowing OPM (other people's money), you can earn more interest.

Ideally, you want to maximize all three forces, or marvels of wealth accumulation, to arrive at your destination—a future filled with abundance.

4 PHASES OF RETIREMENT PLANNING

When it comes to accumulating wealth, we summarize the process in four key phases:

1. **Contribution** – When you put your money into a long-term financial vehicle (where you won't access it for five years or longer)
2. **Accumulation** – When your money grows inside that vehicle (usually in the form of interest or dividends)
3. **Distribution** – When you access your money (also called the withdrawal phase)
4. **Transfer** – When you pass away and leave your money behind to heirs (*and* Uncle Sam, if you're not careful)

As you look at these four phases, which one do you think is the most important to protect from taxes? If you're like most people in the audience at our events, you might be guessing: contribution. Why? Because conventional financial advice encourages individuals to put pre-tax dollars into financial vehicles like 401(k)s to get as much money as they can into the account before the accumulation phase.

In our audiences, you can also hear soon-to-be-heirs pipe up with, "The transfer phase!" which makes us all chuckle (of course, they want to inherit as much as they can—they really want that phase to be tax-free). But the rest of the crowd typically hollers, "Distribution!" They're thinking about the time in life when they're accessing their money, and how they'd like to do that without Uncle Sam taking a big bite out of each withdrawal.

While the distribution phase matters, it falls behind the most important phase to protect from taxes: the accumulation phase. Why the accumulation phase? Because as we demonstrated earlier with the marvel of compound interest, when your money is compounding tax-advantaged, that's when you'll see the most growth. Now if you can protect your money from taxes in more than one phase, that's all the better.

Let's say you want to have at least $1 million set aside to live on during retirement—to pay for living expenses, groceries, gas, prescriptions, travel, and/or hobbies. Different financial strategies can set the pace for your race to an abundant future. The question to ask yourself is, how fast do you want to complete the Million-Dollar Dash—do you want to crawl, walk, jog, or sprint?

- **Crawling** – Taxed-as-earned investments would be like "crawling" toward the finish line to achieve financial independence. Money set aside in taxed-as-earned investments is contributed with after-tax dollars, and any interest or dividends are taxed each year as they are earned. But the taxes don't stop there. Any capital gains are also taxed during distribution, and upon death your money is subject to income tax and possibly estate tax. Unfortunately this is one of the most common ways Americans save for retirement, in traditional vehicles like mutual funds and savings accounts at banks or credit unions, and typical taxable investments. Here's why it is so slow-going. If you recall in Figure 3.3, when you

have $1 doubling in a tax-favored environment in each period for twenty periods, you will end up with over $1 million. But if your dollar is doubling in a taxed-as-earned environment, where you are taxed at 33.3% on your earnings, you only have a 67-cent gain. After twenty periods, you'd only have just over $27,000 (see Figure 3.5). That's a lot less than $1 million. That's like getting 2.7% of the way around the race track.

FIGURE 3.5

Taxed-As-Earned at 33.3%
$1.67
$2.78
$4.63
$7.72
$12.86
$21.44
$35.73
$59.55
$99.25
$165.41
$275.70
$459.50
$765.86
$1,276.45
$2,127.46
$3,545.84
$5,909.85
$9,849.95
$16,416.90
$27,362.05

- **Walking** – When you set aside money with after-tax dollars into tax-deferred investments (such as tax-deferred annuities), these kinds of vehicles are only tax-favored during the accumulation phase. Upon distribution from a tax-deferred annuity, the IRS taxes all withdrawals or distributions on a LIFO basis (which means last-in, first-out). This is like "walking" toward the finish line—you're only going to get about one-third of the way around the track.

- **Jogging** – How about a nice jog toward that finish line of financial independence? Join the millions of Americans who set aside pre-tax dollars in traditional IRAs and 401(k)s. With these kinds of vehicles, you're able to save with 100% tax-advantaged dollars on the front end. But don't forget that you

must pay taxes when you access your money. You're essentially electing to have a tax break on the front in exchange for paying tax on the back end.

- **Sprinting** – Why crawl, walk, or jog when you could sprint? This happens when you contribute after-tax dollars in a tax-favored environment, when you can access it tax-free, and when it transfers income-tax-free to your heirs upon your passing. This is where unique vehicles, like the one we'll be talking about in-depth in this book, can help you win life's race.

As you can see, not all financial vehicles provide the same momentum, especially with the winds of taxes blowing your way. This is why it behooves you to learn as much as you can about your options, weighing the pros and cons of each vehicle for your needs and goals. As we've demonstrated throughout this chapter, the more tax-advantaged your approach can become, the more opportunity you'll have to take greater ownership of your life. And congratulations—by reading this book, you're on your way.

TOP 5 TAKEAWAYS

1. Just like the Denmark, kangaroo, orange exercise demonstrates, predictability is key, especially when it comes to financial strategies.
2. The three marvels of wealth accumulation can predictably provide opportunities for financial growth: 1) the marvel of compound interest, 2) the marvel of tax-favored accumulation, 3) the marvel of safe leverage.
3. The 4 Phases of Retirement Planning are: 1) contribution, 2) accumulation, 3) distribution, and 4) transfer.
4. The most important phase to protect from taxes? Accumulation.
5. To sprint toward retirement, you want to be able to contribute after-tax dollars in a tax-favored environment, access your money tax-free, and transfer it income-tax-free to your heirs upon your passing.

4

What Does LASER Stand For?

Our family likes to work hard, very hard, and when it comes time to play, we play equally as hard. Every couple of years, we all get together for a Family Retreat with a Purpose at one of our favorite destinations, Hawaii. (We'll touch on Family Retreats with a Purpose, in Section II, Chapter 1, which are part of our overall Authentic Wealth strategy for maintaining family Values and Vision.) Between those big, bonding trips to Hawaii (where each family saves up for two years and pays their own way to stay in affordable timeshare lodging), we often take off for a week here and there to places like Wind Rivers, Wyoming. With Doug and Sharee leading the pack, we caravan with all six Andrew kids, spouses, and sixteen grandchildren. Once we arrive, we trek back into the picturesque mountain range, with towering peaks, rushing rivers, and deep blue lakes.

Before we head out on the six-hour drive to Wind Rivers, we always make sure to load up our SUVs with the fundamentals: equipment, food, and clothing. And of course towing along extras like the ATVS adds to the experience.

Now, here are some interesting questions. Could we still go on the trip if we didn't have 100% of those fundamentals? Reasonably, we could make do without most of our camping equipment. But it wouldn't be quite the

same trip without the Coleman stove and the tents. As for food, we could probably survive off the fish we caught and the berries we gathered, but it's so much tastier to fry up the trout in lemon pepper and butter and unveil a sweet Dutch oven peach cobbler for dessert. As for the clothing, yes, we could keep the same outfit on that we arrived in, but after five days, none of us would be able to stand downwind of each other. And could we do without the ATVs? Of course, but some of our favorite memories have come from heading out on a beautiful trail ride to explore a new valley.

Like that trip, there are a few fundamentals you need to make the most of your financial journey. Whenever you're positioning serious cash—money you're setting aside for future goals, such as retirement or your children's college education—you want to make sure your financial vehicle is loaded with the essentials:

- **Liquidity**
- **Safety**
- **Rates of return** that are predictable
- **Tax-advantages**

Now, can you still move forward on your journey if you don't have an optimal level of all factors for a prudent financial vehicle? Sure, millions of Americans do. But that's where we ask: why not put yourself in a position to have the best possible outcome? Like St. Jerome said, "Good, better, best. Never let it rest. 'Til your good is better and your better is best." To help you weigh your options and make informed decisions, let's take a closer look at these fundamentals.

LIQUIDITY

As an illustration, let's say we have a family, the Thompsons. The Thompsons are conscientious about their money. They don't have a lot of extra assets, but what they do have, they safeguard well. They live in a beautiful $300,000 home with their three children (for which they made a $50,000 down payment and started with a $250,000 mortgage). They've been diligently sending extra payments to the lender for years. Like many Americans, they're following traditional advice, which says the best way to get out of debt and get ahead is to pay off your mortgage as soon as possible.

Over the past several years they've paid down the $150,000 principal (comprised of the $50,000 they would have normally paid off through minimum payments, and an extra $100,000 through extra payments). They're thrilled to only owe $100,000 on the mortgage. But then Jason Thompson's company downsizes, and he finds himself out of work. Kendra Thompson still has her job in human resources, but it's just enough to cover the basics: groceries, insurance, car payments, etc. After a few months, they get behind on their mortgage, and they really wish they could get access to some of those extra payments they sent the mortgage company. But they can't. It's been applied toward their balance, and it is absolutely, positively, NOT liquid. A few months later, they fall so far behind on their mortgage that the bank forecloses on their home.

What if, instead, that extra $100,000 were set aside in a financial vehicle that provided liquidity—with no income taxes? When Jason loses his job, they could access the money to continue making mortgage payments, which could carry them through until Jason finds new employment.

Now let's say Jason never loses his job. The Thompsons could still set that money aside in a prudent financial vehicle, letting it accrue interest. They would have peace of mind knowing that if they wanted to pay off their mortgage sooner, they could. In fact, by accumulating that money in a tax-favored, liquid side fund compounding, they would likely have enough to pay off the mortgage about 2.5 years sooner than sending that money against their mortgage. But they don't have to physically pay it off. And should they need that money for anything else, they would have access to it, as well.

This is just one example of why liquidity is the No. 1 element you should look for in prudent financial strategies. Without it, not just individuals, but businesses can also go bankrupt. When there are insufficient funds to cover costs—the building lease, payroll, vendor accounts—otherwise viable businesses can go under.

This is why entrepreneurs need as much liquid capital as possible to seize opportunities and withstand cash-flow crunches. The LASER Fund is an excellent solution for working capital, as you don't have to pay government penalties if you choose to use cash from your policy for reasons other than retirement. (See Section II, Chapter 4 for real-life examples of using The LASER Fund for working capital.)

Liquidity is especially imperative when you're in the beginning stages of setting aside money for the future. If something goes wrong, caring for your immediate financial needs will be much more important than saving for your retirement down the road. In short, it's a lot better to have and not need, than to need and not have. Liquidity is like being safe in a submarine as the storms rage overhead—providing absolute calm despite the torrent.

The moral is: life is full of surprises. Some are unpleasant ones, like losing a job or suffering the loss of a loved one. Others are more pleasant, like an opportunity to invest in a business or additional real estate. And one more note on liquidity: we believe it is wise to prioritize liquidity with your entire financial portfolio, not just one vehicle. More on this in Section I, Chapter 14.

SAFETY

Now let's look at the real-life story of an older couple, whom we'll call the Wells, who were in their mid-70s in early 2008. They had done well financially throughout most of their lives. However, a few years earlier they had suffered some financial setbacks (from about age 65 to 75) that required them to exhaust most of their retirement savings to pay off former business debts.

By the time they were in their mid-70s, they weren't able to retire yet. They still had to work full-time jobs to make ends meet. Jim Wells had his mortgage license, and Sarah Wells was working as an office manager. A little later in 2008, Sarah's mother passed away, leaving behind a substantial amount of money in accounts with Lehman Brothers. They were sad to bid farewell to her mother, but grateful for the financial relief that was coming their way from that inheritance.

But notice this was 2008. The Wells had no idea what economic hurricane was headed their way (and everyone else's) later that year. In the fall of 2008, the economy took such a bad turn that it ushered in the Great Recession. As it happened, Lehman Brothers was the first to fold, largely due to its bad bets on real estate holdings. The Wells' inheritance disappeared almost overnight, right alongside Lehman Brothers.

The Wells were faced with no option but to sell their home of over thirty years, downsize to a smaller home, sell their second car, and continue working for another few years. Today they get by on Social Security and a small monthly withdrawal from the 401(k) Sarah had accrued while working at her office job. They're grateful to have enough—but it's just barely enough. No vacations. No helping the grandkids with their education. Nothing more than mortgage, groceries, doctor's bills and medicine.

That inheritance money could have made a big difference in their lives, but it lacked one of the most critical elements of a financial vehicle: safety. It wasn't safe. It had always been at risk of disappearing, and it did, because it was with an institution—and in financial vehicles—that were vulnerable to the economic storms that hit in 2008.

The Wells weren't the only ones. As we've mentioned, millions of Americans lost as much as 40% of their money in their IRAs and 401(k)s that were invested in the market—twice—between 2000 and 2010. Exposure to this kind of loss demonstrates the importance of safety.

Safety has two components:

- Safety of the institution in which the money is entrusted
- Safety of principal

When it comes to your serious cash, look for financial institutions that have a long-term track record of safety. Consider what happened with Lehman Brothers. It had been a Wall Street icon for decades. But like many big financial institutions at the time, it had been dealing in financial strategies that did not protect the consumer. When the Wall Street house of cards began to crumble, so did millions of Americans' financial futures.

Now when we talk about safety of principal, ideally what you want is to be able to protect your principal from loss. Even more, you want any gains you've experienced to become newly protected principal. In other words, say you have $100,000 in a financial vehicle that earns a net rate of return of 7% this year. At the end of the year, you want to have $107,000 as your newly protected principal—which means even if the market drops and the rate of return is less than 0% the next year, your principal of $107,000 would be intact. You wouldn't lose a dime due to market volatility.

When it comes to your financial future, safety is also a priority.

RATE OF RETURN

Marshall Thurber once shared a story about Dr. Edwards Deming. Deming, the American statistician, professor and Total Quality Management engineer, emphasized the importance of predictability in designing manufacturing systems. In the 1970s, he consulted with America's "big three" auto companies, GM, Ford, and Chrysler. His recommendation: ensure more predictable quality. (There's that predictability factor again.)

Well, they ignored him.

Not long after, a consumer report came out suggesting that consumers should buy American cars that were built on a Wednesday. The reason? Workers would typically show up on Monday at the plant hungover from the weekend, unfocused, and sloppy. They made a lot of mistakes. Tuesday's cars were a little better, and by Wednesday, the workers were in the flow. Thursday they'd be looking forward to the weekend, and by Friday they had completely lost focus again.

After the report went nationwide, American car dealers found that cars built on Mondays, Tuesdays, Thursdays, and Fridays were just sitting on the lot. No one wanted them. They had to discount them deeply or send them back to the factory to be double-checked. Clearly, American auto manufacturers had lost the trust of their consumers. And Deming had tried to warn them.

Even though the American companies had disregarded Deming's advice, Japanese manufacturers were eager to listen. Prior to Deming's influence, Japanese products—from automobiles to electronics—did not have a reputation for quality; they were considered junk.

But Deming changed that.

He provided his strategies for Total Quality Management, and Japanese companies implemented them. Within a decade, Japanese cars and electronics began to dominate the market. From Sony and Samsung to Toyota, Honda, and Nissan, Japanese makers became household names. For decades since, American auto manufacturers have been doing their darnedest to come up to speed (no pun intended), with the quality of Japanese cars.

Predictable quality matters. Today, the Deming Prize is a coveted award, recognizing individuals and organizations for their contribution to and achievements in Total Quality Management.

Just as in manufacturing, when it comes to your finances, you want predictability, particularly with your rate of return. To explain:

- When it comes to **rate of return**, the goal is to earn a competitive rate of return that historically has beaten inflation.
- If you can have that rate of return under **tax-favorable circumstances**, it will dramatically increase not only the end result, but also the net spendable income available during your "harvest" years (as explained in Section I, Chapter 2).

LASER RATING

Now that you see how important liquidity, safety, and rate of return are to your financial future, what do you want in your financial vehicles? Just one or two of them? Or all three? And in what order of importance? Many investors rank rate of return above liquidity. But in actuality, liquidity is No. 1. Safety is No. 2. Rate of Return comes in third.

Going back to our analogy of packing for the Wind Rivers trip, ideally you want to take all of the essentials on your journey. Since the same holds true with financial vehicles, optimally, you want vehicles that can provide the essentials of good **liquidity**, **safety**, **rate of return**. And of course, you want the difference-maker—**tax advantages**—along for the ride.

Take a moment now to consider your current financial strategies. How well do they deliver on liquidity, safety, rate of return, and tax advantages? We've developed a proprietary LASER Rating System™ that helps examine specific financial products' uses and risks, as compared to other financial vehicles.

We'll talk about this more in Section I, Chapter 14, but for now, we've developed a LASER Scorecard for you to perform your own analysis on each of your current financial vehicles, to rate how they fare with liquidity, safety, rate of return, and tax advantages. When scoring yourself, assess a score of where you are today, and where you optimally would like to be in the future (see Figure 4.1).

FIGURE 4.1

The LASER Scorecard											
Key Principle	1	2	3	4	5	6	7	8	9	10	Present/ Future
Objective ⇨	Poor ⇨		Fair ⇨		Good ⇨		Better ⇨		Best ⇨		
Liquidity Ability to Access Your Money	Your assets are mostly tied up and cannot be converted quickly to cash for emergencies		You can access your money but could incur penalties or suffer a loss due to markets		You can access your money but not without incurring cost (by tax or other penalties)		You have predictable cash flow income but have limited access to lump sums, if needed		You have tremendous liquidity and can access your money electronically within hours or a few days		
Safety of Principal	You're susceptible to market volatility, and the potential for loss is extremely high		Some of your money is in institutions that do not have strong safety ratings		You diversify by offsetting high-risk vehicles with some low-risk vehicles		Your money is in a safe vehicle, but the tradeoff is very low rates of return		Your vehicle has very low risk. Your money is protected from market volatility and inflation		
Rate of Return Linked to Inflation	Any returns are usually negated by downturns in the market—very little net growth		0%-2% rates of return (pathetically low), while inflation outpaces gains and erodes principal		2%-4% rates of return, and you're set up on a 4% payout to avoid outliving your money		5%-12% average returns, but returns are taxable when you withdraw your money		7%-9% historic average returns; tax-free during accumulation and distribution phases; hedging against inflation		
Tax-Advantaged On the Seed or the Harvest?	Savings and investments are taxed-as-earned (on the seed AND harvest)		Traditional IRAs/401(k)s (tax-deferred accounts); seed money not taxed; pay tax on harvest		Roth IRAs and 401(k)s; pay tax on the seed but a tax-free harvest; IRS limitations/rules		Tax-free accumulation; access and transfer of money with greater flexibility and benefits		Tax advantages on contribution, accumulation, distribution, and transfer phases		

How did you do? We've found when we ask folks how well they think their financial vehicles will score in these four critical areas, they assume it will be high. But when they take the time to really analyze it on this kind of scale, they realize there is room for improvement.

If you find yourself in a similar place, don't worry. The first step to getting anywhere is to acknowledge where you are, right now, and then create a plan for getting where you want to go. We wish you the best as you set your sights on not only improving your score, but also your financial future.

There is give and take with each financial vehicle. As we'll discuss in Section I, Chapter 14, for example, a savings account in a local bank is safe and liquid, but it does not typically offer good rates of return. A Roth IRA fares well with tax advantages, but it can be limited on safety for those who are invested in the market. There is no single perfect financial vehicle, but we will introduce you to what we believe scores the highest across the LASER Rating System™.

TOP 5 TAKEAWAYS

1. The four fundamentals of prudent financial strategies are: 1) liquidity, 2) safety, 3) predictable rates of return, and 4) tax advantages. It can be beneficial to choose financial strategies that fare well on the LASER Scorecard.
2. Liquidity is the ability to access your money when you need or want it.
3. Safety relates to your principal—protecting your money from loss due to volatility in the market, and the safety of your financial institution—working with reliable companies that can weather economic storms.
4. When it comes to rates of return, you want to earn a competitive rate of return that has historically beaten inflation, and ideally, you want that rate of return under tax-favorable circumstances.
5. Tax-advantaged financial strategies can help you avoid paying unnecessary taxes and safeguard you from outliving your money during retirement.

5

The "Miracle" Solution

In 1974, when Doug was in his early twenties, he started his career in insurance and securities. He built his clientele door to door, relationship to relationship, studying the intricacies of the financial services industry as he went. Within a few years, he was a rising star at his firm. He loved what he was doing. But there was an aspect of his work that troubled him—particularly watching his clients suffer when the economy suffered.

His first real experience with this came in 1980, when the Iranian oil embargo sparked a chain of events that led to a devastating nationwide recession. In the second quarter of that year, the US saw its worst quarterly decline in GDP since the Great Depression (at the time). The economy recovered after six months, but the reprieve didn't last long. By the start of 1982, America's economy crashed yet again. It was painful—unemployment rose as high as 11% and hovered at 10% for ten months.

With every drop in the economy, Doug's heart would drop. He would worry about his clients, who had inevitably lost part of their hard-earned money when their investments tanked. He would visit with his clients, answer their fearful calls, and feel his stomach churn. All he could offer them was the same feeble reassurance every other financial

professional was using, "Hang in there. The market always comes back. Hopefully you'll make up your loss sooner than later."

Doug wasn't immune to these financial crises, either. He shares in this snippet from his book, *Entitlement Abolition*, how his own encounter with major setbacks changed everything.

> *I had more financial ease than I had all my years growing up. In fact, my wife, Sharee, and I were excited to be building our "dream home" in central Utah. It was 6,400 square feet, with cathedral-beam, wood-decked ceilings, and a master bedroom deck where we could watch the deer and elk bed down in the scrub oak below. We thought we had the world by the tail! Two years later, in 1980, a bad recession hit America, and us.*
>
> *We experienced unexpected, major setbacks due to a dishonest supervisor in the company I was working for. While the supervisor was being audited, my earnings (and that of two other producers) accumulated and were held in an escrow for nearly a year. As a result, we all found ourselves without an income, which meant Sharee and I got behind on our mortgage payments. Fortunately, we owned a rental duplex which we sold, and used the equity to bring the delinquent mortgage current.*
>
> *But we got behind again. We owned a timeshare at a ski resort that we sold for triple what we had paid for and were able to bring the mortgage current a second time. When we fell behind a third time, we realized we had no other liquid assets. With no light at the end of the tunnel in the foreseeable future, we decided to sell our house.*
>
> *We listed our home for sale for $295,000, because it had appraised four years earlier for $305,000. No takers. (When supply is greater than demand, real estate values plummet.) We quickly lowered the price several times to $285,000, $275,000, $265,000; then down to $225,000 and even $195,000; but to no avail. We will never forget the day we went to the county courthouse in Provo, Utah, and on the steps at the sheriff's auction, we watched our beautiful home auctioned off in foreclosure proceedings. The other two producers that had their income put on hold also lost their homes in foreclosure.*

Fortunately, Sharee and I were able to buy another home immediately thereafter with no money down—even with a foreclosure on our record—because of a process I developed call The Negative Experience Transformer, a method for turning any negative experience it into a positive learning opportunity that can bring about a better future. Since that negative experience, I have maintained liquidity on my real estate equity by keeping it safely separated from the property, which has enabled me to sail through several more recessions without losing real estate equity, even when the property dropped in value.

The experience of losing a house in foreclosure was a defining moment for me as a financial professional and retirement planning specialist.

After his own personal story of loss, Doug had enough. He wasn't going to continue following the crowd, perpetuating traditional financial advice that left his clients—and his own family—vulnerable to the winds of change in the economy. He knew there had to be a better way.

He found it. Within a few years, he and his were utilizing the primary financial vehicle we discuss in this book, one that fares well in The LASER Rating System.™ And one Monday morning in October of 1987, he couldn't have been more grateful.

Doug awoke from a bad dream—one in which he thought a bear was shaking the cabin. He was on a hunting getaway at the family cabin in Sanpete County. It took him a moment to realize it wasn't a bear, but a mild earthquake rattling Utah. Later that same day, he learned, along with the rest of the country, that something far worse was rattling the entire nation. With a 22% drop, America experienced the worst single-day stock market decline since the Great Depression (again, at the time). What had been 1987's booming bull market turned into a bear market in a matter of hours.

"I remember I was out deer hunting, riding my four-wheeler at the top of the knoll, when I turned on the radio. I heard everyone wailing over the stock market crash," said Doug. "Instead of having to say to myself, 'I've got to rush back to the office to field those desperate phone calls,' I could relax. So could my clients. They knew their principal was protected. And they knew they would still be credited 11% that year. I felt good, because my clients weren't losing."

Doug was able to find this new path thanks to that special type of insurance policy that emerged in 1980. Over the years, he and the rest of our Live Abundant team have honed our strategies for making the most of this vehicle—something that has been called a "miracle solution" because it provides liquidity, safety, rate of return, and income-tax-free advantages. Upon death, it also blossoms as it transfers to heirs income-tax-free.

In this chapter, we'll give you an in-depth look at how The LASER Fund works (so you can understand the "what"). In the next chapter we'll look at how indexing can help your LASER Fund do even more for you. And in Section I, Chapter 7, we'll see how The LASER Fund came about and how it can provide income-tax-free advantages in accordance with legislation and Internal Revenue Code (so you can understand the "how").

CONSTRUCTING YOUR FUTURE

To begin our discussion, let's say you were going to build a LASER Fund policy with the assistance of one of our trained financial professionals. Since you can create anything from a modest to a mammoth-sized policy, your financial professional will help you determine how much cash you'd like to place into your policy.

Through a unique process, your financial professional will then identify the minimum amount of insurance you'll need to be in full compliance with the IRS tax code. Did you notice that we said the minimum amount? Why? This ensures that money inside the policy, once it is in force, qualifies for tax-free access, can grow tax-deferred, and provide the most optimal rate of return. (One of the most common mistakes made on these policies is that the death benefit is too high for the premium going into the policy, which dramatically inhibits the policy's ability to grow efficiently. This is why you want to work with a financial professional who is well-versed in structuring these kinds of policies.)

The LASER Fund can be compared to owning an apartment building. Now think about it: if you were to own your own five-story apartment building, what would be your goal? To rent out all five floors in order to maximize profit and minimize expenses, right? Because if only the first floor were rented out and the remaining floors were left vacant, costs would remain extremely high and eat away your profits.

The LASER Fund is similar. To maximize your returns and minimize your expenses, you want to fill up your policy with maximum planned premiums (this is like renting out all the available space). This can be accomplished in as few as five years to be compliant with TAMRA guidelines (see Section I, Chapter 7 for more on TAMRA).

There are four distinct, yet equally important phases when creating and funding your insurance policy, which we'll take a closer look at:

1. Design & Approval
2. Acquisition
3. Maximum Funding
4. Profits & Distribution

PHASE I – DESIGN & APPROVAL

Based on your financial and retirement goals, your financial professional helps determine the size of The LASER Fund policy. These policies can be structured to hold thousands or even millions of dollars. Depending on the size of the policy, they can be filled using only monthly or periodic deposits (such as $1,000 a month, or $10,000 a quarter), or they can accommodate large lump sum deposits (such as $100,000 to $500,000 or more per year). They can also be funded using a combination of both.

Based on your financial objectives and assets available, the financial professional designs the policy to comply with IRS guidelines to allow for tax-deferred growth and tax-free access. It is important to remember that Phase I is the planning and approval phase, and the realization of tax-deferred growth and tax-free access is achieved through Phases II, III, and IV.

The plan then gets submitted to pre-selected insurance companies for approval and underwriting. While in underwriting, the insurance company will look at the size of the insurance policy, the need for insurance, insurability, and a variety of other factors. (It may surprise you to know that people with previous medical conditions or people who may be older can often get excellent rates with some insurance companies.)

We can't stress enough the importance of working with financial professionals who are experienced in designing and coordinating The

LASER Fund. A lack of experience can have dire consequences. Think of how difficult it is to make changes regarding structure and floor plans once an apartment is built. Just the same, an insurance policy may be difficult to change down the road without incurring significant expense, especially if it was structured incorrectly from the beginning. The process of proper and effective LASER Fund design is significant and necessary in order to maximize long-term profits, minimize risks, and keep it flexible.

And be aware that not all insurance companies have the products that perform well when structured this way. To be specific, out of the massive insurance industry in the United States, only a select few companies have the ratings and the products that have passed our high standard of scrutiny—fewer than a dozen, in fact. This is not a short-term home for cash.

PHASE II - ACQUISITION

Once Phase I is complete and your insurance policy has been designed and approved, the next stage begins when you put it in force. This simply means that you make the first premium payment, paid directly into the account of the insurance company selected for the policy.

When the money is received by the insurance company, the death benefit is in place, in order to better protect your estate and assets. If an unforeseen death were to occur, the premiums you would have paid into the policy would blossom into a death benefit for your family or the estate.

Consider the entire first year the policy is owned to be Phase II. During this year, it's best to fill up the policy with all the planned premium payments. Near the end of the first year, also called the anniversary date, you receive an annual statement from the insurance company that details the amount of premium paid, cash value that has accumulated, and costs that have been charged during this year. An annual review is also held with the financial professional.

Every insurance policy is different, but generally the minimum amount of time it takes to maximum fund an insurance policy is five years, according to IRS guidelines (TAMRA). In other words, the IRS doesn't let anyone put the entire amount of planned cash into the policy in one year—they make you spread it over a period of years, often five. (Note

that if you were to fund your account faster than TAMRA allows, you would not be in compliance with the tax citation. When you went to access the money, it would not be totally tax-free.)

At the end of Phase II, The LASER Fund is usually about one-fifth maximum-funded. Designing and funding The LASER Fund the first year is similar to renting out just the first floor of the apartment building. It isn't profitable ... yet. It needs to be maximum-funded over the next four years or more.

PHASE III – MAXIMUM FUNDING

The LASER Fund's next phase focuses on filling the policy with all the planned premiums. This phase generally takes place during Years 2 – 5, but can take longer, depending on the way you structure and fund the plan. We recommend that clients meet with financial professionals annually to set goals and make adjustments as necessary.

During Years 2 - 5, optimally the individual will continue to fill up the policy with all the planned premiums. It's a lot like when renting out more floors of the apartment building—you have more rent payments coming in, offsetting the costs of running the apartment building. Similarly, when you're filling up your policy, your cash value is growing, giving you the opportunity to earn more interest—which can offset your fees. What's more, your cash value will not lose principal due to market volatility—even if the economy and stock market take a serious dive.

As the years progress, the cost of the insurance can go down as you get older. This is because the amount of insurance at risk to the insurance company is reduced as it is replaced with your money and the interest earnings on that money. The goal is to have a small portion of interest earned paying for the insurance, which is required by the IRS for it to qualify as a tax-free policy—thus eventually earning a net tax-free rate of return that is very attractive.

One of the best parts of The LASER Fund? As the cash value begins to accumulate in your policy, these funds may be accessed at any time by requesting a transfer from insurance company. They will promptly put a check in the mail or perform an electronic transfer. The best time to access money from the policy is after it is funded to the maximum amount

allowed. But if you absolutely need to, you can choose to access from the policy in the first five years (just keep in mind that policies perform best when they are maximum-funded first).

Filling the policy up to maximum levels is like finally renting out the entire apartment building. With your building completely leased out, it is now optimized for profits.

PHASE IV – PROFITS & DISTRIBUTION

Phase IV is like having the building fully rented, and with The LASER Fund maximum-funded, you can work with your financial professional to decide when to take distributions, how often, and how much to access from the cash value on a tax-favored basis. The policy can continue to grow through the marvel of compound interest. Based on the index it is linked to, the policy can be credited with interest earned.

When it comes to your money, you want cost-effective financial vehicles. And one of the many benefits of these policies is when they're maximum-funded, they can become very inexpensive in Phase IV, due to the large amounts of cash in the policy. Let's say someone has had her policy in force for ten years; the policy has a death benefit of $1,000,000; and it has accumulated a cash value of $800,000. She's only going to pay costs to cover the remaining $200,000 of insurance that is at risk to the insurance company—the remainder is now her own money. If the insured were to pass away, the beneficiary would receive a total death benefit of $1,000,000.

This is by far the superior way to accomplish what the "buy term and invest the difference" proponents say, because individuals are actually becoming self-insured, but this way it's totally tax-free, and it's faster and performs much better. (More on this in Section I, Chapter 13.)

The best way to access money from the policy is through tax-free loans, as we'll explain later in this book. As long as the policy remains in force, no tax will be owed on these loans. (If, however, an individual were to surrender the policy and cancel it, that may create a taxable event. That would not be smartest exit strategy, but nonetheless, any cash put directly into the policy, or the basis, would remain tax-free, as it has already been taxed.) Furthermore, as we will explain later, while you can

choose to repay loans on your policy, it is not mandatory. The loans are not due and payable during the life of the policy. If you choose not to repay your tax-free loan, any loan balances will be automatically paid off with the death benefit upon your passing (this amount can often be offset with growth on the cash value of the policy over the years).

TOP 5 TAKEAWAYS

1. Hard-won lessons and national economic upheaval led to Live Abundant's focus on The LASER Fund as a powerful financial vehicle, with its unrivaled liquidity, safety, predictable rates of return, and tax advantages.
2. Constructing an abundant financial future with The LASER Fund could be compared to building and leasing a five-story apartment building.
3. Just as you would create blueprints and plans for your apartment building, during Phase I, your financial professional works closely with you to design a policy that fits your circumstances and goals while maintaining flexibility—and that complies with TEFRA/DEFRA tax citations.
4. Phase II and III could be compared to building and leasing all five floors of your building. Here, you typically fund your policy over five or more years, in accordance with the TAMRA tax citation and your policy design.
5. Phase IV is like reaping the profits from your fully leased building. You can work closely with your financial professional to optimize your indexing choices, decide when to take out income in the form of tax-free loans, etc.

6

The Power of Indexing

Another valuable advantage of The LASER Fund is the opportunity to "index" your policy. Indexing allows the money in your policy to gain interest when the stock market goes up, and to be completely protected from losses due to market volatility when the market goes down. How is this possible? Because your money isn't directly IN the stock market, it's simply LINKED TO the market.

To illustrate, let's say you have $1 million in a LASER Fund. You have several choices for which index you'll choose—you can choose a single index or you can link your policy to a combination of them. In this case, you opt to link your policy entirely to the S&P 500. You also have options when it comes to crediting methods, and you choose annual point-to-point (more on index choices and crediting methods options a little later in this chapter). Let's say your policy has an anniversary date of December 31 (this could be any date—it is not based on calendar year but on the date your policy was issued).

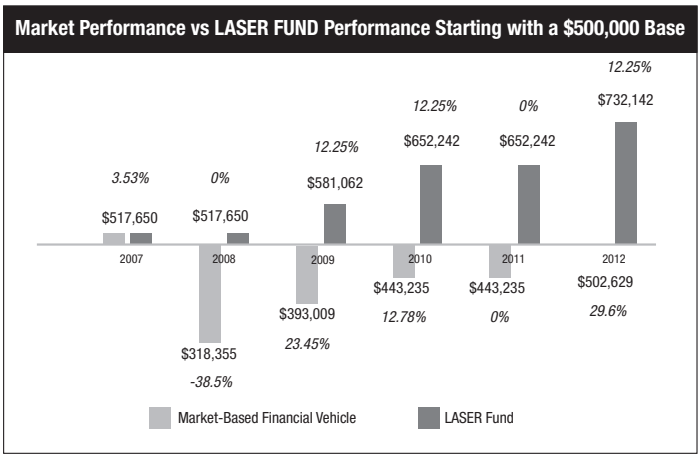
On December 31 of last year, the S&P was at 1,000. On December 31 of this year, the S&P increases to 1,100 (a 10% increase). The insurance company is contractually obligated to pay you the yield, which is 10%. On $1 million, that means they will put $100,000 into your policy. That $100,000 is locked in as new principal.

Now, the following year, there's a financial disaster, and the economy tanks. While most Americans invested directly IN the S&P could lose a significant amount (which millions of Americans did, losing as much as 40% in 2003 and 2008) ... here's the great part ... you don't.

With indexing, your principal is completely safeguarded from losses due to market volatility. What's more, every year your index "resets" on your policy anniversary. Essentially, with your annual point-to-point crediting method, where the S&P 500 is on your anniversary date, that becomes the new set-point for the coming year.

So let's use historical numbers for a moment, using an example where you're starting with $500,000 in your financial vehicle (see Figure 6.1). On your anniversary date on December 31, 2007, the S&P 500 gained 3.53%. You would have received a 3.53% addition to your principal. With The LASER Fund, that additional $17,650 would have been locked in and protected as new principal. With your market-based financial vehicle, that $17,650 would be at risk in the market. On December 31, 2008, the S&P 500 index dropped 38.5% from the previous year—this would have been a devastating loss if you were IN the market, but since your LASER Fund has an index floor of 0%, you would have lost nothing due to market volatility. The index would have reset for the coming year, and by December 31, 2009, it gained 23.45%. That year, your LASER Fund would have gained up to your cap of 12.25%.

FIGURE 6.1



That's a great overall return for that three-year period, compared to what the rest of the country who were IN the market was experiencing.

So in up years, your policy gains, and in down years, your policy's value is protected from losses due to market volatility. With most indexes, the floors are 0%, and the gains are capped (caps vary by index, and insurers can change them from year-to-year). To illustrate, currently the S&P 500 is capped at 12.25%. If the S&P saw a 15% increase this year, your earnings would be capped at 12.25%. But if the S&P 500 lost 2% this year, you would see a 0% gain, and your principal would be protected from losses due to market volatility.

In summary, the safety and rate of return advantages of The LASER Fund are:

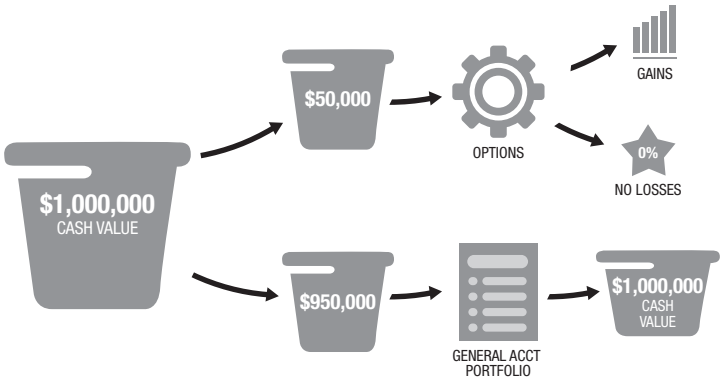
- You're linked to an index
- Your money is not IN the market, so "zero's the hero" (with your 0% floor), and you have the opportunity to earn up to your cap
- You benefit from annual resets with locked-in gains

[NOTE: Not all LASER Funds—especially those initiated years ago—offer the same features. Every company and policy is different, so be sure to check with your financial professional on the features and benefits of your policy.]

HOW INDEXING WORKS

How can insurers give you all the upside benefits of the market while protecting you from the downsides? Let's take a look behind the scenes to see how indexing is possible.

FIGURE 6.2



Looking at Figure 6.2, let's say your "policy value bucket" is $1 million (in other words, you have a cash value of $1 million). Each year, your insurer puts your money into its General Account Portfolio, with the lion's share of that money in safe, conservative investments like AAA and AA bonds with typically stable rates of return. Let's say this year, your insurer puts $950,000 into the GAP.

Now what about that other $50,000? They take $50,000 of your $1 million to buy options. You may be thinking, "Options ... doesn't that put that $50,000 at risk in the market?" The answer is yes, it does. But remember the GAP portfolio? Your $1 million principal is guaranteed a 0% floor because of the GAP. So even if the options lose money due to a market downturn, that loss of $50,000 doesn't impact your principal at all.

But what if it gains? Then even better, you get to benefit from that gain. Let's say the market goes up 10%. The $50,000 your insurer spent on options turns into $100,000—which means your $1 million of cash value earned 10%. What if the market goes up 20%? The insurance company will only make up to 12.25% ($122,500) because of the way it manages options. This is why there is a cap of 12.25% on your policy in this scenario. If the market goes down -40% like it did in 2008, the $50,000 in options is now worthless. That $50,000 may be lost, but you still have your principal of $1 million in cash value, because of the GAP. You don't lose any money due to market volatility. That 0% ground floor protection is why we say, "Zero is the hero."

Now you may be wondering, why do caps vary from year to year? The insurance company sets the cap, based on variables like their options costs and the rate they're earning on the GAP. If interest rates in America are going up and the GAP is set to earn more this year, they will likely put less (like $940,000) of your cash value into the GAP, put more (like $60,000) to work in options, and raise the cap slightly for the year—because they are likely to get stable returns in the GAP. With some indexes, like the S&P 500 Low Volatility index, there are no caps. You may have been able to guess why: because the costs on the options associated with this index are so low, the insurance company can afford to remove the cap.

You have a few important choices with your indexing options:

- Which index you'd like, based on those offered with the policy (insurance companies tend to offer some common indexes, as well as some they've designed exclusively for their policyholders)
- Which crediting method you'll choose for your selected index
- Whether you'll typically leave your choices as your "default" year-to-year, or you'll change it annually (you can make changes to your index options on your anniversary every year)

Let's start with "which index."

YOUR CHOICE OF INDEXES

You have several options when it comes to which index you choose; here are a few current indexes we recommend:

S&P 500 Index

Officially called the Standard & Poor's 500 Index, this is comprised of 500 companies selected by economists and analysts for their performance in market size, liquidity, and industry grouping. The S&P 500 is often considered the benchmark for the U.S. stock market. This index is commonly offered by several insurance companies. In Figures 6.3 and 6.4, you can see historical index rates, provided by one of the companies we recommend (keep in mind historical performance is not a guarantee of future performance):

[CHART ON FOLLOWING PAGE]

FIGURE 6.3

20-Year S&P 500 Historical Index Performance		
Date	S&P 500 Index Growth	Hypothetical Interest Credited
12/31/98	26.67%	12.25%
12/31/99	19.53%	12.25%
12/31/00	-10.14%	0.00%
12/31/01	-13.04%	0.00%
12/31/02	-23.37%	0.00%
12/31/03	26.38%	12.25%
12/31/04	8.99%	8.99%
12/31/05	3.00%	3.00%
12/31/06	13.62%	12.25%
12/31/07	3.53%	3.53%
12/31/08	-38.49%	0.00%
12/31/09	23.45%	12.25%
12/31/10	12.78%	12.25%
12/31/11	0.00%	0.00%
12/31/12	13.41%	12.25%
12/31/13	29.60%	12.25%
12/31/14	11.39%	11.39%
12/31/15	-0.73%	0.00%
12/31/16	9.54%	9.54%
12/31/17	19.42%	12.25%
COMPOUND AVERAGE	5.20%	7.19%

FIGURE 6.4

Annual Point-to-Point	Current Cap	Participation Rate	10 Years	15 Years	20 Years	25 Years
S&P 500 Index	12.25%	100%	8.08%	8.03%	7.19%	7.48%

As you look at historical performance, it's helpful to note a few things. First, this index implements an annual point-to-point crediting method, with a 100% participation rate, a 12.25% cap, and a 0% floor. Many of the years, your policy would have grown by 12.25%. There are some moderate years with modest growth, like the 3% rate of return in 2005.

In down years, like 2002 (post-9/11), when everyone with their money actually IN the market lost over 23%, you would have lost nothing due to market volatility because your money was simply TIED TO the market. Even during the worst drop, in 2008, when those with money IN the market lost nearly 40%, your money would have been protected with the 0% floor. Note that those with money directly in the market would have averaged 5.2% before tax over the twenty-year period (which would be subject to tax). Those with money in The LASER

Fund using indexing would have averaged 7.19%, and their money is accumulating tax-deferred and can be accessed tax-free. Keep in mind money in the market would also be vulnerable to loss years.

As you look at the table showing historical compound average returns, even with all the market fluctuations during each decade, you would have consistently averaged over 7% to 8% over the past twenty-five years, with tax-deferred growth and tax-free access to your money.

Blended Index

The Blended Index is comprised of several key indexes, including Dow Jones Industrial Average (35%), Bloomberg Barclays U.S. Aggregate Bond Index (35%), EURO STOXX 50® Index (20%), and Russell 2000® Index (10%). This index is commonly offered by several insurance companies. Here's a look at historical index rates in Figures 6.5 and 6.6, provided by one of the companies we recommend:

FIGURE 6.5

25-Year Blended Index Historical Index Performance

Date	Blended Index Growth	Hypothetical Interest Credited
12/31/93	17.65%	17.65%
12/31/94	-2.16%	0.00%
12/31/95	23.62%	20.00%
12/31/96	16.41%	16.41%
12/31/97	20.72%	20.00%
12/31/98	14.73%	14.73%
12/31/99	19.85%	19.85%
12/31/00	95.00%	20.00%
12/31/01	-3.47%	0.00%
12/31/02	-11.90%	0.00%
12/31/03	17.97%	17.97%
12/31/04	5.70%	5.70%
12/31/05	5.23%	5.23%
12/31/06	11.94%	11.94%
12/31/07	5.77%	5.77%
12/31/08	-22.36%	0.00%
12/31/09	15.41%	15.41%
12/31/10	7.52%	7.52%
12/31/11	0.72%	0.72%
12/31/12	8.24%	8.24%
12/31/13	15.86%	15.86%
12/31/14	5.31%	5.31%
12/31/15	-0.39%	0.00%
12/31/16	7.71%	7.71%
12/31/17	12.63%	12.63%
COMPOUND AVERAGE	**7.19%**	**8.95%**

FIGURE 6.6

Annual Point-to-Point	Current Cap	Participation Rate	10 Years	15 Years	20 Years	25 Years
Blended Index	20.00%	100%	7.19%	7.86%	7.59%	8.95%

This index implements an annual point-to-point crediting method, with 100% participation, 20% cap, and a 0% floor. There are a couple years you would have earned up to the 20% cap, and a few where that 0% floor would have protected your principal from loss due to market volatility. Looking at the historical compound average returns, you would have consistently averaged over 7% and 8% growth since it began in 1993 (again, with tax-deferred growth and tax-free access to your money).

S&P 500 Low Volatility Index

This is comprised of one hundred or more stocks in the S&P that have low volatility. You won't see much rise and fall with this index, meaning it's not going to give you as high rates of return as other indexes, but it's also not going to drop as much. The unique aspect of this index is it's uncapped, and you receive 90% of what the index does each year. This index is exclusive to one of the top insurers we recommend. Figures 6.7 and 6.8 provide a look at historical index rates:

FIGURE 6.7

30-Year S&P 500 Low Volatility Historical Index Performance					
Date	S&P Low Volatility Index Growth	Hypothetical Interest Credited	Date	S&P Low Volatility Index Growth	Hypothetical Interest Credited
12/15/88	N/A	N/A	12/16/04	15.26%	13.73%
12/14/89	N/A	N/A	12/15/05	1.55%	1.40%
12/20/90	N/A	N/A	12/14/06	15.21%	13.69%
12/19/91	9.57%	8.61%	12/20/07	-2.16%	0.00%
12/17/92	11.55%	10.39%	12/18/08	-25.26%	0.00%
12/16/93	6.67%	6.00%	12/17/09	17.07%	15.37%
12/15/94	-6.14%	0.00%	12/16/10	10.38%	9.34%
12/14/95	33.38%	30.05%	12/15/11	7.60%	6.84%
12/19/96	13.93%	12.53%	12/20/12	12.02%	10.82%
12/18/97	22.97%	20.67%	12/19/13	16.11%	14.50%
12/17/98	6.33%	5.70%	12/18/14	16.14%	14.52%
12/16/99	-11.51%	0.00%	12/17/15	1.63%	1.46%
12/14/00	15.01%	13.51%	12/15/16	7.71%	6.94%
12/20/01	7.52%	6.76%	12/14/17	15.21%	13.69%
12/19/02	-9.58%	0.00%	COMPOUND AVERAGE	7.71%	9.14%
12/18/03	18.34%	16.51%			

FIGURE 6.8

Historical Compound Average Return			
	From	To	Average Return with Growth Cap (No Cap)
10 Year	December 2008	December 2017	9.22%
15 Year	December 2003	December 2017	9.09%
20 Year	December 1998	December 2017	8.08%
25 Year	December 1993	December 2017	9.11%
30 Year	December 1988	December 2017	9.14%

This index implements an annual point-to-point crediting method, with a 90% participation rate, NO cap, and a 0% floor. Yes, no cap, which means your earnings in up years can be very advantageous, like 30.05% in 1995 and 20.67% in 1997. The historical compound average returns show that you would have averaged over 9% growth since 1991 when the index began. This is a relatively new index from this insurer, and our clients have already benefited from its advantages (which is why it's currently one of our favorites). This demonstrates the importance of working with financial professionals who are keeping abreast of the latest industry developments and insurer products, because things can shift, and you want to be kept up-to-date on your best options.

Bloomberg US Dynamic Balance Index II

Often referred to as BUDBI, this market capitalization-weighted index includes most US traded investment grade bonds (such as government agency bonds, Treasury securities, corporate bonds, mortgage-backed bonds, and a small amount of foreign bonds traded in the US.) This index is exclusive to one of the top insurers we recommend. See Figure 6.9 for historical index rates:

[CHART ON FOLLOWING PAGE]

FIGURE 6.9

Bloomberg US Dynamic Balance Index II		
Year Ending	Actual Historical Index Change	With Par Rate
12/31/05	2.04%	2.75%
12/31/06	10.31%	13.92%
12/31/07	6.63%	8.95%
12/31/08	3.49%	4.71%
12/31/09	5.26%	7.11%
12/31/10	8.38%	11.31%
12/31/11	4.19%	5.65%
12/31/12	5.99%	8.09%
12/31/13	8.28%	11.18%
12/31/14	6.07%	8.20%
12/31/15	-1.33%	0.00%
12/31/16	4.25%	5.74%
12/31/17	14.31%	19.32%
Historical	**5.93%**	**8.12%**

This index implements an annual point-to-point crediting method, with a 135% participation rate, no cap, and 0% floor. This is good for sideways markets, because the insurance company credits you at 1.35 times whatever the market did. That 135% participation rate can be a real advantage, especially in years like 2017, when the index gained 14.31% and you would have earned 19.32%. This index began in 2005, and its historical compound average for its thirteen-year history reveals an average rate of return of 8.12%. Notice this—if you remember in 2008, the S&P 500 dropped around 40%. This index returned 4.71% with a participation rate of 135%. How would you liked to have earned 4.71% tax-deferred rather than losing up to 40% in 2008? This index is not bulletproof, however. Look at 2015: the index was down a negative 1.33%. But again, "zero is the hero," and with the floor of 0%, you would not have lost anything that year due to market volatility.

INTEREST BONUS CREDIT

Some insurance companies offer an interest bonus in addition to the interest your policy earns. Some bonuses are guaranteed, while others are not. Some start the bonus in Year 1; others commence the interest bonus starting in Year 11. For example, one of the insurance companies we work with offers a guaranteed interest bonus that begins in Year 1.

That bonus is 15% of the interest earned each year. Let's say your rate of return this year was 10%. You would receive 15% of that 10% as a bonus. This would be another 1.5%, for a total of 11.5%. If the rate of return were negative this year and your policy earned a ground floor of 0%, your interest bonus would be 0%, as well. This index credit bonus can significantly enhance your policy, which is why we recommend companies that include this bonus starting in Year 1.

CREDITING METHOD OPTIONS

Now for another aspect of indexing where you have choice: your crediting method, which impacts the amount of interest credited to your policy. In each of the illustrations above, we showed the annual point-to-point method, because that's the one most people use. With this method, you'll earn whatever the index rate is on the final day of the policy year. You can be safe knowing you won't lose principal due to market volatility—your floor is always 0% if the market goes down. If the market gains that year, you'll earn that index percentage, up to a cap. (A cap is the maximum possible interest rate set by your insurance company. Note that some insurance companies do not have a cap on some indexing options.)

There are several other crediting methods—here's a snapshot of common crediting methods:

- **Annual Point-to-Point** – This is the method we've used in the examples in this chapter. With this method, you'll earn whatever the percentage change in the index is from your policy anniversary date to what rate it is on the final day of the policy year. You can be safe knowing you won't lose principal due to market volatility—your floor is always 0% if the market goes down. If the market gains that year, you'll earn that index percentage, up to a cap (as stated above, some insurance companies do not have caps).
- **Monthly Sum** – Here, the insurance company looks at the index change every policy month, recording how much the index goes up or down (there's a monthly cap). At the end of each policy year, the insurance company totals the percentages for all

twelve months and credits you the interest if it's positive, or 0% if it's negative. This method has proven advantageous in bullish markets—historically crediting as high as 25%. As an illustration, see the monthly sum and annual point-to-point historical numbers in Figure 6.10 for the S&P 500, compared to the actual S&P 500 performance. Notice when the S&P 500 goes negative in both the annual point-to-point and monthly sum strategy, your return will always be 0% due to the guaranteed floor.

FIGURE 6.10

25-Year Historical Index Performance			
Date	S&P Index Growth	Hypothetical Interest Credited	Monthly Sum
12/31/93	7.06%	7.06%	7.00%
12/31/94	-1.54%	0.00%	0.00%
12/31/95	34.11%	12.25%	29.83%
12/31/96	20.26%	12.25%	15.37%
12/31/97	31.01%	12.25%	20.02%
12/31/98	26.67%	12.25%	15.24%
12/31/99	19.53%	12.25%	14.77%
12/31/00	-10.14%	0.00%	0.00%
12/31/01	-13.04%	0.00%	0.00%
12/31/02	-23.37%	0.00%	0.00%
12/31/03	26.38%	12.25%	18.45%
12/31/04	8.99%	8.99%	8.88%
12/31/05	3.00%	3.00%	3.24%
12/31/06	13.62%	12.25%	12.99%
12/31/07	3.53%	3.53%	3.90%
12/31/08	-38.49%	0.00%	0.00%
12/31/09	23.45%	12.25%	9.69%
12/31/10	12.78%	12.25%	3.76%
12/31/11	0.00%	0.00%	0.00%
12/31/12	13.41%	12.25%	13.16%
12/31/13	29.60%	12.25%	25.56%
12/31/14	11.39%	11.39%	11.14%
12/31/15	-0.73%	0.00%	0.00%
12/31/16	9.54%	9.54%	7.52%
12/31/17	19.42%	12.25%	17.95%
COMPOUND AVERAGE	7.53%	7.48%	9.22%

- **Trigger Method** – This is where the insurance company sets a "trigger" interest rate for the policy year. At the end of the year, you'll earn that trigger rate as long as the index change is

zero or more. (If it's higher than the trigger rate, the potential interest credited the policy is capped at the current credited rate.) If the index change is negative (less than zero), you'll simply earn 0%. For example, after one year, if the trigger rate is 6.5% and the market is positive, you will receive 6.5%. If the market is negative, you will earn 0%.

You can change up the index allocations every year, and you can participate in more than one index option. That said, many people typically select a "default" approach and leave that in place year-to-year, making only occasional changes as necessary for the current market climate.

Now let's see how this all plays out. Let's say you have $100,000 in your policy. And you've selected the S&P 500 with a current cap of 12.25%. If the S&P 500 grows from 2500 to 2750 (10% growth) that year, you would receive 10%. If the S&P grows 15%, you would get the cap of 12.25%. If it went down 20%, you wouldn't lose anything due to the market drop. You'd simply earn 0%. This is why we always say with LASER Funds, "zero is the hero."

These are just the basics of indexing to help you get an idea of the choices you have, and how it all impacts the growth of your policy. Savvy financial professionals can help you navigate the intricacies to make the appropriate selections for you and your situation.

Suffice it to say for now, combining properly structured insurance policies and indexing strategies can help you achieve your financial goals with safety, liquidity, and rates of return that also provide peace of mind.

As you look at your own future, imagine having the confidence and calm that a financial vehicle like this can bring. Just as Doug's clients back in the 80s, who went from feeling vulnerable to the winds of market change, to having a sense of calm amid the storm, you, too, can take a financial path that leads to brighter days.

Plus, with The LASER Fund as part of your overall portfolio, you get the bonus of insurance benefits that can bless those you care about in times of need. And in the end, that's what it's all about—bringing greater abundance to our lives, our families, loved ones, and communities.

TOP 5 TAKEAWAYS

1. LASER Funds offer a powerful advantage over many other traditional financial vehicles: indexing.
2. Indexing allows the money in your policy to gain interest when the stock market goes up, and to be completely protected from losses due to market volatility when the market goes down.
3. Depending on your insurer, you can choose from among several different indexes, including the S&P 500, Blended Index, S&P Low Volatility Index, and Bloomberg US Dynamic Balance Index II.
4. You can also choose from among different crediting options, such as the annual point-to-point, monthly sum, or trigger method.
5. You have the flexibility to make choices that work for you, such as whether to leave your selected index and crediting option in place as your default, or to change it up year-to-year on your policy anniversary to accommodate changes in the market. Your financial professional can help you optimize your LASER Fund strategies.

7

The Insurance Revolution

Now that you have a basic understanding of what The LASER Fund, or "miracle solution," is, let's look at how it came to be, how it works in relation to taxes, and how to ensure your insurance can provide so much more than just a death benefit.

THE EMERGENCE OF UNIVERSAL LIFE

The LASER Fund is essentially a well-structured, properly funded Universal Life insurance policy. As we mentioned earlier, Universal Life had its start in 1980, when E.F. Hutton (a brokerage firm—not a life insurance company) came up with the idea of how to buy term and invest the difference, protected under the tax-free umbrella of permanent life insurance.

Universal Life was originally designed as an instrument in which people could technically structure a life insurance policy to perform better than the "buy term, invest the difference" approach that called for buying term insurance, and investing the difference in an external account that was subject to income tax. (You can essentially accomplish the same thing by buying term and investing the difference, but doing so

under tax-favorable circumstances by keeping it qualified to be tax-free under the life insurance policy in accordance with section 72[e] of the Internal Revenue Code.)

Recognizing the tax benefits that life insurance had for many decades, E.F. Hutton basically designed Universal Life to take advantage of the tremendous safety and liquidity life insurance can provide, as well as the expertise life insurance companies have demonstrated in money management. Many insurance companies are some of the best money managers in the world. During high interest eras, they have GAP yields that average 12% to 15% or better. During low interest periods when banks or credit unions are only offering 1% interest, insurance companies offer more like 4%, 5%, and 6% interest, on a tax-favored basis.

So E.F. Hutton is generally credited for being the mastermind behind structuring life insurance in a way that allows greater safety and a less volatile rate of return on a tax-free basis. The company paved the way for people to pursue a more predictable, tax-favored rate of return.

To illustrate, would you rather try to earn 7% in a volatile stock market and then, after paying tax in a 29% tax bracket, only net 4.97%? Or would you prefer to predictably earn an average of 7% and net 6%, cash-on-cash tax-free return ... while being protected from market loss due to volatility ... and knowing there's a tax-free death benefit waiting for your heirs? (That 1% difference over the life of the policy is not tax expense, but rather the cost of the insurance the IRS requires for it to qualify as tax-free under the definition of life insurance.) We think the answer is clear.

In the early 1980s, many people chose to go the more predictable, tax-favored path. They began repositioning their serious cash into maximum-funded Universal Life insurance policies for the primary purpose of accumulating their capital on a tax-free basis for future goals, such as retirement. They were taking out small life insurance death benefits and putting in the most premiums allowed. So again, they were trying to take out the least amount of insurance that was required and pay the most premium as fast as they could into those policies. The IRS came in and challenged what was being done. They went to court, and in the "Hutton Life Rulings," E.F. Hutton won the case because they were in full compliance with the Internal Revenue Code. To this day, we've been able to benefit from the early work E.F. Hutton did in paving the way for smarter, safer financial strategies.

HISTORICALLY SPEAKING

In the decades since 1980, the tax laws and codes related to Universal Life have evolved. Since taxes have a profound impact on your wealth accumulation, it's wise for you to understand these key codes. And congratulations—you're about to learn about as much if not more than most CPAs know.

First, let's take a little stroll through tax history. There was a time when federal income tax wasn't the norm—it was only implemented for temporary periods to cover the cost of wars. But in 1913, the US added the 16th Amendment to the Constitution, making federal income tax a permanent fixture in American life. Income taxes reached their highest point during the Roosevelt years, topping out at 94% for America's highest earners. This income tax rate eventually receded to between 50% and 80% over the next three decades, during which time Social Security and Medicare taxes were also added to the mix. The message was clear: the more you make, the more they take.

When Reagan became president of the United States in 1980, the financial planning landscape began to see a series of changes. E.F. Hutton had introduced its fresh take on the Universal Life policy, and by 1982, the concept was challenged by Congress and the IRS.

Subsequently, legislators passed the Tax Equity Fiscal Responsibility Act of 1982, known as TEFRA. Two years later, the government passed the Deficit Reduction Act of 1984 (DEFRA). Under TEFRA and DEFRA, what we call the TEFRA/DEFRA corridor was established. The TEFRA/DEFRA corridor dictates the minimum death benefit required (based upon the insured's age, gender, and health) in order to accommodate the aggregate desired premium basis that will be allowed into the life insurance policy. Once these laws were in place, if people didn't comply with TEFRA/DEFRA, their policy would exceed the definition of life insurance. It would no longer be protected under tax-free status under Internal Revenue Code Section 72(e), nor would it allow them to access their money tax-free under Section 7702.

TEFRA/DEFRA provided parity. With TEFRA/DEFRA, the older you are, the less death benefit is required to accommodate the amount of money you would like to pay into the insurance policy.

As more Americans started to see the value of putting their serious cash into these kinds of accounts, banks and credit unions started to complain. In response, the government passed the Technical and Miscellaneous Revenue Act in 1988 (TAMRA) to slow the flow of money into Universal Life policies.

The TAMRA tax citations simply meant that after June 21, 1988, insurance policies could not be funded in one single premium at the maximum TEFRA /DEFRA guideline and still allow the policyholder to enjoy tax-free income streams. The intention was to deter Americans from pulling their money out of other financial vehicles in one lump sum to reposition it in insurance policies.

For example, they didn't want anyone yanking all $500,000 out of their other financial vehicles and putting it into a Universal Life policy. Instead, they wanted to slow the flow by requiring the rollout to take place over several years. After TAMRA passed, if you wanted to reposition $500,000 from other financial vehicles into an insurance policy, the most you would usually want to liquidate would be about one-fifth that amount per year (approximately $100,000 annually). This typically would spread the transfer over at least five years.

The Guideline Single Premium is the most that can be paid into the policy during the initial eleven years. Because people wanted to fund the GSP amount in the first year, TAMRA required it to be spread out typically over a five- to seven-year time frame in order to have tax-free access. Whole Life insurance must not be funded any faster than seven relatively equal installments. It is sometimes referred to as the "7-pay test." The 7-pay test, however, does not apply to Universal Life. Generally, you can maximum fund your Universal Life policy in as short as five relatively equal annual installments, or five annual payments.

INSURANCE AS A FINANCIAL STRATEGY OPTION

Going back to the early 80s, this was the era when Doug stopped recommending that people put their serious cash at risk in the market, and started showing his clients how to find greater safety in Universal Life policies. Many of his more than 3,000 clients ended up moving their money from mutual funds to Universal Life insurance policies. These policies were being credited 9% to 12% interest rates at the time. That

interest was, of course, tax-deferred. He was able to design these life insurance policies so that if they were credited 11%, the net internal rate of return, cash-on-cash would be 10%. In other words, the cost of the insurance only "drained out" about 1 of the 11 percentage points, resulting in a net cash-on-cash internal rate of return within 1% of the gross crediting interest rate.

Doug had many clients who paid $500,000 into a Universal Life insurance policy and were therefore able to take out $50,000 a year, or a net of 10% tax-free, each year in income without depleting their $500,000 principal. This was an incredible financial tool for many retirees.

Keep in mind that the early 1980s was a high-interest environment. In the 1990s, interest rates returned to normal, and Universal Life insurance was crediting more like 7%, 8%, and 9%. It was still an attractive vehicle, however, because if you earned 9%, you were still netting 8% cash-on-cash if the insurance policy was structured properly.

We can say that since, people we have worked with have felt much more at peace about preparing for their retirement with what has evolved into The LASER Fund (as a reminder, these are Indexed Universal Life policies, structured as maximum-funded, tax-advantaged policies). With these LASER Funds, they're able to maintain safety, earn predictable rates of return, and enjoy tax-free income.

A retirement nest egg of $1 million can predictably (based on historical averages) generate an annual income stream averaging 7% or more. That would mean that theoretically a retiree could withdraw about $70,000 or more per year without depleting a principal of $1 million. Keep in mind this income is totally tax-free; because it is not regarded as earned, passive, or portfolio income, it is not subject to income taxation. But these tax advantages don't just benefit the policyholders.

In actuality, many of these people are indirectly generating more tax revenue for America, because they're in a strong financial position to develop ideas and fund businesses. This in turn provides jobs and creates tax revenue in far more productive ways than by simply paying tax on their retirement savings (which could eventually deplete their nest egg, and in turn require the government to take care of them through Social Security or welfare benefits). We feel very strongly that allowing retirees to take ownership of their own future—rather than relying on the government to provide their retirement security—is a better way to go.

HOW TO PUT THE LEAST IN, GET THE MOST OUT

As always with life insurance policies, you need to demonstrate more than just a desire for a strong financial vehicle, you need to establish a need for the life insurance—indicating that it will be necessary upon death for things like income replacement, estate preservation, or wealth transfer. (Your financial professional can help you do this properly.) After you've determined the need for the life insurance policy, let's talk about how The LASER Fund can be used for tax-deferred accumulation and tax-free income.

It doesn't matter whether you open a life insurance policy designed to accommodate $200 per month in premiums, $1,000 a month in premiums, a lump sum of $1 million, or a lump sum of $10 million. For the sake of simplicity let's say that you want to design a life insurance policy to accommodate $500,000. Let's say this year, you turned 60 years old. At age 60, if you're a male in excellent health, you're required under TEFRA/DEFRA to have a death benefit of approximately $1,300,000 to be allowed to deposit up to $500,000 into your new LASER Fund.

TAMRA dictates that you must spread the payments out typically over a minimum of five to seven years, until you reach your funding maximum of $500,000. Keep in mind that you could purchase considerably more life insurance than $1,300,000 for a single premium of $500,000. But in this case, that is not your objective.

Rather, your objective is to take out the least amount of life insurance you can under TEFRA/DEFRA guidelines to accommodate the full $500,000, and have it grow with the best internal rate of return. In other words, if the primary objective is to have the best internal rate of return, you can opt to take out the LEAST amount of insurance possible so the net internal rate of return can be the GREATEST.

So at age 60, the amount of life insurance required is approximately $1.3 million. Note that the amount of life insurance required is contingent on age. If you were only a twenty-two-year-old, the amount of life insurance required to accommodate $500,000 would be substantially greater. If you were age 80, the amount of life insurance required to accommodate $500,000 would be much less.

On the other hand, the net rate of return could be the same for the sixty-year-old as the twenty-two-year-old. With your policy, you can earn an average rate of return of 7% and have the insurance only cost you about one of those percentage points over the life of the policy, so your net internal rate of return is averaging 6%.

STRATEGIES MOST PROFESSIONALS DON'T KNOW

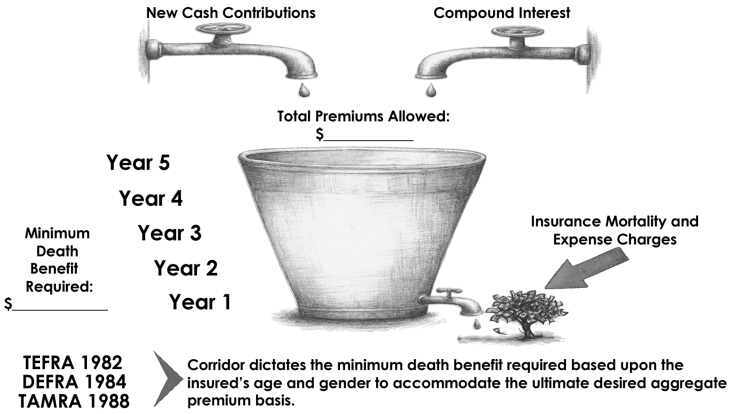
When designing an insurance policy to perform as a superior capital accumulation tool and produce a tax-free income stream, it is critical to understand several other tactics, such as how to "squeeze down" the life insurance death benefit to accommodate the Guideline Single Premium.

Many financial professionals and insurance agents are not taught these strategies, nor do they understand them. This is why it is imperative to work with someone who knows how to structure the insurance correctly to perform in an optimal way. Otherwise, even though the insurance policy may earn a 7% average gross rate of return, it may only net you over the life of the policy as low as 1%, 2%, or 3% rate of return (because the cost of the insurance may be higher than it needs to be). Too much life insurance could be assigned to the policy, or it may not be funded properly to have it perform at its best.

When you decide the amount of money you would like to set aside over a certain time-frame, the amount of life insurance required under TEFRA /DEFRA tax citations can be calculated using sophisticated software. Please keep in mind that even though you may establish an insurance policy designed to accommodate up to say, $500,000 in the example we are using, you are not obligated or required to pay the full $500,000 into the policy.

That said, it would behoove you to fund the full $500,000 into the policy as soon as you can and as fast as the IRS allows. But even if a policy is only 50% to 60% funded (or half-full), it could continue to keep a life insurance policy in force probably the remainder of your lifetime. That's because the interest that is being credited on the premiums that have already been paid into the policy would likely be sufficient to cover the actual cost of the insurance.

FIGURE 7.1



Now let's compare your LASER Fund to a bucket (see Figure 7.1). Throughout this book you'll hear us refer to "buckets" in a couple ways: the "premium bucket" (which is the Guideline Single Premium, or the maximum amount you fund your policy with) and the "policy value bucket" (which is the cash value of the policy—an amount that can grow year-over-year with no limits, according to your index performance).

In this example, you have a premium bucket big enough to accommodate $500,000, which will provide about $1,300,000 in minimum life insurance. Over five years, you fill up your premium bucket in five equal annual payments of $100,000 each.

There are annual costs to your insurance, which include the pure cost of the life insurance, or the term component inside the insurance policy, and any other fees associated with managing the policy. In this illustration, the cost of the insurance is represented by the spigot on the bottom right of the bucket.

Now before you see that "cost flow" as a negative, consider this. The little stream of water is actually going to work for you. It's what's paying for your policy, which in the end will provide valuable death benefit to your loved ones. It's essentially "watering" a nice little money tree that will blossom and transfer whatever was left in the bucket to your heirs or beneficiaries, income-tax-free, upon your death.

When you open an insurance policy, you want this spigot to drain out the least amount of costs as possible so that your internal rate of return will be the highest possible. As indicated, the average return that most people have achieved during the last thirty years is 7% to 9% (you'll notice throughout the book we like to be conservative and use 7% for most of our illustrations). This spigot has drained out an average of about 1% over the life of the policy, thus netting an average of about 6% to 8% interest compounded annually on a tax-deferred basis (and being able to access it tax-free for income).

Please keep in mind that there is no limit to what your money can grow to tax-deferred under Section 72(e) inside your insurance policy. The only limit established by TEFRA /DEFRA is the amount of basis that you design the policy to accommodate in aggregate premiums to be paid into the policy.

CREATING A MEC

Just to explore other options (so you can thoroughly understand these principles), what if you didn't want to be in compliance with TAMRA? What if, like some of our clients, you wanted to fund your policy in one fell swoop?

Essentially, you would be creating a Modified Endowment Contract (MEC). With a MEC, the money in your policy can still grow tax-deferred. When you die, the death benefit still passes on to your heirs income-tax-free. The difference between The LASER Fund and a MEC is the tax treatment on any income you take out. With The LASER Fund, you take money out as a tax-free loan. With a MEC, any money you withdraw will be taxable under last-in, first-out (LIFO) treatment.

Keep in mind that violating TAMRA and creating a MEC can be intentional. There are times when people want the benefits of The LASER Fund, but they do not anticipate needing to take out any income from the policy. They want the policy solely for transferring wealth to their heirs, income-tax-free. Even if they do decide to take out income, they do not mind paying taxes on the money they withdraw.

MECs are a simple, powerful way to see a significant increase on money you intend to transfer to your heirs. One of our clients, for example, had

about $500,000 to set aside to pass along to his children. The challenge was, his money was currently in IRAs. He had recently turned age 70, which meant he would need to start taking RMDs or face penalties—and any money he withdrew would be taxed at the highest effective tax rate possible (40% between federal and state). He wanted a better strategy for transferring that wealth.

He didn't need the money for retirement income—he had marked it solely for transferring to his heirs. He wanted it to put it in an optimal environment, where it could grow tax-deferred, without the risk of loss due to market volatility. He decided to get his taxes over and done with and create a MEC. He paid $200,000 in taxes and put the remaining $300,000 into his policy. The policy was structured to maximize the death benefit, so that $300,000 purchased $1.5 million in death benefit. This meant his heirs would receive $1.5 million, income-tax-free, upon his passing. That sum was considerably greater than what they would have netted after his passing, if he had left his money in his IRAs.

There are other situations where creating a MEC may be advantageous. Say you have a large sum of money in a traditional bank, where it's earning the current rate of less than 1%. It may be liquid; it may be safe from downturns in the market; but it is growing at a snail's pace—and you're paying taxes on those gains. By putting that money to work in a MEC, you're now benefitting from tax-deferred growth at higher predictable rates of return (averaging 7%) and continued safety from market turmoil. Should you need to access it, your money is still liquid; should you never need to touch it, its value just continues to grow. When you pass away, it blossoms and transfers income-tax-free to your heirs.

Or let's say you have money in the market, in a brokerage account, and you're tired of the market volatility (plus you don't want to pay taxes on any gains every year). You want to get all of it in a protected environment, right away, so you choose to move it into a MEC. Now your money is safe—with a guaranteed floor of 0%, you'll never lose money due to market volatility again. It's growing at an average rate of 7%, and you're not paying any taxes on those gains. You will only pay taxes on money you may decide to withdraw. When you die, well, you know the rest: your death benefit transfers income-tax-free to your beneficiaries.

For all these reasons to create a MEC, it is wise to be aware that it is possible to inadvertently create a MEC, by overpaying premiums in those first five to seven years. If this happens, it is possible "perfect the MEC" by asking the insurance company for a refund of the premiums that were

overpaid in violation of TAMRA. This must be done within a sixty-day window following the next policy anniversary from the date that it became a MEC. (A well-trained financial professional can help you avoid violating TAMRA and thereby avoid a MEC, or they can help you perfect a MEC in the event that it is accidentally created by violating TAMRA.)

THE LASER FUND'S TAX ADVANTAGES

Remember, we call maximum-funded, tax-advantaged IUL policies The LASER Fund because they pass ... what? The LASER Test. They can provide unrivaled liquidity, safety of principal, rates of return, and another huge benefit: tax advantages.

To be clear, the tax advantages of these policies are no secret or shadow game. They're completely compliant with Internal Revenue Codes and tax laws, which we'll talk more about later in this chapter. When structured correctly and then funded properly, these policies shelter you from the danger of increased taxation. Here's how:

Tax Savings #1

Money put into these insurance policies has already been taxed at today's rates, not tomorrow's. With tax rates predictably going up in the future, getting taxes over and done will likely be important and financially significant. Paying taxes on the seed money rather than the money you harvest is always sound advice.

Tax Savings #2

Money taken out of your policy, when done optimally—in accordance with Internal Revenue Code guidelines—is not regarded as taxable income, as opposed to income from a traditional IRA/401(k). This isn't a new advantage. For more than one hundred years in America, the money that accumulates inside of a life insurance policy does so tax-favored. You can also access your money tax-free using several methods. As we mentioned before, the smartest way to access your money from a LASER Fund is via a loan, rather than a withdrawal. [1]

[1] Policy loans and withdrawals will reduce available cash values and death benefits and may cause the policy to lapse, or affect guarantees against lapse. Additional premium payments may be required to keep the policy in force. In the event of a lapse, outstanding policy loans in excess of unrecovered cost basis will be subject to ordinary income tax. Tax laws are subject to change and you should consult a tax professional. Policy loans are not usually subject to income tax unless the policy is classified as a Modified Endowment Contract (MEC) under IRC Section 7702A. However, withdrawals or partial surrenders from a non-MEC policy are subject to income tax to the extent that the amount distributed exceeds the owner's cost basis in the policy.

Here's why: when done correctly, it is a loan made to yourself that is never due or payable in your lifetime. To be in compliance with IRS guidelines, an interest rate is typically charged, but then that interest is offset with interest that is credited on the money you didn't "withdraw" but rather, remained there as collateral for your loan, thus resulting in a zero net cost in many instances.

Rather than just a zero net cost, you can also choose an "indexed loan" or "participating loan," which means that the money in the insurance policy continues to earn the indexed rate (which typically averages 7% tax-deferred), and the insurance company is charging interest (as required to keep the cash flow tax-free under the IRS code) at a lower fixed rate, say 5%. This strategy often allows you to take out a higher tax-free income because you are borrowing at a lower rate (in this example, at 5%), and your money stays in the policy, earning at a higher rate (in this example, 7%).

Remember, loans taken from your policy ARE NOT TAXED. Why? Because ever since the 1986 tax reform, taxpayers pay income tax on only three types of income (see Section 7702 of the Internal Revenue Code):

1. Earned income – This is money that you earn by working, including wages, salaries, and bonuses.
2. Passive income – This would be the type of income you receive from renting or leasing property.
3. Portfolio income – This comes in the form of interest and dividends.

Since loans on LASER Funds are not earned, passive, or portfolio income, the money is yours, tax-free. Although the insurance company does not require you to pay back any loans during your lifetime (because any loan balances are cleared away when the death benefit is ultimately paid), you can pay back some or all of the loan if you choose.

In essence, any loan repayment is actually considered new cash put into policy. This allows tax-free interest on "new money" placed into a policy—even though it may have been once "maxed out." This is a brilliant strategy used by people who want to use the insurance policy as a working capital account, which we'll explain on the flip side of this book, in Section II, Chapter 4.

Tax Savings #3

As a "life insurance policy" increases in value due to competitive interest being earned, no taxes are due on that gain, as long as the policy remains in force. Many financial instruments, such as savings accounts, CDs, mutual funds, and money markets will typically have tax liability on their gain (see Section 72[e] of the Internal Revenue Code).

Tax Savings #4

Upon your death, the money in your insurance policy transfers to your heirs and beneficiaries completely income-tax-free (see Section 101[a] of the Internal Revenue Code).

HOW DOES WHOLE LIFE COMPARE TO THE LASER FUND?

We often get the question: how does Whole Life compare to The LASER Fund? Like The LASER Fund, Whole Life policies provide a safe place for you to set aside your money where it can grow tax-deferred. Also like The LASER Fund, you can access your money through tax-free loans or tax-free withdrawals up to basis (and then pay taxes on any money taken out over and above basis), and your heirs will receive an income-tax-free death benefit upon your passing.

As for differences, with Whole Life insurance you can receive dividends, which you can reinvest into the policy to increase the cash value and death benefit. With The LASER Fund, you do not receive dividends, and once it is maximum-funded, you cannot add more money into the policy (until after about Year 11, at which point you can put 1/11th of your Guideline Single Premium into the policy—see more on this in Section I, Chapter 14).

Whole Life policies also come with guarantees: a guaranteed cash value and a guaranteed death benefit amount. The LASER Fund's cash value can vary, growing in market up-years and remaining static during down-years (based on your index performance, with the protection of a 0% floor during market downturns). The LASER Fund's death benefit can increase due to policy performance and can decrease if there are any outstanding loans or if you make adjustments to your policy to save on costs.

The thing to keep in mind is that whenever a company builds guarantees into a financial vehicle, those guarantees come at a price. Generally, Whole Life policies are more expensive than comparable LASER Funds. And even more challenging, Whole Life expenses and surrender charges are often not clearly disclosed, so you also have less transparency with Whole Life policies than LASER Funds (see Section I, Chapter 9 for a look at the sheer transparency of expenses in LASER Fund illustrations).

Whole Life policies also tend to be less flexible than LASER Funds. Say you have a setback to your income while you are in the midst of funding your policy, and you cannot make your premium payment. You are expected to pay your Whole Life premium each year. If you don't make that payment, the policy can lapse or go into what's called a non-forfeiture option (such as extended term insurance or a premium loan which allows you to take money out of cash value to pay the premium).

With The LASER Fund, you have enormous flexibility when funding your policy. You can miss a year or two and catch up. Or say you're only able to fund it 50%, you can work with your financial professional to make adjustments, still enjoy tax-free access to the money in your policy, and pass along an income-tax-free death benefit to your beneficiaries.

When it comes to accessing money from your policy, the interest rate on Whole Life policy loans tends to be higher than the policy's interest crediting rate. To explain, let's say your Whole Life policy is currently earning 4% interest. You borrow $10,000 from your Whole Life policy. Loan rates are typically 1% to 2% higher than crediting rates, so you end up paying 5% or 6% on that $10,000.

If you do not repay that loan, over time this can create a situation where the policy loan is increasing faster than the cash value. If your policy does not have an over-loan protection rider, this can cause the policy to lapse, which can be disastrous from a tax perspective.

We had a client, for example, who came to us after his Whole Life policy had lapsed. He told us that he had received a 1099 that year for $199,000 (which would have been the amount of cash value over and above what he paid in premiums). He did not have the cash on hand to pay the taxes, so not only did he no longer have a Whole Life policy, but he also had to get a home equity loan just to pay Uncle Sam.

Over all, Whole Life policies do have some merits, especially when compared to traditional financial vehicles that are at risk in the market, but they also have some limitations when compared to LASER Funds. Make sure to explore your options carefully when deciding which financial vehicles you will include in your financial portfolio.

THE LASER FUND – A STRONG FOUNDATION

In summary, during the four-plus collective decades that we have worked in the financial industry, we have not seen any other money accumulation vehicle that accumulates money totally tax-favored; then later allows you to access your money totally tax-free; and when you ultimately pass away, it can increase in value and transfers to your heirs totally income-tax free.

As we'll explain in Section I, Chapter 14, we don't recommend that every dollar you set aside be in The LASER Fund. Just know that large amounts of taxes can be reduced by including this type of insurance policy in your retirement portfolio—especially by making it your primary retirement planning strategy like thousands of other highly-successful, wealthy people.

We've covered the basics of what a LASER Fund is and how it provides tax savings—in the next chapter we'll demonstrate how the LASER Fund lives up to its name, providing superior liquidity, safety, and rate of return.

TOP 5 TAKEAWAYS

1. The LASER Fund had its genesis in the 80s, when E.F. Hutton introduced Universal Life Insurance.
2. As more Americans turned to Universal Life, the government passed laws regulating the policies: the TEFRA/DEFRA tax citations determine the minimum death benefit based on policy specifics, and the TAMRA tax citation requires the maximum funding of the policy to be spread out typically over no fewer than five to seven years.
3. Universal Life has come a long way since the 80s, with sophisticated policies that can offer even more compelling liquidity, safety, rates of return, and tax advantages, along with the income-tax-free death benefit and a variety of indexing options. We call this financial vehicle The LASER Fund.
4. There may be situations where you would like many of the advantages of a LASER Fund, but you want to fund the policy with a lump sum. If so, you can create a MEC, which can be a powerful way to transfer wealth to your heirs. Just be aware of the tax differences if you decide to access money from your policy.
5. When structured and funded properly, The LASER Fund provides four key tax advantages: 1) after-tax contributions can help you save on taxes in the long run; 2) you can access money in your policy tax-free for everything from retirement income to working capital and more, 3) your money can grow in your policy on a tax-deferred basis, with no taxes on the gains; and 4) upon your passing, your money transfers to your heirs as an income-tax-free death benefit.

8

LASER Focus

We hear the term "laser-focused"—but what does it mean? It's often used to describe a person, a campaign, or an organization that has a sharp, specific goal or approach.

The phrase is based on the concept of the literal laser, a highly concentrated light traveling in a powerful beam. Laser light is different from regular light in a few important ways. White light (like that emanating from your desktop lamp) contains all different colors, with all different frequencies, traveling in a jumbled fashion. Visible laser light is strictly one color (often red or green), because it's all one frequency, coherent, with the crests of each wave aligned with each other.

We use lasers for everything from DVD players to bar code readers (those beeping wands at the grocery store), to manufacturing (clothes are often cut with lasers), and surgery (LASIK, anyone?). In this book, we call these policies The LASER Fund for more than just the reference to **L**iquidity, **S**afety, and **R**ate of Return.

We also use the term because it alludes to the laser focus this vehicle can provide in helping you move toward your financial goals, which may be income during retirement, or money to empower your family's Legacy

Bank and loved ones' worthwhile efforts, capital investments, or other objectives. Indeed, it can be a sound financial vehicle—made powerful by its knack for delivering those key elements of a prudent financial strategy. In this chapter, we'll explore how The LASER Fund provides these critical elements, and how these qualities have benefited people in real-life situations.

L: LIQUIDITY

As we discussed in Section I, Chapter 4, liquidity is the ability to access your money when you need it. And while there are plenty of financial vehicles that offer liquidity, most of them have significant strings attached. On the other hand, with The LASER Fund, liquidity is practically string-free. As long as your policy is structured and funded correctly—and you pull your money out correctly—you can access your money income-tax-free.

But that's the important part—pulling out your money *correctly.* We often teach that there are three ways to access your money from a LASER Fund:

1. The Sad Way
2. The Dumb Way
3. The Smart Way

The Sad Way is simply ... passing away. While we don't recommend it—it's one heck of a return. Humor aside, if by some misfortune you were to pass on after opening your LASER Fund—even within one day of making your first payment—your beneficiaries would receive your death benefit, income-tax-free. And depending on when you pass away during the span of your policy, your death benefit can blossom a little, or a lot (as much as two to three times what you put into the policy). No matter what the amount, that money becomes instantly liquid to your beneficiaries to use as they see fit, income-tax-free.

As a side note, compare that to money you might have in an IRA or 401(k). When you pass away, the money in your 401(k) will go to your beneficiary—but so will the tax liabilities. Unless it's rolled over to an IRA, with most 401(k) plans, the money is paid out as a lump sum to the beneficiary no later than December 31 of the year following your

death—with income taxes due that same year. (Note, if your beneficiary is your spouse, she or he will have the option of keeping it in your name or rolling it over to her/his own 401[k], but will need to make mandatory withdrawals after age 70½, which then become taxable income.) With any IRA or 401(k) that is inherited, your beneficiaries are responsible for taxes on the account, whereas with life insurance, your heirs will not pay any income taxes on the tax-free death benefit you pass on.

We've had clients who experienced this very contrast between these two types of financial vehicles. Tragically, the husband died in a boating accident—leaving behind his widow and their six children. He had about $63,000 in his 401(k), but after his wife paid taxes on it, she only netted about $40,000. He also had about $40,000 in a LASER Fund that was designed to accumulate $1 million for future retirement income. When he passed away, that $40,000 blossomed immediately into a $1 million tax-free death benefit, which allowed his widow to educate her children, fund their church missionary service, and live with dignity. She was definitely grateful they had decided to go beyond the 401(k) and open a LASER Fund as part of their financial portfolio.

There are a few **Dumb Ways** to access money from your LASER Fund. The first would be to surrender your policy, which would trigger taxes on any gains your policy has earned. What's more, if you surrender the policy within the first ten years, you would pay surrender charges (unless you had specifically purchased a rider to waive surrender charges). Another dumb way would be to withdraw more money than you've put in during those first five to seven years that you're funding your policy. Life insurance policies are taxed FIFO (meaning the first money you put in, is the first money you take out, and that's the money on which you're taxed). The second? Once it's fully funded, if you were to continue withdrawing money (rather than borrowing it from the policy in the form of a loan), you would incur taxes, as well. Again, this is where it's critical to work with an expert financial professional who is experienced with LASER Funds to ensure you're accessing your money correctly.

And how do you access it correctly? **The Smart Way**. By taking a loan on your policy. First, you never want to pull out more than 80% to 90% of your cash value. Your cash value is the actual amount that is liquid, and it's based on your accumulation value minus surrender charges, or penalties for early cancellation and any outstanding loan balances on the policy. (This is another reason you want an expert financial professional

who can help ensure you leave minimum balances required by the policy to avoid creating a taxable event or surrender charges.)

If you choose to take withdrawals up to the basis, it is tax-free. But after recovering your basis, the Smart Way to access your money would be to begin taking out tax-free loans. Otherwise, you will trigger unnecessary tax.

LASER FUND LOANS

Remember, the loans are not due and payable during the life of the policy. If you choose not to repay your tax-free loan, any loan balances will be automatically paid off with the death benefit upon your passing (this amount can often be offset with growth on the cash value of the policy over the years).

Based on the insurance company you're using, loan provisions may slightly differ, but two common loan provisions are the Zero Wash Loan and the Indexed Loan.

With a Zero Wash Loan, in order for the proceeds to be tax-free, the insurance company must charge a nominal interest rate (usually 2% to 4%). With Indexed Loans, the rate can be slightly higher (typically 5%).

With Indexed Loans you may borrow at a guaranteed rate of 5%. The cash value of your policy is the collateral for this loan. That cash value earns whatever the index return is that year, which could be 0% or it could be as high as 19% or more—historically it has been an average of 7%. This is our favorite loan provision, because you borrow at a guaranteed rate, say 5%, and your cash value can earn a higher rate, let's say the average historical return of 7%, giving you a 1% to 2% spread (depending on the average return of the policy). As we will illustrate later, this is a powerful strategy for tax-free retirement income.

Still following? Great. Let's look at a quick illustration—let's say you have $1 million in the policy, and it's earning an average rate of 7% a year. It's Year 11 of your policy, and it will grow to $1,070,000 this year. Let's say we take a loan of $70,000, and it is not technically due and payable during your lifetime. It will be paid off automatically from the death benefit when you pass away. So, $1,070,000 minus the $70,000 phantom loan means your net cash is still $1 million. You still get the

same income, but you're pulling it out the Smart Way, and thus it remains income-tax-free.

Essentially, how you access your money could be the difference between liquidation and liquidity. Withdrawals can trigger partial surrender charges, taxes, and, if continued unchecked, could eventually deplete the money in your policy. By contrast, loans provide liquid access to your money throughout the life of the policy.

Another great thing about taking loans on your LASER Fund? It opens up the opportunity to add lump sums into your policy down the road. To explain, let's say you're age 85 when your spouse passes, and you suddenly receive a lump sum of a $1 million tax-free death benefit. Not only are you grieving, but you've got to figure out how best to utilize this $1 million.

You'd love to open a new LASER Fund to accommodate the million dollars. But you are suffering from health setbacks and can't qualify for a new policy. Now what about your existing LASER Fund policy? It's been in place since you were age 60, when you easily qualified with good health. Could you use that policy for your million dollars? You wonder if it's possible, because you maximum funded it with $500,000 in the first five years. You know that once maximum-funded, the premium bucket of LASER Fund policies can't be increased, so you worry that idea is a bust, too.

However, your financial professional explains to you that because you've been taking out loans over the past ten years, you have another option. When you take tax-free income in the form of loans from a LASER Fund, you have the option of never repaying the loan during your lifetime (your loan balance and fees are deducted from the death benefit upon your passing), or you can repay the loans in part or full at any time. In this example, let's say you've been taking out loans of $100,000 a year in tax-free income on that policy. You can simply "repay" the $1 million in loans you've taken out with that $1 million lump sum you received from your spouse's tax-free death benefit.

Now that $1 million lump sum is tucked inside a financial vehicle that provides safety of principal, predictable rates of return, tax-deferred growth, the opportunity for tax-free income, and tax-free death benefit to your posterity. This is much more advantageous than dumping the million into something like a mutual fund where you would be taxed on

the distributions, and your heirs would have to pay taxes on any gains or dividends as it passes to them.

There's more to explore with loans—such as the different types of loans, how arbitrage on those loans works in your favor, etc. For now, just know that loans are your friend when it comes to liquidity with your LASER Fund, and we'll delve deeper into this topic in coming chapters.

LIQUIDITY FOR LIFE'S IMPORTANT MOMENTS

With our years of experience helping clients benefit from The LASER Fund's advantages, we've seen its impact in real-life situations time and again. The liquidity it offers can provide much-needed access to cash in a variety of situations.

Take a healthcare emergency, for example. We had a client, whom we'll call Beth, who put $200,000 into her policy and made an oath, "I will not touch this for twenty years."

Not long after, she was involved in a horrific car accident on a trip to California. Beth called from the hospital and said, "Remember I told you I wouldn't touch it for twenty years? I'm going to be in critical care for a while; I almost died. I need $120,000 right now to cover all of this medical care."

Doug said, "Beth, I'm so glad you survived! Okay, you need $120,000? No problem."

About five days later, she called to ask how long it would take to get that $120,000. Doug replied, "Oh, that's right, you're stuck in the hospital. You wouldn't know—it's probably already in your mail box." She called her son to check, and sure enough it was right there, in her mail box.

She couldn't believe it was that easy, and that it was income-tax-free. If her money had been in another type of vehicle, things would have been much more difficult. If she had invested that $200,000 in a piece of real estate, she would have had to put the property up for sale (which would have taken much longer than a few days to access for liquidity) and pay capital gains on any profit.

If she'd had her money in a 401(k), she could have had relatively quick access to her money, but she would have paid a 10% penalty for

withdrawing her money before age 59½, and she would have owed income taxes on that $120,000 (and the additional income could push her into a higher tax bracket).

The LASER Fund's ability to provide liquidity without taxes is huge—it can make a big difference in your overall financial well-being. Then there's also the fact that your money is still working for you, even when you take out a loan on your policy.

We'll explain this in more detail throughout the book, but technically, Beth's $120,000 was still IN the policy. She simply took out a loan, and the original $120,000 was acting as collateral for that loan. The $200,000 she had put into the account a few months earlier was still earning the current interest rate, say 7% on average. The $120,000 loan was being charged interest, say 5%. So let's say she was averaging 7% on $200,000; was being charged 5% on $120,000; then she she was averaging a 2% spread on that $120,000. All of her money was still at work in the account. Contrast that with other types of financial vehicles, where whatever she withdraws would be deducted from the account value and would no longer be capable of earning interest.

We had another client, whom we'll call Dave, who demonstrated the value of a LASER Fund's liquidity for temporary income replacement. Dave was a partner in a medium-sized business that was looking to sell in the next year or two. To become more financially attractive to prospective buyers, the company was preparing to cut back on expenses. That meant part of Dave's salary was going to be reduced.

He knew when the sale went through he'd stand to make a large sum, but he needed a stop gap for the next twelve to twenty-four months. He had a daughter getting married, a healthy mortgage on a nice home, and plenty of other expenses.

Luckily for Dave, he had a LASER Fund to turn to. He decided to take out loans on his policy to make up for the lost income until the company sold. He knew his money in the policy would still be working for him, and once the company sold he could pay back the loan into his policy if he wanted to. He wouldn't miss a beat moving toward his goals for retirement—and he could enjoy income-tax-free access to his money to bridge the short-term income gap.

Aside from these big life-changing moments, you can also use a LASER Fund for everyday situations—like buying a car. Say it's time to get a new car—you have your eye on a $50,000 beauty. Typically, people think they have two options: pay cash for it, or take out a loan and pay a significant amount in interest over the life of the loan.

The upside of using cash to buy it outright? You won't be paying interest on a loan. But the downside is you'll also be out $50,000 that could have gone toward your future, earning interest in a financial vehicle. Over the next thirty years, that $50,000 could have become as much as $350,000. So essentially, that car didn't cost you $50,000—it cost you $350,000.

What if instead you borrowed that $50,000 from your LASER Fund, and because the money is still technically in your LASER Fund, it's still able to earn a spread. You can pay it back into the policy if you choose, that way your full $50,000 will be working for you. You'll have a car AND still benefit from your money having the opportunity to grow.

This is exactly how each of us has purchased cars, motorcycles, ATVs, and every other kind of vehicle you can imagine over the past several years—and it's proven to be an excellent way to get in motion (literally ... and financially).

S: SAFETY

Warren Buffett has two simple rules of investing. Rule number one: don't lose money. Rule number two: never forget rule number one. To avoid losing money, your financial vehicle should provide as much safety as possible.

In Chapter 4 of this section, we introduced two critical components of safety: 1) the safety of the financial institution you're entrusting with your money, and 2) the safety of your principal within your financial vehicle.

Let's start with the safety of the institution—how does The LASER Fund fare on delivering on that component? It's virtually unparalleled. When you open a LASER Fund, you're typically opening a policy with insurance companies that have been around since the 1800s.

During the Great Depression, more than 9,000 banks failed. Americans lost a total of $140 billion of their money deposited in banks in

1933 alone. What about the insurance industry? It fared relatively well. During the recent Great Recession, nearly 500 insured financial institutions failed—even titans like Lehman Brothers and Bear Stearns. But again, the insurance industry came through largely unscathed, with just eleven small insurance companies facing insolvency.

While nothing can ever be guaranteed against failure, if history says anything, it's fair to say that insurance companies are likely to be the last of the dominoes to fall during major economic crises. They're the kind of institutions that can provide peace of mind when the financial winds start to howl.

Even with the industry's record for strength, it's important to note that not just any insurance company can provide the right combination of service and know-how to properly structure, fund, and manage a LASER Fund policy properly. Often people—and even financial professionals—will assume they can open a LASER Fund with just any insurance company, but that's simply not the case. Tier 2 and Tier 3 insurance companies are not up to the task. Out of thousands of companies, there are just a handful we recommend. They're Tier 1 companies, which means they have distinct qualifications, including:

- They are financially sound, with superior ratings.
- They maintain competitive internal costs, which helps policyholders make the most of their LASER Funds for living benefits, as well as the death benefit.
- They have a good long-term track record in regard to their cost structure.
- They treat all policyholders well—offering improved features not just for new policies, but for those that have been in place for years.
- They focus solely on life insurance—they're not involved in auto, casualty, home, or other insurance products.

As for safety of principal, the LASER Fund delivers safety better than most financial vehicles. As discussed in Section I, Chapters 5 and 6, because your LASER Fund is indexed, the money in your policy has the protection of at least a 0% floor—and zero is the hero. Your policy will not lose any money due to market volatility. As mentioned, even when the market took a nose dive in 2008 (with traditional accounts losing as

much as 40%), our clients didn't lose any of their gains from 2007 or other previous years due to market volatility.

Keep in mind, however, when the markets drop that it's possible for your policy to go down in value due to policy charges. These are the fees that are required for the account to be classified as life insurance and provide tax-free income and a death benefit. These can include cost of insurance charges, asset based charges, premium charges, policy fees, per unit charges, and rider charges. For example, while our clients' policy values didn't lose any value due to market volatility in 2008, they did go down slightly that year because of the policy charges.

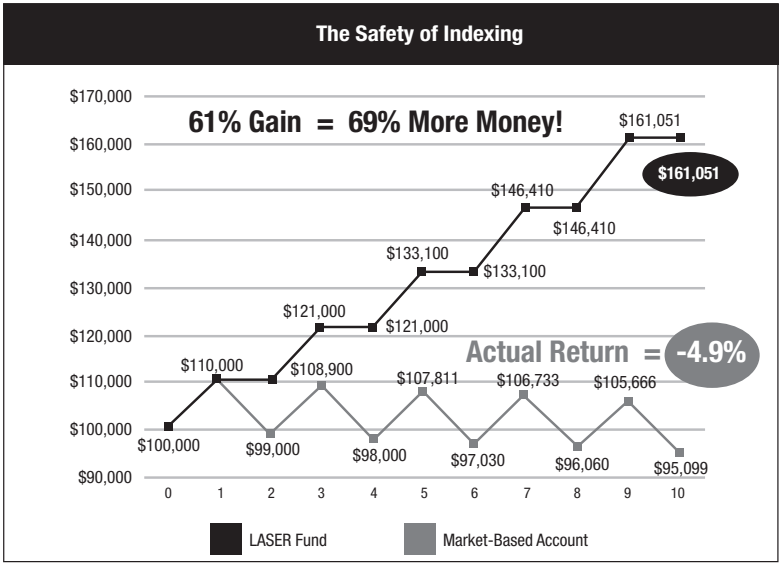
In 2009 when the market started to revive, our clients' policies started making money again right away. How? Because of the annual reset on their policies. They didn't have to wait for the market to come back up to where it had been before the crash, like those with stocks, bonds, and IRAs and 401(k)s invested in the market had to do.

This brings up another component of safety, one that's rarely available in most common financial vehicles: the safety of your gains. With an indexed LASER Fund, you can benefit from a strategy called "lock-in and reset." Every year a gain is realized, that gain is locked in, and the starting point for the next year is reset at whatever level you ended up with the previous year. This is a powerful strategy that can help your money grow much faster in a LASER Fund than other vehicles.

To explain this principle further, in Figure 8.1 we'll compare putting $100,000 into a LASER Fund versus a market-based financial vehicle. We'll look at a ten-year period in which the market goes up 10% the first year, followed by a 10% decrease the next year, and the market continues that pattern of 10% fluctuation each year for the entire decade. In this example, we would have five 10% gain years and five 10% loss years.

Looking at The LASER Fund, after a 10% gain in the first year, your $100,000 is worth $110,000. Remember with indexing, that gain becomes newly protected principal, and you reset for the next year. The following year, the market goes down 10%. With your floor of 0%, your $110,000 balance would remain the same. Your LASER Fund resets at the beginning of the third year, during which the market goes up 10%. Your $110,000 balance then grows to $121,000.

FIGURE 8.1



Let's compare this to having your money actually invested IN the market. After the first year, your balance is the same as the indexed policy: $110,000. However, during the next year when the market goes down 10% (10% of $110,000 is $11,000), you don't result in a net of zero. You find yourself below your beginning point: your account value is only worth $99,000. In the third year, your $99,000 balance earns 10% and comes back to a total of $108,900.

Remember, many financial professionals will tell you that if the market goes up 10%, down 10%, up 10%, down 10% you are experiencing a zero rate of return. However, as you have seen, when your money is invested directly in the market and your account value goes up 10% then down 10%, you lose some of your original principal. So at the end of this ten-year period, your $100,000 would only be worth $95,099. You would have actually experienced a 4.9% overall loss.

With indexing, each year that you made 10% you would have locked in that gain. So during your five gain years, you would have experienced a 10% increase. During each of the five loss years, you would not have earned anything, but you also would not have lost what you had made the year before due to market volatility. Look at the dramatic difference

in the result at the end of the decade. Using indexing, your final account balance would be $161,051, or a 61% overall gain, during that decade. Compare that to the 4.9% loss with your money *in* the market. By using indexing, you would have had 69% more money at the end of the decade than you would have had by having your money exposed in the market.

Looking back at real-life situations, many Americans who had IRAs and 401(k)s in the market suffered up to a 40% loss in 2008. That was followed by years of financial stress, as it took many of them until the year 2012 to return to a break-even point (to their pre-crash account values). By contrast, many of our clients were calm—they did not suffer those kinds of losses in 2008. What's more, in the first ninety days of 2009, many locked in gains of 16% (up to their LASER Fund cap of 16% in 2009). In summary, in 2008, their policies did not make anything (and they were protected from market loss with their 0% floor), and in 2009, thanks to their reset that year, they were credited 16%.

Whether you're setting money aside for retirement income, working capital, kids' education, or business ventures, that money is important. Protecting your money from unnecessary loss in the market can make the difference in reaching your objectives, or watching it all go up in smoke. This is why the safety provided by LASER Funds is so critical.

SAFETY FROM THE STORM

If seeing is believing, then many of our clients became even more devoted believers of The LASER Fund when the market melted down in 2008. For example, one couple we'll call the Hansens, had moved most of the money out of their 401(k) into a LASER Fund through a strategic rollout prior to the market crash. While they didn't get all of it out before the downturn, they had transferred at least 90% of their money in the nick of time.

When the economy tanked, they watched the last 10% that was still in their 401(k) go up in smoke, and they couldn't believe how grateful they were that they'd been able to protect most of their money from the market inferno. Over the next several months, Mr. Hansen, who works in the healthcare industry, heard several colleagues complain about how much they lost in the market crash. While he felt badly for them, he couldn't help but breathe a sigh of relief. He told us, "I'm so glad I'm not dealing with that chaos right now."

Conversely, we have another client (we'll call Keith) who came to us *after* the crash, having just lost a significant amount of money. Keith had put more than $3 million in a Real Estate Investment Trust, and when real estate took a nosedive in 2008 and 2009, he lost more than $2 million of that money. He was able to salvage about $600,000 and was looking for a much safer place to put it. We introduced him to the LASER Fund.

Keith's LASER Fund has been growing since, and it's currently valued at more than $1 million. He said, "I can't tell you how refreshing this is. I have confidence now that for the first time in my life, I know my money is safe. I can't lose it again due to another market crash—plus I have a death benefit along for the ride."

Just as Keith described, The LASER Fund's indexing provides powerful safety—and confidence. As we've mentioned, thousands of people we've worked with not only weathered the Lost Decade—but actually thrived in it. When the market plummeted (twice, in 2003 and 2008), their LASER Funds didn't lose a dime due to market volatility. Many experienced double-digit gains over that ten-year period, with their financial futures looking as bright as ever.

R: RATE OF RETURN

When we presented rate of return in Section I, Chapter 4, we explained that the goal is to earn a **competitive rate of return** that historically has beaten inflation. And if your rate of return is under **tax-favorable circumstances**, you can dramatically increase not only the end result, but also the net spendable income available during your harvest years.

We also looked at predictability. Just as Deming proved the power of predictability in the manufacturing industry, predictability with the rate of return on your money can bring you greater peace of mind. It can help you look to achieving your future financial goals.

While nothing is guaranteed, gauging history can help you get a good idea of how likely your financial strategies are to yield the results you're aiming for. LASER Funds have demonstrated a strong track record for predictable, solid rates of return. Here's a look at historical index performance for the S&P 500 provided by one of the insurance companies we recommend, with 100% participation, a 0% floor, and a 12.25% cap. (See Figure 8.2. Keep in mind past performance is not a prediction of future results.)

FIGURE 8.2

Annual Point-to-Point	Current Cap	Participation Rate	10 Years	15 Years	20 Years	25 Years
S&P 500 Index	12.25%	100%	8.08%	8.03%	7.19%	7.48%

Overall, when it comes to rate of return, you want a vehicle that can get you to your desired destination with the most predictability as possible. It's kind of like a cross-country road trip.

Do you want a vehicle that races ahead, speeding down the road some years, until (SLAM!) it hits the brakes and slows to a crawl? And if road conditions really go south, this kind of vehicle can send you backward, requiring you to make up the distance once things clear up? (This is like many traditional accounts, such as IRAs and 401[k]s invested in the market.)

Or would you rather have a vehicle that's more reliable, one you know that is likely to maintain a predictable average speed? And even if it encounters big traffic jams or bad weather, it will stay put until conditions improve and it can move forward again?

Traditional accounts tend to be like the first vehicle, and LASER Funds can be like the second. Predictable rates of return are yet another reason The LASER Fund has earned our esteem.

AT ANY RATE

When a client we'll call Tom Russo opened a LASER Fund, he couldn't express how relieved he was. He explained that he had attended one of our seminars ten years earlier, and he was intrigued by the advantages of a LASER Fund, particularly with indexing's ability to protect his money from losses due to market volatility.

He had invited his current financial professional to join him at the seminar, who was skeptical because he wasn't familiar with the strategies. The professional eventually dissuaded Tom from opening a policy. He convinced Tom there was just no way he would want to be limited by average gains of 7% in a LASER Fund, when he could have possible gains of 20% with his money directly in the market.

Well, Tom did experience some 20% gains in the coming years, but those years also included the economic storms of 2003 and 2008, when he lost 40% of his money, twice. His accounts were just returning to break-even when he decided to finally pull his money out of the market and put it in a LASER Fund. He was looking forward to indexing, where he could enjoy the upside of the market, without the painful downsides. He told us he had learned the hard way, that he had repented, and that he was ready for predictable rates of return.

FLEXIBILITY FOR THE UNEXPECTED

In addition to liquidity, safety, rate of return, and tax advantages, another LASER Fund advantage is flexibility. Life rarely follows down planned paths. Twists and turns often take us in unexpected directions, and that's when having a nimble financial vehicle can become critical.

One of our clients (we'll call Sarah) opened a LASER Fund policy that she planned on funding up to $2 million. By the time Sarah had funded it halfway—up to $1 million—sadly, Alzheimer's began setting in. Because her life expectancy was now going to be shorter than anticipated, we worked with Sarah's family to minimum fund the account, rather than maximum fund it. Why? The death benefit became the primary objective instead of the secondary objective.

Her LASER Fund goals went from having income during retirement to having the best death benefit possible for her heirs. This flexibility was crucial for her and her family, who could benefit from her tax-free death benefit when she passed on.

This would not have been possible if Sarah had been putting her money into a vehicle like an IRA. There would have been no death benefit attached, and while her family would have inherited the account, they likely would have lost a significant amount to taxes.

Flexibility also comes into play if you open a LASER Fund policy, but hit a rough patch during the funding phase. While it's always best to fully fund your policy within those first five to seven years, there are times when our clients have had emergencies and had to take a temporary break from funding the policy.

If the setback occurs in the later years, say when the policy is funded 80%, as long as it's structured properly, the interest the policy is earning can typically cover the policy charges for a while. If the shortfall takes place earlier, say when it's only funded 20%, it's even possible to hit pause on making payments then. It does mean the policy value will be draining a bit—the insurance company will likely need to take a portion of the interest and principal to cover the policy charges—but at least you would have that flexibility to get through a tough time. And once your financial life is back on track, you can return to fully funding the policy, without having to give up on your financial goals.

If your money were in a different kind of vehicle, such as real estate, you wouldn't find yourself in as flexible a position. If you miss mortgage payments, the mortgage company doesn't say, "That's okay, you've made 80% of your payments so far, you can coast for a while. Don't bother paying every month." Nope, they'll likely get ready to foreclose.

JUST PLAIN SMART

Here's a question for you: what would you be willing to pay to hire some of THE best money managers in the world—money managers that have proven themselves for, say, over one hundred years? You probably couldn't put a price on it, and in fact many investors have been willing to give up nearly half their earnings for the opportunity to participate in the nation's top funds.

That's exactly what you're getting with The LASER Fund, for a fraction of what you would spend to be in premier managed money accounts. The life insurance companies we work with are among those who have demonstrated financial strength, integrity, and acumen for more than a century. And all you're paying for are policy charges, which become relatively nominal over time. In this context, leveraging a LASER Fund for your future is cost-effective, savvy money management, and it's just plain smart.

TOP 5 TAKEAWAYS

1. Get "LASER-focused" on your financial future by identifying strategies that can deliver as much liquidity, safety, rates of return, tax advantages—and flexibility—as possible.
2. The LASER Fund offers superior liquidity, with the ability to access your money tax-free for a variety of reasons (retirement income, helping with education, business planning, etc.).
3. The LASER Fund's safety is one of its most compelling advantages. With indexes that provide a 0% floor, you will not lose anything due to market volatility, even during tumultuous economic times.
4. The LASER Fund has historically offered competitive average rates of return of 7%. Our clients' LASER Funds have seen rates of return as high as 12%, 16%, even over 20%, depending on their index performance year-to-year.
5. The LASER Fund's tax advantages are nearly unparalleled, with after-tax contributions, tax-deferred growth, tax-free access to money in the policy, and an income-tax-free death benefit for your heirs.

9

Laser Fund Scenarios

Seeing is understanding. Understanding—when put into action—is power. In this chapter, we'll give you the power of comprehending how The LASER Fund's miracle solution applies in real life.

In the following examples, we'll examine how The LASER Fund can be used in different ways. We'll start with the same premise: a sixty-year-old healthy male who is setting aside $500,000 into a LASER Fund. From there we'll look at three scenarios:

1. Larry will NOT take any income from his policy, ever.
2. John will take maximum annual income.
3. Steve will take loans on his policy for various family and personal reasons.

Note that while we are using a policy funded with $500,000, you can set aside much more—we often have clients who set aside $1 million-plus. You can also use these strategies with less, as little as $50,000, $100,000 or $200,000. We will also look at an illustration of someone setting aside a modest amount of $12,000 a year for thirty years. Remember with these policies, you must demonstrate the need for the life insurance death benefit (for things such as income replacement, estate preservation, wealth transfer, etc.). As you read on, simply extrapolate the numbers and scenarios for your own financial circumstances. And

please note these examples are based on theoretical scenarios and are not guarantees of future performance.

LASER FUND EXAMPLE – NO INCOME

In our first example, we'll call our insured Larry. Here are the details:

- **Insured's description**: Larry is a sixty-year-old, healthy non-smoker.
- **Size of policy**: He's looking to put away $500,000 (after-tax money).
- **Required amount of insurance**: The required amount of insurance for Larry is just over $1,300,000. (As mentioned, this amount is based on the desire to put in $500,000 at his age and gender.)
- **Planned annual premiums**: He'll pay $100,000 a year, every year for five years until the policy is fully funded at $500,000.
- **Average annual rate of return**: To be conservative, we'll assume the policy is earning an average gross annual interest rate of 7%.
- **Interest Bonus Credit:** Larry's policy has a guaranteed interest bonus that will be credited in all policy years, based on the index allocations selected. Starting in Policy Year 1, the interest bonus is equal to 15% of any interest credited to the bonus indexed allocations at the end of each policy year.
- **Index**: Larry wants to balance his indexing options, so he is using three indexes out of about thirteen choices available within his policy: the Blended Index annual point-to-point (with a 0% floor and a 20% cap), the Bloomberg US Dynamic Balance Index II annual point-to-point with par rate (with a 0% floor, no cap, and a 135% participation rate), and the PIMCO Tactical Balanced Index annual point-to-point (with a 0% floor, no cap, and a 135% participation rate).
- **LASER Fund Objective**: Larry wants to use his LASER Fund for a safe repository for his money, where it can grow tax-deferred and pass on someday as a robust, income-tax-free death benefit to his beneficiaries.

Year 1 Summary

FIGURE 9.1

Age	End of Policy Year	Premium Outlay	Interest/ Loan Credits	Interest Bonus Credit	Policy Charges	Loan Charges	Accumulation Value	Cash Value	Death Benefit
61	1	$100,000	**$6,258**	$939	**$14,200**	$0	**$92,997**	**$60,021**	**$1,306,000**

Let's look at Larry's policy after Year 1 (see Figure 9.1). You can see under the premium outlay column that he put his first $100,000 into his policy. This is like leasing out the first floor of that apartment building we discussed in Section I, Chapter 5. Keep in mind the acquisition phase, or first year, is often the most expensive year. He's still four years or so away from achieving profitability, but he's begun the process and is on his way.

His policy did make some money already—he earned $6,258 in interest credits. [Interest credits are based on the average premium account value (minus some policy charges), multiplied by the current interest rate.] His policy is also earning an interest bonus credit. Some insurers offer an interest bonus credit in Year 1, others in Year 11, and some do not offer it at all. As it can make a big difference in overall earnings, it's important to look for this bonus when possible. The bonus interest credit is exactly what it sounds like; it's based on earnings. With Larry's policy, it's equal to 15% of any interest credited at the end of each policy year.

The cost of the policy in Year 1 is outlined under policy charges: $14,200. (Remember, policy charges can include cost of insurance charges, asset based charges, premium charges, policy fees, per unit charges, and rider charges.) Note that Larry is NOT billed these charges directly; the charges simply go against the total cash value of the policy. The only money Larry is required to put into the policy is the planned annual premium, which in this case is $100,000 a year for five years.

The accumulation value is $92,997, which is the total of the premium plus the interest credits, minus the policy charges.

Now notice the column that shows $60,021—this is what the cash value would be if for some reason Larry wanted to surrender the policy (cancel the policy and withdraw all of his available money). Remember, cash value is based on the accumulation value minus surrender charges (penalties for early cancellation) and any outstanding loan balances on the policy.

This demonstrates why surrendering the policy early isn't optimal—you would end up forfeiting a significant amount of money, particularly in those first five years. In this case, Larry would walk away with about $40,000 less than his original payment of $100,000. As discussed in Section I, Chapter 7, there are much smarter ways to access money in the policy than withdrawing money through a partial or full surrender. If done properly, for example, you could access around 80% to 90% of your cash value in the form of a policy loan without surrendering or canceling the policy. (That 80% to 90% is the amount of money in the policy that's liquid.) Of course, a qualified financial professional can help you access your money in the best way possible.

As a side note on surrender charges: if you're not a fan of surrender charges, it may be helpful to know that they disappear after Year 10. However, before you're tempted to *withdraw all of your money* or *cancel the policy* after that time, be aware you would cause a taxable event, paying taxes on any gains above and beyond your initial premium payments. If potential surrender charges are something you want to avoid altogether, at the outset of your policy you could purchase a rider that waives all surrender charges from Day 1.

Let's pause for a moment to reiterate that LASER Funds are designed as *long-term* financial vehicles, not short-term like CDs or money markets. The benefits of this vehicle are arguably unparalleled if you fund it and structure it properly over time. But if you're in a situation where you're looking for short-term financial strategies, it would be wise to choose another type of vehicle.

Going back to our illustration, the last column shows the death benefit. In Year 1, it's already valued at just over $1.3 million. This shows that if the unthinkable happened and Larry passed away during Year 1, even though he was only putting $100,000 into his policy, his beneficiaries would still receive $1,306,000 upon his death, income-tax-free. (Sometimes we've had people ask if the family would get the $100,000 Larry had paid into the policy PLUS the $1.3 million, and the answer is no, they would get a total of $1.3 million. Why? Because the $100,000 was already Larry's—self-funded cash he put into the policy—and the remaining $1.2 million of that $1.3 million is provided by the insurance company in a death benefit.)

Here's where we often throw a question out to our audiences, asking, "If you were to ask the insurance company, 'How much do I need to pay to know that if I died this year, you'd give my family $1.3 million?'" Most people think it'd be a heck of a lot more than that $14,200 in policy charges. But the insurance company's able to do it, because they spread the risk over thousands and thousands of people.

Years 2 – 5 Summary

FIGURE 9.2

Age	End of Policy Year	Premium Outlay	Interest/ Loan Credits	Interest Bonus credit	Policy Charges	Loan Charges	Accumulation Value	Cash Value	Death Benefit
62	2	**$100,000**	**$12,789**	**$1,918**	**$15,104**	$0	**$192,601**	$160,499	**$1,306,000**
63	3	$100,000	**$19,795**	**$2,969**	**$15,805**	$0	**$299,560**	**$268,333**	$1,306,000
64	4	$100,000	$27,344	$4,102	$15,848	$0	$415,158	$384,813	$1,306,000
65	5	$100,000	**$35,520**	**$5,328**	**$15,467**	$0	**$540,539**	$511,082	$1,306,000
Total		**$500,000**							

Looking at Figure 9.2, you can see that at the end of Year 2, Larry put another $100,000 into his policy. You can see he earned $14,707 between interest earned and his interest bonus credit. His fees increased a little, to $15,104. His accumulation value has gone up to $192,601. And his death benefit is still just over $1.3 million.

Notice what happens in Year 3. By the end of the third year, Larry's policy is earning more than it costs. The combined interest credits and bonus interest credit are $22,764, and his policy charges are $15,805—that's a positive difference of nearly $7,000. His accumulation value is $299,560, and his cash value is $268,333.

By Year 5, Larry's policy continues this upward trend. It earned a combined $40,848, and policy charges are starting to come down—now $15,467. His accumulation value is $540,539—that's over $40,000 more than what he's put into the policy so far. It's like he's essentially rented out all five floors of that apartment building, and he's in the black, realizing a profit. His policy is more than paying for itself.

This is pretty typical for these types of policies—breaking even and starting to see a profit right around the fourth to the fifth year (or when you have funded at least 80% or more of your policy). From here on

out, you'll see the policy charges are declining, compared to the interest earned. With most other financial vehicles, your charges are always based on a percentage of your account. However, with The LASER Fund, your policy can grow and grow, but your charges are not a percentage of the balance—they're simply based on the cost of the insurance and related fees, which can mean a savings for you in the long-run.

Years 6 – 10 Summary

FIGURE 9.3

Age	End of Policy Year	Premium Outlay	Interest/ Loan Credits	Interest Bonus credit	Policy Charges	Loan Charges	Accumulation Value	Cash Value	Death Benefit
66	6	$0	**$37,874**	**$5,681**	$7,536	$0	$576,559	$547,990	$1,306,000
67	7	$0	$40,418	$6,063	$7,513	$0	$615,527	$587,859	$1,306,000
68	8	$0	$43,172	$6,476	$7,438	$0	$657,737	$634,679	$1,306,000
69	9	$0	$46,151	$6,923	$7,454	$0	$703,356	$684,909	$1,306,000
70	10	$0	**$49,366**	**$7,405**	**$7,606**	$0	$752,522	$738,691	**$1,306,000**
Total		**$500,000**							

Notice a few things happening here in Years 6 - 10 (see Figure 9.3). Larry's premium outlay—or the money he put into the policy—was maximum-funded at $500,000 in the first five years. Larry's interest credits and accumulation value are increasing, because the policy is earning more each year. His policy charges remain relatively low (about $7,500 - $7,600), as compared to what he's earning in interest and bonus interest credit combined (about $43,500 to $56,800). His death benefit remains just over $1.3 million.

Years 11 – 20 Summary

FIGURE 9.4

Age	End of Policy Year	Premium Outlay	Interest/ Loan Credits	Interest Bonus credit	Policy Charges	Loan Charges	Accumulation Value	Cash Value	Death Benefit
71	11	$0	$52,832	$7,925	**$7,748**	$0	$805,530	$796,310	$1,306,000
72	12	$0	$56,686	$8,503	**$4,822**	$0	**$865,897**	$861,287	**$978,464**
73	13	$0	$61,085	$9,163	**$1,238**	$0	$934,907	$934,907	$1,037,747
74	14	$0	$65,962	$9,894	$1,109	$0	$1,009,654	$1,009,654	$1,100,523
75	15	$0	$71,245	$10,687	$946	$0	$1,090,640	$1,090,640	$1,166,985
76	16	$0	$76,968	$11,545	**$828**	$0	$1,178,325	**$1,178,325**	$1,237,241
77	17	$0	$83,152	$12,473	$997	$0	$1,272,952	$1,272,952	$1,336,600
78	18	$0	$89,824	$13,474	$1,202	$0	$1,375,048	$1,375,048	$1,443,800
79	19	$0	$97,023	$14,553	$1,443	$0	$1,485,181	$1,485,181	$1,559,440
80	20	$0	$104,788	$15,718	$1,725	$0	$1,603,963	$1,603,963	$1,684,161
Total		**$500,000**							

In Figure 9.4, you can see that by Years 12 and 13, we begin to see a significant decrease in policy charges, dropping from over $7,000 in Year 11 to $4,822 in Year 12 and $1,238 in Year 13. It gets as low as $828 in Year 16. Think about it—that year Larry is only incurring $828 in policy charges for a policy that has a cash value of over $1.1 million (most traditional financial vehicles would typically have a management fee of 1-1.5%, which would be as much as $17,674. This policy's charges in Year 16 are just .07%, or $828.) This has become an incredibly profitable financial vehicle—and unlike other vehicles, you're not at risk of losing any money due to market volatility; you're not paying taxes on the growth; and your money is with companies that have been providing safety for Americans' money since the 1800s.

There is another drop in his policy, and that's the death benefit. In Year 12, it decreases to $978,464. We typically design policy illustrations to see a decrease in the death benefit somewhere in between Years 9 and 12. It's an optional drop that clients can choose to bring about cost savings on their policy. (Please note that this is not a decision that you make when you start the policy; you make it sometime between Years 9 and 12.) The lower death benefit helps save on policy charges, which in turn maximizes the potential profit on the account.

Look at Year 12, you'll notice the accumulation value is $865,897 and the death benefit is $978,464. The difference between the two is $112,567.

That $112,567 is the net amount of insurance at risk, and because it's relatively low at that point, the fees are also low.

With this policy illustration, you'll notice the death benefit increases again in Year 13 and continues to do so every year for the remainder of the life of the policy. This is because there should typically be a corridor between the death benefit and the cash value for the majority of the life of the policy. So as the cash value increases, so does the death benefit.

Starting in Year 13, the accumulation value and cash value now match and continue to increase year over year. As we mentioned, this is because there's no longer a surrender charge—you won't be charged a penalty if you cancel the policy. However (and this is a BIG however), if you do choose to cancel your policy, you'll kill the goose laying the golden eggs. You would have to pay all of the income taxes on any growth over the $500,000 after-tax money you initially put into the policy. You would also give up all future tax-deferred growth, tax-free access to your income, and the income-tax-free death benefit (which is an essential part of this financial vehicle). Remember, if you need access to your money, it will always be best to take it out as a loan, rather than a surrender or withdrawal.

FIGURE 9.5

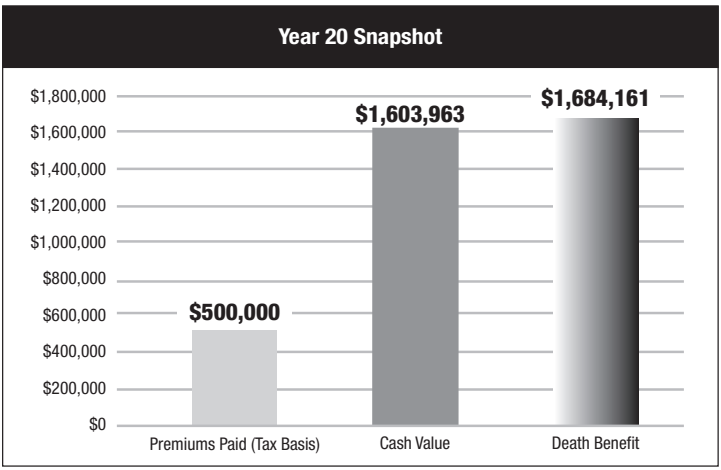


Figure 9.5 illustrates that at the end of Year 20, Larry has still only paid $500,000 into the policy, and he's had the benefit of accruing more than $1.6 million in cash value. Should he pass away at age 80, his heirs would have the financial security of receiving over $1.6 million, income-tax-free.

Years 21 - 60 Summary

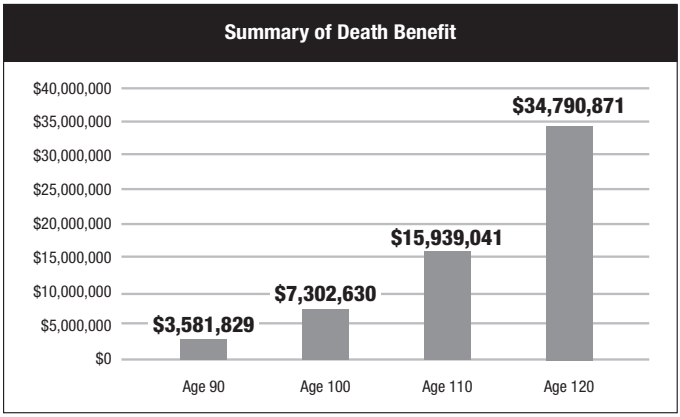
Since this is a sixty-year policy (from age 60 to age 120), let's take a quick snapshot of the upcoming decades in Figure 9.6, so you can see how the policy develops if Larry lives to age 120 (which experts predict many Americans may, with improving healthcare and longevity).

FIGURE 9.6

Age	End of Policy Year	Premium Outlay	Interest/Loan Credits	Interest Bonus credit	Policy Charges	Loan Charges	Accumulation Value	Cash Value	Death Benefit
81	21	$0	$113,160	$16,974	$2,075	$0	$1,732,022	$1,732,022	$1,818,623
82	22	$0	$122,183	$18,327	$2,567	$0	$1,869,965	$1,869,965	$1,963,463
83	23	$0	$131,898	$19,785	$3,187	$0	$2,018,460	$2,018,460	$2,119,383
84	24	$0	$142,351	$21,353	$3,975	$0	$2,178,188	$2,178,188	$2,287,098
85	25	$0	$153,588	$23,038	$5,010	$0	$2,349,805	$2,349,805	$2,467,295
86	26	$0	$165,650	$24,848	$6,424	$0	$2,533,879	$2,533,879	$2,660,573
87	27	$0	$178,591	$26,789	$7,874	$0	$2,731,384	$2,731,384	$2,867,953
88	28	$0	$192,466	$28,870	$9,673	$0	$2,943,046	$2,943,046	$3,090,198
89	29	$0	$207,320	$31,098	$11,999	$0	$3,169,465	$3,169,465	$3,327,938
90	30	$0	$223,195	$33,479	$14,873	$0	$3,411,266	$3,411,266	**$3,581,829**
		$500,000							
91	31	$0	$240,128	$36,019	$18,485	$0	$3,668,928	$3,668,928	$3,852,375
92	32	$0	$258,319	$38,748	**$18,477**	$0	$3,947,519	$3,947,519	$4,105,420
93	33	$0	$278,035	$41,705	$17,243	$0	$4,250,016	$4,250,016	$4,377,516
94	34	$0	$299,509	$44,926	$14,176	$0	$4,580,275	$4,580,275	$4,671,880
95	35	$0	$323,037	$48,456	$8,637	$0	$4,943,130	$4,943,130	$4,992,561
96	36	$0	$348,982	$52,347	**$90**	$0	$5,344,369	$5,344,369	$5,344,369
97	37	$0	$377,309	$56,596	$90	$0	$5,778,184	$5,778,184	$5,778,184
98	38	$0	$407,936	$61,190	$90	$0	$6,247,221	$6,247,221	$6,247,221
99	39	$0	$441,050	$66,158	$90	$0	$6,754,339	$6,754,339	$6,754,339
100	40	$0	$476,853	$71,528	$90	$0	$7,302,630	$7,302,630	**$7,302,630**
		$500,000							
101	41	$0	$515,562	$77,334	$90	$0	$7,895,436	$7,895,436	$7,895,436
102	42	$0	$557,414	$83,612	$90	$0	$8,536,373	$8,536,373	$8,536,373
103	43	$0	$602,664	$90,400	$90	$0	$9,229,347	$9,229,347	$9,229,347
104	44	$0	$651,588	$97,738	$90	$0	$9,978,584	$9,978,584	$9,978,584
105	45	$0	$704,485	$105,673	$90	$0	$10,788,651	$10,788,651	$10,788,651
106	46	$0	$761,675	$114,251	$90	$0	$11,664,488	$11,664,488	$11,664,488
107	47	$0	$823,509	$123,526	$90	$0	$12,611,433	$12,611,433	$12,611,433
108	48	$0	$890,364	$133,555	$90	$0	$13,635,262	$13,635,262	$13,635,262
109	49	$0	$962,646	$144,397	$90	$0	$14,742,215	$14,742,215	$14,742,215
110	50	$0	$1,040,797	$156,120	$90	$0	$15,939,041	$15,939,041	**$15,939,041**
		$500,000							
111	51	$0	$1,125,293	$168,794	$90	$0	$17,233,038	$17,233,038	$17,233,038
112	52	$0	$1,216,649	$182,497	$90	$0	$18,632,094	$18,632,094	$18,632,094
113	53	$0	$1,315,422	$197,313	$90	$0	$20,144,740	$20,144,740	$20,144,740
114	54	$0	$1,422,215	$213,332	$90	$0	$21,780,198	$21,780,198	$21,780,198
115	55	$0	$1,537,679	$230,652	$90	$0	$23,548,438	$23,548,438	$23,548,438
116	56	$0	$1,662,516	$249,377	$90	$0	$25,460,241	$25,460,241	$25,460,241
117	57	$0	$1,797,490	$269,623	$90	$0	$27,527,265	$27,527,265	$27,527,265
118	58	$0	$1,943,421	$291,513	$90	$0	$29,762,109	$29,762,109	$29,762,109
119	59	$0	$2,101,201	$315,180	$90	$0	$32,178,401	$32,178,401	$32,178,401
120	60	$0	**$2,271,792**	**$340,769**	$90	$0	**$34,790,871**	**$34,790,871**	**$34,790,871**
Total		**$500,000**							

Take a peek at the interest credits and bonus interest credits—they continue to climb until reaching over $2.2 million, plus over $340,000 in bonus interest credit in Year 60. Notice that the policy charges hit their peak in Year 32, at over $18,000, and by Year 36, they plummet to $90 and hold there for the remainder of the policy. This is because there's no more death benefit risk to the insurance company. The cash value, accumulation value, and death benefit are all now equal—it's all Larry's money at this point. (This is why they call this approach self-insurance, which we'll explain in more detail in Section I, Chapter 13.) And notice how big his policy value bucket has grown to by age 120—he would have more than $34 million in his policy—which will pass along to his heirs income-tax-free when he passes away that year (remember there's no limit to what your policy value bucket can grow to).

FIGURE 9.7



In Figure 9.7, you can see the death benefit continues to rocket upward, blossoming to nearly $3.6 million at age 90, more than $7.3 million at age 100, and nearly $16 million at age 110. If Larry were to make it to the ripe old age of 120, his posterity would receive over $34 million in income-tax-free death benefit when he passes on.

All of this, from a mere $500,000 Larry put into the policy back by Year 5. Not bad, Larry, not bad.

LASER FUND – MAXIMUM ANNUAL INCOME

Now how would a similar LASER Fund perform if someone wanted to take out regular, annual loans to use as income during retirement? Let's see how that would work, with a man we'll call John.

- **Insured's description**: John's a sixty-year-old, healthy non-smoker.
- **Size of policy**: He's looking to put away $500,000 (after-tax money).
- **Required amount of insurance**: The required amount of insurance for John is just over $1,300,000. (As mentioned, this amount is based on the desire to put in $500,000 at his age and gender.)
- **Planned annual premiums**: He'll pay $100,000 a year, every year for five years until the policy is fully funded.
- **Average annual rate of return**: To be conservative, we'll assume the policy is earning an average gross annual interest rate of 7%.
- **Interest Bonus Credit:** John's policy has a guaranteed interest bonus that will be credited in all policy years, based on the index allocations selected. Starting in Policy Year 1, the interest bonus is equal to 15% of any interest credited to the bonus indexed allocations at the end of each policy year.
- **Index**: John is likewise using the Blended Index annual point-to-point (with a 0% floor and a 20% cap), the Bloomberg US Dynamic Balance Index II annual point-to-point with par rate (with a 0% floor, no cap, and a 135% participation rate), and the PIMCO Tactical Balanced Index annual point-to-point (with a 0% floor, no cap, and a 135% participation rate).
- **LASER Fund Objective**: John wants to set aside his money to provide annual income during retirement and to provide an income-tax-free death benefit for his beneficiaries someday.

Years 1 – 5 Summary

FIGURE 9.8

Age	End of Policy Year	Premium Outlay	Interest/ Loan Credits	Interest Bonus credit	Policy Charges	Loan Charges	Accumulation Value	Cash Value	Death Benefit
61	1	$100,000	$6,258	$939	$14,200	$0	$92,997	$60,021	$1,306,000
62	2	$100,000	$12,789	$1,918	$15,104	$0	$192,601	$160,499	$1,306,000
63	3	$100,000	$19,795	$2,969	$15,805	$0	$299,560	$268,333	$1,306,000
64	4	$100,000	$27,344	$4,102	$15,848	$0	$415,158	$384,813	$1,306,000
65	5	$100,000	$35,520	$5,328	$15,467	$0	$540,539	$511,082	$1,306,000
Total		**$500,000**							

You can see in Figure 9.8 that John's Years 1 – 5 mirror Larry's exactly. During this time, John max funds his policy with all $500,000. Each year the interest credits, charges, accumulation value, cash value, and death benefit are the same as Larry's.

Where you'll start to see things diverge is in Year 6, because this is when John will begin to take out annual maximum loans on his policy for retirement income.

Years 6 – 10 Summary

FIGURE 9.9

Age	End of Policy Year	Premium Outlay	Net Distributions	Interest/ Loan Credits	Interest Bonus credit	Policy Charges	Loan Charges	Accumulation Value	Cash Value	Death Benefit
66	6	$0	**$51,156**	$37,305	$5,596	$7,536	$2,558	$575,904	$493,621	**$1,252,286**
67	7	$0	$51,156	$39,204	$5,881	$7,519	$5,243	$613,470	$475,689	$1,195,887
68	8	$0	$51,156	$41,231	$6,185	$7,457	$8,063	$653,429	$461,039	$1,136,667
69	9	$0	$51,156	$43,392	$6,509	$7,490	$11,024	$695,840	$445,879	$1,074,487
70	10	$0	$51,156	$45,688	$6,853	$7,656	$14,133	$740,725	$430,091	$1,009,197
Total		**$500,000**	**$255,780**							

Figure 9.9 illustrates that John (at age 66) begins taking annual income as loans from his LASER Fund. He's going to take the maximum amount of income allowed (which, with LASER Funds, is based on the interest return the policy is earning). For John's specific policy, that is $51,156 (as a reminder this is just an illustration of how this type of policy would perform under these assumptions—not a guarantee of all similar policies).

Remember, this is taken out as a loan, which means it is income-tax-free under Internal Revenue Code 7702. He can continue to take this max amount every year for the life of the policy in this illustration (being

careful not to exhaust his accumulation value, which a financial professional can help him with).

Now can John live on just over $51,000 a year? Probably not, especially with the effects of anticipated inflation. But he isn't planning on living on this income solely. At age 66, he'll start taking Social Security, and he has other accounts, like a 401(k) he had through his employer for several years that will help provide supplemental income. This is why at Live Abundant, we recommend having a diversified approach to retirement, with different types of accounts and strategies coming together to ensure you have more than enough, and that you don't outlive your money during retirement.

Looking back at Figure 9.9, notice a few things happening in Years 6 – 10. His premium outlay—or the money he put into the policy—is still just $500,000. During these last five years, he has been able to receive loans totaling $255,780, which he uses as tax-free income.

Also, John's interest credits, bonus credits, and accumulation value are increasing, because the policy is earning more each year, which is exciting for John's future. On the other hand, now that he's taking annual loans, his policy has started to incur loan charges (which still isn't much of a negative, since his interest credits far outweigh the loan charges and policy charges, combined).

Most people think of loans and loan interest as negative. But with an insurance policy, it's a positive. Loans (as opposed to withdrawals) are how you access your money income-tax-free. And typically with this type of insurance policy, while you're borrowing at one rate, your money can still earn at a higher rate. For example, with John's policy, he is borrowing that $51,156 and being charged a guaranteed rate of 5%. His cash value that is the collateral for this loan is still earning whatever the index return is for that year. If he earns an average of 7% and is borrowing at 5%, he is averaging a 2% spread.

This is why you're able to take out significant amounts of money from your LASER Fund policy. John's taking over $51,000 a year—that's about 10% of the total $500,000 he's put in. These kinds of policies allow you to take advantage of arbitrage (borrowing at one rate and earning at a higher rate), which can give you a very useful financial advantage, especially because it's tax-free.

Take a look at the death benefit—in Year 6 it starts to decrease. It will keep decreasing for the next thirty years or so of the policy. Why? The loans impact the death benefit, and then in Year 12, we also purposely lower the death benefit to save money on policy charges. (Because decreasing the fees increases your income.)

If John had opened this policy when he was younger, say at age 35, his death benefit would have started at around $4 million. If he had been older, at age 70, it would have started closer to $900,000. Keep in mind that age, gender, and health impact the level of the death benefit, while the cost remains essentially the same at any age.

We point all of this out because understanding the ins and outs, ups and downs of this (or ANY) type of policy is invaluable for your future. Whatever you decide to do, it's important to partner with financial professionals who want to help educate you so you're making fully informed decisions about your money, acting as co-fiduciaries to pursue your best interests.

Years 11 – 40 Summary

FIGURE 9.10

Age	End of Policy Year	Premium Outlay	Net Distributions	Interest/ Loan Credits	Interest Bonus credit	Policy Charges	Loan Charges	Accumulation Value	Cash Value	Death Benefit
71	11	$0	$51,156	$48,123	$7,218	$7,836	$17,398	$788,230	$413,653	**$940,643**
72	12	$0	$51,156	$50,830	$7,624	$4,796	$20,826	$841,889	$399,940	**$513,996**
73	13	$0	$51,156	$53,954	$8,093	$1,206	$24,425	$902,730	$389,811	$489,111
74	14	$0	$51,156	$57,413	$8,612	$1,074	$28,204	$967,681	$375,402	$462,494
75	15	$0	$51,156	$61,122	$9,168	$911	$32,172	$1,037,061	$361,454	$434,049
76	16	$0	$51,156	$65,097	$9,765	**$792**	$36,338	$1,111,131	$348,030	$403,587
77	17	$0	$51,156	$69,347	$10,402	$945	$40,713	$1,189,935	$334,965	$394,462
78	18	$0	$51,156	$73,881	$11,082	$1,130	$45,306	$1,273,768	$322,336	$386,025
79	19	$0	$51,156	$78,718	$11,808	$1,343	$50,129	$1,362,950	$310,233	$378,381
80	20	$0	$51,156	$83,877	$12,582	$1,590	$55,194	$1,457,819	$298,752	$371,643
		$500,000	$767,340							
81	21	$0	$51,156	$89,380	$13,407	$1,894	$60,511	$1,558,711	$287,978	$365,913
82	22	$0	$51,156	$95,244	$14,287	$2,319	$66,094	$1,665,922	$277,938	$361,234
83	23	$0	$51,156	$101,487	$15,223	$2,849	$71,957	$1,779,784	$268,686	$357,675
84	24	$0	$51,156	$108,130	$16,220	$3,516	$78,113	$1,900,618	$260,252	$355,283
85	25	$0	$51,156	$115,189	$17,278	$4,383	$84,576	$2,028,702	$252,604	$354,039
86	26	$0	$51,156	$122,676	$18,401	$5,558	$91,363	$2,164,222	$245,605	$353,816
87	27	$0	$51,156	$130,613	$19,592	$6,739	$98,489	$2,307,688	$239,426	$354,811
88	28	$0	$51,156	$139,020	$20,853	$8,187	$105,971	$2,459,374	$233,986	$356,955
89	29	$0	$51,156	$147,910	$22,186	$10,042	$113,827	$2,619,429	$229,057	$360,029
90	30	$0	$51,156	$157,286	$23,593	$12,308	$122,076	$2,788,000	$224,397	$363,797
		$500,000	$1,278,900							
91	31	$0	$51,156	$167,152	$25,073	**$15,124**	$130,738	$2,965,101	$219,603	$367,858
92	32	$0	$51,156	$177,637	$26,646	$14,950	$139,833	$3,154,434	**$217,948**	$344,125
93	33	$0	$51,156	$188,923	$28,338	$13,797	$149,382	$3,357,898	**$220,874**	$321,611
94	34	$0	$51,156	$201,159	$30,174	$11,219	$159,409	$3,578,012	$230,423	$301,983
95	35	$0	$51,156	$214,521	$32,178	$6,767	$169,937	$3,817,944	$249,261	$287,441
96	36	$0	$51,156	$229,255	$34,388	**$90**	$180,992	$4,081,497	$280,666	$280,666
97	37	$0	$51,156	$245,278	$36,792	$90	$192,599	$4,363,477	$318,890	$318,890
98	38	$0	$51,156	$262,472	$39,371	$90	$204,787	$4,665,230	$364,700	$364,700
99	39	$0	$51,156	$280,928	$42,139	$90	$217,584	$4,988,206	$418,937	$418,937
100	40	$0	$51,156	$300,739	$45,111	$90	$231,021	$5,333,966	$482,519	$482,519
Total		**$500,000**	**$1,790,460**							

In Figure 9.10, you can see that just like with Larry's policy, the death benefit cuts nearly in half between Year 11 and Year 12 (remember, we opt to do this with most policies between Years 9 and 12 to lower the policy charges).

Notice the policy charges. They begin to drop significantly in tandem with the death benefit in Year 12—as low as $792 in Year 16. By Year 31 they peak again at over $15,000. (All things considered, that's a small price to pay for a policy that has provided more than $1.3 million in tax-free income by that point.) At Year 36, the policy charges drop to $90 a year for the remainder of the policy.

The reason the policy charges take this down-up-down trajectory? Again, the answer is risk. Policy charges, or the cost of insurance, are based on the risk the insurance company is carrying at any particular point in time, determined by the insured's age.

FIGURE 9.11

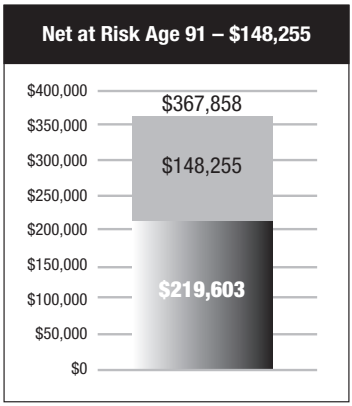
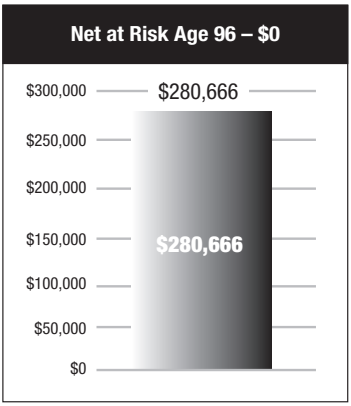


FIGURE 9.12



For example, in Figure 9.11, at age 91, when Larry has $219,603 of cash value and his death benefit is $367,858, the difference between those two numbers ($148,255) is the insurance company's risk. Figure 9.12 shows that at age 96, Larry's cash value is $280,666, and his death benefit is exactly the same, $280,666. The risk to the insurer is $0, so the policy charges are a nominal $90 per year, which simply covers maintaining the account.

Now let's look at his accumulation value in Figure 9.10, which you can see continues to increase year-over-year. This is because he's not actually withdrawing his money—he's just borrowing it. His accumulation value keeps accruing interest. His cash value (which is the net amount he has after the loan balance) is decreasing each year until Year 32, due in part to the annual tax-free loan of $51,156. Notice how it starts to climb again at Year 33. While it's complicated, to put it simply, this is due to the arbitrage. He is borrowing at 5% and still earning higher rates on the accumulation value, all while the policy charges are decreasing.

In this illustration, we have shown that John is not repaying his annual loans. With LASER Funds, you don't have to—the loans and loan charges can simply go against the accumulation value, and the death benefit when you pass on. That is why the cash value and death benefit

are lower, because that's the net value after the loans are paid off when you pass away. (You can, however, repay loans if you choose. When you do, it will add more money to the cash value.)

At the end of Year 40, John has still only paid $500,000 into the policy, and he's had the benefit of nearly $1.8 million in tax-free income over the past few decades. He and his children have peace of mind that this fund is helping ensure he has a good financial quality of life throughout his golden years. And it's still providing a death benefit when John's time is done.

This example has shown an annual income of over $51,000, but you may be wondering about inflation. We used this example to keep things simple, but you do have options in how much income you take over the years to counteract inflation. For example, rather than taking the same maximum amount of income each year, you can start with a lesser amount and increase the size of the policy loans over time. Applying this approach to John's scenario, he could start taking $34,000 a year at age 66, then increase the loan amount 3% a year for the life of the policy. This means by age 80, his income would be over $51,000 a year; at age 90, it would be over $69,000; and by age 100, he would be taking out over $92,000 a year.

LASER FUND – DIFFERENT INCOME AT DIFFERENT TIMES

LASER Funds can be versatile—used for a variety of purposes, along with their valuable death benefit. In this example, we'll explore how it can be leveraged to provide for things like travel, real estate, and retirement income.

- **Insured's description**: Steve's a sixty-year-old, healthy non-smoker.
- **Size of policy**: He's looking to put away $500,000 (after-tax money).
- **Required amount of insurance**: The required amount of insurance for Steve is just over $1,300,000. (As mentioned, this amount is based on the desire to put in $500,000 at his age and gender.)
- **Planned annual premiums:** He'll pay $100,000 a year, every year for five years until the policy is fully funded.

- **Average annual rate of return**: To be conservative, we'll assume the policy is earning an average gross annual interest rate of 7%.
- **Interest Bonus Credit:** Steve's policy has a guaranteed interest bonus that will be credited in all policy years, based on the index allocations selected. Starting in Policy Year 1, the interest bonus is equal to 15% of any interest credited to the bonus indexed allocations at the end of each policy year.
- **Index**: Steve is also using the Blended Index annual point-to-point (with a 0% floor and a 20% cap), the Bloomberg US Dynamic Balance Index II annual point-to-point with par rate (with a 0% floor, no cap, and a 135% participation rate), and the PIMCO Tactical Balanced Index annual point-to-point (with a 0% floor, no cap, and a 135% participation rate).
- **LASER Fund Objective:** Steve wants to put his money into a safe vehicle so it can grow—and so he can take advantage of the policy's liquidity for a few personal pursuits, and then ongoing annual income from age 70 on.

Years 1 - 5 Summary

FIGURE 9.13

Age	End of Policy Year	Premium Outlay	Interest/ Loan Credits	Interest Bonus credit	Policy Charges	Loan Charges	Accumulation Value	Cash Value	Death Benefit
61	1	$100,000	$6,258	$939	$14,200	$0	$92,997	$60,021	$1,306,000
62	2	$100,000	$12,789	$1,918	$15,104	$0	$192,601	$160,499	$1,306,000
63	3	$100,000	$19,795	$2,969	$15,805	$0	$299,560	$268,333	$1,306,000
64	4	$100,000	$27,344	$4,102	$15,848	$0	$415,158	$384,813	$1,306,000
65	5	$100,000	$35,520	$5,328	$15,467	$0	$540,539	$511,082	$1,306,000
Total		$500,000							

Not surprisingly, Steve's policy looks just like Larry and John's during the first five years, with matching numbers in all categories (see Figure 9.13). The next several years is where things get interesting, as Steve uses this policy in different ways.

Years 6 – 40 Summary

FIGURE 9.14

Age	End of Policy Year	Premium Outlay	Net Distributions	Interest/ Loan Credits	Interest Bonus credit	Policy Charges	Loan Charges	Accumulation Value	Cash Value	Death Benefit
66	6	$0	$0	$37,874	$5,681	$7,536	$0	$576,559	$547,990	$1,306,000
67	7	$0	**$30,000**	$40,084	$6,013	$7,513	$1,500	$615,143	$555,975	$1,274,500
68	8	$0	$0	$42,794	$6,419	$7,442	$1,575	$656,915	$600,782	$1,272,925
69	9	$0	**$100,000**	$44,612	$6,692	$7,460	$6,654	$700,758	$542,582	$1,166,271
70	10	$0	**$30,000**	$47,293	$7,094	$7,623	$8,486	$747,522	$555,476	$1,127,785
		$500,000	$160,000							
71	11	$0	$30,000	$50,160	$7,524	$7,785	$10,411	$797,421	$569,575	$1,087,374
72	12	$0	$30,000	$53,347	$8,002	$4,810	$12,431	$853,960	$588,292	$703,917
73	13	$0	$30,000	$57,003	$8,551	$1,222	$14,553	$918,292	$612,681	$713,694
74	14	$0	$30,000	$61,054	$9,158	$1,091	$16,781	$987,413	$635,022	$723,889
75	15	$0	$30,000	$65,420	$9,813	$927	$19,120	$1,061,718	$660,208	$734,528
76	16	$0	$30,000	$70,124	$10,519	$809	$21,576	$1,141,552	$688,466	$745,544
77	17	$0	$30,000	$75,180	$11,277	$969	$24,154	$1,227,040	$719,800	$781,152
78	18	$0	$30,000	$80,605	$12,091	$1,162	$26,862	$1,318,574	$754,472	$820,400
79	19	$0	$30,000	$86,426	$12,964	$1,388	$29,705	$1,416,576	$792,769	$863,598
80	20	$0	$30,000	$92,670	$13,901	$1,649	$32,690	$1,521,497	$835,000	$911,075
		$500,000	$460,000							
81	21	$0	$30,000	$99,368	$14,905	$1,973	$35,825	$1,633,797	$881,475	$963,165
82	22	$0	$30,000	$106,546	$15,982	$2,427	$39,116	$1,753,898	$932,460	$1,020,155
83	23	$0	$30,000	$114,234	$17,135	$2,995	$42,572	$1,882,273	$988,262	$1,082,376
84	24	$0	$30,000	$122,462	$18,369	$3,713	$46,201	$2,019,391	$1,049,180	$1,150,150
85	25	$0	$30,000	$131,259	$19,689	$4,651	$50,011	$2,165,687	$1,115,466	$1,223,750
86	26	$0	$30,000	$140,648	$21,097	$5,928	$54,011	$2,321,505	$1,187,272	$1,303,347
87	27	$0	$30,000	$150,664	$22,600	$7,222	$58,212	$2,487,546	$1,265,102	$1,389,480
88	28	$0	$30,000	$161,344	$24,202	$8,818	$62,622	$2,664,274	$1,349,208	$1,482,421
89	29	$0	$30,000	$172,711	$25,907	$10,871	$67,253	$2,852,021	$1,439,701	$1,582,302
90	30	$0	$30,000	$184,787	$27,718	$13,392	$72,116	$3,051,133	$1,536,698	$1,689,255
		$500,000	**$760,000**							
91	31	$0	$30,000	$197,587	$29,638	$16,543	$77,222	$3,261,816	$1,640,159	$1,803,250
92	32	$0	$30,000	$211,272	$31,691	$16,437	$82,583	$3,488,343	$1,754,103	$1,893,636
93	33	$0	$30,000	$226,058	$33,909	$15,248	$88,212	$3,733,061	$1,880,609	$1,992,600
94	34	$0	$30,000	$242,126	$36,319	$12,463	$94,123	$3,999,043	$2,022,468	$2,102,449
95	35	$0	$30,000	$259,710	$38,957	$7,553	$100,329	$4,290,157	$2,183,253	$2,226,155
96	36	$0	$30,000	$279,098	$41,865	$90	$106,845	$4,611,029	$2,367,281	$2,367,281
97	37	$0	$30,000	$300,228	$45,034	$90	$113,687	$4,956,202	$2,568,766	$2,568,766
98	38	$0	$30,000	$322,998	$48,450	$90	$120,872	$5,327,560	$2,789,252	$2,789,252
99	39	$0	$30,000	$347,537	$52,131	$90	$128,415	$5,727,138	$3,030,415	$3,030,415
100	40	$0	$30,000	$373,984	$56,098	$90	$136,336	$6,157,130	$3,294,070	$3,294,070
		$500,000	**$1,060,000**							

Looking at Figure 9.14, you can see that in Year 7, Steve wants to celebrate his recent retirement with a big family trip—he and his wife take the kids and grandkids on a ten-day Caribbean cruise. Rather than use cash from another account or take out a home equity loan, he turns to his LASER Fund to cover the entire $30,000 trip.

In Year 9, Steve and his wife decide they want to invest in a second home, a large family cabin where they can hold Family Retreats with a Purpose,

Grandpa's Camp, and just get away from the day-to-day (more on Retreats with a Purpose and Grandpa's Camp in Section II, Chapter 1.)

They take out a loan from their cash value of $100,000 for a down payment on a $500,000 cabin. They finance the remaining $400,000 with a thirty-year amortized mortgage, at 4.25% interest. The monthly mortgage payment is $1,967 a month, or nearly $24,000 a year. Taxes, insurance, and maintenance will come to about $6,000 a year, so they take out an annual loan of $30,000 every year thereafter to cover the mortgage and related cabin costs.

What's great about this plan is they are paying for the cabin with tax-free money. Depending on tax laws, they may also be getting federal itemized tax deductions on the second home's mortgage and insurance. Their policy is more than paying for itself, and they will have an income-tax-free death benefit to pass along to their children someday.

STARTING YOUNGER

Now there are different ways you can use these LASER Fund policies—you don't have to be age 60 with a significant amount of money. You can be younger, looking to use a LASER Fund to put a little money away every month as you look far down the road to retirement. Let's see how this might play out with a new scenario:

- **Insured's description**: Denise is a forty-year-old, healthy non-smoker.
- **Size of policy**: In this case, Denise doesn't have a particular size of the policy she's looking to maximum fund in the next five years. Instead, she's focused on setting money aside in this policy over the next few decades.
- **Required amount of insurance**: Since this one is structured differently, with different objectives, it is set up differently. It has an increasing death benefit.
- **Planned monthly premiums**: She'll pay $12,000 a year (or $1,000 a month) for the next thirty years into her policy (for a total of $360,000 in premiums by age 70).
- **Average annual rate of return**: To be conservative, we'll assume the policy is earning an average annual interest rate of 7%.

- **Interest Bonus Credit:** Denise's policy has a guaranteed interest bonus that will be credited in all policy years, based on the index allocations selected. Starting in Policy Year 1, the interest bonus is equal to 15% of any interest credited to the bonus indexed allocations at the end of each policy year.
- **Index**: Denise is likewise using the Blended Index annual point-to-point (with a 0% floor and a 20% cap), the Bloomberg US Dynamic Balance Index II annual point-to-point with par rate (with a 0% floor, no cap, and a 135% participation rate), and the PIMCO Tactical Balanced Index annual point-to-point (with a 0% floor, no cap, and a 135% participation rate).
- **LASER Fund Objective**: Denise wants to set aside $12,000 a year from age 41 to 70. She wants to use her LASER Fund as a type of future planning vehicle—one that provides better liquidity, safety, and rate of return than the 401(k) her work is offering.

Years 1 – 10 Summary

FIGURE 9.15

Age	End of Policy Year	Premium Outlay	Net Distributions	Interest/ Loan Credits	Interest Bonus credit	Policy Charges	Loan Charges	Accumulation Value	Cash Value	Death Benefit
41	1	**$12,000**	$0	$736	$110	$2,093	$0	$10,753	$1,052	**$432,751**
42	2	$12,000	$0	$1,495	$224	$2,106	$0	$22,367	$12,762	$444,365
43	3	$12,000	$0	**$2,312**	**$347**	**$2,180**	$0	$34,846	$25,347	$456,844
44	4	$12,000	$0	$3,189	$478	$2,270	$0	**$48,244**	$38,850	$470,242
45	5	$12,000	$0	$4,133	$620	$2,319	$0	$62,678	$53,390	$484,676
46	6	$12,000	$0	$5,150	$773	$2,376	$0	$78,225	$69,051	$500,223
47	7	$12,000	$0	$6,245	$937	$2,445	$0	$94,963	$85,902	$516,961
48	8	$12,000	$0	$7,424	$1,114	$2,525	$0	$112,976	$105,426	$534,974
49	9	$12,000	$0	$8,692	$1,304	$2,612	$0	$132,360	$126,321	$554,358
50	10	$12,000	$0	$10,091	$1,514	$2,231	$0	$153,733	$149,205	$575,731
		$120,000								

You can see in the Premium Outlay column of Figure 9.15 how Denise is adding her $12,000 a year to the policy faithfully. She starts with a $432,751 death benefit (not bad for just putting in $12,000), and that only goes up from there. In the first couple years, her policy charges do outweigh her interest credits, so she is not making money yet. But that changes in Year 3, when she starts to earn more in interest than she's paying in policy charges. By Year 4, her accumulation value ($48,244) is greater than her premium outlay ($48,000).

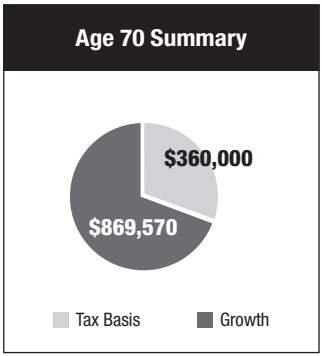
Years 11 – 30 Summary

FIGURE 9.16

Age	End of Policy Year	Premium Outlay	Net Distributions	Interest/ Loan Credits	Interest Bonus credit	Policy Charges	Loan Charges	Accumulation Value	Cash Value	Death Benefit
51	11	**$12,000**	$0	$11,596	$1,739	$2,342	$0	$176,727	$173,710	$598,725
52	12	$12,000	$0	$13,217	$1,983	$2,387	$0	$201,539	$200,033	$623,537
53	13	$12,000	$0	$14,992	$2,249	$1,777	$0	$229,004	$229,004	$651,002
54	14	$12,000	$0	$16,930	$2,540	$1,805	$0	$258,668	$258,668	$680,666
55	15	$12,000	$0	$19,023	$2,853	$1,840	$0	$290,706	$290,706	$712,704
56	16	$12,000	$0	$21,283	$3,192	$1,893	$0	$325,289	$325,289	$747,287
57	17	$12,000	$0	$23,723	$3,558	$1,945	$0	$362,625	$362,625	$784,623
58	18	$12,000	$0	$26,357	$3,953	$1,998	$0	$402,937	$402,937	$824,935
59	19	$12,000	$0	$29,201	$4,380	$2,038	$0	$446,480	$446,480	$868,478
60	20	$12,000	$0	$32,274	$4,841	$2,071	$0	$493,524	$493,524	$915,522
		$240,000								
61	21	$12,000	$0	$35,594	$5,339	$2,100	$0	$544,358	$544,358	$966,356
62	22	$12,000	$0	$39,182	$5,877	$2,125	$0	$599,292	$599,292	$1,021,290
63	23	$12,000	$0	$43,060	$6,459	$2,146	$0	$658,665	$658,665	$1,080,663
64	24	$12,000	$0	$47,251	$7,088	$2,146	$0	$722,858	$722,858	$1,144,856
65	25	$12,000	$0	$51,783	$7,768	$2,146	$0	$792,264	$792,264	$1,214,262
66	26	$12,000	$0	$56,676	$8,501	$2,347	$0	$867,093	$867,093	$1,289,091
67	27	$12,000	$0	$61,950	$9,293	$2,562	$0	$947,774	$947,774	$1,369,772
68	28	$12,000	$0	$67,637	$10,146	$2,801	$0	$1,034,756	$1,034,756	$1,456,754
69	29	$12,000	$0	$73,768	$11,065	$3,075	$0	$1,128,514	$1,128,514	$1,550,512
70	30	$12,000	$0	$80,376	$12,056	$3,375	$0	$1,229,570	$1,229,570	**$1,651,568**
		$360,000								

In these next two decades, you can see in Figure 9.16 how Denise's policy continues with similar patterns. Her premium outlay is consistently $12,000 a year. (In our illustration here, we're showing what it looks like if you're only able to set aside a modest amount. In general, if during these prime earning years your income goes up, it's prudent to save more by opening another policy.)

FIGURE 9.17



Note that Denise is still not taking out any loans (using this purely as an accumulation vehicle until later in retirement). Her interest credits continue to climb, as does every other category. By Year 30, she has more than $1.6 million in death benefit. That's nearly five times more than she's put into the policy over the past thirty years (see Figure 9.17). She's ready to start taking retirement income from the policy soon, which we'll look at in the coming years.

Years 31 + Summary

FIGURE 9.18

Age	End of Policy Year	Premium Outlay	Net Distributions	Interest/ Loan Credits	Interest Bonus credit	Policy Charges	Loan Charges	Accumulation Value	Cash Value	Death Benefit
71	31	$0	**$125,520**	$85,294	$12,794	$3,042	$6,276	$1,324,617	$1,192,821	$1,519,772
72	32	$0	$125,520	$90,553	$13,583	$2,654	$12,866	$1,426,098	$1,155,917	$1,381,387
73	33	$0	$125,520	$96,199	$14,430	$2,073	$19,785	$1,534,655	$1,119,168	$1,287,980
74	34	$0	$125,520	$102,270	$15,340	$1,446	$27,050	$1,650,819	$1,082,762	$1,231,336
75	35	$0	$125,520	$108,776	$16,316	$1,363	$34,679	$1,774,549	$1,046,293	$1,170,511
76	36	$0	$125,520	$115,735	$17,360	$1,187	$42,689	$1,906,458	$1,009,993	$1,105,316
77	37	$0	$125,520	$123,167	$18,475	$1,412	$51,099	$2,046,688	$973,604	$1,075,938
78	38	$0	$125,520	$131,091	$19,664	$1,682	$59,930	$2,195,760	$937,226	$1,047,014
79	39	$0	$125,520	$139,539	$20,931	$2,008	$69,203	$2,354,223	$900,966	$1,018,677
80	40	$0	$125,520	$148,545	$22,282	$2,395	$78,939	$2,522,654	$864,938	$991,071
		$360,000	**$1,255,200**							
81	41	$0	$125,520	$158,142	$23,721	$2,865	$89,162	$2,701,653	$829,255	$964,338
82	42	$0	$125,520	$168,368	$25,255	$3,459	$99,896	$2,891,817	$794,003	$938,594
83	43	$0	$125,520	$179,257	$26,889	$4,170	$111,167	$3,093,792	$759,292	$913,981
84	44	$0	$125,520	$190,850	$28,627	$5,020	$123,001	$3,308,249	$725,228	$890,640
85	45	$0	$125,520	$203,181	$30,477	$6,154	$135,427	$3,535,753	$691,785	$868,573
86	46	$0	$125,520	$216,283	$32,442	$7,601	$148,474	$3,776,878	$658,915	$847,759
87	47	$0	$125,520	$230,196	$34,529	$9,185	$162,174	$4,032,419	$626,762	$828,383
88	48	$0	$125,520	$244,963	$36,744	$11,076	$176,559	$4,303,051	$595,315	$810,467
89	49	$0	$125,520	$260,616	$39,092	$13,477	$191,663	$4,589,281	$564,363	$793,827
90	50	$0	$125,520	$277,183	$41,578	$16,349	$207,522	$4,891,694	$533,733	$778,318
		$360,000	**$2,510,400**							
91	51	$0	$125,520	$294,697	$44,204	$19,751	$224,174	$5,210,844	$503,189	$763,732
92	52	$0	$125,520	$313,363	$47,004	$19,054	$241,659	$5,552,158	$477,324	$699,411
93	53	$0	$125,520	$333,444	$50,017	$17,214	$260,018	$5,918,404	$458,033	$635,585
94	54	$0	$125,520	$355,141	$53,271	$13,775	$279,295	$6,313,042	$447,856	$574,117
95	55	$0	$125,520	$378,708	$56,806	$8,265	$299,535	$6,740,291	$450,050	$517,453
96	56	$0	$125,520	$404,454	$60,668	$90	$320,788	$7,205,322	$468,774	$468,774
97	57	$0	$125,520	$432,317	$64,848	$90	$343,103	$7,702,398	$497,225	$497,225
98	58	$0	$125,520	$462,195	$69,329	$90	$366,535	$8,233,832	$536,605	$536,605
99	59	$0	$125,520	$494,238	$74,136	$90	$391,137	$8,802,116	$588,232	$588,232
100	60	$0	$125,520	$528,608	$79,291	$90	$416,970	$9,409,925	$653,551	**$653,551**
		$360,000	**$3,765,600**							

At age 71, Denise starts to take out an annual income of $125,520 income-tax-free (see Figure 9.18). That may sound like a lot, but with inflation, that $125,520 won't likely be doing much more than covering the basics thirty years from now (which is another reminder that you will likely need more than you think now to avoid outliving your money down the road).

At this point Denise's financial professional also transitions her policy from an increasing death benefit to a level death benefit—this way she can minimize her fees. As Denise takes her annual income, you can see her death benefit decrease slightly year-to-year. But she's not worried. Her intention with this policy is ultimately to provide retirement income at this stage of her life so she won't be a burden on her family, and so that she can enjoy a decent quality of life during her golden years. Also, she's getting older and she won't need as much death benefit. As you can see in Figures 9.19, 9.20, and 9.21, in all, by the time she passes away (in our illustration, at age 100), she will have enjoyed more than $3.7 million in total retirement income-tax-free, and will leave over $650,000 in income-tax-free death benefit to her heirs. A pretty good return for just socking away $12,000 a year from age 41 to 70.

FIGURE 9.19

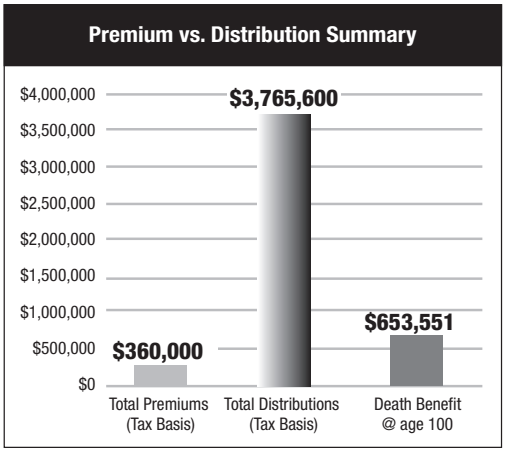


FIGURE 9.20

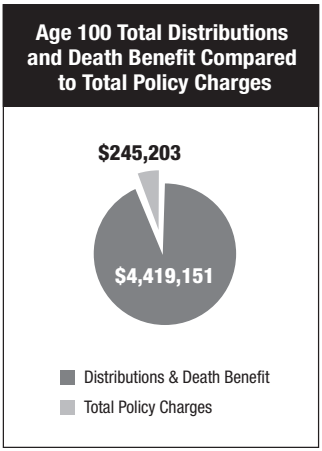
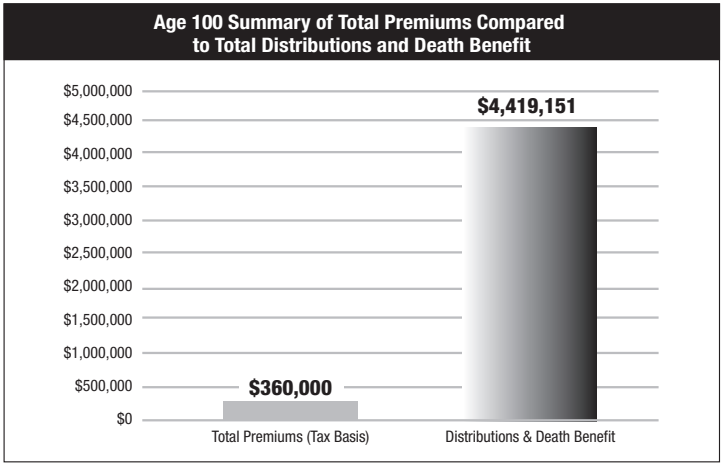


FIGURE 9.21



LASER FUND – SO MANY WAYS TO BENEFIT YOUR LIFE

Whatever your financial objectives, as you can see, the LASER Fund is a flexible financial vehicle that can help you reach your desired destination. In all, let's recap these typical LASER Fund benefits:

- Typically for The LASER Fund, by the end of Year 5, the policy has paid for itself.
- While we're using an average annual interest rate of 7% in these illustrations, the year-to-year interest rate depends on the index you choose and how the market impacts that index.
- If the economy soars, your rate of return will likely have a cap that sets a "ceiling" on the highest percentage you can earn that year. If the economy were to experience a downturn, because LASER Fund policies have a guaranteed "floor," you won't lose any principal due to market volatility. Whatever your policy has previously earned becomes newly protected principal and you would simply earn 0% that year.

In our next chapter, we'll look at examples of how the LASER Fund compares to other common financial vehicles, to better understand your financial portfolio options.

TOP 5 TAKEAWAYS

1. To understand how The LASER Fund works, we've illustrated four different scenarios in this chapter.
2. First, we explore the ins and outs of a LASER Fund created primarily for tax-deferred financial growth and income-tax-free wealth transfer, with no intention to access income from the policy, tax-free.
3. Next, we look at a LASER Fund where the policyholder takes the maximum income allowed based on policy assumptions starting at age 66.
4. We also examine a LASER Fund where the policyholder accesses different amounts of money in the early years, then takes annual tax-free retirement income from the policy after age 70.
5. Finally, we look at a LASER Fund that is structured differently —one where the policyholder contributes modest annual amounts starting at age 40, and then begins taking tax-free retirement income from age 70 on.

10

Comparing Different Vehicles

Imagine you're finishing up a lovely meal at a fine dining restaurant. The last morsels of grilled Niman flap steak are melting in your mouth as the server appears to inquire about dessert. Your dinner party looks at each other—no one can resist, so you tell your server, "Yes, we'd like dessert." She asks, "Salted caramel pudding? Coconut semifrido? Vanilla bean mousse?" You shrug and say, "Whatever. They cost about the same, so they all taste the same, right?"

Of course not. We all know no two desserts on the menu will deliver the same experience. But for some reason the same doesn't always hold true when people consider different financial vehicles. Many people assume they all deliver about the same benefits, so they figure it doesn't really matter which ones they choose.

But they are all different. And it's helpful to see how the approaches compare to one another, to analyze what you're getting, what you're paying for (in costs and taxes), and what works best for you. (And remember, it's wise to have a mix of financial vehicles in your portfolio to provide balance, just like it's always nice to order different desserts to get the best of both worlds.)

A NOTE ON TAX BRACKETS

Throughout much of this book we've been examining The LASER Fund, which can provide tax-free access to your money, with a death benefit that transfers income-tax-free to your heirs. So the impact of taxes hasn't been a factor in our illustrations yet—but it will now as we explore scenarios with taxable and tax-advantaged vehicles.

Before we dive into the illustrations, let's take a quick moment to understand tax brackets. Keep in mind when analyzing the actual benefit of a tax deduction or comparing financial vehicles, you should use your marginal tax rate rather than your effective tax rate.

Here's why: there's a significant difference between your **effective** tax rate and your **marginal** tax bracket. Your effective tax rate is the tax percentage you pay when compared to your total income. Your marginal tax bracket is the highest tax bracket into which your taxable income falls.

For example, let's say we have a married couple whose combined income is $200,000. They have deductions and exemptions of $60,000, comprised of mortgage interest, charitable contributions, and dependents in the home who qualify as exemptions. Their taxable income then is $140,000, which puts them in a marginal federal tax bracket of 22% and a state tax bracket of 5%—for a combined bracket of 27%.

It's important to remember that not all of income is taxed at the highest bracket. This is a concept that is often confusing for people. They can grow alarmed when their financial professional alerts them that they're close to moving into the next tax bracket (from 22% to 24%, for example). They fear that all their income will be taxed at the higher rate. This is not true. You only pay the higher rate on dollars earned in excess of each tax threshold.

To explain, for our couple in the example, at current tax rates, they would pay income tax of only 10% on the first $19,050 (which is $1,905); 12% on $19,050 to 77,400 ($7,002); and 22% on the remaining $62,600 ($13,772). Their total taxes would add up to $22,679, which is 11.34% of their $200,000 gross income. So their effective tax bracket is 11.34%, while their marginal bracket is 22%. (Keep in mind this simple example does not include FICA, Medicare, or state income tax.)

For the sake of simplicity, the examples in this chapter will assume a combined federal and state income marginal tax bracket of 27%. Because the principles here remain the same regardless of changes that determine the precise tax bracket, it's easier mathematically to say that just under one-third of income is allocated for taxes. Feel free to extrapolate any illustrations for your personal income tax bracket.

LASER FUND VS. TAXED-AS-EARNED ACCOUNT

For our first comparison, let's borrow an example from Section I, Chapter 9. We'll go with John, who is age 60. He has $500,000 after-tax money he wants to set aside in a financial vehicle that will allow him to take regular annual income during retirement.

To recap the highlights of John's LASER Fund, his policy earns an average of 7% in interest per year. Starting at age 66, he begins taking a maximum annual income of $51,156 every year, income-tax-free.

Now what if John chooses a taxed-as-earned account instead? This could be a vehicle such as a brokerage account, mutual fund, or managed money account. These vehicles are typically for after-tax dollars. You pay income taxes on any annual interest gained or distributions, and if sold, capital gains taxes are assessed on the sale.

What would John's scenario look like if he put his $500,000 after-tax money into a taxed-as-earned account rather than a LASER Fund? To keep things as "apples to apples" as possible with this comparison, we'll say his taxed-as-earned account is earning an average rate of return of 7% (even though, according to DALBAR, the average stock market investor has averaged just 3.64% between 2006 and 2016). We'll also say he's being charged the industry average of 1.5% in annual expenses, and he's in a 27% marginal tax bracket.

In Figure 10.1, you can see how John's first five years would compare with the two different vehicles:

FIGURE 10.1

			LASER Fund Illustrated Policy Values				Taxed-As-Earned 7% Growth & 1.5% Expense	
Age	End of Policy Year	Premium	After-Tax Policy Loan	Accumulation Value	Cash Value	Death Benefit	After-Tax Cash Flow	Account Value
61	1	$100,000	$0	$92,997	$60,021	$1,306,000	$0	**$103,533**
62	2	$100,000	$0	$192,601	$160,499	$1,306,000	$0	$210,725
63	3	$100,000	$0	$299,560	$268,333	$1,306,000	$0	$321,704
64	4	$100,000	$0	$415,158	$384,813	$1,306,000	$0	$436,604
65	5	$100,000	$0	**$540,539**	$511,082	**$1,306,000**	$0	**$555,564**

Comparing activity between The LASER Fund and the taxed-as-earned account, at the end of Year 5, John's LASER Fund accumulation value would be $540,539, whereas the taxed-as-earned account value would be $555,564. The taxed-as-earned account's value would be higher than the LASER Fund's at this point, because LASER Fund policies tend to have higher policy charges during those early years (remember, LASER Funds are long-term financial vehicles).

If by some misfortune John were to pass away during these early years, his designated beneficiary would inherit the taxed-as-earned account (with a value ranging from $103,533 to $555,564 during the first five years). But the beneficiary would also be responsible for any taxes due on the taxed-as-earned account on John's final tax return, as well as all taxes moving forward. With the LASER Fund, John's heirs would receive over $1.3 million in death benefit from the LASER Fund, completely income-tax-free.

Now let's look at the next thirty years (see Figure 10.2):

FIGURE 10.2

			LASER Fund Illustrated Policy Values				Taxed-As-Earned 7% Growth & 1.5% Expense	
Age	End of Policy Year	Premium	After-Tax Policy Loan	Accumulation Value	Cash Value	Death Benefit	After-Tax Cash Flow	Account Value
66	6	$0	**$51,156**	$575,904	$493,621	$1,252,286	**$51,156**	$522,231
67	7	$0	$51,156	$613,470	$475,689	$1,195,887	$51,156	$487,720
68	8	$0	$51,156	$653,429	$461,039	$1,136,667	$51,156	$451,989
69	9	$0	$51,156	$695,840	$445,879	$1,074,487	$51,156	$414,996
70	10	$0	$51,156	$740,725	$430,091	$1,009,197	$51,156	$376,695
Tot.		**$500,000**	**$255,780**	**$740,725**	**$430,091**	**$1,009,197**	**$255,780**	**$376,695**
71	11	$0	$51,156	$788,230	$413,653	$940,643	$51,156	$337,042
72	12	$0	$51,156	$841,889	$399,940	$513,996	$51,156	$295,987
73	13	$0	$51,156	$902,730	$389,811	$489,111	$51,156	$253,482
74	14	$0	$51,156	$967,681	$375,402	$462,494	$51,156	$209,475
75	15	$0	$51,156	$1,037,061	$361,454	$434,049	$51,156	$163,913
76	16	$0	$51,156	$1,111,131	$348,030	$403,587	$51,156	$116,741
77	17	$0	$51,156	$1,189,935	$334,965	$394,462	$51,156	$67,902
78	18	$0	$51,156	$1,273,768	$322,336	$386,025	$51,156	$17,338
79	19	$0	$51,156	$1,362,950	$310,233	$378,381	**$17,338**	$0
80	20	$0	$51,156	$1,457,819	$298,752	$371,643	**$0**	$0
Tot.		**$500,000**	**$767,340**	**$1,457,819**	**$298,752**	**$371,643**	**$682,366**	**$0**
81	21	$0	$51,156	$1,558,711	$287,978	$365,913	$0	$0
82	22	$0	$51,156	$1,665,922	$277,938	$361,234	$0	$0
83	23	$0	$51,156	$1,779,784	$268,686	$357,675	$0	$0
84	24	$0	$51,156	$1,900,618	$260,252	$355,283	$0	$0
85	25	$0	$51,156	$2,028,702	$252,604	$354,039	$0	$0
86	26	$0	$51,156	$2,164,222	$245,605	$353,816	$0	$0
87	27	$0	$51,156	$2,307,688	$239,426	$354,811	$0	$0
88	28	$0	$51,156	$2,459,374	$233,986	$356,955	$0	$0
89	29	$0	$51,156	$2,619,429	$229,057	$360,029	$0	$0
90	30	$0	$51,156	$2,788,000	$224,397	$363,797	$0	$0
Tot.		**$500,000**	**$1,278,900**	**$2,788,000**	**$224,397**	**$363,797**	**$682,366**	**$0**

At age 66, John begins withdrawing an annual income of $51,156. By the end of the year he is age 70, John's income from both vehicles would be the same: a total of $255,780 to-date. The account values would be vastly different, however. To compare them, we'll look specifically at the cash value of The LASER Fund, vs. the account value of the taxed-as-earned account.

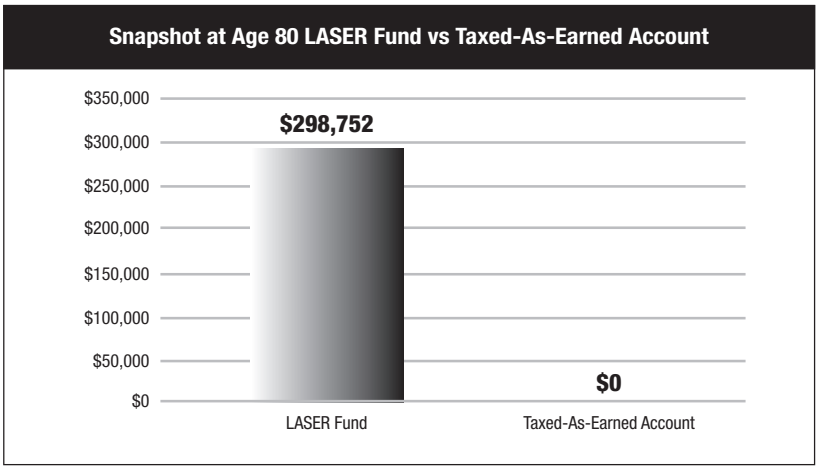
As a side note, we'll use The LASER Fund's cash value rather than the accumulation value for comparisons from here on out because the cash

value reflects the actual liquid cash available to the policyholder if he surrendered the policy at that point. Remember, cash value is the accumulation value, minus any outstanding loan balances and surrender charges (and surrender charges disappear after Year 10). The accumulation value, on the other hand, reflects the total growth of the policy, with the incremental increases year-over-year. Because annual loans aren't technically withdrawn from the account, they're just borrowed, meaning the policyholder's money is still in the policy, earning interest.

Back to our example, by the end of the year he is age 70, John would have a cash value of $430,091 in his LASER Fund; the taxed-as-earned account's value would be nearly $55,000 less, at just $376,695. Why? There are a few factors, including the increasing impact of taxed-as-earned account expenses and taxes. Notice how this gap between the two account values grows wider as time goes on.

Take a look at the taxed-as-earned account value year-over-year (see Figure 10.3). It's decreasing rapidly as he's taking out annual income. This is why by the end of the year he turns age 79, John would withdraw the last bits of income from his account, $17,338. After this, the account would run dry; his account value would be worth $0—he would have no money left in the account.

FIGURE 10.3



But John is just seventy-nine years old. What if he lives beyond that (which, according to current longevity trends, he's likely to)? What if

John makes it to age 90? He would have another eleven years to go. Going the taxed-as-earned account route, he'd need other significant sources of income just to make ends meet, let alone have anything to pass along to his heirs. And this example uses an average rate of return of 7%. What if John experienced a major economic downturn like in 2008, when folks lost as much as 40% of their traditional retirement account values in one year? His taxed-as-earned account would have run out of money much sooner.

Looking at the big picture, by the time John is age 80, his initial $500,000 placed into the taxed-as-earned account would have enabled him to realize a total of $682,366 in after-tax income. Over those same years, that same $500,000 put into his LASER Fund would have yielded slightly more in income, $767,340, but what's more, John could have continued taking out an annual income of $51,156 tax-free for the remainder of the policy. While his annual income could continue forward under these projections, if he passes away at age 90 (see Figures 10.4 and 10.5), he would have realized a total income of over $1.3 million, tax-free. In addition, he would have a death benefit of $363,797 that would transfer to his heirs income-tax-free.

FIGURE 10.4

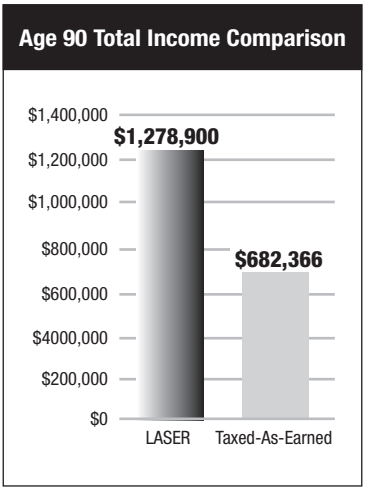
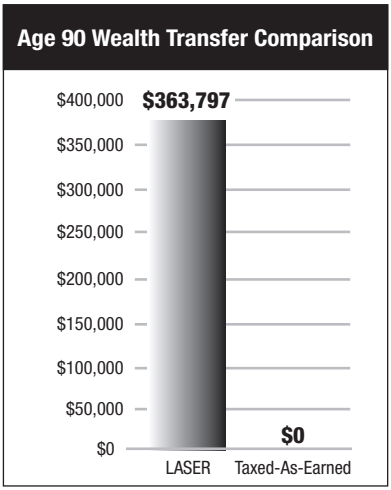


FIGURE 10.5



So that's the comparison on income and death benefit. Let's take this example further, and focus now on the difference between the two financial vehicles when it comes to expenses and taxes.

FIGURE 10.6

			LASER Fund Illustrated Policy Charges			Taxed-As-Earned 7% Growth & 1.5% Expense		
Age	End of Policy Year	Premium	Policy Admin Charges	Cost of Insurance	Total Charges	Mgmt Expenses	Taxes	Total Expense
61	1	$100,000	$12,485	$1,715	$14,200	$1,577	$1,890	$3,467
62	2	$100,000	$12,932	$2,171	$15,103	$3,209	$3,847	$7,056
63	3	$100,000	$13,436	$2,369	$15,805	$4,899	$5,873	$10,772
64	4	$100,000	$13,870	$1,977	$15,847	$6,649	$7,970	$14,619
65	5	$100,000	$14,243	$1,224	$15,467	$8,460	$10,142	$18,602
66	6	$0	$6,527	$1,009	$7,536	$7,953	$9,533	$17,486
67	7	$0	$6,789	$729	$7,518	$7,427	$8,903	$16,331
68	8	$0	$7,056	$401	$7,457	$6,883	$8,251	$15,134
69	9	$0	$7,460	$29	$7,489	$6,320	$7,576	$13,895
70	10	$0	$7,656	$0	$7,656	$5,736	$6,877	$12,613
Total		**$500,000**	**$102,454**	**$11,624**	**$114,078**	**$59,113**	**$70,861**	**$129,975**
71	11	$0	$7,835	$0	$7,835	$5,133	$6,153	$11,285
72	12	$0	$3,616	$1,180	$4,796	$4,507	$5,403	$9,911
73	13	$0	$90	$1,116	$1,206	$3,860	$4,627	$8,487
74	14	$0	$90	$984	$1,074	$3,190	$3,824	$7,014
75	15	$0	$90	$821	$911	$2,496	$2,992	$5,488
76	16	$0	$90	$702	$792	$1,778	$2,131	$3,909
77	17	$0	$90	$855	$945	$1,034	$1,240	$2,274
78	18	$0	$90	$1,040	$1,130	$264	$317	$581
79	19	$0	$90	$1,253	$1,343	$0	$0	$0
80	20	$0	$90	$1,500	$1,590	$0	$0	$0
Total		**$500,000**	**$114,625**	**$21,075**	**$135,700**	**$81,375**	**$97,548**	**$178,923**

Figure 10.6 provides a behind-the-scenes look at how charges can impact your financial vehicle. LASER Fund charges are made of policy administration charges and cost of insurance. You won't be paying any income taxes on the money inside the policy, so you won't see any charges for taxes there. Taxed-as-earned account charges are comprised of management expenses and taxes (remember we're using a combined federal and state marginal tax bracket of 27%), which can start to add up within just a few years.

Looking at the first three years in John's scenario, you can see how The LASER Fund's total charges would be much higher than the taxed-as-

earned account's. But remember his LASER Fund is providing just over a $1.3 million death benefit if he were to pass away early. You can see by Year 5, cost comparisons start to tilt the other way. By Year 6 when John begins taking his annual income, the charges on the taxed-as-earned account would be over two times the charges on The LASER Fund.

At age 79, (the final year John could withdraw money from his taxed-as-earned account before it zeroes out), total charges and taxes for the life of the account would come in at $178,923. That's over $40,000 more than The LASER Fund's total charges at that same point in time, $134,110.

WHAT IF NO INCOME WERE TAKEN OUT?

The difference between the two types of vehicles is especially profound when we look at what develops when no income is taken out. This would apply to those who don't need the income before or during retirement—they simply want to leverage the vehicles for wealth accumulation, which they'll eventually transfer to their heirs. Here's a thirty-five year snapshot:

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FIGURE 10.7

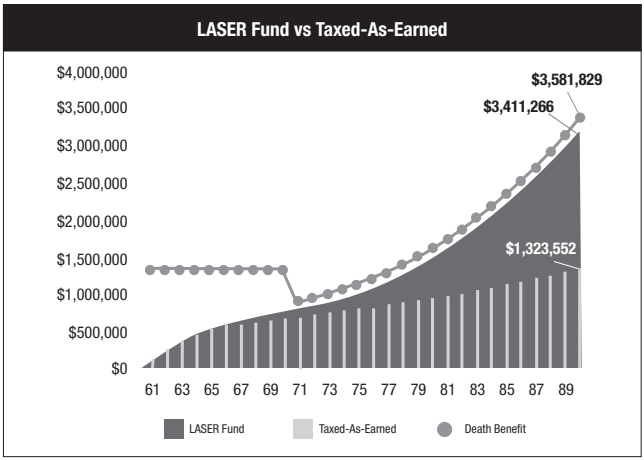
			LASER Fund Illustrated Policy Values				Taxed-As-Earned 7% Growth & 1.5% Expense	
Age	End of Policy Year	Premium	After-Tax Policy Loan	Accumulation Value	Cash Value	Death Benefit	After-Tax Cash Flow	Account Value
61	1	$100,000	$0	$92,997	$60,021	$1,306,000	$0	$103,533
62	2	$100,000	$0	$192,601	$160,499	$1,306,000	$0	$210,725
63	3	$100,000	$0	$299,560	$268,333	$1,306,000	$0	$321,704
64	4	$100,000	$0	$415,158	$384,813	$1,306,000	$0	$436,604
65	5	$100,000	$0	$540,539	$511,082	$1,306,000	$0	$555,564
66	6	$0	$0	$576,559	$547,990	$1,306,000	$0	$575,194
67	7	$0	$0	$615,527	$587,859	$1,306,000	$0	$595,518
68	8	$0	$0	$657,737	$634,679	$1,306,000	$0	$616,560
69	9	$0	$0	$703,356	$684,909	$1,306,000	$0	$638,345
70	10	$0	$0	$752,522	$738,691	$1,306,000	$0	$660,900
Total		**$500,000**	**$0**	**$752,522**	**$738,691**	**$1,306,000**	**$0**	**$660,900**
71	11	$0	$0	$805,530	$796,310	$1,306,000	$0	$684,252
72	12	$0	$0	$865,897	$861,287	$978,464	$0	$708,429
73	13	$0	$0	$934,907	$934,907	$1,037,747	$0	$733,460
74	14	$0	$0	$1,009,654	**$1,009,654**	**$1,100,523**	$0	$759,376
75	15	$0	$0	$1,090,640	$1,090,640	$1,166,985	$0	$786,207
76	16	$0	$0	$1,178,325	$1,178,325	$1,237,241	$0	$813,987
77	17	$0	$0	$1,272,952	$1,272,952	$1,336,600	$0	$842,748
78	18	$0	$0	$1,375,048	$1,375,048	$1,443,800	$0	$872,525
79	19	$0	$0	$1,485,181	$1,485,181	$1,559,440	$0	$903,354
80	20	$0	$0	$1,603,963	$1,603,963	$1,684,161	$0	$935,273
Total		**$500,000**	**$0**	**$1,603,963**	**$1,603,963**	**$1,684,161**	**$0**	**$935,273**
81	21	$0	$0	$1,732,022	$1,732,022	$1,818,623	$0	$968,319
82	22	$0	$0	$1,869,965	$1,869,965	$1,963,463	$0	$1,002,533
83	23	$0	$0	$2,018,460	$2,018,460	$2,119,383	$0	$1,037,956
84	24	$0	$0	$2,178,188	$2,178,188	$2,287,098	$0	$1,074,631
85	25	$0	$0	$2,349,805	$2,349,805	$2,467,295	$0	$1,112,601
86	26	$0	$0	$2,533,879	$2,533,879	$2,660,573	$0	$1,151,914
87	27	$0	$0	$2,731,384	$2,731,384	$2,867,953	$0	$1,192,615
88	28	$0	$0	$2,943,046	$2,943,046	$3,090,198	$0	$1,234,754
89	29	$0	$0	$3,169,465	$3,169,465	$3,327,938	$0	$1,278,382
90	30	$0	$0	$3,411,266	$3,411,266	$3,581,829	$0	$1,323,552
Total		**$500,000**	**$0**	**$3,411,266**	**$3,411,266**	**$3,581,829**	**$0**	**$1,323,552**

Notice in Figure 10.7 that in Years 1 – 12, there's a difference in accumulation value and cash value for John's LASER Fund, but they become the same from Year 13 on. As you recall, this is because the surrender charges disappear in this policy's illustration in Year 13. Also note that the taxed-as-earned account outpaces the growth of The LASER Fund

during the first few years, but by Year 6, things start to shift. As the years go on, the gap between the two vehicles becomes wider and wider.

Looking at Figures 10.7 and 10.8, by Year 20, the insurance policy is worth over $1.6 million—it's been growing tax-deferred with a predictable rate of return and low fees. The taxed-as-earned account, however, is worth only $935,273 because it's being hit with taxes and management fees of 1.5% every year. By Year 30, the value of The LASER Fund is over $3.4 million, with a death benefit of over $3.5 million. John's taxed-as-earned account value is just over $1.3 million.

FIGURE 10.8



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And what about the difference in costs for this no-income scenario?

FIGURE 10.9

			LASER Fund Illustrated Policy Charges			Taxed-As-Earned 7% Growth & 1.5% Expense		
Age	End of Policy Year	Premium	Policy Admin Charges	Cost of Insurance	Total Charges	Mgmt Expense	Taxes	Total Expense
61	1	$100,000	$12,485	$1,715	$14,200	$1,577	$1,890	$3,467
62	2	$100,000	$12,932	$2,171	$15,103	$3,209	$3,847	$7,056
63	3	$100,000	$13,436	$2,369	$15,805	$4,899	$5,873	$10,772
64	4	$100,000	$13,870	$1,977	$15,847	$6,649	$7,970	$14,619
65	5	$100,000	$14,243	$1,224	$15,467	$8,460	$10,142	$18,602
66	6	$0	$6,527	$1,009	$7,536	$8,759	$10,500	$19,259
67	7	$0	$6,789	$723	$7,512	$9,069	$10,871	$19,940
68	8	$0	$7,056	$381	$7,437	$9,389	$11,255	$20,645
69	9	$0	$7,450	$4	$7,454	$9,721	$11,653	$21,374
70	10	$0	$7,606	$0	$7,606	$10,064	$12,065	$22,129
Total		**$500,000**	**$102,394**	**$11,573**	**$113,967**	**$71,797**	**$86,066**	**$157,862**
71	11	$0	$7,748	$0	$7,748	$10,420	$12,491	$22,911
72	12	$0	$3,616	$1,206	$4,822	$10,788	$12,932	$23,721
73	13	$0	$90	$1,148	$1,238	$11,169	$13,389	$24,559
74	14	$0	$90	$1,019	$1,109	$11,564	$13,862	$25,426
75	15	$0	$90	$856	**$946**	**$11,973**	**$14,352**	**$26,325**
76	16	$0	$90	$738	$828	$12,396	$14,859	$27,255
77	17	$0	$90	$907	$997	$12,834	$15,384	$28,218
78	18	$0	$90	$1,112	$1,202	$13,287	$15,928	$29,215
79	19	$0	$90	$1,353	$1,443	$13,757	$16,491	$30,247
80	20	$0	$90	$1,635	$1,725	$14,243	17,073	$31,316
Total		**$500,000**	**$114,478**	**$21,547**	**$136,025**	**$194,227**	**$232,829**	**$427,056**
81	21	$0	$90	$1,985	$2,075	$14,746	$17,677	$32,423
82	22	$0	$90	$2,477	$2,567	$15,267	$18,301	$33,568
83	23	$0	$90	$3,097	$3,187	$15,806	$18,948	$34,754
84	24	$0	$90	$3,885	$3,975	$16,65	$19,617	$35,982
85	25	$0	$90	$4,920	$5,010	$16,943	$20,311	$37,254
86	26	$0	$90	$6,334	$6,424	$17,542	$21,028	$38,570
87	27	$0	$90	$7,784	$7,874	$18,162	$21,771	$39,933
88	28	$0	$90	$9,583	$9,673	$18,803	$22,540	$41,344
89	29	$0	$90	$11,909	$11,999	$19,468	$23337	$42,805
90	30	$0	$90	$14,783	$14,873	$20,156	$24,161	$44,317
Total		**$500,000**	**$115,378**	**$88,304**	**$203,682**	**$367,485**	**$440,520**	**808,005**

If you look at the totals in Figure 10.9, you can see by Year 5, the taxed-as-earned account starts to take the lead in costs. This is in part because of the taxes on interest earned, and in part because the annual management fee of 1.5% is assessed on the value of the account. So as the value of the account goes up, so do the fees.

FIGURE 10.10

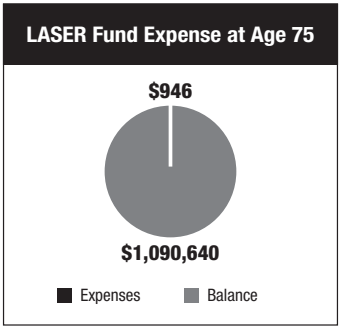
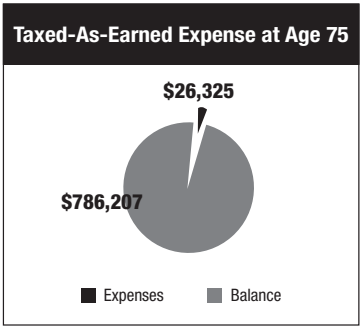
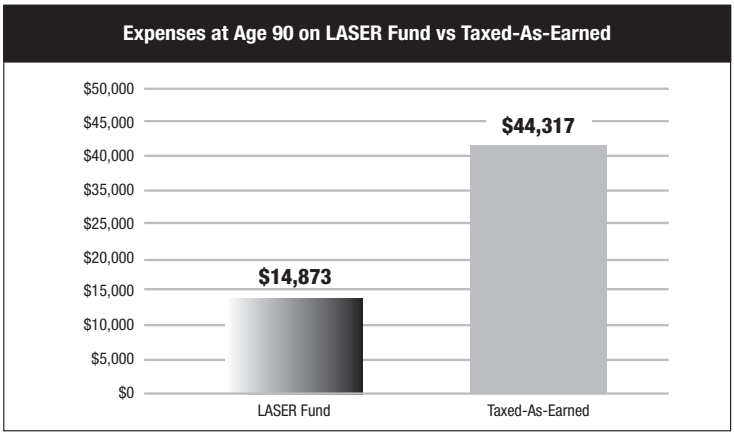


FIGURE 10.11



The LASER Fund costs, on the other hand, are simply based on the amount that is at risk—the difference between your—cash value and your death benefit at that age. In the example we've been following throughout this section, let's look at John's policy at age 75 (see Figures 10.10 and 10.11). In Figure 10.7, John's cash value is $1,090,640; his death benefit is $1,166,985. The difference between the two is over $76,000. In Figure 10.8, you can see his total charges at age 75 are based on that difference, which is $946. Compare this to the taxed-as-earned account, where John has $11,973 in management fees, $14,352 in taxes, for a grand total of $26,325.

FIGURE 10.12



Jump ahead to age 90. In Figure 10.12, you can see John's LASER Fund total charges are $14,873. (This is higher now, because as the insured ages, the likelihood of death at that age is much higher.) The taxed-as-earned account's total charges are nearly three times as much, $44,317. If John passes away at age 90, his heirs will receive over a $3.5 million death benefit, income-tax-free. Not bad, considering John's policy only incurred $203,682 in expenses over the life of the policy. From his taxed-as-earned account, his heirs would only receive just over $1.3 million. And remember, John's account incurred over $800,000 in expenses over the life of the account. This illustrates the difference between how the two types of financial vehicles perform for individuals and their posterity.

FIGURE 10.13

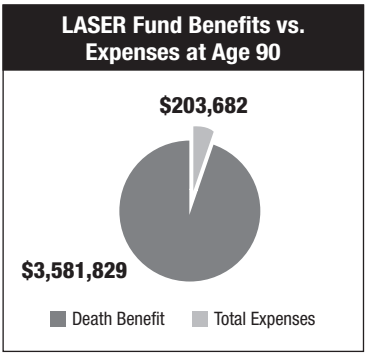
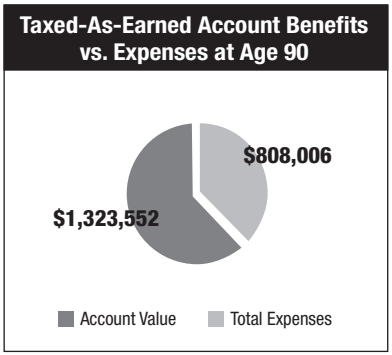


FIGURE 10.14



In summary, taxed-as-earned accounts are popular financial vehicles that can have a place in an overall portfolio—however, this comparison shows that taxed-as-earned accounts have their drawbacks, because they:

- Are taxed on gains
- Incur costly charges over time
- Provide limited safety (they can lose money with downturns in the market)
- Offer limited capacity for truly long-term retirement income

WHAT ABOUT NO-FEE ACCOUNTS?

While we're discussing taxed-as-earned accounts, you may be wondering about accounts that have no fees. That sounds like the ultimate financial vehicle, right? Let's look at this a little closer.

Take a no-load mutual fund, for example. A no-load fund is essentially a mutual fund that you purchase directly from the investment company. Since the arrangement is direct, you don't pay any expenses (commissions, fees, etc.).

No expenses—great, right? The caveat is this is a DIY (do-it-yourself) process. You save on those fees because now you're the one who selects which fund you'll go with—but you're making that choice without the expertise of a financial professional (for example, do you know if you want a bond fund or a stock fund?).

Still, you may be thinking, "Vehicles with no expenses have always got to be better than those with fees. Won't I get farther ahead with a no-fee account than if I had something like a LASER Fund with fees?"

If you were only evaluating financial vehicles based on expenses, yes, something like a no-load mutual fund would be wonderful. But there's much more to consider. Take safety, for example. Your no-load fund is often subject to the whims of the market. If it goes up, great, you see gains. But if the market tanks, you can lose money. On the other hand, a LASER Fund guarantees you a floor of at least 0%—you can't lose any principal or subsequent earnings due to market volatility.

And then there's our old friend Uncle Sam. He loves no-load mutual funds as much as any other traditional account, because he's going to take a chunk out in taxes every time your fund realizes gains.

What about a different no-fee account, something like a savings account at your local bank? No fees there, so that sounds like it would be a superior vehicle, right? But consider this. Even if the bank were paying you a 1% to 3% interest rate for depositing your money with them, what would you be giving up? The opportunity to earn more.

If your money were in a LASER Fund, for example, you could be earning 7% on average, versus the bank's 1%. Essentially, the bank is costing you 6% in possible returns. That "opportunity cost" of 6% can make a

dramatic difference in how much you can earn over time. And it's not just rate of return you're giving up for that "no-fee" bank account.

In summary, no-fee accounts typically have drawbacks, which are important to weigh when comparing with other financial vehicles.

COMPARING THE LASER FUND TO A 401(k)

Moving on to other comparisons, let's look at how John's $500,000 would perform in a 401(k). The fundamentals of a 401(k) include:

- **Description**: A 401(k) is an employer-provided traditional retirement account that puts a percentage of your salary (which you determine) directly into your account, through payroll deduction. It's administered through an outside company (a mutual fund company or brokerage firm), and while the money in your fund can be put to work in a variety of financial vehicles, typical 401(k)s hold an assortment of five or more mutual funds. Often, employers will match contribution funds, up to a certain percentage (up to 3% to 6% of your salary). You can't access your money before age 59½ without likely incurring penalties (see Accessing Money below), and after age 70½ you must take Required Minimum Distributions, which are based on your life expectancy.

- **Expenses**: 401(k) fees can vary, and they're often unnoticed or misunderstood by investors. They can include plan administration fees, investment fees, and individual service fees. Since high 401(k) fees can take a bite out of your overall returns, it's important to investigate your account's fees to see if there are ways to minimize them.

- **Taxes**: You put pre-tax dollars into a 401(k), and your money grows tax-deferred while in the account. You're taxed on withdrawals you make after age 59½. If you withdraw money before age 59½, you are at risk of incurring a 10% penalty, on top of the taxes.

- **Accessing Money**: Before age 59½, you can borrow from a 401(k); it is considered a loan and must be paid back according to a strict repayment schedule over a period of five years.

Typically this is a "forced repayment system," meaning your payments will come directly from your paycheck. There is very little flexibility on these loans—there is a maximum amount you can borrow (currently $50,000). If even one payment is missed, your account will incur taxes and penalties. After age 59½, money you access from your 401(k) will be considered a withdrawal, not a loan. You will not be required to make any repayments. Your withdrawals, however, will be taxed.

- **Funding**: One of the major differences between 401(k)s and LASER Funds is the way they can be funded. If you remember, with a LASER Fund, you can structure the size of the policy to accommodate whatever amount you'd like to put in, and then fund the policy over five to seven years to remain in compliance with TEFRA, DEFRA and TAMRA (such as $10,000 a year, or $100,000 a year like John, etc.). With a 401(k), however, you're limited on annual contributions. Currently, the Internal Revenue Code has set the maximum annual contribution at $18,500 a year, or $24,500 if you're age 50 or older.

With the 401(k)'s annual funding limitations, we can't compare apples to apples when it comes to how a 401(k) and LASER Fund are funded. We'll just assume that John has been funding his 401(k) for the past twenty to thirty years ($18,500 a year in his 40s, and then $24,500 a year in his 50s and 60s), to arrive at a pre-tax balance of over $500,000. We'll also assume his 401(k) is invested in mutual funds.

Like our other illustrations, we'll assume John's 401(k) would be earning a 7% annual rate of return with 1.5% in annual fees, and that he's in a 27% marginal tax bracket. Figure 10.15 provides a snapshot of how the two financial vehicles look side-by-side, starting at age 66, when John would begin to take out annual income:

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FIGURE 10.15

			LASER Fund Illustrated Policy Charges				401(k) with 7% Growth & 1.5% Expense After-Tax Income of $51,156		
Age	End of Policy Year	Premium	After-Tax Policy Loan	Accumulation Value	Cash Value	Death Benefit	Pre-Tax Cash Flow	Account Value Before Tax	Account Value After-Tax
66	6	$0	**$51,156**	$575,904	$493,621	$1,252,286	**$70,077**	**$773,615**	**$564,739**
67	7	$0	$51,156	$613,470	$475,689	$1,195,887	$70,077	$741,494	$541,291
68	8	$0	$51,156	$653,429	$461,039	$1,136,667	$70,077	$707,640	$516,578
69	9	$0	$51,156	$695,840	$445,879	$1,074,487	$70,077	$671,960	$490,531
70	10	$0	$51,156	$740,725	$430,091	$1,009,197	$70,077	$634,355	$463,079
Total		**$500,000**	**$255,780**	**$740,725**	**$430,091**	**$1,009,197**	**$350,384**	**$634,355**	**$463,079**
71	11	$0	$51,156	$788,230	$413,653	$940,643	$70,077	$594,721	$434,147
72	12	$0	$51,156	$841,889	$399,940	$513,996	$70,077	$552,949	$403,653
73	13	$0	$51,156	$902,730	$389,811	$489,111	$70,077	$508,923	$371,514
74	14	$0	$51,156	$967,681	$375,402	$462,494	$70,077	$462,522	$337,641
75	15	$0	$51,156	$1,037,061	$361,454	$434,049	$70,077	$413,618	$301,941
76	16	$0	$51,156	$1,111,131	$348,030	$403,587	$70,077	$362,076	$264,315
77	17	$0	$51,156	$1,189,935	$334,965	$394,462	$70,077	$307,752	$224,659
78	18	$0	$51,156	$1,273,768	$322,336	$386,025	$70,077	$250,498	$182,864
79	19	$0	$51,156	$1,362,950	$310,233	$378,381	$70,077	$190,155	$138,813
80	20	$0	$51,156	$1,457,819	$298,752	$371,643	$70,077	$126,557	$92,386
Total		**$500,000**	**$767,340**	**$1,457,819**	**$298,752**	**$371,643**	**$1,051,151**	**$126,557**	**$92,386**
81	21	$0	$51,156	$1,558,711	$287,978	$365,913	**$70,077**	**$59,527**	**$43,455**
82	22	$0	$51,156	$1,665,922	$277,938	$361,234	$59,527	$0	$0
83	23	$0	$51,156	$1,779,784	$268,686	$357,675	**$0**	$0	$0
84	24	$0	$51,156	$1,900,618	$260,252	$355,283	$0	$0	$0
85	25	$0	$51,156	$2,028,702	$252,604	$354,039	$0	$0	$0
86	26	$0	$51,156	$2,164,222	$245,605	$353,816	$0	$0	$0
87	27	$0	$51,156	$2,307,688	$239,426	$354,811	$0	$0	$0
88	28	$0	$51,156	$2,459,374	$233,986	$356,955	$0	$0	$0
89	29	$0	$51,156	$2,619,429	$229,057	$360,029	$0	$0	$0
90	30	$0	$51,156	$2,788,000	$224,397	$363,797	$0	$0	$0
Total		**$500,000**	**$1,278,900**	**$2,788,000**	**$224,397**	**$363,797**	**$1,180,754**	**$0**	**$0**

John wants to realize an annual income of $51,156 from his financial vehicle. With The LASER Fund, he can take that income in the form of a tax-free loan. With the 401(k), however, his money in the account is tax-deferred. When he withdraws it, he must pay income tax. So he would need to withdraw $70,077 and pay taxes in his 27% tax bracket to net that desired $51,156 a year.

At age 66, John's account value is shown in both pre-tax, $773,615, and after-tax terms, $564,739. Just as with the mutual fund, in the early

years, the 401(k)'s after-tax account value would be higher than The LASER Fund's, but this will shift over time.

Look at what happens at age 81 through 83. At age 81, John would take his last year of full income from his 401(k). By age 82, he would only be able to take the remainder of what's in the account, or $59,527 in pre-tax dollars (which would be $43,455 after taxes). Then at age 83, his account would be zeroed out. For total income over the years, he would have netted over $1.1 million in after-tax income. But at age 83, he'd need other sources of income to get through his last decade, and he'd have nothing to pass on to his heirs from this account.

By contrast, with The LASER Fund, John would still be taking his full $51,156 tax-free annual income from age 83 to age 90. When he passes away at age 90, his total income would be more than $1.2 million, tax-free, and he'd have that death benefit of $363,797 to pass along to his heirs, income-tax-free.

Now let's examine the difference in expenses between the two financial vehicles. Please recall that LASER Funds are funded with after-tax dollars, and 401(k)s are funded with pre-tax dollars. The illustrations here focus specifically on the distribution phase (so you will see the impact of taxes on the 401[k], but you will not see the taxes that were paid on the seed money that went into The LASER Fund—which on $500,000 in a 27% tax bracket, would have been $135,000). For simplicity in comparison, we'll look at Years 6 through 23 (although totals below include expenses/taxes for Years 1 – 5, as well):

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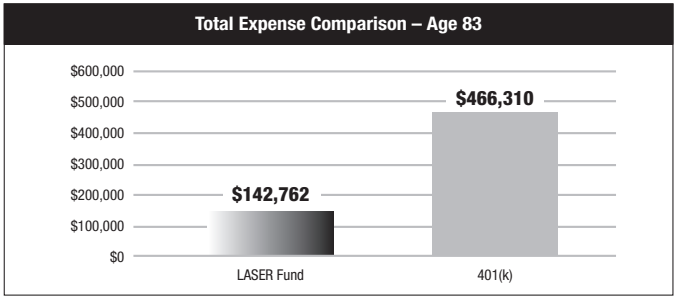
FIGURE 10.16

			LASER Fund Illustrated Policy Charges			401(k) 7% Growth & 1.5% Expense		
Age	End of Policy Year	Premium	Policy Admin Charges	Cost of Insurance	Total Charges	Mgmt Expense	Taxes	Total Expense
66	6	$0	$6,527	$1,009	**$7,536**	$11,781	$18,921	**$30,702**
67	7	$0	$6,789	$729	$7,518	$11,292	$18,921	$30,213
68	8	$0	$7,056	$401	$7,457	$10,776	$18,921	$29,697
69	9	$0	$7,460	$29	$7,489	$10,233	$18,921	$29,154
70	10	$0	$7,656	$0	$7,656	$9,660	$18,921	$28,581
Total		**$500,000**	**$102,454**	**$11,624**	**$114,078**	**$89,192**	**$94,604**	**$183,796**
71	11	$0	$7,835	$0	$7,835	$9,057	$18,921	$27,977
72	12	$0	$3,616	$1,180	$4,796	$8,421	$18,921	$27,341
73	13	$0	$90	$1,116	$1,206	$7,750	$18,921	$26,671
74	14	$0	$90	$984	$1,074	$7,043	$18,921	$25,964
75	15	$0	$90	$821	$911	$6,299	$18,921	$25,219
76	16	$0	$90	$702	**$792**	$5,514	$18,921	**$24,435**
77	17	$0	$90	$855	$945	$4,687	$18,921	$23,607
78	18	$0	$90	$1,040	$1,130	$3,815	$18,921	$22,735
79	19	$0	$90	$1,253	$1,343	$2,896	$18,921	$21,816
80	20	$0	$90	$1,500	$1,590	$1,927	$18,921	$20,848
Total		**$500,000**	**$114,625**	**$21,075**	**$135,700**	**$146,600**	**$283,811**	**$430,410**
81	21	$0	$90	1,804	$1,894	$907	$18,921	$19,827
82	22	$0	$90	$2,229	$2,319	$0	$16,072	$16,072
83	23	$0	$90	$2,759	$2,849	$0	$0	$0
			Total		**$142,762**	**Total**		**$466,310**

In Figure 10.16, you can see a marked difference in charges and expenses between the two accounts. At age 66, The LASER Fund charges ($7,536—remember there are no taxes) would be nearly 80% less than the 401(k) expenses and taxes ($30,702). At age 76, which is the lowest point for his LASER Fund charges, the difference is even greater. The LASER Fund charges would be just $792, which is more than 95% less than the 401(k) expenses and taxes of $24,435.

FIGURE 10.17



Over the life of the 401(k), which would zero out when John is age 83, his total account expenses and taxes would be $466,310 (see Figure 10.17). In that same time-frame, John's total charges on his LASER Fund would be $142,762—more than $320,000 less than the 401(k).

As you can see, 401(k)s have some advantages—tax-deferred growth and employer matching. Thus, they can play a role in a balanced approach to financial planning, but it's wise to note they do have some disadvantages, such as they:

- Are taxed on the back end, which can be costly for retirees, many of whom find themselves in a tax bracket that's as high as or higher than their working years
- May have costly expenses
- May provide little to no safety (remember the millions of Americans with 401[k]s invested in the market who lost up to 40% of their account values—twice—between 2000 and 2010?)
- Offer limited liquidity (removing money before age 59½ usually incurs a 10% penalty on top of the taxes)
- Have contribution limits of $18,500 for individuals under age 50—if you want to set aside more money annually (due to high income or lump sums), other vehicles like The LASER Fund are more flexible in the contribution amount they can accommodate

WHAT ABOUT A ROTH IRA?

You may be wondering about a comparison between The LASER Fund and a traditional financial vehicle that gets a lot of praise: the Roth IRA. People often notice Roth IRAs and LASER Funds have similar advantages. And they're right. You fund both vehicles with after-tax dollars, and the

popular benefits for both are tax-deferred growth on the money in the account/policy and tax-free income on the back end.

But that's where the similarities stop—and the differences make it impossible to compare the two in a scenario like John's, differences like how you can access your money. With a Roth IRA, you can only withdraw money under very specific rules—here are just a few of them:

- After age 59½ (or you may incur a 10% tax on your withdrawal) or after five years
- For the purchase of a first home with a limit of $10,000
- In the case of the owner's death or disability

As for putting money into your Roth IRA, there are severe annual maximum contribution limits: $5,500 a year for those age 49 and under, or $6,500 if you're age 50 or older (which, by the way, are the same contribution limits as a traditional IRA).

With these low maximums, it would be impossible for John to use a Roth IRA to set aside an amount as high as $500,000. (Doing the math, even if John had started setting aside $5,500 a year in his Roth IRA from age 20 to 49, that would subtotal just $165,000. With an additional $6,500 a year from age 50 to 65, he would have put in an overall total of just $262,500 by age 66.)

Plus, John's income would be too high to participate in a Roth IRA. Roth IRAs are off limits to married couples filing jointly with a modified adjusted gross income of $196,000 or more, and the annual contribution is reduced for those with a modified AGI of $186,000 to $195,599.

This is why many CPAs call The LASER Fund the "Rich Man's Roth." Why? Because both use after-tax money and provide income-tax-free advantages. But where the Roth limits contributions, The LASER Fund has no cap on your income level, or the amount you'd like to contribute—thus it has all the advantages of a Roth, but it's available to those with higher net worth. Plus, Roths do not blossom in value when you die.

We like to point out, however, that The LASER Fund isn't just for the wealthy. You can fill a policy with as little as $500 a month. So, it could be said instead, The LASER Fund is "Everyone's Fund."

Even with all of Uncle Sam's strings attached to a Roth, there may be times when it makes sense to have one within your balanced portfolio. Particularly because its tax advantages are noteworthy. (As a side note, it's helpful to keep in mind tax laws may change. It has been rumored lately that a tax on Roth IRAs may be in the offing, with a possible "excess tax" on Roth IRAs with high account values. Just a caution: always keep an eye on Uncle Sam.) Like we keep saying, it all comes down to staying informed so you can make educated decisions and create the best overall financial strategy for your individual situation and goals.

WHAT ABOUT A TAX-FREE BOND FUND?

Another financial vehicle that delivers tax advantages is a tax-free bond fund. In short, a tax-free bond fund is a fund comprised of several different municipal bonds. It offers typically conservative fixed rates of return and is exempt from federal income tax.

While it can play a tax-advantaged role in a diversified portfolio, a tax-free bond fund is often outpaced by The LASER Fund in two areas: rate of return and continued growth during the distribution phase. The LASER Fund often provides higher average rates of return in any given market. And when you access money during the distribution phase, the LASER Fund gives you a greater advantage because of the arbitrage on your LASER Fund loans (see Section I, Chapter 8 for more details). Furthermore, upon your passing, this type of bond fund may transfer tax-free, but it does not blossom in value when transferred to your heirs. Again, your financial professional can run a comparison between these two vehicles to help you make choices that are best for you.

BUYING TERM & INVESTING THE DIFFERENCE ... ON STEROIDS

We've also had professionals say The LASER Fund approach is like "buying term and investing the difference, but on steroids." To explain what they mean, let's start with buying term and investing the difference—this is a strategy that has been used in the financial industry for decades. (In fact, when Doug started his career, that's often what he helped his clients do—until LASER Funds came along.)

Buying term and investing the difference starts with the premise that you're buying term life insurance solely for the death benefit. Term insurance typically has a specific time limit on the policy: you buy it for a five-, ten-, or twenty-year period. It has no cash accumulation value or living benefits. Coverage lapses the moment premiums are no longer paid into the policy.

While it has these restrictions, the appeal of term insurance is that it's less expensive than many other types of life insurance. Thus the strategy goes, if you buy term, you're saving money on life insurance. You then take the rest of your money earmarked for savings and put it into another financial vehicle. This way you've got your death benefit covered, and you're taking steps to (hopefully) accrue retirement income down the road.

You could draw the analogy that buying term and investing the difference is kind of like knowing you ultimately want to go on fabulous vacations, but for now you spend as little as you can on "staycations" around town. You continue to stash the rest of your would-be vacation money in a financial vehicle so it can grow. Eventually, you use it to pay for that amazing four-week trip to Europe.

Well, with The LASER Fund, you get the best of both worlds. You get the death benefit AND you get the opportunity for cash accumulation, tax advantages, and the ability to take money out in the form of loans. This is why it's been described as "buying term and investing the difference, but on steroids."

THE COMPARISON RECAP

With this chapter's discussion, you can see how The LASER Fund compares to other common financial vehicles. A quick recap in Figures 10.18 - 10.22 looks like this, using the example of John, who age 60, taking annual retirement income starting at age 66:

FIGURE 10.18

Financial Vehicle	Account or Cash Value Comparison			Total Income Age 90	Notes
	Age 65	Age 85	Age 90	Total Age 90	
The LASER Fund	$511,082	$252,604	$224,397	**$1,278,900**	Death Benefit @ 90 is $363,797
Taxed-As-Earned	$555,564	$0	$0	**$682,366**	Account Went to $0 at Age 79
401(k) Pre-Tax	$804,092	$0	$0	**$861,951**	Account Went to $0 at Age 82
401(k) After-Tax	$586,987	$0	$0	**$861,951**	Account Went to $0 at Age 82

FIGURE 10.19

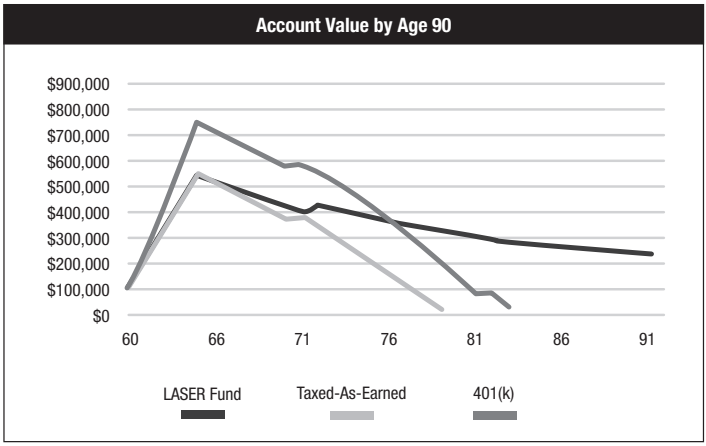


FIGURE 10.20

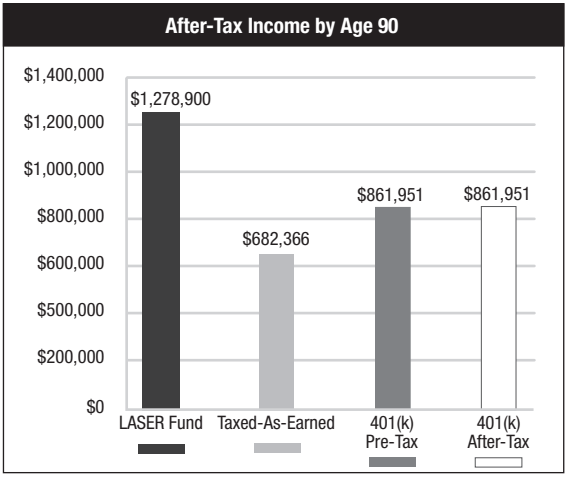
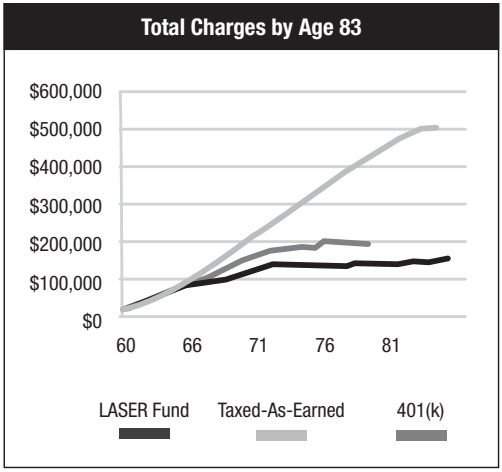


FIGURE 10.21

Cost Comparison							
		Total Expenses and Taxes Paid @ Age 83					
	Financial Vehicle	Total Premium	Expenses	Taxes	Total Expense	Expenses/ Premium	Notes
	The LASER Fund	$500,000	$150,661	$0	$150,661	30.10%	Death Benefit at Age 90 is $393,767
	Taxed-As-Earned	$500,000	$81,375	$97,548	$178,923	35.80%	Account Went to $0 at Age 79
	401(k)	$684,932	$147,506	$318,804	$466,310	68.10%	Account Went to $0 at Age 82

FIGURE 10.22



Let's take a quick look at a broader comparison, examining how even more financial vehicles deliver on different aspects of financial advantages. There are a few things to note in Figure 10.23 below. You'll find our key characteristics at the top: liquidity, safety, rate of return, and tax advantages (tax-free access to your money, as well as paying tax on the seed versus the harvest).

This chart also looks at wealth transfers, meaning which financial vehicles will transfer the most after-tax money to your heirs upon your death. Penalties refer to costs that can be incurred for various reasons when accessing money from your account (penalties levied by the IRS or the financial institutions).

Leverage is essentially arbitrage. One aspect of arbitrage is the ability to earn more money than the financial institution is earning (with The LASER Fund, you have leverage because you're linking your return to an

index, as explained in Section I, Chapter 6). Another aspect of arbitrage is the ability to access your money by borrowing at a lower rate than your financial vehicle is being credited. Superior leverage empowers you to maintain liquidity while enjoying safety, and predictable rates of return.

Collateral means that you can use the account value of the financial vehicle to collateralize a loan from the same financial institution (or another) when borrowing. Finally, disability benefit means if you're funding your financial vehicle and you suffer a disabling illness or accident that impedes you from making further payments, the financial vehicle will remain in force (and potentially provide cash) without additional payments from you.

FIGURE 10.23

Comparing Financial Vehicles

OPTIMAL FEATURES	IRA/401(K) IN THE MARKET	MUTUAL FUNDS	HOME	CDs & BANK SAVINGS	ANNUITIES	REAL ESTATE	LASER FUND
Liquidity - Use & Control	Possible w/Loan or Surrender	Yes	Yes with Equity Line	Yes	Yes, Possible Penalties	Yes with Equity Line	Yes
Safety - Protected from Market Loss	No	No	No	Yes	Possible	No	Yes
Predictable Rates of Return	No	No	No	Yes	Possible	No	Yes w/0% Floor
Tax-Free Access to Money	No	No	To IRS Limitations	No	No	To IRS Limitations	Yes
Tax-Deferred	Yes	No	Possible	Possible	Yes	Possible	Yes
Tax-Deductible Payments	Yes	No	Interest Portion Only	Possible	Possible	Possible	No
Tax-Free Wealth Transfer	No	No	To IRS Limitations	No	No	Possible	Yes
Penalty-Free	No	Possible	Yes	No	No	Yes	Usually
Leverage	No	No	Possible	No	No	Possible	Yes
Collateral	No	Yes	Yes	Yes	No	Yes	Yes
Disability Benefit	No	No	No	No	No	No	Yes

Clearly, there are a lot of differences in how the various financial vehicles can provide income during retirement; are impacted by the market; are subject to taxes; etc. But perhaps the most surprising difference is ... while you can refer to almost all of these and other popular financial vehicles as an investment, you can't call The LASER Fund an investment.

Even though it's an excellent accumulation tool that provides safety for your after-tax dollars. Even though its rate of return performance can average 7% annually. Even though it provides liquidity, allowing you to take out money at any age, income-tax-free. Even though it can provide money that passes on to your heirs after you do, income-tax-free.

You still can't call it an investment.

Why?

We'll tell you in the next chapter (look for the Reason #10).

TOP 5 TAKEAWAYS

1. How does The LASER Fund compare to other traditional financial vehicles? This chapter walks you through in-depth comparisons.
2. We kick things off with a comparison to taxed-as-earned accounts, like mutual funds.
3. Next, we put The LASER Fund side-by-side with a 401(k).
4. We also discuss the difference between The LASER Fund and other vehicles, like no-fee accounts, Roth IRAs, and tax-free bond funds.
5. We believe in the power that comes from making informed decisions about your own financial future. Comparisons like these help you weigh your options and make choices that are best for your financial situation.

11

Why Isn't Everybody Doing This?

By now you may be feeling like something of a LASER Fund aficionado. You have a grasp of what the financial vehicle is, how it came about, and more important, how it can provide liquidity, safety, predictable rates of return, tax-free income, and a death benefit (not to mention capital accumulation that can be used for "living benefits"). With all its superior advantages, you may now be wondering, "Why isn't everybody doing this?"

Great question. In fact, we've had countless people who, once they understand the benefits of The LASER Fund, ask us the same thing. One of our clients, for example, has been a successful consultant for nearly 40 years, and her husband a partner in a law firm. After her beloved husband passed away from cancer, she took over the reins of the family finances—and she realized how little she knew. It was about this time she happened to come across one of Doug's articles on The LASER Fund and decided to attend a seminar. She was intrigued but hesitant, wondering why she (and her savvy husband and his colleagues) had never heard of these strategies before.

With deep curiosity (but residual skepticism), she decided to attend a more in-depth two-day seminar—and she brought along her estate at-

torney, her CPA, and a trusted family friend (a CEO of a large company) to help her vet the strategies. When all three professionals found the strategies to be sound, prudent, IRS compliant, and advantageous, she decided she was all in. (So did her CPA, who opened a LASER Fund shortly after). Our client is now on a path toward better liquidity, safety, predictable rates of return, and tax advantages.

We've heard the initial pushback on LASER Funds enough over the years that we've compiled a list of why everybody isn't taking advantage of The LASER Fund, and it includes:

The TOP 10 Reasons Your Financial Professional Didn't Tell You About This

#1 – LACK OF AWARENESS

There's a story Author and Motivational Speaker Zig Ziglar told about a young wife who sends her husband to the butcher to buy a ham. When he returns, she asks why he didn't have the butcher cut the ends off of the ham. The husband, perplexed, asks why that would be necessary. The wife admits she doesn't know—but her mother always did it. They go to her mother to find out why, and her mother says that likewise, she doesn't know—her mother had always done it, too. Finally, the women ask Grandma, who explains she cut the ends off the ham because her roasting pan was too small.

In many aspects of life—from cooking to spirituality to communication to finances—we often repeat what we've been taught because, well, we never bother to question the practice or consider approaching it any other way. We get in line; we mimic patterns; we follow the crowd, often without even realizing it. We don't know what we don't know.

From the time they were introduced, traditional accounts like IRAs and 401(k)s were extremely popular—essentially "everyone was doing it." But over the past few years, more financial experts have been decrying the downsides of relying solely on IRAs and 401(k)s for retirement planning. Headlines reveal increasing industry caution regarding these financial vehicles devised by (and arguably for) Uncle Sam, with articles like, "The Champions of the 401(k) Lament the Revolution They Start-

ed" (*Wall Street Journal*, Jan. 2, 2017); "Think Twice Before You Open an IRA" (*Forbes*, Jan. 16, 2015); "This Is a Smart Reason Not to Save in a 401(k)" (*Time*, May 24, 2016); and "13 Reasons Why Your 401(k) Is Your Riskiest Investment" (*Entrepreneur*, May 12, 2015).

Despite the growing concern surrounding these vehicles, millions of Americans continue to follow their financial professionals' conventional advice. They're putting all their retirement eggs in these traditional accounts' baskets, hoping it will develop into a nice big nest egg someday. Why? They hear everyone else is doing it. They don't know (or don't bother) to look beyond the IRA or 401(k) for other solutions.

#2 – PATH OF LEAST RESISTANCE

Sometimes it's not ignorance that keeps people from the benefits of vehicles like The LASER Fund; it's downright avoidance. In physical science, we learn that matter, energy, and objects often take the path of least resistance. When a stream flows down the mountain, for example, it will likely follow the path with soft silt rather than solid rock. We humans aren't much different. When life presents a challenge, all too often we opt for the easier solution, regardless of whether it's the best solution.

Looking at many traditional financial vehicles through this lens, there are many financial professionals who are aware there may be additional options. However, they would rather sidestep the extra effort and personal responsibility it would require to help clients pursue diversified financial strategies. It's much easier to follow the herd, to recommend clients sign up for whatever qualified plan is being offered at the office, or to let clients "turn things over to their financial guy so he can handle it."

But as countless Americans learned during what we call the Lost Decade, taking the supposed easy road can lead down rocky paths. Between 2000 and 2010, millions of Americans lost 40% of their IRA and 401(k) account values—twice. Compare that to our clients who owned LASER Funds, whose principal was not impacted by market volatility, and many of whom saw an average of 7% to 9% returns.

#3 – TOO MUCH WORK

Even as more financial experts have come to agree with the LASER Fund and other sound but unconventional financial strategies, it doesn't mean the professionals always utilize them with their clients. Why? It isn't necessarily easy. It actually requires a lot of personal responsibility and focus from the financial professionals. These strategies necessitate ongoing professional education, staying abreast of the latest products, regulations, and industry changes. This approach demands ongoing attention to clients' needs, year-after-year, to make any necessary adjustments as life unfolds.

For several years we taught these principles to thousands of CPAs, tax attorneys, and financial professionals from around the country. They would come to our Educational Institute and invest several days in continuing professional education, learning how to properly structure and fund the financial vehicles we recommend. They would get an in-depth examination of the related tax laws. They would explore how to teach their clients about these strategies and work alongside them for years to come.

But what we found was only the truly motivated professionals would return and implement the principles, bringing all the benefits to their clients. More often than not, many of the financial professionals would go back to their companies and fall into their old routines, offering a narrower mix of less-than-optimal strategies. Why? Because it was easier. It was what they were used to. It required too much effort. Traditional investments only required the client's name, address, Social Security Number and a check. (The LASER Fund often takes several weeks to establish, plus a minimum of five years to fund properly.)

In fact, we had an incident where a major credit union enlisted the Live Abundant team to train its staff from nine branches on how to utilize these strategies. Then they brought us in to present these principles to nearly 200 of their clients. The event was a success, and about three months later they asked us to come back to give another client seminar. When we asked how the strategies were going for the clients who had participated in the initial seminar, the credit union explained they hadn't actually implemented them with their clients. They admitted, "Your seminar was a really good way to get people in, get their info, and get them going on some of our other products. We don't have time to educate them on these strategies."

We asked, "But isn't it better for your clients in the long run to use the LASER Fund strategies we've shared?" The credit union folks shrugged and said, "What the client doesn't know won't hurt them."

We believe in the opposite—what the client doesn't know can hurt them; and conversely, what the client does know can *empower* them. Needless to say, that was the last time we worked with this credit union.

#4 – SELLING CLUBS VS. TEACHING THE SWING

Let's say you were going to be playing in a golf tournament and you had the choice of using a professional golfer's swing, someone like Jordan Spieth or legends like Jack Nicklaus, or you could use his clubs. Which would you rather use?

The answer is obvious: the swing. Once you have a successful swing down, you're capable of maintaining success. But all too often people look to whatever clubs the pros are using. They'll buy the latest ones, designed with state-of-the-art technology and materials—rather than focus on adding to their knowledge and skill.

Applying this to financial strategies, many well-meaning financial professionals focus on selling the clubs, or commodities—they tell their clients to buy this mutual fund, or open that IRA, or invest in gold or silver. Their clients comply with their financial professional and hope for the best. But those clients may be facing the awful reality down the road of outliving their money due to the impact of increased taxes, inflation, and the volatility of the market.

And when it comes to passing along wealth after they pass away? Many tax attorneys tend to divide up the golf clubs and the trophies among the kids and grandkids, instead of helping their clients leave behind the wisdom of "how to swing."

#5 – NOT AS LUCRATIVE

All of us in the financial industry earn our living by selling our clients clubs (offering and/or managing financial vehicles). But some clubs are more lucrative to sell than others. And that's where you need to have

a bit of caution. Ask yourself what your financial professionals have to gain by selling you a certain set of clubs, or a new set of clubs every time the latest line is introduced. Do they have your best interest in mind?

If you're a golfer, you've probably been through this routine. You head to the golf store, where golf instructors will ask you to swing for them. They'll then sell you clubs that fit your swing … or the line that offers them the biggest commission.

Traditional financial professionals are taught to recommend putting all your money in traditional financial vehicles like mutual funds, money market accounts, stocks, and bonds. Because that's where the big financial institutions make their money, off their management fees, that 1% to 2% assessed on your financial vehicles. These aren't one-time commissions; they're ongoing, annual fees charged against the money in your account.

The biggest challenge here is that your money is at risk in the market. They're encouraging you to use financial vehicles that simply can't provide you the level of safety you deserve, but often financial professionals will keep on recommending this approach because that's where they're positioned to make the most money.

#6 – ONLY SO MUCH IN INSURANCE

Another reason not everybody is doing this is the regulatory climate. Financial regulations have set limits on how much of your money can go into life insurance. This is why "buy term and invest the difference" is such a common approach. After you've gotten your life insurance coverage, traditional financial professionals often encourage you to put the rest of your money in traditional vehicles (where those financial professionals stand to make more in management fees).

The rationale is they want you to be "diversified." Now diversification itself is something all of us savvy financial professionals agree with. But the danger comes when you have a significant portion of your money in the traditional vehicles—it's at risk in the market.

This approach is akin to telling the Three Little Pigs to diversify their money by spreading it among each of their three houses. After the big

bad wolf comes along, huffing and puffing, only the money in the brick house remains. The rest is gone with the wind. And the Three Little Pigs are now forced to live out their retirement splitting what's left—which probably means their bacon is cooked.

Remember the Hansens, whom we described in Section I, Chapter 7? Fortunately they had moved about 90% of their money from their 401(k) to a LASER Fund before the Great Recession began. The 90% was safe—they didn't lose any of this portion due to market volatility. The 10% that was still in their 401(k), however, blew away with the economic tornadoes of 2008 - 2009.

Diversification is great in theory, but we'd pose the question—why not diversify your money among vehicles that provide the blend of up to four different types of income we introduced in Section I, Chapter 2 (and that we'll explain further in Section I, Chapter 14):

- Investment income
- Real Estate income
- Guaranteed income
- Tax-Free income

#7 – ISN'T INSURANCE TOO EXPENSIVE?

The notion that insurance is too expensive to use as a capital accumulation tool is one of the biggest misperceptions. Many uninformed financial professionals repeat this myth, without stopping to really understand and compare the costs.

Yes, if you were to look at the first few years of a LASER Fund, the costs are higher than many other financial vehicles during that time-frame. But as we illustrated throughout Section I, Chapter 10, the LASER Fund is a long-term financial vehicle, and when you treat it as such (properly structuring and funding it over time), it can yield cost-effective results.

Once you get into Years 3 to 6, the LASER Fund often begins to pay for itself. In the long run, it's among the least expensive vehicles. If you recall in Section I, Chapter 10, we compared The LASER Fund's costs to other financial vehicles, where over time it always came in lower. Remember the taxed-as-earned account comparison? By age 78, the total fees for

the insurance policy were just under $133,000, whereas the taxed-as-earned account's total fees and taxes were over $178,000. The difference was about $46,000, and the taxed-as-earned account ran out of money, while the insurance policy still had plenty of money to keep going.

Looking at the 401(k) comparison, at age 83, the insurance cost was just just under $143,000. The 401(k) cost over $460,000 in taxes and fees. That's a significant difference of more than $320,000 in costs. Remember, this is comparing costs during the distribution phase. It does not take into account the taxes that were paid on the seed money that went into The LASER Fund—which would have been about $135,000 in taxes in a 27% tax bracket. So to compare apples to apples, if we total the insurance costs plus the taxes paid on the seed money, that would come to about $275,000—which is still less than the $460,000 in total taxes and fees on the 401(k). And just like the taxed-as-earned account, the 401(k)'s value was exhausted by age 83, while the insurance policy still had money and continued to generate income.

When structured properly, the LASER Fund clearly gives you more bang for your buck—not to mention liquidity, safety, tax-free income, and the death benefit.

#8 – ISN'T IT ONLY FOR THE WEALTHY?

It's true that LASER Funds are ideal for high-net-worth individuals. When structured correctly, the policies can accommodate very large sums of money—you can put millions of dollars into a single policy in as few as five years. Compare that to a 401(k), where you're currently limited to annual contributions of $18,000 ($24,000 if you're age 50 or over), and IRAs, with annual contribution limits of $5,500 ($6,500 for age 50 and over).

Because they're a valuable vehicle for the affluent, many financial professionals assume LASER Funds aren't a viable option for those of more modest means. But nothing could be farther from the truth.

We have many clients who open a "starter plan," a LASER Fund designed for moderate contributions—say, just $500 a month. While this means they're only putting in $6,000 a year, over time (with the growth of the policy), they can grow significantly in value.

For example, if a policyholder put $500 a month in her policy from age 25 to age 65, she would likely have $1.3 million in her policy, and be able to take out $100,000 to $130,000 a year in tax-free income for the rest of her life. Of course, forty years down the road, $130,000 will not go as far as it would in today's dollars, but it's still a valuable addition to her retirement income. This is why people don't need to wait until they have a lot of money to begin utilizing LASER Funds. They can begin with a starter plan, and as their ability to set money aside increases, they can open additional policies, fund them with larger amounts, and benefit from multiple LASER Funds.

Now what if you have even less than $500 a month to set aside? When we Andrew children were born, our parents, Doug and Sharee, opened policies for each of us. They structured the policies for long-term contributions, and started by putting in just $25 a month. As we grew up, we'd add whatever we could to our policies, whether that was birthday money from grandparents, or money from our high school jobs. By the time we were in college, we could borrow from our own LASER Funds to pay for things like tuition and books.

That said, part of the LASER Fund's "only for the wealthy" reputation comes from the fact that there are some financial professionals who prefer to only work with the wealthy. They tend to be smaller firms that don't have the infrastructure to teach and guide individuals who can only afford smaller policies. This is part of the reason we've focused so much on growing our business and implementing educational programs—to help as many people as we can along the financial spectrum to take advantage of the LASER Fund.

The bottom line: LASER Funds aren't just for the wealthy. They can provide equal-opportunity benefits for people of various financial means. And what's more, since you can own several policies, you can open additional policies as your ability to set more money aside increases. So it's the kind of financial option that you can leverage throughout your different stages of life.

#9 – HARDLY ANYONE'S DOING THIS, RIGHT?

There's a misperception that hardly anyone is utilizing The LASER Fund approach, so wouldn't it be better to just follow the crowd with traditional accounts like IRAs and 401(k)s? However, industry statistics prove

that quite a good-sized crowd is gathering around the liquidity, safety, rate of return, and tax advantages of this vehicle.

As mentioned in Section I, Chapter 1, the IUL industry has grown nearly 20% year-over-year for the past ten years. In addition to those insurance companies that have specialized in IULs for years, more of the nation's large financial planning companies are adding IULs to their offerings. This significant growth is evidence that more Americans are taking note of the powerful IUL policies' advantages.

#10 – IF IT'S SO GOOD, WHY DON'T YOU CALL IT AN INVESTMENT?

We've mentioned earlier that The LASER Fund is not called an investment. That confuses some folks (even some financial professionals), because the general assumption is anything you would use to set aside money to prepare for retirement should be called an investment, right? Nope.

Financial regulators differentiate between traditional accounts, like IRAs, 401(k)s, and mutual funds—what they call "investments"—and other financial vehicles, such as insurance policies.

And truly, that makes sense. Because a financial vehicle like The LASER Fund is at its core an insurance policy, the primary reason for the policy is INSURANCE. LASER Funds provide a valuable death benefit—and it just so happens, living benefits, as well. Despite the multitude of benefits it can provide, it is called insurance, plain and simple. And that designation is what allows it to be tax-advantaged under the Internal Revenue Code.

YOUR OWN SOLE PROPRIETORSHIP

Since many financial professionals aren't recommending The LASER Fund, we return to questions we posed earlier in the book. First, who really should be your fiduciary? YOU. You're the one who has the biggest stake in your financial future. You're the one who has your best interest in mind. You're the one who deserves to understand your options so you can make informed decisions on what will help you best achieve your goals.

In Section I, Chapter 2, we discussed the notion of partnership, asking if you'd want a business partner who demanded you do all the work in building the business. If the business struggled along the way, he wouldn't offer any financial protection. When you sold or liquidated the company, he'd plan on taking one-third of the profits—and he could reserve the right to increase that percentage at any time. If you decided to sell early, he'd charge a 10% penalty in addition to his third. And if you wanted to sell it later than he deemed appropriate, he'd force you to sell and pay his portion sooner than later. We revealed this is exactly how Uncle Sam approaches his partnership with you and IRAs and 401(k)s.

Now if you could guarantee that your financial strategy partner were a good one: providing predictability and safety, someone who had your back, you'd be all in. But since Uncle Sam isn't that kind of partner with traditional retirement accounts, it might be helpful to think of approaching your financial future as a "sole proprietor." In business, a sole proprietor runs her business on her own, making the decisions and taking on the responsibilities of growing the company as she sees fit.

Financial vehicles like The LASER Fund provide opportunities to be your own sole proprietor. As you work with qualified experts as your guide in maximum funding your policy, you're essentially self-insuring yourself (we'll talk more about self-insurance in Section I, Chapter 13). You own your policy. You decide which indexing strategy you want. You get the benefits of safety, liquidity, and predictable rates of return. And you're guaranteed not to lose when the market goes down, along with significant upsides like the opportunity for tax-free income and tax-free transference to your heirs upon death.

GETTING IN THE SWING OF THINGS

Going back to our discussion on the clubs vs. the swing, we recommend you learn the best swing, then move forward in choosing your clubs. There was a Kevin Costner film in the 90s, Tin Cup, that illustrates the value of the swing point perfectly. In one scene, Costner's character, Former Golf Pro Roy McAvoy, is trying to play into the US Open. In the qualifying tournament, he and his caddy snap all but one of his clubs, the 7-iron, in frustration. McAvoy ends up having to hit the rest of the round with just that 7-iron—which he uses to drive, get to the green,

wedge, putt, and eventually par the back-nine. Everyone wonders how. But Costner's character has a pro's swing, and sure enough, that was more valuable than a bag full of the world's best clubs.

The swing is where it's at. That's why when planning for the financial future, we favor having the knowledge of how to optimize assets, minimize taxes, and live abundantly throughout retirement (rather than outliving our money) so we can choose which financial vehicles, or clubs, are best along the way. As for our posterity, we'd rather leave behind the ability to swing, rather than dumping the trophies in our posterity's laps. For Authentic Wealth that lasts, our children and grandchildren will need to be empowered and self-reliant for generations.

Because we believe so strongly in this approach for ourselves, we believe in sharing this approach with others—in one-on-one meetings with clients, in speaking engagements nationwide, in our radio shows, and in our books. We believe you should have every opportunity to understand what different financial vehicles offer (the clubs), and we believe you should be empowered to take accountability and responsibility for practicing wise financial and Authentic Wealth habits (the swing).

We truly believe in teaching the swing, and we're not afraid to tell you, "You really ought to change your swing." We may not make as much money on teaching the swing as other financial professionals do on selling the latest clubs, but we believe in it. Because we believe in you.

TOP 5 TAKEAWAYS

1. If The LASER Fund concepts are new to you, you're not alone. Many experienced financial professionals, CPAs, and tax attorneys may not yet be familiar with the strategies (or may not be experienced in executing them). This chapter outlines the reasons your financial professional may not have told you about The LASER Fund before.
2. The reasons range from a lack of awareness, to preferring to stick with traditional financial strategies that make their workdays easier.
3. Other reasons come down to money—other financial vehicles can be more lucrative for financial professionals, so that can be a deterrent.
4. Still, others succumb to assumptions, inaccurate assertions like thinking insurance must be expensive, or it's only for the wealthy.
5. By investigating for yourself how The LASER Fund works, how it complies with tax citations, and how it provides greater liquidity, safety, rates of return, and tax advantages, you're learning the "swing" of creating a brighter financial future, not just picking up the "clubs" your financial professional handed over.

12

What Can Go Wrong … And How To Prevent It

From the time we Andrew children were young, the great outdoors have been the destination for countless family getaways. From backpacking and hiking, to fishing and Jeeping, the rivers, mountains, and canyons of the Intermountain West have been the playground for unforgettable adventures. While the activities may change from trip to trip, one hallmark of every family outing has been the campfire.

We hover over the orange and red heat for cooking (there's nothing like lemon pepper trout grilled fresh out of the river, and Dutch oven cobbler simmering with peaches from roadside stands). We circle around the flickering light to share What Matters Most and I Remember When stories. All of these bonding moments are illuminated by the mesmerizing flames.

From an early age, each of us was schooled in how to start and maintain the campfire. We learned to place the tinder bundle of leaves, grass, and needles in the center, add fuel with small sticks for kindling, then feed the flames with firewood to keep the blaze going throughout the evening.

We were also taught about the hazards of mismanaging the fire. One wrong move with the matches or one misplaced piece of firewood, and a magical night could turn miserable, causing injury, or worse, sparking a wildfire.

Many things in life are a lot like fire. They have the capacity to benefit our lives when we manage them correctly, but they can also produce everything from disappointment to disaster if mishandled.

Like many financial vehicles, LASER Funds fall in this same camp (no pun intended). When structured and funded properly, they can lend warmth to a family's life, fueling everything from providing tax-free income for retirement to business opportunities, emergency funds, education, and charitable giving. However, if they're not correctly structured, funded, or managed over the long-term, LASER Funds simply won't be able to perform optimally, and in some cases, they may fail the objectives miserably.

Since we believe in financial empowerment through education, it's important to understand the upsides AND downsides of any financial strategy. As revolutionary as a LASER Fund is in providing liquidity, safety, predictable rates of return, and tax advantages, it's not foolproof. There are ways both policyholders and financial professionals who aren't adept at LASER Funds can go astray with this financial vehicle, taking detours that can derail the plan. So let's take a moment to map the potential pitfalls—and how you can avoid them.

NOT ENOUGH IN

LASER Funds perform best when properly structured and fully funded. What happens if you get off course during the funding phase?

This can happen for various reasons, even seemingly good ones. It may be, for example, that you direct your money elsewhere, like your kids. It's natural for parents to want to help their children. It feels loving and noble. However it can lead to anything-but-noble consequences when money is given without requiring accountability and responsibility in return.

In Doug's book, *Entitlement Abolition*, he shares several stories of otherwise well-meaning parents giving away money to their children and grandchildren that they had originally intended to go toward retirement.

One couple, for example, had initiated a LASER Fund, designed with a premium bucket of $500,000. The first year they dutifully funded it with $100,000, but Years 2 through 5 they failed to put the remaining $400,000 in the policy. Why?

One of their children had gotten divorced and asked for financial help. Another child saw that money going to the sibling and asked for money to fuel a business investment. The third child demanded his fair share, as well. Before they knew it, they could no longer fund their policy, and they chose to let it lapse.

Remember, funding your policy is like managing that apartment building. You buy the building to make money on it. The only way to make money on it is by doing what? Leasing it out, collecting those lease payments, over a long period of time. Just the same, funding your LASER Fund is critical for getting the most out of your policy. If you do not fund your policy properly or make sufficient adjustments, your cash value can diminish over time, and, like the couple above, your policy could eventually lapse.

That said, The LASER Fund is flexible. If you find yourself in unexpected circumstances and are not able to fund your policy according to the way it was structured, you can contact your financial professional to make adjustments to your policy.

Let's look at an example of how making adjustments can rescue an otherwise tough financial situation. Let's say Fred is a healthy sixty-year-old who has created a LASER Fund with a $500,000 premium bucket and a death benefit of about $1.3 million. Fred is planning to maximum fund it in five years, putting in $100,000 a year. The first year, things go according to plan: he puts in $100,000. During his second year, something comes up and Fred is only able to put in $35,000.

Despite his best intentions, Fred's circumstances do not improve—over the coming years, he is not able to add any more. By putting only $135,000 into the policy, it remains just 27% funded. What can Fred do to make sure the policy does not lapse?

Fred meets with his financial professional to make adjustments. To save on policy charges, in Year 11 they drop the death benefit to $700,000. In Year 12, they save even more by dropping the death benefit to $375,000.

While he will no longer look to take tax-free income from the policy, he can at least keep it in force. His $135,000 will still be protected from downturns in the market. It can still benefit from some tax-deferred growth (for example, at an average rate of 7%, by Year 20, his cash value would be about $177,000). He will also be able to pass along an income-tax-free death benefit of $375,000 (which is more than double the $135,000 he put in). Essentially, his policy will now function more like term insurance.

Now what if the story is slightly different? What if Fred puts $300,000 into his policy before stalling out? In this case, his policy is 60% funded. Fred still meets with his financial professional to decrease charges by reducing his death benefit. But the great thing is, he can now take out tax-free income. (Typically, if a LASER Fund is at least 50% to 70% funded, you can take out tax-free income—it won't be as much as if it were 100% funded, but you can still borrow money tax-free.)

Overall, keep in mind that if your financial situation changes, you should contact your financial professional right away. She or he can help you explore your options for making the most of your financial future. Just remember, The LASER Fund works best when fully funded. It's a long-term vehicle that takes dedication, responsibility, and accountability. Those who want to drive it into the future should be committed for the long-haul.

TOO MUCH IN

Some of The LASER Fund's most coveted benefits include the fact that policyholders can have a tax-free death benefit, while also accruing money in a safe, predictable environment, and enjoying the ability to pull out money for tax-free income.

However, these benefits can get stymied if policyholders don't adhere to funding regulations. If you remember in Section I, Chapter 7, we talked about TAMRA tax citations, which indicate that policyholders can't fund their insurance policies with one lump sum. Instead, they're required to spread out the Guideline Single Premium payments typically over five to seven years.

Now, remember why the government passed TAMRA back in 1988? To slow the flow of money leaving traditional, taxable accounts like mutual funds and 401(k)s as more Americans were turning to insurance contracts for financial planning. With that in mind, the government levied a pretty significant consequence for violation of TAMRA. If individuals fully funded their policies sooner than five to seven years, the policy would no longer be deemed a LASER Fund—it would be deemed a Modified Endowment Contract, and any income taken from the policy thereafter would not be tax-free. And of course, Uncle Sam would get his share of that income, taxed LIFO.

If you recall, we illustrated this kind of scenario using a $500,000 policy with the required life insurance of $1,300,000 for a sixty-year-old male. If it were funded with that $500,000 all at once (rather than over five years), it would become a MEC, which means the money could accrue tax-deferred, the death benefit would pass along tax-free, but any income taken out of the policy would be taxed LIFO.

So if it triggers income taxes, why would anyone want to violate TAMRA? There are occasions where some of our clients have deliberately done so, simply because they didn't intend to use their policy for income. In other words, they weren't going to take any money out of the policy. Instead, they wanted to leave their money tucked in the policy for the life of the contract, taking advantage of The LASER Fund's death benefit, safety, and predictable rates of return—and they preferred to fund the account in one fell swoop.

For example, say someone has $500,000 sitting in the bank earning next to nothing. They don't need the money; they have plenty elsewhere. They decide rather than having it earn less than 1% annually (with any growth being taxed as it accumulates), they can put it to work in a LASER Fund and enjoy tax-deferred growth.

They put $500,000 all in at once, which creates a MEC. No problem; they don't plan on touching their money for income, so they won't be taxed on any withdrawals or loans. But just say they did have an emergency and needed to access money, say $50,000, from the account? They still can; they'll simply pay taxes on the gains (as they would with any other investment, anyway). They've still benefited from indexing, which protects their money from market loss. They've still enjoyed tax-deferred

growth to this point. And there's that valuable death benefit. If they die, their beneficiaries could receive a $1.3 million tax-free death benefit (or more, depending on what the policy has accrued to that point)—far greater than the $500,000 plus nominal interest would have ever been.

Going back to the issue of violating TAMRA, while there are occasions where folks may intend to create a MEC like we just described, there are plenty of times when policyholders violate TAMRA without meaning to. They put too much in too fast. This isn't something we encounter often with our clients, because we educate them to ensure they understand how to properly fund their accounts. However, we've had some clients come our way who have been working with other firms or financial professionals who didn't explain TAMRA well (or who didn't understand it well themselves).

If the violation is recent enough (within sixty days following the next policy anniversary from the date TAMRA was violated), we can help them perfect their MEC. By doing so, the insurance company refunds their overpayment, and their policy returns to compliance with TAMRA. But if it's longer than the grace period allowed to perfect the MEC, we can only offer condolences on their new MEC. If they'd like, we can help them open a different LASER Fund which they can fund correctly to achieve their income objectives. (Remember, you can hold numerous policies at once.)

TOO MUCH OUT

Putting too much in too quickly isn't the only way to disrupt a LASER Fund. You can also take too much out of the policy, too quickly. Not only can this trigger a taxable event, but it can also take a toll on how the policy performs, and on your death benefit.

To understand this concept, let's first examine how a policy looks when everything is done right. Using one of our examples from Section I, Chapter 9, John is our sixty-year-old who put $500,000 into his policy, with just over $1.3 million in required insurance:

Years 1 – 5 Summary

FIGURE 12.1

Age	End of Policy Year	Premium Outlay	Interest/Loan Credits	Interest Bonus credit	Policy Charges	Loan Charges	Accumulation Value	Surrender Value	Death Benefit
61	1	$100,000	$6,258	$939	$14,200	$0	$92,997	$60,021	**$1,306,000**
62	2	$100,000	$12,789	$1,918	$15,104	$0	$192,601	$160,499	**$1,306,000**
63	3	$100,000	$19,795	$2,969	$15,805	$0	$299,560	$268,333	**$1,306,000**
64	4	$100,000	$27,344	$4,102	$15,848	$0	$415,158	$384,813	**$1,306,000**
65	5	$100,000	$35,520	$5,328	$15,467	$0	$540,539	$511,082	**$1,306,000**
Total		**$500,000**							

His LASER Fund objective is to take annual income during retirement and pass along a death benefit to his heirs. John structures and funds his policy properly, putting in $100,000 a year for five years (see Figure 12.1). Notice his death benefit remains constant at just over $1.3 million during those first five years.

Years 6 – 10 Summary

FIGURE 12.2

Age	End of Policy Year	Premium Outlay	Net Distributions	Interest/ Loan Credits	Interest Bonus credit	Policy Charges	Loan Charges	Accumulation Value	Surrender Value	Death Benefit
66	6	$0	**$51,156**	$37,305	$5,596	$7,536	$2,558	$575,904	$493,621	$1,252,286
67	7	$0	$51,156	$39,204	$5,881	$7,519	$5,243	$613,470	$475,689	$1,195,887
68	8	$0	$51,156	$41,231	$6,185	$7,457	$8,063	$653,429	$461,039	$1,136,667
69	9	$0	$51,156	$43,392	$6,509	$7,490	$11,024	$695,840	$445,879	$1,074,487
70	10	$0	$51,156	$45,688	$6,853	$7,656	$14,133	$740,725	$430,091	$1,009,197
Total		**$500,000**	**$255,780**							

Looking at Figure 12.2, you can see that in Year 6, John starts to take his maximum income of $51,156 per year. Take a peek at his death benefit. As he pulls money out, his death benefit decreases each year. John is fine with that—one of his primary objectives is the annual tax-free income (as well as the death benefit, liquidity, safety, predictable rates of return, and tax advantages).

But what if John takes out more than that maximum income amount each year? He is in jeopardy of outpacing the interest his policy is earning. If he ultimately takes out too much money, his policy could lapse. That would be like killing the goose that lays the golden eggs.

The minute he caused his policy to lapse, he would no longer have a tax-protected life insurance policy. "No life insurance" means no tax-deferred accumulation, no tax-free income, and no tax-free death

benefit. He would owe taxes on all of his gains. As in a lot of taxes. And the worst part is John would have probably already spent the money he took out. So rather than his policy providing a regular income of $51,156 every year (up to age 120) and a valuable tax-free death benefit to his heirs, John could run his policy into the ground AND owe Uncle Sam a lot of money. That would not be smart, John.

To help policyholders like John avoid inadvertently slaying their golden-egg-laying goose, they can opt to include something called a Loan Protection Rider. This rider is available if and when the loan balance equals or exceeds 90% of overall account value—it essentially protects the remaining account value as death benefit. This balance remains in place until the policyholder passes on, at which time it passes on to heirs tax-free. Keep in mind there are certain eligibility conditions policyholders must meet; there's a rider fee assessed once you implement it; and it's not automatically triggered—you do have to opt to use it once you're notified.

Of course, if you're working with LASER Fund experts who meet with you every year, you can avoid coming close to needing the Loan Protection Rider. But if you're working with someone who doesn't know enough to keep you from this kind of freefall? It could spell retirement disaster.

BAD INCOME STRATEGY

One stumbling block we've seen some people have is when they (or their financial professional) are not astute at accessing income from The LASER Fund. Everything else can be in place—acquiring the policy from a reputable top-tier insurance company, structuring the policy correctly, funding it fully—but when it comes to taking income a few years down the road, things can still go off track.

Here's how: it's in making assumptions about what the policy is earning in interest, versus what the loan is being charged. Say, for example, you have $1 million in cash value in your policy, and currently you're earning 7% average annual interest. The insurance company will be charging you 5% interest on the money you borrow for income. You assume you'll be getting a consistent 2% spread. So you start taking out your maximum allowable income. Market conditions change, however, and your

policy (which is tied to the S&P 500 Index) goes down to earning 5% to 6% average. Now you're no longer getting that same spread, but you and your financial professional aren't bothering to check in on your policy, so you still go on borrowing at the original maximum amount.

The problem: you're pulling money out at a rate that is faster than what you're earning. Your loan balance is growing faster than your account value and will deplete your available cash value for future loans. If this behavior goes unchecked for an extended period of time, you're at risk of depleting your policy entirely.

This is one of the reasons we insist on meeting with our clients every year, to closely monitor the status of the policy and protect against mistakes that could lead to unintended misfortune.

IT'S NOT MAGIC

One of the reasons the astute turn to The LASER Fund is its ability to continue accruing interest, even after you've taken income out of the policy. Let's say your LASER Fund has a current cash value of $1 million, and it's growing at an average rate of 7%. You decide to take out an indexed loan of $70,000 from your LASER Fund (remember, that's tax-free income). Sure, your net cash value (your accumulation value minus your loans) goes down to $930,000, but you have the advantage of earning a percentage spread on that $70,000 you borrowed. Your $1 million is still in there, averaging 7%. That $70,000 is merely collateral for your loan, which the insurance company charges you 5% interest to borrow. So you're averaging 7% on $1 million; you're being charged 5% on the $70,000; this means you're averaging a 2% spread on that $70,000.

Compare this to a traditional savings account or mutual fund. If you have an account with $1 million and you pull out $70,000, you'll only have $930,000 left in the account working for you, period. (For more comparisons between LASER Funds and traditional accounts, see Section I, Chapter 10).

This is definitely an advantage The LASER Fund has over traditional financial vehicles—and one of the reasons people have called it a miracle. And while we agree it is a superior vehicle, it is not magic.

In the musical, *Mary Poppins,* there's a famous scene where Mary opens her carpet bag and pulls out a bounty of items: a hat rack, a wall mirror, a houseplant, a lamp ... and the supercalifragilistic list goes on and on.

One of the dangers we've seen is that sometimes people begin to think of The LASER Fund as Mary Poppins' mystical bag. While it can provide so many things—liquidity, safety, predictable rates of return, tax-free death benefit, and more—it isn't supernatural. If structured and managed correctly, yes, it can offer tax-free access to money for things like retirement income, business capital, or children's educations, but it is not a bottomless supply of enchanted never-ending cash to use for anything and everything into perpetuity.

With that in mind, many of our clients have found it valuable to decide their primary objective for their LASER Fund. If it's retirement income, they generally don't touch the money in the policy until they officially retire. If it's business capital, they focus on borrowing money solely for professional purposes. If it's funding education or charitable efforts, then they prioritize money borrowed from the policy for those causes. For clients who want to use The LASER Fund for several things, they often open several policies, so they can dedicate each policy to a specific purpose. While it is possible to use one policy for different objectives, a multi-pronged approach can have its limits. It takes special attention and expertise to ensure you're not taking more than is prudent at any one time for your different endeavors.

So just keep in mind, while The LASER Fund has inherent advantages over traditional accounts when it comes to maintaining a healthy cash value, it is still subject to the "laws of subtraction."

NOT JUST ANY COMPANY

Let's say you drive a Tesla. It's time for the next maintenance visit. Do you head to the lube shop on the corner? Our guess is: no. You take your finely-crafted electric car to the Tesla specialists, even if that means a forty-five-minute drive to get to the shop that can properly care for its intricacies.

When it comes to your future, financial vehicles like LASER Funds are not unlike that Tesla. They require special expertise and care. You can't just pull up to any insurance company and say, "Give me the works."

Over the years, though, we've seen it time and time again. We've had people come to our seminars—often with their own financial professional in tow. They get a smattering of knowledge and rush out to whatever insurance company they're familiar with and order up a life insurance policy that can "do all the things Live Abundant talked about." However, without the proper approach and product features, the insurance company simply can't do what it takes. The policyholders often end up with a financial vehicle that can't provide the tax-free income and death benefit they were seeking.

Or they find themselves working with a reputable insurance company, one that can even offer a LASER Fund that looks good on the surface, but ten to fifteen years down the road, they discover their policy has some limitations. Just like a car, sometimes what's under the hood isn't as good as the shiny exterior. And worse, the company isn't paying attention to customers with older policies. They offer improved features only to new policyholders—leaving older customers behind.

As we've mentioned, out of the thousands of insurance companies across America, there are only a handful that we recommend to our clients. These are life insurance-only companies (in other words, they don't provide auto, property and casualty, etc.). They are well-versed in LASER Funds. They understand how to structure and fund them properly. They are constantly working to innovate, adding features to improve policyholder benefits.

And for customers with older policies? They offer the latest, greatest benefits to them, as well. It's like if the car manufacturer came out with a better battery or software system? They'd automatically offer it to you, keeping your car up-to-date for as long as you own it. The insurance companies we recommend make it standard practice to offer the latest improvements to all of their policyholders, regardless of the age of the policy.

This can't be overstated: working with the wrong insurance company can leave your future sputtering along the side of the road, with the hazard lights flashing.

NOT JUST ANY DESIGN

As you've likely gathered by now, there are numerous aspects to take into consideration when designing your LASER Fund. You and your financial professional will want to make sure you cover all the critical bases before you implement your policy.

If you're hoping to take income from the policy down the road, for example, you need to structure your policy to put the most money in and take the least death benefit out. You also want to create a policy with commissions and fees that are as low as possible. When you start taking income, you need to make sure not to take too much out at any given time, in order to avoid lapsing your policy (and creating taxable events).

That said, a successful LASER Fund needs to be designed for compliance with all related tax codes, as well as structured accurately for your specific policy size, death benefit level, funding cadence, your age and health, and many, many more details. Beyond that, you need to determine the best type of indexing for you. Would you prefer an S&P 500 annual point-to-point, an S&P monthly sum, an S&P trigger method, or would you like to go with one of the Blended Indexes? In addition, you'll need to consider things like whether you prefer to make adjustments year-to-year, or leave indexing choices in place for the life of the policy.

You'll also want to wisely—and realistically—address issues such as how likely you are to fully fund your particular policy over the next five to seven years. Say, for example, you are planning on funding the policy with $500,000 over the next five years. But that money is contingent on external circumstances (like an upcoming real estate or business deal). If there's a high potential you may not be able to fully fund it, your financial professional will show you options for protecting yourself, such as adding the "no surrender charge" rider we mentioned earlier.

This would allow you to avoid incurring the penalty that is normally assessed if you were to cancel your policy and pull all of your money out during the first ten years. There is a charge to add this rider, which only about 5% of our clients do. But it does provide peace of mind if you have concerns about funding your policy.

When you're working with financial professionals who specialize in LASER Funds, you're getting the benefit of partnering with professionals

who can help you design an optimal LASER Fund and manage or even negate potential problems upfront.

NOT JUST ANY ARCHITECT

Referring to the five-story building analogy, what would happen if you went to an architect who specializes in residential homes? She may be an expert in drawing up designs for a rambler, a multi-level, or a two-story house. But she may not understand all the complexities of creating the designs for your five-story office building, knowing how to avoid structural weaknesses (for local seismic and climate conditions), weight-bearing problems (for heavy office equipment), circulation and traffic jams (for larger numbers of occupants), building codes, etc.

Just the same, financial professionals who focus their attention primarily on traditional retirement accounts, or insurance professionals who are immersed in life, auto, and property and casualty insurance, will likely not have the depth of experience to design a properly structured and funded LASER Fund policy.

More than once, we've had people come to us (not clients of ours), frustrated that their policy isn't doing what it should be. We ask about their story, and they explain that they had attended one of our Live Abundant events years before, with their brother-in-law or nephew who's a financial professional. They listened to the strategies we presented, learned the names of the top-tier insurance companies we recommended, then had their relative set up their policy.

They assumed all would be well and good, but five to seven years down the road, the $500,000 they had funded the policy with hadn't grown. While our clients with a similar financial profile had seen their $500,000 policy increase in value in that time, theirs had dwindled to $250,000 in value. They ask, "Why are your clients' policies performing so much better than ours?" All we can do is ask again, "Now, who designed this for you?"

There's more to this whole strategy than having the right product and the right company. No matter how well-intentioned a brother-in-law or nephew may be, this approach requires very specific experience and know-how.

You're also better off with a broker, who can weigh the different benefits of the top companies for your particular situation—and it doesn't cost any more than going directly to the company. A financial professional who works for one specific insurance company can only sell for that company and may have blinders on when it comes to helping you find your optimal solution.

Remember that car analogy? You want to make sure the manufacturers and your auto service shop are working together to give your car the same upgrades as the latest model. Well, a broker can stay abreast of the latest products at each insurance company. For example, one of the companies we work with has been providing The LASER Fund since 2006. Since then, it's introduced over a dozen new features and index accounts, all in the clients' favor. Because we work closely with the insurance companies we recommend, we've been able to help our clients take advantage of new offerings with their existing policies—something that's helped make a difference in our clients' financial outcome.

Even beyond finding financial professionals who have the experience and expertise in LASER Funds, you would also do well to look for financial professionals who are with firms that have the size and the systems in place to support your success.

Smaller firms specializing in LASER Funds can be great allies for you, however, since LASER Funds require financial professionals to devote a good amount of attention to each client's policies year-to-year, smaller firms can only afford to take on a few clients a year. When that's the case, which type of clients are they most likely to focus on? Yep, just the wealthiest of the wealthy. So if you're on the more moderate end of the financial spectrum, you may want to find a larger firm that can accommodate clients with a range of income. That way they can take care of you as you're starting out, and continue to support you if/when your income and financial goals increase.

No matter where you are on the financial spectrum, you also want to find a company that believes in partnering with you, that will invest the time and resources to help educate you on these complex strategies so you're in the know. When your financial professionals create educational and support systems, it empowers you to make wise decisions throughout the next few decades of managing your policy, which can save you time, energy, and money in the long-run.

LASER-READY TEST

If partnering with an expert financial professional is so critical to the success of your LASER Fund, how will you know if a potential financial professional is up to the task? You can use the following "LASER-Ready TEST." You can ask your financial professional:

- What is TEFRA, DEFRA & TAMRA, and how do they impact my policy? *(Your financial professional should be able to answer this off-the-cuff. If they say "Let me check on that"—they're not likely prepared to help structure your policy correctly. Make sure to cross-check their response with information in Section I, Chapter 7.)*
- Explain to me Internal Revenue Code, Sections 72(e), 7702, and 101(a). *(Again, your financial professional should be able to easily explain this to you. If not, beware.)*
- What's a Guideline Single Premium? *(This is the total amount you will put in to fully fund, or self-insure, your policy.)*
- What factors will the insurance company consider when gauging the size of my policy, besides the Guideline Single Premium? *(This includes your age, gender, and health status.)*
- What size policy would someone have (on average) who is a healthy 60-year-old male, with a GSP of $500,000? *(It's approximately a $1.2 - $1.3 million death benefit.)*
- What are the rules for perfecting a Modified Endowment Contract? *(Compare the answer to information in this chapter.)*
- How can an insurance company earning 5% on their general account portfolio afford to credit a policy 7% or 8%? *(By linking to an index where the insurance company buys upside options with the interest on your principal—but your principal is preserved.)*
- How can policyholders experience 1% to 2% higher pay-outs than the average index that they are linked to? *(By using indexed loans where the interest charged might be 5% and the cash value is being credited a higher rate, such as 7%.)*
- Who runs your policy illustrations? *(Ideally it is your financial professional who designs your illustrations, not the third-party insurance company who hasn't met with you directly and who won't be familiar with your individual circumstances and objectives.)*
- If I maximum fund a LASER Fund, over the life of the policy, what is the expected net internal rate of return likely to be—

compared to the gross crediting rate—if the historical average were 7%? *(Usually less than 1% different—which would be 6+%).*

- How long have you been structuring these types of policies? Do you have access to several different types of indexed policies, and how many have you put in place? *(Hopefully they're not brand new to the strategies.)*
- Do you specialize in maximum-funded Indexed Universal Life policies, or do you handle other types of insurance, as well? *(Let's hope this is an experienced answer, or at least your financial professional is with an experienced firm who can support him/her in partnering with you.)*
- How many insurance companies do you represent? Do you work for only one company or are you a broker representing multiple companies? *(Remember, while not imperative, brokers can have an advantage in ensuring you get the optimal policy for your situation, as well as upgrades down the road.)*
- Is insurance your sole profession, or is it a part-time endeavor? *(Ideally you want someone who is dedicated to this full-time, not juggling it with other types of work.)*

If you're getting vague (or worse, incorrect) responses to the above, then it would be in your best interest (and your heirs' best interest) to explore working with a different, experienced financial professional. If your financial professional can answer these questions satisfactorily, then you're likely in good hands.

TOP 5 TAKEAWAYS

1. Even with its powerful upsides, The LASER Fund is not foolproof, so it's important to understand what can go wrong and how to prevent it.
2. LASER Funds perform best when they are structured correctly and funded properly. Avoid getting off course when funding your policy—and if circumstances change, you will want to meet with your financial professional to make adjustments to your policy as soon as possible.
3. LASER Funds require critical knowledge and experience to structure properly—which means not just any financial professional, insurer, or policy design will do. For optimal results, work with a financial professional who has expertise in designing and managing LASER Funds, and who has your best interests in mind.
4. While The LASER Fund can provide several advantages for your financial future, it is not magical. It does have its limitations, and it requires everyone to assume responsibility and accountability in properly structuring, funding, and accessing money.
5. The LASER-Ready Test can help you identify financial professionals who will be valuable partners for you in creating a bright financial future.

13

The Self-Assurance of Self-Insurance

Throughout Section I, we've explored The LASER Fund from a historical perspective. We've looked at how it provides the key elements of a prudent financial vehicle: liquidity, safety, predictable rates of return, and tax advantages. We've examined how it works in different scenarios, and we've compared it to other financial vehicles. Now we'll look at it from one more vantage point—how, at its essence, it is "self-insurance." With The LASER Fund, you are essentially self-insuring your own death benefit.

And why is that death benefit so valuable? Thanks to certain Internal Revenue Codes, the death benefit gives you distinct advantages. As a reminder, Section 101(a) states that the death benefit in a life insurance policy is income-tax-free. Section 72(e) allows that any of the death benefit you own inside the insurance policy can be put to work for tax-deferred growth.

Section 7702 outlines perhaps the biggest plus—that you can manage the size of your own death benefit. If you follow Section 7702 correctly,

you can decrease your death benefit (because, for example, the needs for that benefit are no longer as great), and the surplus will be transferred to you. You can take that surplus out by way of withdrawal (which would incur taxes), or you can reduce that death benefit in the form of a loan, which is tax-free. Essentially, that portion of your death benefit can now be used for living benefits—which we'll explore through real-life scenarios in Section II.

So with all these benefits in mind, let's explore how assuring this concept of self-insurance can be.

THE EARLY BENEFITS

To begin, we'll focus first on a purely self-insured policy, the kind that was available before the 1980s. Back then, if you wanted to self-insure yourself for a half-million-dollar death benefit, you would put $500,000 into your policy. The policy would be entirely funded by you, without any risk on the part of the insurance company.

You might be wondering, if the insurance company wasn't at any risk in providing the death benefit, why would anyone have wanted to self-insure? The answers are compelling: 1) lowest-cost insurance, 2) liquidity, 3) safety, 4) tax-deferred accumulation, 5) tax-free access to your money, and 6) tax-free death benefit.

To expound, these policies cost the policyholder virtually nothing, because their cash value was equal to their death benefit. They provided liquid access to a policyholder's money. As for safety, an insurance policy has always been among the safest places to park the money you want to transfer to your heirs (safer than just about any other financial vehicle).

What's more, the money you put into your policy took on a new life. It was reclassified as death benefit, which means when you took it out—whether as income during your lifetime or as death benefit when you pass on—it was 100% tax-free. (Remember, this is possible through Internal Revenue Code Section 101[a], which identifies that the death benefit is not earned income, passive income, or portfolio income. Since these are the only types of income that are taxable, the money you or your heirs get from your policy—if structured properly—is completely tax-free.)

Furthermore, through Internal Revenue Code Section 72(e), the self-insured portion of your money would be put to work with the folks who have historically been the best money managers in the world, the insurance companies.

For example, let's say you had started with a $1 million-dollar self-insured policy, earning an average rate of return of 7%. According to the Rule of 72, in ten years your policy would have doubled to $2 million. In twenty years, it would have doubled again to $4 million in death benefit.

As the money continued to accrue, if you decided you wanted to reduce your death benefit (because, for example, as you aged you didn't need as much death benefit as before), could you reduce that death benefit before you passed on?

Yes, remember under Internal Revenue Code Section 7702, you can reduce your death benefit if your need decreases. So with that $1 million doubling twice to $4 million in twenty years, let's say in Year 20 you realized that at a 7% rate of growth, you were going to earn another $280,000 in interest that year. You were fine maintaining your death benefit at just $4 million, and you didn't think you needed another $280,000 added to the pile. So you decided to take out that $280,000 in the form of a loan now.

Where would that money have gone? Right into your pocket. It would still have been considered death benefit, which means it's tax-free. So now you could have had a tax-free supplemental income of $280,000. And you could continue doing that every year for the rest of your life by maintaining and managing your $4 million death benefit. Or what if you wanted to reduce that death benefit to just $2 million? Could you have taken $2 million out at once, rather than $280,000 a year? Absolutely.

As explained in Section I, Chapter 8, as long as you were accessing your money The Smart Way under Internal Revenue Code Section 7702, you could take your money out tax-free. It would still be considered death benefit, you were just accessing part of it prior to death because you determined a reduced need in your total death benefit. Not only were you benefiting from the tax-free income, but you were reducing your costs, because the lower the death benefit, the lower the policy charges. Thus, you were getting the best of all worlds: your money growing tax-deferred, unfettered by high charges, and the opportunity to access it tax-free.

THE IRS INTERVENES

By the early 80s, these self-funded insurance policies were growing in popularity. The IRS didn't love the increasing migration to this tax-free insurance solution, so it filed a lawsuit trying to shut it down. The IRS likely knew it wasn't going to win, but the lawsuit successfully halted the opening of any new policies and bought the IRS time to lobby Congress to draw up new legislation. At the same time, the insurance industry (which has been bolstered by one of the largest lobbies for the past 150 years) counter-lobbied Congress to preserve the benefits of life insurance for Americans.

Fortunately for America, Congress didn't just roll over for the IRS; instead, it struck a compromise. (It probably didn't hurt that many owners of these types of policies were members of Congress.)

The new law essentially defined "insurance" as "risk management." This clarification effectively put an end to purely self-funded policies. To explain, before the law passed, if you wanted a $500,000 policy, you would put the entire $500,000 into the policy. How much risk was there for the insurance company? Zero. With the new law, a policy with zero risk would not be considered insurance, and thus the death benefit would not qualify as tax-free under Section 101(a).

So the question became, how much risk was required for a policy to be deemed "insurance" under the law? In other words, what was the minimum amount, above what the policyholder put into his or her account, that must be met for the policy to qualify as insurance? Congress had to come up with a formula to determine that risk. They turned to the insurance industry to identify that algorithm, which it did, creating a formula that factored in age, gender, and health.

The change in law also necessitated a restructuring of how insurance companies made their money. Prior to the legislation, if you put $500,000 in to an insurance policy for a $500,000 death benefit, the insurance companies couldn't charge you for the risk, because there was no risk. Your policy was costing you $0.

So how were the insurance companies making money? Interest.

They were investing your money at a higher rate than what they were paying you. If they were investing your money at a 9% rate of return,

they would have passed on an 8% to 7% rate of return to you and kept the rest. Just like banks, all they needed was a 1% to 2% spread to be profitable.

But with the legislation, the insurance companies would now need to charge for the added risk. And guess how much the algorithm identified as the minimum risk you must pay for with your insurance? Yep, 1% to 2%. So today, you are paying 1% to 2% in policy charges, but the insurance company is giving you the entire rate of return. If your policy earned 9% last year, they would credit your policy the entire 9%, charge you 1% to 2%, and you would net at least 7%.

COMING OUT AHEAD

Did potential net earnings for the policyholder change with the legislation? No. And what's more, policyholders are now getting more in death benefit than when their policies were purely self-funded. Before, a $500,000 policy would have gotten a $500,000 death benefit. But today? As illustrated in Section I, Chapter 9, for example, if you were a healthy, 60-year-old, non-smoking male, you could put that Guideline Single Premium of $500,000 into your policy (spread out over five to seven years) and receive a minimum death benefit of over $1.3 million.

The difference between your $500,000 premium and the death benefit of over $1.3 million is over $800,000 in minimum risk that you were required to purchase to comply with the law. (In other words, that $800,000 is what the insurance company is at risk for at the outset of the policy.)

In this post-TEFRA, -DEFRA, and -TAMRA era, today's LASER Funds are essentially a modern take on the original self-insured policy, and they're even better.

Comparing today's LASER Funds with traditional life insurance policies (such as Term and Whole Life), modern policies also have superior advantages. With traditional life insurance, for example, folks are looking to get the most insurance for the least amount of cost (or highest death benefit for the lowest premiums). They often ask, "How much do I need to pay to get the death benefit?"

But with The LASER Fund, it's the opposite. You know exactly how much you're going to pay, because you're the one who determines the Guideline Single Premium (after factoring in the maximum percentage of income and/or net worth allowed by the insurer). From there, the insurance company bases your death benefit on factors such as age, health, and gender.

Once your policy is properly structured and opened, your job is simply to fill that premium bucket according to the way it was structured. Once maximum-funded, you have self-insured yourself to the maximum amount allowable under TEFRA / DEFRA, and you can reap the rewards of liquidity, safety, predictable rates of return, tax advantages, and tax-free death benefit from there.

REASSURING

And that's that self-assurance of self-insurance. You're more in control not only of the size of your premium bucket, but of your financial legacy. You're using an exceptional financial vehicle to fund your future, and that of your future generations. And that potential for abundance? Reassuring.

TOP 5 TAKEAWAYS

1. Owning a LASER Fund is essentially self-insuring your own death benefit.
2. In the early days of Universal Life (in the early 1980s), when the policy was maximum-funded, the insurance company was no longer at risk for the death benefit.
3. When the government passed TEFRA/DEFRA, it redefined insurance as "risk management," and mandated a corridor between what a policyholder put in, and the death benefit, based on factors like age, gender, and health.
4. The advantage of this to you, the policyholder, is now you know exactly how much money you're going to put in the policy, because you're the one who determines your LASER Fund's Guideline Single Premium.
5. By complying with TEFRA/DEFRA, you can reap all The LASER Fund's potential rewards of liquidity, safety, rates of return, and tax advantages.

14

Staying Balanced

Take a look at a recipe, something fundamentally delicious, like classic Nestlé ® Toll House® Cookies:

2¼ cups all-purpose flour
1 teaspoon baking soda
1 teaspoon salt
1 cup (2 sticks) butter, softened
¾ cup granulated sugar
¾ cup packed brown sugar
1 teaspoon vanilla extract
2 large eggs
2 cups (12-oz. pkg.) NESTLÉ® TOLL HOUSE® Semi-Sweet Chocolate Morsels
1 cup chopped nuts

Blended well, crisped to crunchy perfection on the outside and melty cocoa on the inside … there's nothing quite like a cookie right out of the oven. But what if we changed things up?

What if we took the sugars down to ¼ cup each, doubled the butter, and tripled the salt? What emerges from the oven would be salty, chocolate-speckled sludge. Without a good balance of ingredients, even cookies can go from just-right to all-wrong.

Balance is critical in most things—from our work-and-family lives to the construction of our city's soaring skyscrapers. It's also critical in your financial approach, where it's wise to use a blend of strategies so that all of your eggs (or nest eggs) aren't in one basket.

HOW MUCH INSURANCE?

Clearly, we recommend that a LASER Fund be an integral part of your overall financial portfolio. The liquidity, safety, predictable rates of return, and tax advantages are something you don't want to pass up. So just how much insurance should you get?

The better question to start with is how much insurance CAN you get?

When it comes to life insurance, nothing is a given. You need to qualify in essentially three areas:

1. You must undergo a medical exam.
2. You must adhere to affordability guidelines, as outlined by your insurer.
3. You must demonstrate a need for the death benefit for reasons that may include income replacement, estate preservation, wealth transfer, charitable giving, retirement income, etc.

HEALTH STATUS

Like all life insurance, most looking to initiate a LASER Fund policy will receive what's called a health rating. Since the amount of insurance required under TEFRA and DEFRA is based upon your age, your gender, and your health, your health rating plays a role in your policy.

Some people may need to undergo a medical exam to receive their health rating. If you have had some health issues—do not count yourself out. We have had several clients with chronic diseases or other health challenges who have been able to open LASER Funds. There are strategies your financial professional can help you with, such as "squeezing down" the death benefit, that can make policies effective.

AFFORDABILITY GUIDELINES

Insurance companies use affordability guidelines to ensure premium payments are aligned with the policyholders' financial ability, including income, net worth, and liquidity. In this regard, they're acting as a fiduciary on your behalf to make sure that you're not allocating more to an insurance policy than you have resources for.

Generally, the higher the net worth or income, the larger the percentage of that income or net worth can be put toward an insurance policy. This approach is designed to help individuals avoid overextending themselves. Here's a quick snapshot in Figure 14.1, of general guidelines (which are subject to change—your financial professional can provide the latest figures; the following numbers are given here as an example from one particular insurance company):

FIGURE 14.1

For Premium Payments from Income				
Income	<=$75,000	$75,001-$149,999	$150,000-$199,999	$200,000+
Maxium Total Planned Allowed	10%-20% (plus minimum premium requirement)	15%-30%	25%-40%	Underwriter Discretion

As you can see, if your income is less than or equal to $75,000, this insurer will allow only 10% to 20% of that income to be the premium, or up to $7,500 to $15,000 a year. If your income is $75,001 to $149,999, then 15% to 30% of your income would be allowed for premiums, or about $11,250 to $44,700 a year. If your income is between $150,000 and $199,000, you would be looking at 25% to 40% of your income, or $37,500 to $79,600. And if $200,000 or above, the percentage would be up to the underwriter. It wouldn't be unusual if you're making $500,000 a year for the underwriter to judge you as financially savvy, and allow up to 50% your income, or $250,000 a year, in premiums.

FIGURE 14.2

For Premium Payments from Net Worth (calculated on net worth, applied to liquid assets)				
Net Worth	<=$500,000	$500,001-$1,499,999	$1,500,000-$1,999,999	$2,000,000+
Percentage of Liquid Assets Allowed for Total Planned Premium	20%	30%	40%	Underwriter Discretion

Now if your affordability is going to be based on net worth, the insurer will look at your iquid assets (see Figure 14.2). Liquid assets would include investments, brokerage accounts, savings accounts, IRAs, 401(k)s—anything you can get cash out of (but not assets such as real estate equity or personal property). So if your net worth is $500,000 but your liquid assets are, say, $100,000, you would only be allowed 20% of that $100,000, or $20,000 a year, in premiums. You can see in this chart that your percentages go up to 30% and 40% of your liquid assets, based on net worth. After $2 million, the underwriter will make the call. The underwriter may say, "This policyholder is worth $10 million, and after we look at his assets and liabilities, we trust that he can use 50% to 60% of his liquid assets for premiums."

FIGURE 14.3

For Premium Payments from Net Worth (calculated on net worth)	
Net Worth	$2,000,000+
Percentage of Net Worth Allowed for Total Planned Premium	Underwriter Discretion

If you're solidly affluent with over $2 million in net worth, the underwriter may decide to forgo the liquid asset evaluation and look instead at your overall financial picture. You might be selling properties, or have a business that is set to sell, so they may allow 20% or 30% of your net worth (not just the liquid assets) for for premiums (see Figure 14.3).

FIGURE 14.4

For Premium Payments from Windfall	
Percentage of Windfall Allowed for Total Planned Premium	Underwriter Discretion

Now what if you have a sudden lump sum come your way? The underwriter will gauge what percentage of that windfall can be used for your premiums (see Figure 14.4).

INSURANCE CAPACITY

Another qualifier, your demonstrated need, impacts the amount of death benefit you can receive, or your "insurance capacity." The insurance company calculates your maximum insurance capacity by using a formula that factors in things like your age and income or net worth. Often, the younger you are, the higher your insurance capacity. For example, when you're in your 30s, companies will typically qualify you for up to thirty times your income. So if you're earning $100,000 a year at age 32, if all other factors are favorable, you're likely going to qualify for as much as $3 million in insurance. As you age, the income multiplier decreases, which may also decrease your insurance capacity. In your 60s, it may be as low as five to ten times your income or a factor of your net worth.

The rationale behind insurance capacity is simple. When you're young and your family is heavily dependent on you for income and/or care, if you were to pass away, it would require a significant amount of money to make up for the loss of the income or care you would have provided. When you're older and your family is no longer as dependent on you, the need for the replacement of that income or net worth isn't as high. Whatever your insurance capacity is, if possible, it's often in your best interest to insure yourself to the maximum amount. But it's not imperative, and this is where you want to work closely with your financial professional to determine the right size premium bucket for you.

For example, let's say you are retired at age 60. You won't be demonstrating a need for income replacement, rather for estate preservation. The insurance company will project what your estate will be worth in the future, using an average of 5% to 8% growth, and factor in your age, as well. If you're age 40 or under, your insurer will likely project twenty years of growth (fifteen years for ages 41 to 60, ten years for ages 61 to 70, and up to 75% of your life expectancy after age 70).

Let's say your estate has a net worth of $2 million, of which $1,250,000 is liquid. Using a growth rate of 8%, the insurance company will project

your estate to be worth over $5.8 million in fifteen years. The insurance company determines it can insure you for up to 55% of that net worth, for a death benefit of over $3.2 million. That requires a premium bucket of about $1 million.

Does that mean you'll automatically put in $1 million? No, for several reasons. First of all, the insurer will also assess affordability guidelines. Since your premiums are coming from net worth, in this example, the insurance company will allow around 40% of your liquid net worth to go into the policy. Doing the math, 40% of $1,250,000 is $500,000.

So instead of trying to stretch (and possibly put yourself in financial harm's way) by using all $1 million of your insurance capacity, you are limited to a $500,000 Guideline Single Premium. This is wise, as it's right-sized for your situation.

OPTIONS FOR MAXIMIZING THAT CAPACITY

Now let's look at another option if you were in this situation, at age 60 with a net worth of $2 million, limited to a $500,000 premium bucket (due to affordability guidelines). What if you knew in a few years you were going to inherit a lump sum of $500,000 from your parents who are in their late 80s, and you'd like to put that additional half-million you anticipate getting into a LASER Fund? But you know there's a chance that something could happen as you get older—an illness or heart problems—and you might not be able to qualify medically for another LASER Fund.

You could pass your medical exam with flying colors today and open an inexpensive term policy. In a few years when you acquire that $500,000, you can convert your term policy into a LASER Fund and maximum fund it over the next five years. Or, instead of a term policy, you could open a LASER Fund designed to hold $500,000, and simply minimum fund it for the first four years or more, until you receive the inheritance. Once the windfall comes in, you can catch up the back premiums on your policy. For example, if your windfall comes in three years after you purchased your policy and you had paid $50,000 in premiums to keep your policy going, you could add another $250,000 to get to the $300,000 you are entitled to put in (without violating TAMRA rules). With either approach, it won't matter what your health is now, because the health status you received at age 60 will be grandfathered into your policy.

Whether you have $2 million in net worth with a half-million-dollar inheritance on the way, or you're age 35 with a young family and more modest means, this method can be a valuable, safe way to maximize your insurance capacity, especially if your liquid assets are currently more like a flowing stream than a raging river.

ADDING EVEN MORE TO YOUR LASER FUND

If you recall, each LASER Fund is structured with a Guideline Single Premium (GSP). According to TEFRA/DEFRA, that GSP is the maximum amount you can put into your policy during the funding phase. What if you get down the road, and you have more money you would like to set aside in a LASER Fund? You can open another policy, or you can take advantage of what we call the 1/11th Rule. According to TEFRA/DEFRA, starting in Year 12 for most ages, you can add more money to your policy each year: up to 1/11th of your GSP. This 1/11th amount is called the Guideline Annual Premium or Guideline Level Premium.

To illustrate, let's say your LASER Fund has a GSP of $500,000. You maximum funded your policy within the first five years. Now in Year 12, you can add up to just over $45,000 a year to your policy, and you can do so for the rest of your life (although you are not required to). Adding 1/11th of your GSP does not require you to buy any more insurance. It is simply a powerful way to set aside additional money in a safe, tax-favored environment, with predictable rates of return, liquidity, and of course, income-tax-free death benefit that passes on to your heirs. This option is ideal for people who may have encountered health challenges after opening their initial LASER Fund, challenges that prevent them from opening another policy.

DIVERSITY WITHIN YOUR LASER FUND

As you look at your LASER Fund, you can apply a diversified approach to how you put the money in your policy to work. We're talking about your indexing options—you can choose more than one index, and you can change the indexes you use from year-to-year.

For example, if we take a look at one of our client's policies, a recent snapshot shows the latest annual growth on his LASER Fund. It's a

$500,000 policy, and he has put a total of $375,000 in it so far (just completing Year 4). This last year, he diversified his indexing by allocating 20% of that $375,000 to the Blended Index; 20% to the BUDBI; 20% to the S&P 500; 20% to the NASDAQ; and 20% into a fixed account, earning 4.4%. Looking at the end-of-year performance, the Blended Index yielded a rate of return of 15%; the BUDBI saw 13.65% growth; the S&P 500 saw 11%; the NASDAQ yielded 9.5%; and the fixed account rate was of course a return of 4.4%. When you add all these up and divide by five, this client saw an overall return of 10.71% on his $375,000.

You may look at this and think, "Too bad he didn't just put it all in the Blended Index—he would have seen a straight up 15% return!" And that may have been true for this particular year. But because markets are prone to ups and downs, twists and turns, it may be wise to spread the risk out among different indexes, as each may be impacted differently by the market's whims. Many of our clients choose similar diversified strategies, taking advantage of the safety in having have their money at work in different indexes.

Keep in mind you can also change up your indexing from year to year. This is one of the many good reasons to connect with your financial professional on an annual basis, to assess how your policy indexing performed in the previous year and make any adjustments you feel appropriate for the coming year.

What about diversification among LASER Funds? As we've mentioned, after opening and funding your initial LASER Fund, if you come upon additional money to set aside for your future, you can open another LASER Fund ... and another ... and so on. When doing so, you may want to consider doing what we do—opening policies with the different reputable companies we recommend. This way you're benefiting from the variations in the features offered by these insurers.

A FOUNDATION FOR SUCCESS

Diversification within your LASER Fund isn't our only recommendation. We generally recommend putting as much as you can into a LASER Fund

(up to your maximum affordability guideline percentage, typically 20% to 40% of your income or net worth, if possible). And the rest?

We recommend utilizing a blend of strategies, and we believe it is your right—and responsibility—to be critical in assessing which vehicles deserve your attention, and your money. As mentioned in Section I, Chapter 4, because we use liquidity, safety, rate of return, and tax advantages to analyze financial vehicles, we have developed a proprietary LASER Rating System™ to create comparisons based on how well financial vehicles deliver on these four elements, using a 1 to 10 scale (with 10 being the top score).

We have found some vehicles may score well in some areas, low in others—all products have give and take. For example, take a traditional savings account—it typically scores high in liquidity and safety, but lower in rate of return and tax advantages. A typical 401(k) invested in the market scores moderately in rate of return and tax advantages, but can be lower in liquidity and safety.

The LASER Fund scores well in all four categories as compared to other financial vehicles, which is essentially why we call this type of insurance policy The LASER Fund. (Note: The LASER Ratings in Figures 14.5 and 14.6 are based on a fully-funded insurance contract. An insurance contract that is not fully-funded would have lower ratings.)

FIGURE 14.5

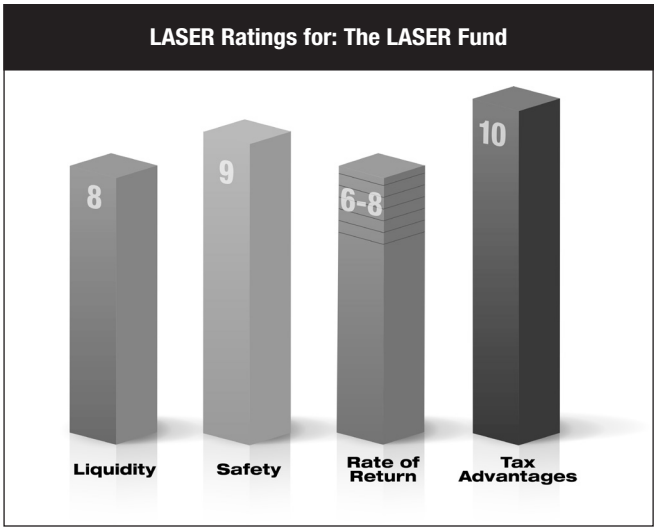


FIGURE 14.6

	RATING	DETAILS
LIQUIDITY	8	You can access cash value by contacting the insurance company. Funds are generally available in 3-10 days. No government penalties exist for accessing your reserves. Most often, you'll want to access your cash value through a loan provision (loans are specifically designed to comply with IRS guidelines for tax-free access). In early years, accessing cash value may hurt long-term policy performance.
SAFETY	9	– Safety of Principal: Cash value is not subject to market volatility and is protected from market risk. Products have a 0% floor during down markets. If you do not properly fund your policy, long-term performance may suffer due to policy fees and expenses. – Safety of Institution: Monies are held in an insurance company portfolio. The insurance industry is highly regulated to protect policy holders. Live Abundant works closely with a select group of A.M. Best Rated A+ companies.
RATE OF RETURN	6-8	Rates of return can be either fixed interest, indexed interest, or a combination of both. Rates can be tied to market-based potential growth through indexing. Products we recommend generally have indexed returns that have historically averaged from 7% to 9%.
TAX ADVANTAGES	10	Money grows tax-deferred. Most often, you'll access your cash value tax-free through loans. Upon your death, your death benefit transfers income tax-free to your beneficiaries. Any policy loans from the cash value are income tax-free while the policy remains in force. Surrendering your policy may cause a taxable event. Seek professional tax advice for your specific situation.

The LASER Fund ranks higher overall than other financial vehicles in our opinion, but other strategies have their "LASER merits," and their place in a well-rounded financial portfolio.

As you explore other financial vehicles to construct your financial future, keep the LASER Rating in mind. Work with your financial professional to identify vehicles that can help you move toward abundance with as much liquidity, safety, rate of return, and tax advantages as possible.

The key here is when you have a good portion of your money in a LASER Fund, benefiting from its liquidity, safety, predictable rates of return, and tax advantages, you have a solid foundation on which you can build the rest of your financial strategies. With the strength of The LASER Fund as your base, you can afford to complement your portfolio with traditional vehicles with fairly solid LASER Ratings, such as 401(k)s and IRAs, Fixed Indexed Annuities, Assets Under Management, and more. Let's take a moment here to examine some of those options.

WHAT ABOUT MONEY ALREADY IN TRADITIONAL VEHICLES?

We have many clients who come to us with significant amounts of money already in traditional financial vehicles, such as IRAs and 401(k)s. As we mentioned earlier in the book, IRAs and 401(k)s have their limitations (especially when you get hit with taxes as you withdraw your money during retirement). That said, they can still provide value to your financial portfolio—especially if your employer offers contribution matching. And because we believe in a balanced approach, there's no need for alarm about these accounts' less than stellar marks on the LASER Test. Depending on your situation, it may be better to leave your money right where it is, or may want to take advantage of other options, such as "going to cash," exploring strategic rollouts, or rolling the qualified funds over into financial vehicles that give you guaranteed income, with market protection, all while earning market rates of return.

For example, say you have $500,000 in a 401(k), and you're age 60. The market starts to take a nosedive, like it did in 2008. Your fee-based advisor can help you "go to cash" with all or part of the money in your account. This way your money is still in the 401(k), benefiting from the tax-deferred treatment, but now it is purely cash. It is no longer invested in mutual funds, stocks, or indexes that can drag down your account value as the market tanks. When the market picks up again, you can choose to put your money back into the market in a managed money environment, or perform a strategic rollout.

With strategic rollouts, you can systematically transition your money from your IRA or 401(k) to a LASER Fund. Essentially, the objectives of a strategic rollout are to: 1) get your taxes over and done with, and 2) reposition money in a LASER Fund so you can benefit from greater liquidity, safety, predictable rates of return, tax-free income during retirement, and an income-tax-free death benefit for your heirs.

Going back to paying taxes on the seed rather than the harvest, the challenge with IRAs and 401(k)s is that you're required to do the opposite. With these accounts, you pay tax on the harvest rather than the seed, because that arrangement benefits Uncle Sam—often at your expense.

To avoid unnecessary taxes during retirement, it can make financial sense to move money from IRAs and 401(k)s to a LASER Fund. If done correctly, it's possible to stay within your same tax bracket and even offset some or all of the tax incurred during the rollout by resurrect-

ing certain tax deductions. It's also possible to move a greater volume of money out during tax-advantaged years (whether that's because of current tax laws or personal income situations). In Section II, we'll examine real-life examples of how strategic rollouts can open the way for more abundance.

ANNUITIES

Financial vehicles that provide guaranteed income can ensure vital peace of mind during retirement. Annuities can be used to provide predictable income streams during retirement, in addition to Social Security (which may change in the future) and pensions.

With that in mind, annuities can be an ideal complement to your financial portfolio, keeping in mind they are a long-term financial vehicle used primarily for retirement income. Now not all annuities are created equal. There are some annuities we steer clients away from. With the variable annuity, for example, you are assuming the risk, not the insurance company, because your money is directly in the market (typically in mutual funds and/or stocks of your choice). So if the market tanks, so does your annuity. Not so safe, right? That's why this type of annuity is not high on our list.

The primary annuity we recommend is a Fixed Indexed Annuity. It can utilize after-tax dollars (as discussed in Section I, Chapter 2, we're fans of paying tax on the seed versus the harvest) and offers tax-deferred growth.

Like The LASER Fund, Fixed Indexed Annuities give you the opportunity to earn more on your annuity during market up years, with the protection of a guaranteed floor during market down years. You can fund an annuity all at once with a lump sum or by rolling over an IRA and 401(k). The income can start immediately or be deferred into the future.

Most annuities, like other financial vehicles, do come with fees (usually based on the principal), and you will pay taxes on any growth you've experienced as you begin to receive payouts (unless you've rolled a ROTH IRA over into one of these annuities). Other things to consider as you work with a financial professional to structure annuities: when you want to begin taking payouts, for how long, and which payout method will work for you.

Figures 14.7 and 14.8 provide a snapshot of the LASER Ratings we give Fixed Indexed Annuities, as compared to other financial vehicles:

FIGURE 14.7

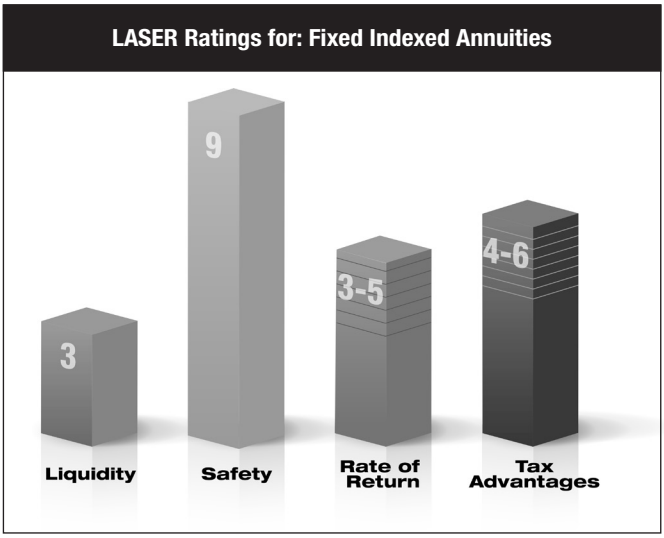


FIGURE 14.8

	RATING	DETAILS
LIQUIDITY	3	Liquid up to 10% with no surrender charge on most products. Liquidity can differ based on the annuity you select. (Taxes may be due upon distribution.)
SAFETY	9	- Safety of Principal: Assets in a Fixed Indexed Annuity are not subject to market volatility. - Guaranteed Income: When you're ready to turn on income, amounts can be guaranteed for life. - Safety of Institution: Monies are held in an insurance company portfolio. The insurance industry is highly regulated to protect policyholders. We suggest A.M. Best rated A+ Superior companies.
RATE OF RETURN	3-5	Rates of return can either be fixed interest, indexed interest, or a combination of both. Rates can be tied to market-based potential growth through indexing. Rates are generally lower due to guaranteed income and payout options.
TAX ADVANTAGES	4-6	Money grows tax-deferred. Distributions are subject to ordinary income tax and, if taken before age 59½, a 10% federal additional tax may apply. Seek professional tax advice for your specific situation.

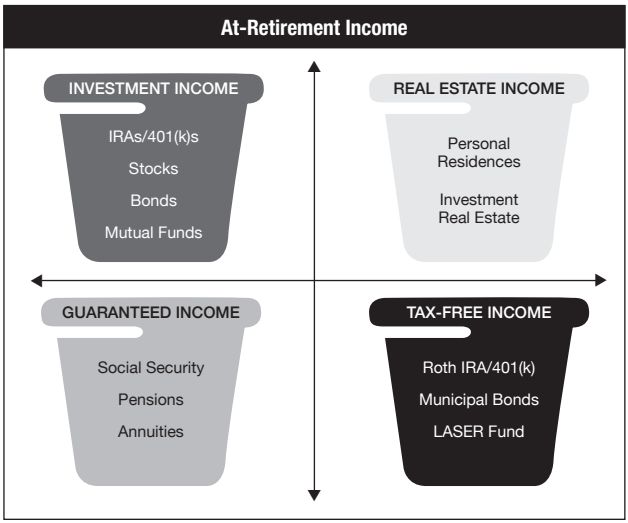
The Fixed Indexed Annuity is superior for safety. It's on the lower end of the scale for liquidity, and moderate for rate of return and tax advantages. That said, its strengths in safety and tax advantages can make it a strong component of your comprehensive financial plan.

MORE ON AT-RETIREMENT PLANNING

As you can see, for a well-rounded financial future, you want a well-rounded financial portfolio. You might want to have 30% to 50% of your net worth in a LASER Fund, 20% to 30% in a Fixed Indexed Annuity, and 30% to 40% in Assets Under Management. (Ask your financial professional to make an introduction to an asset manager who adheres to LASER principles.) That balance will help you not only address your various financial needs, but you'll also enjoy greater safety and peace of mind with a comprehensive approach.

Throughout most of this book, we've focused on optimal ways to save **for retirement** (and other long-term financial goals), using financial vehicles that ideally provide a combination of liquidity, safety, rate of return, and tax advantages throughout the four phases of retirement planning. Now we want to delve a little deeper into a concept we introduced in Section I, Chapter 2: **at-retirement** planning. This focuses on the types of financial vehicles that can generate optimal net-spendable income during retirement. Figure 14.9 illustrates the four different categories of income that you can customize for your own portfolio. Your approach to retirement could include one, two, or even all of the categories below:

FIGURE 14.9



Let's highlight some of the common financial vehicles that fall under these four categories.

Investment Income

Investment income usually results from investments in the market like stocks, mutual funds, and bonds. Many or most IRAs or 401(k)s are invested in the market. (The unfortunate thing is most Americans have 80% to 90% in this category, which we feel is top-heavy). Investment income can score high on liquidity and rate of return, but usually scores low on safety. We recommend 0% to 50% of your retirement income should come from this category.

Real Estate Income

Real estate income typically comes from rental or lease income from real estate, machinery, or equipment. Generally, real estate income can score well in tax advantages, but it often does not fare well in liquidity and safety. When it comes to rate of return, real estate income is often not optimized. We recommend 0% to 40% of your retirement income should come from this category.

Guaranteed Income

Guaranteed income can include Social Security benefits, pensions, and certain types of annuities. These kinds of vehicles score high in safety but very low in liquidity. They typically do not score well on rate of return, and there are little to no tax advantages. Depending on your objectives, we recommend 10% to 80% of your retirement income should come from this category.

Tax-Free Income

Tax-free income can include municipal bonds, Roth IRAs/401(k)s, and of course LASER Funds. Tax-free bond funds don't fare as well in rate of return as LASER Funds, and most high-risk investments are not attractive to retirees because they score so low in safety. A properly structured and funded LASER Fund can pass with the highest overall LASER Rating System™ score. Hence we recommend 30% to 60% of your retirement income should come from The LASER Fund.

At Live Abundant, we help people diversify their retirement income to maintain a healthy balance among all four types of income. We also help clients optimize the allocation of that income to minimize taxes. For example, let's say you have $200,000 in annual retirement income in taxable income categories. You may want to reposition that money so that only $100,000 is coming from taxable income categories and $100,000 is coming from tax-free income categories. This way you're still enjoying $200,000 of annual cash flow income, but paying less in taxes. By "re-categorizing" what type of income you're living on in retirement, in this example, you are saving yourself $27,000 in taxes (in a 27% tax bracket), thus increasing your net-spendable income by $27,000. (Otherwise, to achieve this same level of tax reduction, you would need to create a $100,000 tax deduction, such as a gift to a bonafide charity of $100,000.)

As you can see, it's never too late to optimize your net-spendable income. While it's ideal to initiate a balanced, LASER-focused approach at the outset of your for-retirement planning phase, you can make adjustments at any point, even during the at-retirement phase, to improve your financial situation. If you recall, there's an adage that says, an ounce of prevention is worth a pound of cure. If you're a young reader, this book serves as that ounce of prevention. If you're closer to retirement, this book can provide that pound of cure.

YOUR FUTURE, YOUR LEGACY

In essence, this book is all about your future, your legacy. Our aim is to provide you the knowledge you deserve to approach your future with clarity and confidence. As we look back over Section I, you can see we started with a discussion on creative destruction—how pivotal ideas come along and disturb the status quo to effect positive change.

As we reviewed the history of insurance, we saw the point in time when creative destruction initiated a seismic shift, with E.F. Hutton introducing Universal Life policies. We observed how things continued to evolve as pioneers in the industry like Live Abundant championed the benefits of The LASER Fund for Americans, leading us to today, where people like you can be reading all about it in a book like this.

We also identified the elements of a prudent financial vehicle, exploring liquidity, safety, predictable rates of return, and tax advantages. We explored how the LASER Fund provides all of these elements, and then some (with significant tax-free income and tax-free death benefit advantages, as well).

We've compared, poked, prodded, and examined The LASER Fund from several analytical, left-brained angles. And now in Section II, we invite you to explore The LASER Fund from a right-brained perspective. We'll share real-life examples of how actual clients of ours have utilized The LASER Fund.

You'll be able to see a LASER Fund can be more than a battery, powering your financial growth for a limited period of time. You'll explore how it can be a generator, fueling not only your Authentic Wealth, but also the abundance of your future generations.

So get ready to flip this book over and delve into stories that may just reflect your own someday. After all, it's *your* legacy you're building; congratulations on pursuing an abundant one!

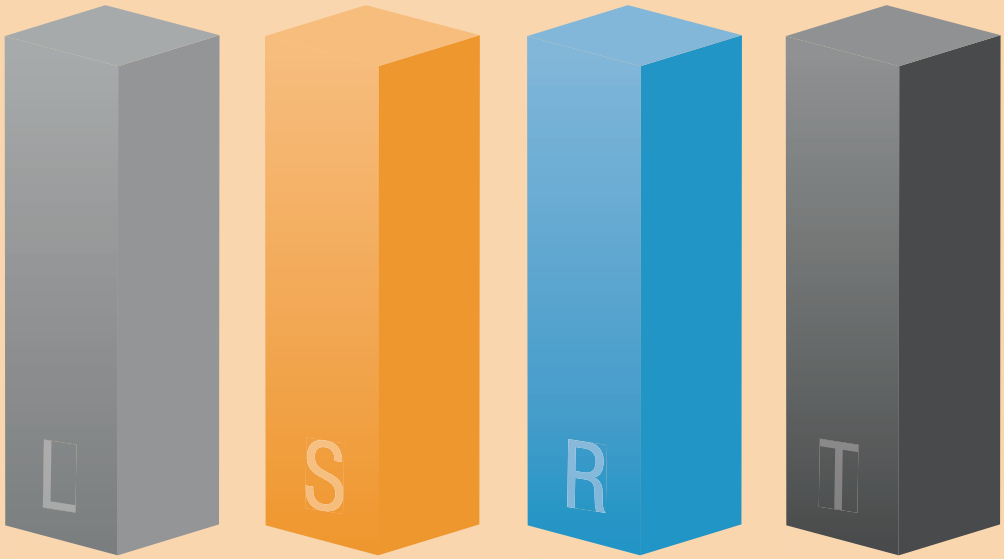
TOP 5 TAKEAWAYS

1. As you look ahead to your financial future, you want to create a diverse **for-retirement** portfolio of financial strategies that provide balance.
2. You also want to choose strategies that provide the most liquidity, safety, predictable rates of return, and tax advantages possible—the LASER Rating System™ can help you compare different vehicles based on these features.
3. With its high LASER Ratings, The LASER Fund provides a sound foundation for your financial future—and the opportunity to fuel a life of abundance in several ways, as we'll share in Section II. Other financial strategies, like Fixed Indexed Annuities, Assets Under Management, and others can play a valuable role in your **for-retirement** portfolio.
4. You also want to ensure you have a balanced **at-retirement** portfolio, which could include investment income, real estate income, guaranteed income, and tax-free income.
5. However you decide to approach your financial future, do so with a commitment to gaining knowledge and understanding. Take the time to empower yourself to make decisions that are best for your circumstances, and for an abundant future for you and your posterity.

SECTION II
Real Life Stories and Examples
[The Right-Brain Approach]

The LASER Fund

How to Diversify and Create the Foundation for a Tax-Free Retirement



Douglas R. Andrew
Emron D. Andrew
Aaron R. Andrew

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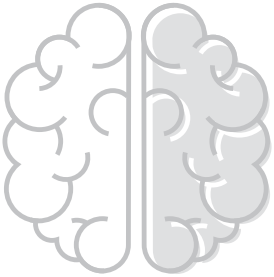
The LASER Fund

How to Diversify and Create the Foundation
for a Tax-Free Retirement

Section II
[The Right-Brain Approach]



Douglas R. Andrew

Emron D. Andrew

Aaron R. Andrew

Also by Douglas R. Andrew, Emron D. Andrew & Aaron R. Andrew
Millionaire by Thirty

Also by Douglas R. Andrew

Best-Sellers

Missed Fortune
Missed Fortune 101
The Last Chance Millionaire

Entitlement Abolition
Learning Curves
Secrets to a Tax-Free Retirement
Baby Boomer Blunders
Create Your Own Economic Stimulus
How to Have LASER Focus

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DISCLAIMER: With any mention of The LASER Fund, max-funded tax-advantaged insurance contracts, or related financial vehicles throughout this book, let it be noted that life insurance policies are not investments and, accordingly, should not be purchased as an investment.

Where appropriate, authentic examples of clients' policies have been incorporated, with names changed to safeguard privacy.

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Acknowledgements

We would like to thank the many clients who have shared their journey toward greater abundance with us over the past decades.

We have been privileged to support them in utilizing The LASER Fund, that has helped them take advantage of greater liquidity, safety, rates of return, and tax advantages. We have also been fortunate to share many aspects of developing true abundance—a holistic approach to life and legacy that encompasses all Three Dimensions of Authentic Wealth, as we highlight here in Section II, Chapter 1.

We are blessed to be associated with outstanding financial professionals who also work to deliver optimal strategies to their clients. We'd like to specifically thank the following financial professionals for their contributions to Section II: Greg Duckwitz; Brian Gibbs; Karl Nelson; Bill Newport; Ed Sanderson; Scott Reynolds; and Bill Zimmerman.

In this section of the book, we share many of their experiences here (with names and details changed to protect privacy). We applaud them for working together to pursue brighter futures, for carrying on in the face of losses, and for choosing paths that benefit those they care about—for generations to come.

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[For the Left-Brain Approach – Flip to Section I]

1

Truly Abundant Living

The Olympics. Citizens around the globe gather around their televisions, mobile devices, and radios to witness the epic two-week-long competition. They cheer on their nation's top contenders, inspired by stories of strength, tenacity, and perseverance.

What's fascinating—and enlightening—is to understand that those stellar athletes don't reach that exclusive level of performance solely by practicing skills required for their sport. The sprinters don't just race around the track. The slalom skiers don't just hit the slopes. The swimmers don't just do laps. No, world-class athletes follow well-balanced regimens.

They fuel up on foods and nutritionals tailored to their specific needs. They cross-train and strength-train to maximize their body's potential. They practice mental wellness and glean from sports psychology. They recover through stretching, hydration, and sleep. They incorporate all dimensions of athletic excellence, because sports science has proven that a myopic approach doesn't yield the best outcomes. It takes a holistic strategy to achieve superior results.

MORE THAN JUST MONEY

Our lives are similar. For a truly abundant life, it takes more than just financial success. But this is a revolutionary thought for some. There have been entire empires built on the quest for money and riches, entire family dynasties dedicated to the almighty dollar. In Doug's book, *Entitlement Abolition*, he shares the story of the Vanderbilts, a wealthy American family whose fortunes began with patriarch Cornelius Vanderbilt.

Throughout the nineteenth century, Cornelius rose from a lowly farmer and ferryman to a steamboat captain and eventually the owner of steamship and railroad companies. By the time he died at age 82, he had amassed the highest individual fortune in America at the time—more than $100 million—beating out the size of the US Treasury.

Cornelius was famously not a philanthropist, with only two notable acts of charity: a donation during the Civil War to aid the North, and a $1 million donation to found Vanderbilt University, offered just three years before his death. In fact, he was known for being so stingy that he was called out by contemporary Mark Twain, who urged him to contribute to society with a scathing open letter that included lines such as, "You observe that I haven't said anything about your soul, Vanderbilt. It is because I have evidence that you haven't any."

Cornelius' poor reputation for charitable giving continued into future generations, with just a few descendants proving an exception to the rule, including the third generation's William K. Vanderbilt, who gave to Vanderbilt University, Columbia University, and housing for the poor in Manhattan, and the fourth generation's Gertrude Vanderbilt Whitney, who co-founded the Whitney Museum of American Art in New York City.

As for the Vanderbilts' financial legacy, Cornelius' son William "Billy" Vanderbilt took the reins and doubled the family fortune to over $200 million, but then things turned. Within thirty years of the Commodore's death, no member of the Vanderbilt family was among the richest in America. The third generations' lavish spending deteriorated the family wealth, and by the fourth generation, the family fortune was considered squandered.

Contrast the Vanderbilts' approach to abundance with the Rothschilds', whose rise to prominence began during the mid-eighteenth century,

with Mayer Amschel Rothschild. Now, as we share highlights of the Rothschild family, let us note that while we may not agree with everything the Rothschilds have done or supported, their story provides a valuable example of wealth accumulation and preservation throughout generations.

It all started with Mayer Amschel, who launched his career dealing in coins and went on to found a banking dynasty, which his five sons helped expand across Europe. As their fortune grew, the Rothschilds established a system for perpetuating family wealth and values.

Rather than merely dumping family wealth on next generations to spend at will, if family members wanted to borrow money for business ventures or other needs, they were required to repay those loans back to the family bank. Family members were also required to take part in annual family gatherings where they would share their knowledge and reaffirm their values. Their approach to family and business is summarized in their motto: *Concordia, Integritas, Industria,* Latin for unity, integrity, and hard work. Now, over 200 years since Mayer Amschel launched his family business, the Rothschild financial legacy continues, with an estimated family net worth in the hundreds of billions of dollars.

The Rothschilds also placed a high priority on philanthropy. From the early 1800s until today, generations of Rothschilds have established and maintained foundations and efforts to provide support for everything from health care and medical research to the arts, cultural heritage, housing, social welfare, and human rights.

These high-profile family comparisons illustrate an important point. Passing along what we at Live Abundant call "Authentic Wealth" is about much more than money. For a rewarding—and enduring—journey, you need to focus on accumulating more than a high net worth. You need to develop a high net *life,* and pass along the ability to perpetuate that abundant life to your posterity.

THREE DIMENSIONS OF AUTHENTIC WEALTH

Through our work with thousands of clients, and through our collaboration with leading national think tanks and professional organizations, we've gleaned the critical essentials of abundant living. We've distilled

these aspects of the "swing" into a practical system. At the core of this system are what we call the Three Dimensions of Authentic Wealth:

- **The Financial Dimension** – This dimension includes anything to do with your money: cash, real estate, savings, CDs, money market accounts, stocks, bonds, traditional retirement plans, non-traditional accounts for retirement, LASER Funds, etc.
- **The Foundational Dimension** – This dimension incorporates your relationships and values, including: family, friends, health, well-being, spirituality, talents, heritage, character, and charitable giving.
- **The Intellectual Dimension** – This dimension is comprised of the wisdom you gain through life—a combination of knowledge and experience—such as: formal education, effective systems and methods, valuable traditions, business and personal alliances, powerful ideas, and critical skills.

For a life of lasting abundance, it's essential to develop not just one, not two, but all Three Dimensions of Authentic Wealth. This holistic approach can help ensure that you are maintaining a balance, one that can foster sustained growth in every aspect.

We realize it's one thing to read about these three dimensions on paper, but how do you take them from theory to practical application? How exactly do you cultivate these dimensions in real life?

For the Financial Dimension, Section I of this book is your guide. You can start with a strong foundation, The LASER Fund, to maximize your serious money, money you want to set aside for growth. With about 20% to 40% of your income or net worth in The LASER Fund, the rest of your money should be put to work in complementary vehicles that can provide as much liquidity, safety, predictable rates of return, and tax advantages as possible.

Now when it comes to the Foundational and Intellectual Dimensions, our Abundant Living Coaches offer a comprehensive program to help people incorporate Habits of Abundance. We'll highlight a few of those key practices here in this chapter:

- Establish Equal Opportunity vs. Equal Distribution
- Design Your KASH Blueprint
- Establish Your Legacy Bank

FISH, GOLF & LINCOLN

Before we delve into those practices, we want to pause and take a look at how we at Live Abundant talk about perpetuating generational wealth. We often frame it with the adage, "Give a man a fish, and you feed him for a day. Teach a man to fish, and you feed him for a lifetime." In *Entitlement Abolition,* Doug explores this concept in-depth, pointing out that it's common for well-intended parents—particularly those of financial means—to "dump" the fish in their children's laps, rather than teaching them how to fish. Parents give their children free access to money, cars, travel, and affluent lifestyles in an effort to help them, but this approach can actually achieve the opposite. It stunts children's development, and like the Vanderbilts, can eventually lead to squandered wealth—and lives.

Here's another way to look at the issue: if you were going to be playing in a golf tournament and had the choice of using a professional golfer's swing—or you could use his golf clubs—which would you prefer? We would choose his swing. This way, no matter which course you were playing or which set of clubs you happened to be using, you'd have the skills necessary to succeed.

The same holds true in life. If you learn the proper swing—proven skills and strategies—even when you encounter setbacks or downfalls, you have the ability to rebuild and succeed. And, you are able to pass along the swing to every child and grandchild, so they can move forward and do the same (which isn't always the case with the clubs—there are only so many to go around, and they can get bent).

Another way to stop the entitlement cycle is exemplified in an anecdote we share in our Habits of Abundance program. The perspective comes from a letter that President Abraham Lincoln wrote to his step-brother, John Daniel Johnston. In the letter, Lincoln explains why he will not comply with his step-brother's request to give him $80. Lincoln explains that previous handouts haven't been long-term solutions, and he

fears that giving his step-brother yet another $80 will only perpetuate the problem. (In context, this would be equivalent to about seven to ten months' worth of income, as farm laborers were paid $8 to $12 a month in 1850, according to the National Bureau of Economic Research.)

He offers an honest critique, saying, "I doubt whether, since I saw you, you have done a good whole day's work in any one day.... This habit of uselessly wasting time is the whole difficulty; it is vastly important to you, and still more so to your children, that you should break the habit."

He proposes that Johnston go to work "tooth and nail," and whatever sum he earns over the next few months, Lincoln will match. He explains the result will be invaluable: "Now, if you will do this, you will be soon out of debt, and, what is better, you will have a habit that will keep you from getting in debt again.... If you will but follow my advice, you will find it worth more than eighty times eighty dollars to you."

Lincoln understood the value of putting some skin in the game. He knew the only way for his brother to break free from the entitlement trap would be to get in motion and resolve his own challenges. Lincoln had no problem giving a hand up—he just knew it would be better than giving a handout.

As you look at your own family and consider the value of teaching them how to fish or coaching them on the pro swing, it's important to keep in mind that each child is unique. Think about it: if you have one child in elementary school and another in high school, do you teach and discipline them the exact same way? No, because we know an eight-year-old and sixteen-year-old are at completely different levels of experience, comprehension, skills, and development.

Beyond developmental differences, children come with their own "factory-installed" personalities, talents, strengths, weaknesses, temperaments, and gifts. As Dr. Edward Hallowell, best-selling author, has said, it's parents' role to "unwrap their gifts." As you do, you come to the realization that what works for one child may absolutely fail with another, and that it often takes individual strategies to motivate each child and raise them effectively.

As your children enter adulthood and pursue goals in education, career, family, home ownership, and more, they are likely going to handle life uniquely, with different levels of momentum, commitment, aptitude, etc.

So whether it's the advice and wisdom you impart, or the financial backup you provide, realistically, you want to approach each child differently.

Say, for example, your teenager asks to borrow the snowmobile for a day of fun with his friends. He takes a steep hill too fast and rolls the vehicle. In a world where you're teaching accountability, rather than saying, "No problem Jon, I'll pay for the repairs." you involve Jon in resolving the situation. If Jon has an after-school job, you set up a realistic timeline for him to repay you for the repairs. Or if Jon doesn't have a job but he's adept at woodworking, he contracts with you to use his skills and time to repair the backyard fence, which you agree will offset the cost of repairs.

Throughout this chapter, we'll explore how families can honor individual differences while reinforcing accountability and responsibility, and providing equal opportunities.

EQUAL OPPORTUNITY VS. EQUAL DISTRIBUTION

When considering how you transfer wealth to your children, conventional advice often calls for equal distribution. If you have five children, when you pass on, your estate value should be divided into five equal parts so every child gets her or his share. That's fair, right? And fair is always good ... right?

Over the decades, we have reviewed hundreds of trusts. The vast majority of them are designed to administer equal distribution. The challenge is, we have seen that approach fail in achieving optimal results time and again. In all kinds of situations—from moderate estates to those of high net worth with a labyrinth of assets—there is often squabbling if not outright infighting over whether estate shares are equal. Even after the distribution, some beneficiaries may maximize their share while others squander theirs, which can lead to further discontent. It reminds us of the adage, "United we stand, divided we fall." Too many families fall apart when the fish is divided equally then dumped into the next generation's laps.

Instead, we champion a different approach to wealth transfer: equal opportunity. It's a strategy based on principles of ownership and accountability, of living in a proactive zone of empowerment with predictable results, rather than in the reactive zone of entitlement, with hope and despair. It's about passing on the swing (how to thrive in all Three

Dimensions of Authentic Wealth), rather than the clubs (handing over the financial assets).

With an equal opportunity approach, your financial assets are placed into what we call an Equal Opportunity Trust, a revocable living trust with rules of governance for equal opportunity, rather than equal distribution. This document includes clear parameters guiding how your heirs can access the assets you leave behind. Your trust may specify that some withdrawals should be taken as loans, with accompanying repayment requirements. Other withdrawals may be granted without repayment. However you organize your trust, just keep in mind the most critical strategy: weaving equal opportunity—and equal responsibility—throughout the guidelines. This will help alleviate any ambiguity or disputes when no longer around to referee.

This equal opportunity approach is so powerful, it can positively impact your family BEFORE you pass on, as well. It all starts with creating a plan that outlines the distribution of your cash ... and KASH.

DESIGN YOUR KASH BLUEPRINT

As you may guess, when we talk about cash, we're talking literally about the money that fuels your Financial Dimension, which can ignite all types of worthwhile pursuits: education, business ventures, charitable giving, and more. KASH, on the other hand, is a term we've coined to encompass Knowledge, Attitudes, Skills, and Habits. If nurtured, this type of KASH can be just as valuable, if not more. It can be a perpetual force, powering your life and that of future generations to Intellectual and Foundational abundance. It's the knowledge of how to fish, the pro's swing, the Lincoln letter to posterity to get some skin in the game. Just like a financial trust ensures your money transfers smoothly after you pass away, you can create a plan for the transfer and flow of your family's Three Dimensions of Authentic Wealth while you're living: a KASH Blueprint.

There are two facets of your KASH Blueprint:

1. KASH Values & Vision
2. KASH Rules of Governance

Your KASH Values & Vision is much like the U.S. Declaration of Independence. It's a written statement that outlines your beliefs, the principles you hold dear, the guiding tenets that will mark the path for your family to follow as they journey through life. It can be a handful of words, or it can be a several-page document—whatever works best for you.

Your KASH Rules of Governance are like the U.S. Constitution. The principles establish the "laws," or rules that spell out how your family accesses your Financial Dimension. It should be thorough, outlining strategies for every practical financial aspect of life, such as:

- Education
- Business ventures/loans
- Personal loans
- Supplemental income
- Weddings
- Personal residence
- Health/medical costs
- Emergency needs
- Family Retreats with a Purpose
- Charitable distributions
- Religious or humanitarian missions

For example, let's look at education. We offer a somewhat contrarian view when we say: don't pay for college. At least not entirely. Share the cost of higher education in some way with your children. Whether that's through low-interest loans they repay you after graduating, or having children provide half of the costs, while you match the other half—however you arrange it, do not give away that opportunity for your children to be invested in their own education. The ownership, accountability, and responsibility they apply to their education will inspire them to make the most of the experience.

The same holds true with money your children may request for business ventures, down payments on homes, cars, and more. Rather than forking over the money, hand them a "pitchfork" and have them start bailing hay—in other words, have them join in achieving that goal. That can be in trading actual work, time, and skills for money that you invest. Or it can be in arranging a loan with nominal interest they'll repay over a specific period of time.

This may seem a little "over-the-top" to put such things in writing, to establish clear governing principles and adhere to them. But there's nothing over-the-top about teaching our children the value of responsibility and accountability, about teaching them how to fish, about giving them a hand up rather than a handout.

What's more, by spelling everything out in your KASH Blueprint, you're effectively helping your family avoid the infighting, jealousy and even total destruction of relationships that too-often arise over family wealth. By giving everyone equal opportunity to access money, there can be no squabbles when Older Sister borrows money for a business venture and repays it on time. If Younger Brother needs money for his daughter's wedding, then he has equal opportunity to borrow and repay the loan. The guidelines are in place. Accountability is required. And family unity is preserved.

ESTABLISH YOUR LEGACY BANK

The best way to capture and preserve all of these assets and guiding principles is by establishing a family Legacy Bank. This is not a literal bank, but a conceptual bank, one in which the entire family can participate. A Legacy Bank is essentially a repository for the Foundational and Intellectual Dimensions, as well as rules of governance for your financial assets. It's a virtual exchange place for your family, where everyone from grandparents and parents to children and grandchildren can:

- "Deposit" their KASH (Knowledge, Attitudes, Skills and Habits)
- Make "withdrawals," borrowing from others' experiences to turn long learning curves into "power curves" and build on generational momentum
- Maintain your KASH Blueprint—with any updates as necessary over the years

While the ins and outs of maintaining a Legacy Bank are explored in-depth in Doug's book, *Entitlement Abolition*, here's a snapshot of how it can work. As the Andrew family, we maintain our Legacy Bank with:

- KASH Values & Vision Statement
- KASH Rules of Governance
- I Remember When Stories
- Live Abundant Tools, including The Better Life Circle and The Negative Experience Transformer
- Family Retreats with a Purpose
- Grandpa's Camp

To illustrate, let's take a look at one of these strategies—I Remember When stories. Once or twice a year at our family gatherings, we invite the entire family (from grandparents to grandchildren ages 4 and up) to share at least one I Remember When story. These are personal stories we bring typed out (750 words or less) and on a thumb drive, to add to our Legacy Bank "library."

The stories can be meaningful, memorable, funny, or even embarrassing (like the time Emron was doing tricks on the handrail, waiting in line at Disneyland—and face-planted into the petunias). They can capture our own love stories (each of us has shared the story of how we met our spouse, and what we value in them). They can teach the value of hard work, like Doug's father's stories of chopping wood and gathering kindling as a young boy to heat his family's home in the wood-burning stove. And they can inspire entrepreneurialism, like Doug's story shared here in Section I, Chapter 5, how the foreclosure on his home led to him becoming passionate about the safety of The LASER Fund.

By sharing these stories on a regular basis, we not only have a system that archives family experiences, but we also grow closer. Grandpa Doug's story of nearly killing himself while installing a zip line at the cabin—thinking he didn't really need the handle bars—brings rounds of laughter, while Grandma Sharee's courage in overcoming severe health challenges uplifts us all.

By leveraging strategies like I Remember When stories, you're setting in motion repeatable processes that can ensure your family preserves critical lessons and insights. You're making it valuable—and fun—to be a part of the tribe that you're creating with your family. Each member feels connected to something larger, something to draw from and contribute to, something important and rewarding.

A SPRINGBOARD FOR THE FINANCIAL DIMENSION

As you focus on all Three Dimensions of Authentic Wealth, you and your family will be able to enjoy a well-rounded journey toward abundance. You'll capitalize on the Foundational and Intellectual assets. And perhaps most important, this comprehensive approach to Authentic Wealth will be a springboard for maximizing your Financial Dimension.

From this holistic viewpoint, we'll now shift focus to the core message of Section II—multifaceted uses for The LASER Fund. As you move from chapter to chapter, you will see how many ways The LASER Fund can become a "generator" for your future.

We use the term generator rather than battery, because while both provide power, one is more advantageous than the other. Think about it: a battery is limited. If it's your car battery, it may help keep your vehicle going for a while, but after about three to five years, you'll need to replace it. If it's a phone battery, it may not even make it until the end of the day before you have to recharge it.

A generator, on the other hand, can provide power for a much longer span of time and for much greater needs. It simply requires fuel (typically some type of gas or solar energy), and you can use a generator's power for all kinds of things, from providing electricity for big machinery, all the way up to an entire movie set or hospital.

Too often, conventional financial strategies tell you to approach your future by "charging up your retirement battery" just enough to hope that you'll have funds that last as long as you do. But why settle for a limited supply? Why not benefit from a generator that can last, the kind that is charged up with safer, predictable voltage—a LASER Fund that can provide access to income-tax-free money now, and a death benefit for tomorrow? What's more, that death benefit transfers income-tax-free to your heirs, who can in turn place the money into another LASER Fund, providing ongoing, perpetual power for the next generation.

Before you turn the pages, take a moment to score yourself on the complete Abundant Living Scorecard in Figure 1.1. The Abundant Living Scorecard helps you identify where you are currently (and where you want to go). It provides an at-a-glance look at your progress in the Financial Dimension (the top half is the LASER Scorecard from Section I, Chapter 4), and aspects of the Intellectual and Foundational Dimensions. Rank yourself on a scale of 1 – 10, with 10 being superior.

FIGURE 1.1

Abundant Living Scorecard

Key Principle	1	2	3	4	5	6	7	8	9	10	Present/ Future
Objective ⇨	Poor ⇨		Fair ⇨		Good ⇨		Better ⇨		Best ⇨		
Liquidity Ability to Access Your Money	Your assets are mostly tied up and cannot be converted quickly to cash for emergencies		You can access your money but could incur penalties or suffer a loss due to markets		You can access your money, but not without incurring cost (by tax or other penalties)		You have predictable cash flow income but have limited access to lump sums, if needed		You have tremendous liquidity and can access your money electronically within hours or a few days		
Safety of Principal	You're susceptible to market volatility, and the potential for loss is extremely high		Some of your money is in institutions that do not have strong safety ratings		You diversify by offsetting high-risk vehicles with some low-risk vehicles		Your money is in a safe vehicle, but the tradeoff is very low rates of return		Your vehicle has very low risk. Your money is protected from market volatility and inflation		
Rate of Return Linked to Inflation	Any returns are usually negated by downturns in the market—very little net growth		0%-2% rates of return (pathetically low), while inflation outpaces gains and erodes principal		2%-4% rates of return, and you're set up on a 4% payout to avoid outliving your money		5%-12% average returns, but returns are taxable when you withdraw your money		7-9% historic average returns; tax-free during accumulation and distribution phases; hedging against inflation		
Tax-Advantaged On the Seed or the Harvest?	Savings and investments are taxed-as-earned (on the seed AND harvest)		Traditional IRAs/401(k)s (tax-deferred accounts); seed money not taxed; pay tax on harvest		Roth IRAs and 401(k)s; pay tax on the seed but a tax-free harvest; IRS limitations/rules		Tax-free accumulation; access and transfer of money with greater flexibility and benefits		Tax advantages on contribution, accumulation, distribution, and transfer phases		
KASH Generator (vs. a Battery Approach)	You are just hoping to survive and not outlive your money; expenses exceed your income		You're not saving enough to be prepared for retirement; you're always striving to be secure		Your financial battery is getting charged, but taxes and inflation may cause it to die		You have sufficient financial resources; not capturing Knowledge, Attitudes, Skills, Habits		Generating tax-free cash flow in a perpetual fund; transferring cash and KASH as "Generational Wealth"		
Abundance (vs. a Scarcity Mindset)	You feel resentful and intimidated by others' advantages and often envy their success		You feel guilty about having greater success than others who are close to you		You love to collaborate and share with others, believing that "together we're better"		You have a drive to create greater success so that you can give back to society		You are always making your future bigger than your past by contributing time, talents, and money		
Three Dimensions (vs. One Dimension)	You live in a "mindless reaction state," always putting out fires, trying to fix your problems		Having money, things, or gratification is your primary focus; health and relationships are lacking		Being financially secure is your primary focus, but purpose and values are also important		Authentic Wealth (values and purpose) matters more than money or things		You have extreme clarity, balance, and confidence in life, focused on what matters most		
Responsibility & Accountability	You often blame others for why you can or can't / did or didn't accomplish something		You justify why you can or can't / did or didn't accomplish something, making excuses		People can count on you to be responsible, but you apologize a lot for not being up to par		You assume total responsibility for yourself and are accountable to others		You always respond with all your ability; are self-reliant and dependable; honor your commitments		
Equal Opportunity (vs. Equal Distribution)	You do not have any clear guidelines about how to assist those you care about		You find yourself rescuing your children with handouts, greasing squeaky wheels		You have specific rules of "equal distribution" w/assistance to those you care about		You don't want to spoil those you care about, but you probably give (or pay for) too much		You provide equal opportunities for those you care about and require some "skin in the game"		
Values and Vision Family Creed / Ethical Will	You do not have a written family Values & Vision statement, theme, or document		You have a family motto or theme, but no clear statement of values for what you stand for		You have a family mission statement that family members helped formulate and tweak		You have a family creed that all family members understand and strive to live by		You have a KASH Values & Vision document that will govern how your posterity operates your Legacy Bank		

If your current score ranges in the 30s – 60s, take heart. That's actually where most people start—and it's been our passion to help thousands

of people elevate their scores as quickly as possible (some raising their scores to the 90s within just a year).

Keep your abundant living goals in mind, and if you find you would like a deeper dive into these principles, you may find Doug's book *Entitlement Abolition* helpful, as well as the Entitlement Abolition Kit, a comprehensive program that guides families through 4 modules of abundant living. (www.entitlementabolition.com)

Now prepare to turn the pages, and explore the possibilities for those who harness the power of The LASER Fund in several areas of life.

2

Death Benefit

Karl Nelson (his real name) was an aeronautics engineer, married to the love of his life, and together they were raising their growing family. In their early 40s, he and his wife wanted to initiate financial strategies that could provide the safety of a secure future retirement.

Karl discovered the LASER Fund, and as a technical, analytical person, he investigated the strategies thoroughly. Drawn to the reassurance of a death benefit, the liquidity in case of emergency, and the opportunity for tax-free retirement income, he and his wife opened LASER Fund policies.

Work and family life continued to clip along, until suddenly, everything came to an unexpected halt. Karl's wife was diagnosed with cancer. The family, now with seven children, drew close as she bravely battled the disease. Ultimately, however, she lost the fight, and as Karl bid farewell to his best friend, he looked at his seven children—the youngest two under age 5. He could not bear the thought of them losing their mother and being turned over to day care, so he made a brave decision. He took leave from his career and stayed home to be there for his young ones until they were old enough to enter elementary school.

He was able to do so because of his wife's LASER Fund policy. They had put the policy in place with retirement income in mind, never dreaming it would provide a valuable death benefit sooner than later. That income-tax-free death benefit allowed Karl the financial security to quit his job and care for his children full-time for two years.

Karl's life had been so dramatically impacted by the benefits of The LASER Fund—and by the Live Abundant strategies for wealth, health, and life fulfillment—that he wanted to pass those along to others. As he looked to reenter the workforce, he realized he would rather engineer people's futures than aircraft, so he decided on a career change. He pursued his insurance licensing and joined the Live Abundant team.

Today, Karl Nelson takes pride in helping people have the peace of mind that comes from The LASER Fund's liquidity, safety, predictable rates of return, tax advantages, and death benefit. He also relishes helping families embrace a holistic approach to Authentic Wealth in strategies like the KASH Blueprint and the Legacy Bank.

THE PRIMARY BENEFIT FOR ALL

As noted throughout Section I, anyone opening a LASER Fund must establish a need for the death benefit, as it must be the primary reason for anyone to own an Indexed Universal Life policy. Before granting a policy, the insurer's underwriters must determine and justify the death benefit based upon the economic loss that would be suffered by the beneficiary at the time of the application.

While most people don't anticipate passing along the income-tax-free death benefit to their heirs until later in life, as with Karl, it can be a much-needed boon to those left behind. Even when the insured passes away at an advanced age, the death benefit can bring critical financial security and opportunities to loved ones.

Unlike many other financial vehicles, the wealth transferred to heirs via a LASER Fund's death benefit does so 100% income-tax-free, capital gains tax-free, and estate tax-free (for substantial estates to be estate tax-free, the death benefit must be structured properly through an Irrevocable Life Insurance Trust). Depending on the level of the death

benefit at the time of the passing, that can mean tens of thousands or even millions of dollars tax-free for heirs.

Whether you're looking to implement a LASER Fund solely for the death benefit or for additional reasons, it's helpful to understand the death benefit's positive impact on your loved ones.

BROTHERLY LOVE

Doug and his brother, Sherm (his real name), were best of friends their entire lives. From their boyhood schemes to their grown-up adventures, they shared a deep bond and countless memories. In his 40s, Sherm wanted to start setting aside money for retirement, and he wanted the protection of a death benefit for his family, so he came to Doug to open a LASER Fund. Initially Doug set about structuring the policy as he typically would, assessing the minimum death benefit based upon how much Sherm could afford to put into the policy to max fund it.

Then Doug stopped and thought, "Wait a minute. This is my brother. This is the guy that I go motorcycle riding with, river rafting with. In the event that something ever happens to Sherm, I would wish I had helped him get as much as possible for his wife and children." So Doug proposed that Sherm add a term rider to double the death benefit, which would also allow him to sock away more money when he could afford to do so.

After putting the policy into place and doubling the death benefit, Doug didn't think much more about it—until his phone rang at 11:45 pm, March 10, 1999. It was Sherm's wife, Sue, sobbing. The highway patrol had just left their home, informing her that Sherm had been killed in a one-car rollover. Doug was devastated. With his best friend gone, too soon at age 50, the one consolation was that Sherm's family would be financially secure.

Doug recalled, "That doubling of the death benefit has allowed his sweet wife to live in dignity and provide religious mission and college funds for their kids. She put the death benefit into a LASER Fund of her own, and she has been living comfortably on more than double the annual income (tax-free) that Social Security or his benefits at work would have provided." While Doug could not save his brother from a fatal accident,

he is grateful he was able to empower Sherm's family to carry on in his absence, exemplifying his loving legacy.

WISH LISTS AND BEST WISHES

Joe Taylor (throughout the rest of this section, names and some details have been changed for privacy, unless otherwise noted) was an insurance agent for a national company known for home, life, and auto insurance. While Joe proudly represented his company, he knew the company's life insurance options were more traditional—they couldn't provide the range of benefits, tax-free retirement income, or rates of return a LASER Fund could. He and his wife, in their mid-30s at the time, met with Doug to initiate LASER Funds.

As the couple came in for annual reviews over the years, Doug was able to keep abreast of not just their policies' growth, but also their family and life experiences. One annual review, however, brought different news. Linda Taylor had late-stage cancer, with just over a year to live. Doug will never forget sitting with the Taylors as Linda, having undergone chemo and radiation, expressed that despite her sorrow she had peace of mind knowing her death benefit would make things easier on her family. And the Taylors had one request—they wanted to make the most of their time together, so they decided to borrow money on their policies for travel.

Doug could not have been happier to help them arrange the tax-free loans, and he was thrilled to hear how their adventures were going. They were able to visit places that had long been on their wish list, experiences they would not have been able to afford had they not had instant, liquid access to money in their policies.

In the annual reviews since her passing, Joe, now in his 60s, continues to share his relief and gratitude that they implemented LASER Fund policies all those years back. Not only did those policies empower Linda and him to share unforgettable travel experiences, but they also enabled Joe to pay off remaining medical bills and expenses. There was even enough left over from her tax-free death benefit to open another LASER Fund, which will fuel his upcoming retirement with additional tax-free income.

ENSURING THEIR FUTURE

Gary Lowell was heading into his retirement years when he came to us a few years ago. He was concluding a successful career; had been prudent with his earnings; and had invested in multiple high net-worth assets. He wanted to set aside a portion of his money into a LASER Fund, strictly as a death benefit for his heirs.

Specifically, he wanted to move $750,000 from a brokerage account into a LASER Fund. Gary was tired of the ups and downs of the market, and he wasn't thrilled with the hits that account had taken over the last several years. He wanted to park that $750,000 in a LASER Fund, safely protected from the downturns in the market, earning a predictable rate of return. And he wanted the reassurance of knowing that money would pass on to his heirs as an income-tax-free death benefit.

To remain in compliance with TAMRA, Gary needed to transfer the money incrementally, over the next five years. So we helped him develop a plan to move the $750,000 from the brokerage account into a LASER Fund over five years' time. The LASER Fund will continue to earn interest until the time of Gary's passing, at which point his death benefit (currently at $1.8 million) will transfer to his heirs income-tax-free.

LIFE-CHANGING DECISIONS

Things had always been tight for the Millers. Starting out as a young couple, kids and responsibilities came fast, with no extra time or money to pursue a college degree. But Brian had always hoped to be able to do more for his family, and in his 40s he realized his dream of going back to school to become a chiropractor.

As he launched his practice, he couldn't believe how much he enjoyed going to work. He loved making a difference for his patients and was looking forward to making this second career last well into his 70s. He and his wife, Lisa, were thrilled; life was now taking the shape they'd always longed for. They were able to buy a new home, help their children (now in college and starting their career), travel, and save for retirement.

Brian and Lisa opened a LASER Fund, designing it to receive ongoing annual payments of approximately $100,000 for the next twenty years.

After their second annual payment, however, Brian learned that he had terminal brain cancer.

With just three months to live, he and Lisa made the most of their time together with their children. It was heartbreaking to watch their sorrow, but also a relief to see their calm, knowing that Lisa would receive an income-tax-free death benefit of $3.5 million. Brian was grateful he had set things in motion so his wife and family would be financially secure in his absence.

After Brian's passing, Lisa was able to use part of the death benefit to pay bills and living expenses, and she put the rest into a new LASER Fund that will provide tax-free income for the rest of her life—and an income-tax-free death benefit for her children when she eventually passes.

If the Millers had chosen a traditional financial vehicle, that $200,000 they set aside—at even a stellar 10% or 20% growth rate over two years—would have left Lisa with under $250,000 (with taxes due, to boot). Instead, she received $3.5 million, income-tax-free. She's able to put that money to work to provide a comfortable life, with up to $200,000 tax-free income a year for the rest of her life, and ultimately, a valuable death benefit to leave as a legacy for her family.

BEST LAID PLANS

Ralph Baker was self-employed, in his 50s, when he met with Doug to create a plan for retirement. Based on Ralph's financial situation, Doug recommended a LASER Fund policy. Ralph explained that he already had a mandatory life insurance policy through his union, and he didn't think he could afford—or need—any more insurance. When Doug learned how low Ralph's current death benefit was, he joked, "Frankly, the amount of insurance you have, if you died, you don't want to be dead very long."

Ralph laughed, reassuring him, "Doug, I'm fit as a bull moose, like Teddy Roosevelt." Despite Ralph's initial hesitation, after exploring his options he agreed the cost of insurance would be miniscule compared to the rate of return his policy would likely be averaging. He moved ahead with a LASER Fund as a key retirement financial vehicle.

Doug recalled working on the life insurance application with Ralph, who, despite a nagging cough, did seem as strong as that bull moose. The day the insurance company approved Ralph's policy, Doug received a call from Ralph, asking if there were any way to quadruple the death benefit. Doug thought he was joking, since throughout the application process Ralph had insisted on getting the lowest possible death benefit. Doug explained, "That would mean you'd have to reapply. Are you serious? What's going on?"

Ralph sighed and said, "I was just diagnosed with fourth stage Hodgkin's Disease. The reason I was coughing? Turns out I have cancer. They give me about a year."

Unfortunately reapplying for a higher death benefit was now out of the question, but needless to say, as Ralph cherished his final thirteen months with his wife and family, he was grateful he hadn't passed up the opportunity to set aside money in a financial vehicle that would now be providing a critical death benefit for his loved ones. When Doug later delivered the death benefit to Ralph's family, he said it was a privilege to pass along the money that would allow Ralph's wife and children to continue doing the things that Ralph would have provided for, had he been able to live.

WHAT CAN GO WRONG

The primary reason for anyone to open a LASER Fund is the death benefit, but sometimes it may be difficult to keep that in perspective when the desire to spend money on other things obscures the vision. The consequences of losing that perspective, however, can be damaging. Throughout these chapters, we will include a snapshot of client experiences where for one reason or another, they did not stick to their plan and their LASER Fund goals suffered. These stories are offered as cautionary tales to help you avoid similar missteps.

Bruce Leavitt opened a LASER Fund policy, designed with a $600,000 premium bucket and a $2 million death benefit. He was in the middle of the funding process when he remarried and had a son. His new wife was not thrilled with the idea of money going toward a life insurance policy, when she would rather have the cash on hand. She argued that her

husband was so healthy, he wouldn't die any time soon, and they would have many more years to plan for retirement.

Bruce stuck to his original plan and continued funding the policy for another year or so, but he eventually acquiesced. He paid the surrender charges and cancelled his policy, pulling all his money out. Not long after, the unthinkable happened. While hunting, Bruce was fatally shot by another hunter who mistook him for an animal rustling in the bushes.

Not only was his death a shock and devastating loss for his family, but his wife was now left behind without financial security. Had they maintained the policy, she would have had millions of income-tax-free death benefit to empower her to raise her son in relative comfort. But without the policy, she could not afford to maintain their lifestyle and eventually had to move back home to live with her parents.

TIMELY BENEFITS

No matter the situation or size of the policy, LASER Funds can clearly provide critical financial support at the time of the insured's passing. Whether starting a LASER Fund with additional objectives in mind (such as retirement income or business planning) or solely for the death benefit, if structured and managed properly, in the end every LASER Fund becomes an income-tax-free blessing to those left behind. With the additional liquidity, safety, rate of return and tax advantages, it is an invaluable tool in life, and yes, even in death.

3

Retirement Planning

As a successful tax accountant, Rob Mitchell was the kind of guy who managed his money well. For years, he had been setting aside money in traditional financial vehicles to build a retirement nest egg. When he discovered The LASER Fund approach, he researched the strategies in-depth and was intrigued by the unique liquidity, safety, predictable rates of return, and tax advantages. He ultimately decided to reposition some of his money into policies for him and his wife.

At age 56, he transitioned $400,000 into a policy with one insurance company, and another $400,000 into a second policy with a different insurance company, each policy with a $1.2 million death benefit. He chose to go with two companies to diversify his portfolio, taking advantage of specific policy features and indexes at each company. The Mitchells fully funded their policies in the initial five years, during which time the two policies averaged a rate of return of 8.61% interest.

Since they have ample income elsewhere, they are not taking any tax-free income from these policies. They have designated their LASER Funds purely for retirement planning, which means the money in the policies is free to continue to compound at full value. When they retire in a few years, they will be able to take a healthy annual income from their policies until they pass on, at which time their heirs will receive a tax-free death benefit. The Mitchells couldn't be more pleased.

A LASER RETIREMENT

In addition to the death benefit, retirement planning is perhaps the most common objective for those with LASER Funds. It is among the safest of places to set aside money—the guaranteed floor of 0% provides assurance that even in the worst of economic climates, you won't lose money due to market volatility. The LASER Fund's predictable rates of return afford a good gauge of the pace of growth you can expect. The liquidity can be empowering. Even for those like the Mitchells who don't plan on taking any income from their policies before retirement, the knowledge that you can access money at any time, for an emergency or other need, is reassuring.

And perhaps the biggest reason so many turn to The LASER Fund for retirement planning are the tax-free advantages. As explained in Section I, the income you take from a LASER Fund is not deemed earned, portfolio, or passive income—which according to Section 7702 of the Internal Revenue Code, are the only types of income currently subject to income tax. So any money you borrow properly from your policy is income-tax-free. And when you pass on, your heirs receive a death benefit, income-tax-free.

This can make a significant financial difference. Compare the LASER Fund scenario to many Americans relying on traditional financial vehicles and Social Security during retirement. Because they have lost many of their former tax deductions (dependents, real estate interest, business expenses, etc.), they often find themselves in a tax bracket that is as high or higher than during their earning years. They often need to downgrade their retirement dreams to stretch their dollars and avoid outliving their money. And when it comes to transferring wealth at death, there is often less to pass along than what they had hoped, and what they do pass on comes with tax consequences.

THE INCOME POWER OF TWO FUNDS

At age 60, Ben Coleman could see retirement just over the horizon, and he decided to open a LASER Fund. He wanted to move $780,000 into the policy, a combination of money from regular income and funds in a taxable account (where performance was lackluster and taxes took a regular bite). The policy started with a $1,875,000 death benefit.

He had planned on funding the policy over five years, but there were a few delays. Thanks to The LASER Fund's flexibility, that was not a problem. He ended up fully funding it in six years, and like the Mitchells, Ben will not touch any money in the policy until he retires. He opened the policy strictly for retirement planning and eventual wealth transfer to his children through the income-tax-free death benefit. So far, it has earned as much as 17% annual interest, with an average annual rate of return of 7.8%.

A couple years ago, Ben remarried. He opened a second LASER Fund, with a $600,000 premium bucket. With retirement income a priority, they chose a policy that does not pay out a death benefit until the second spouse passes on, which reduces costs. He pays $10,000 a month into the policy, and plans to fully fund it in five years. Between the two policies, Ben and his wife will be able to take an annual tax-free income of $150,000 to $200,000 when they retire. For Ben, the ability to earn a predictable rate of return, to know that his money is safe, and to look forward to a robust annual income—free of income taxes—provides a much brighter future than his previous approach. This is a retirement he can really look forward to.

FOR EXPENSES AND VACATIONS

Joan Campbell was in her late 50s and her husband, Rich, was in his early 60s when they created LASER Funds. Joan's policy was designed to hold $200,000, and Rich's was designed for $250,000, both with a $600,000 death benefit.

Although they had originally intended to maximum fund the policies, they stopped adding funds when each policy was about 75% full. (Note: You don't have to fully fund policies to utilize them for needs like death benefit or income. However, partially funding a LASER Fund could affect the net rate of return after policy charges, which could impact maximum growth potential.)

Now in retirement, the Campbells don't use their policies for regular income—instead they access money in their policies for various expenses, as needed. One year they may borrow $12,000 from Joan's policy to pay

taxes. Another year they may borrow $20,000 from Rich's policy to take the family on vacation.

For the Campbells, their LASER Funds provide peace of mind during retirement. They know their money is safe from economic downturns. They can watch it grow (their policies are averaging an annual rate of 8%), and they love having the ability to dip into their policies to cover the cost of occasional necessities and create memorable opportunities for the family to connect.

A LITTLE GOES A LONG WAY

When Colby was in his early 20s, he decided to follow in his parents' footsteps. They had opened LASER Funds several years earlier, and now as a young adult, Colby wanted to start one of his own. Still in school and on a limited budget, the policy's premium bucket was just $10,000, with a $100,000 death benefit. He paid what he could into the policy every month, $50 to $75.

When Colby married a few years later, he and his wife opened a similar policy on her—a $10,000 premium bucket with a $100,000 death benefit. Eventually those policies were funded, and after graduate school, when money was more plentiful, he opened a third LASER Fund, this one with a $100,000 premium bucket and a $720,000 death benefit. With a young family, he typically paid just $500 a month into the policy, planning on funding it over ten years. After the sale of some property, however, they were able to finish funding the policy earlier than anticipated, in its sixth year.

With rates of return on their polices averaging 7% to 9%, they feel content knowing they have money working for them in safe financial vehicles that they can turn to for tax-free income during retirement. They appreciate knowing if an emergency arises, they can borrow money from their policies. And still in their 30s, with the death benefit in place, they feel reassured that should anything tragic occur, their growing family will have the financial means to continue moving forward.

FROM THEIR RETIREMENT TO HERS

When the Harolds created their LASER Fund, they did so with the intent to enjoy a healthy tax-free income during retirement. But just as John retired, he passed away unexpectedly. While Helen was reeling from the loss, she was relieved to receive a significant death benefit. While many around her urged her to use the death benefit to pay off her mortgage and buy a new car with cash, she decided to create a LASER Fund for herself.

She wanted to perpetuate The LASER Fund's benefits for herself—liquidity, safety, predictable rates of return and tax advantages—as she faced her golden years alone. She understood that her LASER Fund would provide the means to pay off any mortgage or debts should she need to, and that she would be gaining far more with her money at work in her policy, with its safety and predictable rates of return, than paying off her debts immediately.

Over the years, Helen has been able to live comfortably on the tax-free income she borrows from her policy. She uses tax-free income from her policy to pay for everything from her mortgage to her car loan (which she was able to procure at just 1% interest). She has been able to help her nieces and nephews pay for college tuition and religious missions, and she also has the means to care for her aging mother. While it is not the retirement she envisioned sharing with John, her retirement years have been filled with opportunity and abundance, for which Helen could not be more grateful.

WHAT CAN GO WRONG

The LASER Fund is a long-term financial vehicle designed to provide an income-tax-free death benefit—with the opportunity to provide other benefits like tax-free income during retirement. Its success, however, depends heavily on a key factor ... you. When you practice strong financial habits, it can perform as planned. When you succumb to less-than-responsible temptations, you can veer off course.

The Kerrs, for example, established a LASER Fund during their late 50s. In addition to their upcoming pensions and Social Security, they wanted to utilize a LASER Fund to supplement their retirement income. We

worked with them to design a policy that would provide about $30,000 in annual tax-free income.

They were disciplined, sending their payments in each year to maximum fund their policy, coming in for their annual reviews, staying on track with their retirement goals. At age 65, they said good-bye to work and turned to their nest eggs, enjoying their pensions, Social Security, and tax-free LASER Fund income.

Before long, they had an opportunity arise. They were offered all kinds of wealth if they invested in joining a startup direct sales company. It would require hundreds of thousands of dollars. They debated what to do, but eventually could not resist. They pulled out the maximum amount possible from their policy, promising themselves to repay the loan as soon as their direct sales fortunes came in.

What sounded too good to pass up ended up being too good to be true. The company went up in smoke, with their LASER Fund turning to ashes. They simply did not have the money to repay the loan on their policy. While loans are not necessarily due and payable during the life of the policy, if you take the maximum amount and do not add any more money to the policy, eventually the policy charges can nibble away and cause the policy to lapse. They also did not have a Loan Protection Rider, which can at least protect the death benefit in cases like this.

This is exactly what the Kerrs allowed their policy to do. It was with a heavy heart that they expressed regret over losing sight of their goals, chasing new opportunities, and losing out on tax-free retirement income that would have helped make their retirement more abundant.

A SECURE FUTURE

When looking ahead to retirement, The LASER Fund can provide powerful peace of mind. With its guaranteed safety, you never have to fear an economic storm will blow your money away due to market volatility. The predictable rates of return can help your money grow toward a stable financial future. The liquidity affords you the ability to borrow money from your policy for expenses or regular income, and the income-tax-free advantages support you in making the most of *your* money.

4

Working Capital

Hank Freeman makes his money flipping real estate. Not just a house or two at a time—he purchases large-scale real estate like strip malls and apartment complexes, renovates them, sells them, and makes a handsome profit. Hank and his wife have four LASER Funds, from which Hank borrows working capital to fund real estate ventures.

There are times when he buys an apartment complex that has fallen into disrepair and vacancy rates are high. The owners may be behind on their mortgage or just unable to maintain the property properly. He borrows money from one of his policies to cover the down payment or earnest money on the property, say $1 million or more. He simply submits the form for the loan to the insurance company, has the money wired from his LASER Funds to his bank account, and is ready to move forward.

He also uses his policies as collateral to secure construction loans to cover the cost of renovations. Usually within about a year, he sells the restored property at a profit.

The former owners are relieved to be free of the once-struggling property; the tenants are happy to be living in a better environment; the realtors involved in the transactions are making sizable commissions; the new owners are pleased to pick up a thriving real estate asset; and

Hank's net worth continues to grow. It's a win-win for everyone, made possible by his LASER Funds.

When he completes each find-fix-flip cycle, Hank returns the money he borrowed right back into his LASER Funds. This has become a well he can return to time and again, and he does, to his great advantage.

WORKING CAPITAL

Thousands of savvy professionals use LASER Funds for working capital, because it provides significant advantages over traditional methods. When saving, you typically set aside the money you use for short-term business needs in a business savings account. Yes, this provides liquid access to cash when needed, but you're earning just 1% to 2% on the money in the account. When you need to fund a project or acquisition, that interest rate goes down to 0% on any money you pull out, and when you put the money back in, you're back up to just 1% to 2% interest.

Instead, if you borrow from your LASER Fund, you can come out ahead. As explained in Section I, Chapter 7, when you borrow money from your policy, that money is still technically in The LASER Fund. So in this scenario, let's say your policy is earning an average rate of return of 7%, while the money you borrow is being charged 5% interest. You're averaging a 2% spread. Your money is STILL going to work for you. You're able to finance business ventures, without all the loan applications, red tape, and possible funding delays. The money you borrow is tax-free; and all your money (that is still in your LASER Fund) can continue growing tax-deferred. You're moving forward with your venture quickly and easily.

CONTINUED DEVELOPMENT

Joe Sherman is a developer, specializing in residential homes and commercial lodging. Since discovering LASER Funds, he has changed his business model. He has seized the opportunity to have policies providing life insurance for him and his wife—and he puts those policies to work providing working capital for his developments.

Over the last few years, he has borrowed money from their policies for several projects. Sometimes it has been for short-term needs, such as borrowing money to secure a lot, and then putting the money right back into his policy thirty days later when his construction loan comes through. Other times, he has borrowed enough to finance an entire construction project, putting the money back into his policies when the build is done and the property sells.

Using this approach, Joe has made an additional $100,000 or more in interest than he would have using the traditional savings account method for working capital. The liquidity and predictable rates of return in his LASER Funds enables Joe to look to continued growth, with the opportunity to make money on both his real estate deals, and his insurance policies.

LENDING SUCCESS

Not only do Bobby Collins's LASER Fund policies provide the reassurance of a tax-free death benefit for him and his wife, they also provide a business opportunity. Bobby has leveraged his LASER Funds to become something of a commercial bank himself.

Bobby extends short-term loans to contractors at 16% to 18% interest. He borrows the money from his policies to lend the contractors, and returns the money to the policies as soon as they repay their loans.

Think about it: Bobby is borrowing money from his policies, currently at about 5% interest. Because his LASER Fund is earning an average of 7% interest, the money he borrows is still averaging a 2% spread. That same chunk of money he turns around and lends to contractors—that is earning another 16% to 18% interest.

Over the past several years, Bobby has made millions doing this. He has done so with peace of mind knowing that he has life insurance policies in force should anything happen to him or his wife. He has enjoyed the liquidity and income-tax-free advantages of harnessing a rewarding business opportunity through his LASER Funds.

WHEN OPPORTUNITY KNOCKS

The Butlers opened a LASER Fund to ensure they would have an income-tax-free death benefit in place, as well as money for retirement. After fully funding their first policy, they opened a second—and then a business opportunity arose.

It was a real estate deal where they could contribute $300,000 and earn 9% annually. They decided to take the opportunity, so they borrowed $300,000 from their policies at 4% interest ($12,000). That same year, both policies earned close to 10% interest. Between what they were charged in interest and what that money earned in interest, their LASER Funds netted $18,000. That same $300,000, put to work in the real estate deal, earned $27,000. Altogether, in the one year they made $45,000 on that $300,000—a 15% return.

Say they had pulled the $300,000 out of a traditional savings account, they would have earned only 9% in the real estate deal. If they had withdrawn the money from a 401(k), they would have paid taxes, and an additional 10% penalty for being under age 59½. Thanks to the flexibility, liquidity and tax-free advantages of their LASER Funds, they were able to take advantage of the opportunity—and make significantly more than if they had funded the opportunity some other way.

FLEXIBILITY AND TAX-FREE CAPITAL

Larry Fulton had opened a LASER Fund with a $300,000 premium bucket for the income-tax-free death benefit, and for its capabilities as a tax-free working capital account. In structuring the policy, he added a rider that would provide him full liquidity in the early years with no surrender charges. He knew this would add a bit of expense and affect values over the life of the policy, but it gave him the advantages he needed for a working capital account.

He began to put $80,000 a year into his LASER Fund, and at the start of his third year of funding, he borrowed $180,000 tax-free from the policy for a business venture. He paid back the loan within three months. For his next venture, he borrowed $90,000 tax-free. He is currently repaying that loan on an amortized schedule he created, paying himself interest like he would a bank. He did not need to do this, but he likes the

sense of self-discipline and financial growth it creates. As he looks to the future, he is grateful for the flexibility and opportunities his LASER Fund affords him to build his business.

WHAT CAN GO WRONG

Properly funding a LASER Fund according to the design of the policy is crucial to the success of the policy. If circumstances change, unless you work with your financial professional to make adjustments to your policy, you'll get less-than-optimal results.

Cliff Wharton was interested in creating a LASER Fund with a $100,000 premium bucket to use for working capital, along with a death benefit. He put his first $20,000 into the policy, and within a week, pulled out $16,000 tax-free for a business venture.

Ideally it is beneficial to fund the policy more before pulling the majority of the money out, but it is not imperative. To complicate things, over the next few years, he did not continue funding the policy. He would just sprinkle a few dollars in here and there to cover the policy charges and keep the policy from lapsing.

Thirty years later, his policy is still in force, but it has essentially become term insurance. Because he did not continue funding the policy to at least 50% full or more—it cannot provide all the benefits he had hoped for. It is merely limping along, and thankfully, will at least be able to provide a modest income-tax-free death benefit upon his passing.

DOUBLE TIME

For those who are engaged in business ventures that require working capital, The LASER Fund provides unique advantages. The liquidity and flexibility offer timely access to money. The tax-free nature of The LASER Fund empowers you to use all of your money for the venture, without splitting it with Uncle Sam first. And the ability to borrow money from your LASER Fund, while still having it earn interest in the policy at predictable rates of return, gives you the rare ability to have your money working for you in two places at once.

5

School, Family, and Life

The Schooners' son, James, was preparing for medical school—an endeavor that would cost about $500,000. As James investigated traditional student loans, the family looked at an alternate solution, one that would be far more flexible and that could benefit everyone—son *and* parents.

Rather than going to the local bank, they decided to turn to their family's "Legacy Bank," utilizing money in the Schooners' LASER Fund to cover medical school costs. They drew up an official contract that allowed James to borrow what he needed from his parents each year, which they in turn borrowed from their LASER Fund at 5% interest, income-tax-free.

When James completed medical school, he began paying his parents back in monthly installments, at 7% interest—a rate James insisted on. While his parents were willing to offer the loan at no interest, James wanted to be repay them at a healthy market rate of 7% interest—as his way of thanking them. The Schooners put each monthly payment right back into their LASER Fund, where it is currently contributing to the further growth of their policy's value.

Originally the Schooners opened their LASER Fund for the death benefit and future retirement income, but they have been thrilled to discover it has so many more uses, including the ability to help their son attend medical school without the hassle, additional costs, and rigidity of traditional student loans.

FUNDING THE FAMILY'S ENDEAVORS

Many policyholders experience a similar joy in the versatility of The LASER Fund. They leverage the money in their policy to fund the family's worthwhile endeavors, such as education, weddings, humanitarian and religious missions, even big vacations with extended family. The LASER Fund becomes the generator for their family's Legacy Bank, empowering themselves, their children, and their grandchildren to pursue meaningful experiences.

The flexibility of The LASER Fund is ideal in these situations. Remember, when you borrow money from a LASER Fund, repaying those loans is optional. As discussed throughout Section I, loans on LASER Funds are not due and payable during your lifetime, and are cleared away upon your death. That said, many policyholders choose to incorporate some type of system for repayment, to instill a sense of accountability in family members—and to replenish and maximize the future value of the policy.

When you borrow from your LASER Fund with an indexed loan, the money in the insurance policy continues to earn the indexed rate (which typically averages 7% tax-deferred), and the insurance company charges you interest at a lower fixed rate, say 5%. Essentially, you are averaging a 2% spread on the borrowed amount. And if you repay those loans, your LASER Fund value benefits even more.

Looking at the Schooners, while their son was in school, they borrowed a total of $500,000 from their policy at 5% interest, tax-free, to lend him. That money was still earning an average of 7% to 10% interest a year in their policy, based on index performance. So they were averaging a 2% spread each year on the borrowed amount.

Their son is now repaying the loans at 7% interest. When they eventually get all the money back in the insurance policy, part of their son's 7% interest is paying back that 5% interest they were being charged on that

loan. Which means, over time, it will be as if they never had lent their son any money anyway. And in fact, they will come out a little ahead. Was that their goal? No, they would have lent him the money at 0% interest, but their son wanted to show his appreciation and help add to their LASER Fund once he was earning a handsome salary as a doctor.

You can set up the way your family approaches your Legacy Bank in whatever way works best for you. If repayment is part of the arrangement, it is important to put things in writing and for everyone involved to honor that agreement as you would any professional contract. Obviously there can be flexibility if circumstances change. Say, for instance, James Schooner had a delay in finding employment after medical school. They could have postponed repayment until he was settled in his career.

And that is one of the many beauties of a LASER Fund—the ability to access money when needed (liquidity), the tax-free loans (tax advantages), and the opportunity to repay loans as works best for the situation.

CREATING A LEGACY

Richard Hambert had worked hard throughout his life. By the time he retired, he had amassed a net worth well over $20 million. Just a few years into retirement, he established a LASER Fund and chartered his family's Legacy Bank. He outlined a KASH Blueprint (as explained in Section II, Chapter 1,) creating clear parameters for how his family could access money from the Legacy Bank, incentivizing positive pursuits, and reinforcing greater accountability among his children and grandchildren. He also changed his trust from one of equal distribution to equal opportunity.

Richard uses his LASER Fund to support his grandchildren's education, which they can access for a bachelor's, master's, and doctoral degree. But he does not cover the entire tuition. To help them get some skin in the game, his grandchildren are required to come up with 50% of the costs, which he then matches.

Richard is a romantic at heart, and he believes young couples benefit more from kick starting their lives together with a meaningful honeymoon, rather than a lavish wedding. So his KASH Rules of Governance allow for a $5,000 wedding gift—if it's used for the honeymoon, to cement the relationship.

When it comes to real estate, Richard matches dollar-for-dollar what his children and grandchildren save for their first real estate acquisition—but with one caveat. As a strong believer in the Three Dimensions of Authentic Wealth and the importance of gaining at least a foundational understanding of financial strategies, Richard requires that they attend a Live Abundant event and read at least one of The Missed Fortune series of books.

Richard has seen an evolution in his family since implementing his KASH Blueprint—a greater accountability and sense of personal investment in pursuing goals and achievements. His LASER Fund has become a powerful tool for granting equal opportunity to his family members. And he is encouraged about the legacy, habits, and values he will eventually be leaving behind.

A PRIVATE EDUCATION

The Bradfords practice financial self-discipline. They work hard, and they consistently live on less than they earn. While not wildly wealthy, they have been prudent with their money and have opened several LASER Funds over the years.

As big believers in the power of education, they have used those LASER Funds for their children's private schooling. By borrowing tax-free from their policies, they have been able to pay for top-notch educations for their children from elementary through junior high and high school. Their children are now attending a private university, preparing for successful careers after college.

All of this has been possible because they systematically socked away money into LASER Funds. As they look ahead to retirement in about twenty years, they have the reassurance of knowing they will also be able to access tax-free income, and eventually leave an income-tax-free death benefit for their children when they pass on.

HELPING LOVED ONES

With an eye toward future retirement income, the Johnsons opened two LASER Fund policies while in their 50s. When Sam passed away about

fifteen years later, Elaine was able to take the money from his death benefit and open another LASER Fund to continue the retirement income opportunities. She was relieved to know she would be secure financially, accessing income from their policies to cover not just her needs, but also to enjoy a good quality of life.

She has been able to repair and renovate her home, for example. And as for her family, Elaine has been able to ease financial burdens. One of their children has a special needs child, and Elaine has turned to her LASER Funds to help provide for the medical costs and care her grandchild requires. She has also been able to assist other grandchildren with their schooling and other endeavors—all of which has brought her joy.

For Elaine, the Johnsons' LASER Funds have provided for so much more than she and her husband had anticipated. Not only has the tax-free income provided peace of mind, but she has been empowered to help where her family needs it most.

PAYING FOR COLLEGE ... AND MORE

With two children heading to college and a third not far behind, the Reynolds were feeling a little anxious. While the kids' grandfather had more than enough to cover the cost of tuition, the Reynolds wanted to be more self-sufficient in funding their children's university education.

They consolidated debt, streamlined their cash flow, and created a LASER Fund with about a $150,000 premium bucket they would fund over the next seven years. They are now able to borrow money tax-free from their policy to cover college expenses.

As a bonus, due to asset adjustments made during the LASER Fund planning process, one of their children received scholarship and grant money totaling more than $120,000 from the private university he was hoping to attend. As they look ahead to retirement, they're also thrilled their LASER Fund will supplement their income with over $20,000 a year, tax-free.

Finding a way to pay for college expenses was the original motivator, but in the end, opening a LASER Fund brought multiple benefits. They have personal pride in empowering their children to pursue educational

goals; they have a plan for tax-free supplemental retirement income; and they have a death benefit that will help their children when they pass on.

WHAT CAN GO WRONG

With grandchildren approaching their teen and college years, Mary Edwards liked the idea of creating a family Legacy Bank. She looked forward to helping her grandchildren with school, weddings, and other opportunities, so she opened a LASER Fund.

As she began funding her policy, she was delighted by its liquidity. Perhaps too delighted. She would get excited about random ventures, such as building emergency kits, and she would borrow from the policy to pay for the new projects.

Despite warnings from her financial professional to slow the pace of her loans, she continued to borrow from the policy. Eventually she had borrowed so much (and she did not have a Loan Protection Rider), so her policy was in danger of lapsing. She ended up canceling her LASER Fund. Had she maintained better financial discipline, she could have met her long-term goals, but unfortunately her short-term pursuits robbed her of the future she had envisioned.

A BOON TO FAMILIES

For those who maintain their future focus and properly utilize The LASER Fund, it can make a significant difference in a family's approach to life. Not only can it provide the financial fuel for worthwhile pursuits, it can also be the motivator for adopting the family's values and vision. It can help families live with accountability and responsibility. It can be the antidote for entitlement that can sometimes otherwise plague families, as explored in Doug's book, *Entitlement Abolition.* Essentially, it can empower greater abundance.

6

Lump Sums

As owners of apartments and commercial buildings, David and Jane Soto had prospered in real estate. Now in their 50s, they had come to a point where they felt ready to move on. They had grown weary of tending to tenant needs and the rigors of property management over the years, so they sold their properties.

But they were faced with a dilemma. What to do with the significant lump sum of money they had just acquired through the sale of their real estate? They did not need the income yet, but they were leery of putting it in the market. Just shy of retirement years, they knew they could not afford the risk of a volatile market. While talking with friends, they learned about The LASER Fund, which sparked their curiosity. The death benefit, along with the predictable rates of return and future tax-free retirement income sounded ideal. And the safety was exactly what they were looking for.

The Sotos decided this was the path for them. As it now stands, in another two years, they will have maximum funded their LASER Fund with a $500,000 premium bucket and a death benefit of about $1.3 million.

In a few more years, when they are ready for retirement, they will be able to enjoy tax-free income, as well as money for helping their children with education and other needs. They are relieved to know their money is safe, earning predictable rates of return, and that they will have far better tax advantages than any other vehicle they had previously been considering.

THE LUMP SUM SOLUTION

Lump sums can be a blessed windfall for many, but they can also raise serious financial questions. The first: how do you help the money grow, without putting it at undue risk? There were many people whose lump sums went into the market and enjoyed growth for a time, then nearly disappeared during the Great Recession. The second: where can you put it that can ensure liquidity, and where it can be accessed tax-free, then transfer income-tax-free to heirs?

Traditional financial vehicles can pose challenges in each of these areas, which is why a LASER Fund can be a godsend for folks who find themselves suddenly flush with cash. But the LASER Fund does have its limitations.

If you want to structure your LASER Fund to provide for tax-free access to the money—for retirement income or any of the other reasons illustrated throughout Section II—then you must take time to move the money into the policy. TAMRA dictates that funding the policy must be spread out over a minimum of five years to ensure those tax-free benefits.

But if your goal is primarily wealth transfer via the income-tax-free death benefit—and you are not looking to borrow money from your policy (or you don't mind paying taxes if you do)—then those limitations disappear.

As explained in Section I, Chapter 7, you can purposely violate TAMRA, fund it all at once, and your LASER Fund is now termed a Modified Endowment Contract (MEC). Referring to the apartment building example in Section I, Chapter 5, it would be like leasing out the five-story apartment all at once. Instantly all five floors are available to turn a profit for you.

Your money in the MEC is growing tax-deferred, at an average rate of 7%. It's safe from downturns in the market, with a guaranteed floor of 0% even in the worst of times. When you pass away, your money

blossoms into an income-tax-free death benefit as it passes along to your beneficiaries. And in the case that you may want to access money in your policy, you can—you will simply pay taxes on it like you would an annuity.

However you structure and fund it, LASER Funds provide an excellent vehicle for lump sums that come your way. And for many people, they provide much more than just financial benefits.

FROM DEATH BENEFIT TO LIVING BENEFITS

Barbara Heaton was recently widowed. Her husband had left behind a $2 million death benefit from a life insurance policy, and she had parked the big lump sum in a savings account at her local bank. She would need the money to pay the bills and take care of her family, and she was hoping it would last her a good long while. Sure it was earning less than 1% interest, but at least it was safe, with no fees, so she figured that was best.

As a mother with teenagers at home and her first couple grandchildren living nearby, she was still very involved in the thick of life, with little time to think much beyond the day-to-day. Then she came to one of our firm's events, where she started to consider that there may be better alternatives than the savings account. Incidentally, she also brought along one of her younger sons who was just graduating from high school to learn about the Three Dimensions of Authentic Wealth, accountability, and dealing "above the line"—something she later said helped her son turn around his less-than-optimal teenage approach to life.

Barbara decided she wanted to get more out of that $2 million than what the bank could offer. She transferred her money into two LASER Fund policies over the next five years, much like the Sotos.

Now, she is able to take tax-free retirement income from those LASER Funds. She is grateful for the flexibility, liquidity, safety, predictable rates of return and tax advantages her LASER Funds have provided, especially since she realizes that by now, had she left the $2 million in the savings account, it would be dwindling. Instead, that money will continue to provide for her needs until she ultimately passes away, at which time she will be able to leave behind an income-tax-free death benefit to her family.

PASSING ON A LEGACY

The Bannisters were in their 60s when they opened two LASER Funds. They had a sizable amount of net worth, much of which they wanted to tuck into LASER Funds. They had pensions that would be providing for the majority of their retirement income in the next few years, so they were drawn to LASER Funds primarily for the death benefit and occasional access to their money, as needed.

The LASER Funds would provide an excellent income-tax-free way to transfer their wealth to their posterity—and with eight children and a growing posse of grandchildren, they had a significant posterity to consider.

Sooner than expected, Fred passed away within a few years. Shelly Bannister received a lump sum from his death benefit—and she knew exactly what she wanted to do with it. She opened another LASER Fund so it could continue to grow and eventually pass on to her children.

Today, she uses her LASER Fund for tax-free income—and for things that bring her joy. She has established a family Legacy Bank, which her grandchildren can access for education. And she takes her children and grandchildren on unforgettable Family Retreats with a Purpose (as discussed in Section II, Chapter 1). On these getaways, she loves passing along the Bannisters' Vision & Values and maintaining the family's close-knit unity that would make her husband proud. She feels reassured that when she passes on, not only will she be able to transfer her death benefit on to her children, but the money from the additional policy she created with the lump sum from Fred's death benefit, as well.

FACING LIFE ON HER OWN

After Grace Humphrey lost her husband in a tragic accident, she received $300,000 from a liability insurance settlement. She was in her early 60s, missing her husband, and trying to sort out how she would approach the coming years on her own. She wanted to make sure she could not only preserve that lump sum, but also leverage it for as much retirement income as possible.

She opened a LASER Fund with a $300,000 premium bucket and an $800,000 income-tax-free death benefit. As a financially disciplined woman, she made ends meet with other income so she could funnel the entire $300,000 to her policy over the next five years.

Since then, Grace has enjoyed regular tax-free income from her policy. She has also been able to borrow additional money from her policy on three or four occasions for things like home repairs and trips with her children and grandchildren.

Grace could not be more pleased with the safety the LASER Fund has provided her lump sum settlement, as well as the liquidity for tax-free income that has helped her make the most of her golden years as a widow. She is grateful she will also have an income-tax-free death benefit to pass along to her family when she eventually reunites with her husband.

WHAT CAN GO WRONG

Several years ago, a large mining company offered an alternative to a 401(k) plan—it was essentially a matching program for employees who wanted to open LASER Funds. The policies were structured for modest long-term contributions, and employees could automatically direct $100 in after-tax dollars each month to their policies. The company would then match the contribution. To help cover the cost of taxes on the match, the company "grossed up the match," which means if an employee were in a 25% tax bracket, for example, the company would put $133 into the policy.

Tragically, the mine suffered a catastrophic accident, and several dozen miners lost their lives. Fortunately because many of those miners had been utilizing the LASER Fund plan, their families received income-tax-free death benefits. If those workers had been using a traditional 401(k) plan, their families would have received far less.

One of the widows, Dorothy Hampton, decided to use the $200,000 lump sum she had received in an income-tax-free death benefit to create a LASER Fund of her own. This way the money could not only provide a death benefit for her children someday, but it also enabled tax-advantaged growth, liquidity, and safety on that $200,000.

Not long after she had begun funding the policy, she remarried. Her new husband wanted to start a restaurant, and he had his eye on the money in the policy for startup capital. Dorothy decided to take out as much money from the policy as she could to launch his restaurant. We reminded her the policy would take a hit, and she would need to make payments to cover the cost of the insurance. Despite the warnings, she proceeded with her plan, promising herself she would repay the loans just as soon as the restaurant succeeded (which he assured her it would).

Within about a year, the restaurant had gone belly up, the new husband had left her, and Dorothy did not have enough money to maintain the policy (and no Loan Protection Rider), so, sadly, she let it lapse. If she had taken out less than the maximum loan, and/or she had made payments, she would not have had to let the policy go.

SUMMING IT UP

When lump sums come along, whether through business deals, the sale of real estate, a death benefit, or other means, when handled right, the LASER Fund can provide a safe, tax-advantaged path for making even more of that lump sum. You can choose to maximum fund a LASER Fund over five or more years—or if wealth transfer is a primary goal, you can fund it all at once, create a MEC, and enjoy all the liquidity, safety, predictable rates of return, and tax-free death benefits that a LASER Fund provides.

7

Business Planning

When Kate Laramy's husband passed away from an accident, she was devastated—not only was she facing life without Ken, but she would now be a single mother raising six children. Unfortunately Ken did not have a personal life insurance policy that could have left her a tax-free death benefit. She was worried how she would make ends meet long-term.

Then she learned she would be receiving $1 million from a policy her husband's business had opened on Ken for this very reason. She discovered that as part of their business planning, both Ken and his partner had life insurance policies in place as part of a buy-sell agreement. Should either partner pass away prematurely, the life insurance policy would serve to "buy out" the deceased partner's share of the company. This would empower the remaining partner to proceed with full ownership of the company, and serve to help the deceased partner's family with a valuable tax-free lump sum.

In Kate's case it was some of the best news she had received in a long time. She decided to open a LASER Fund policy with the money, and she has been able to move forward, knowing she will have enough to provide

for her children and enjoy a good quality of life throughout the rest of her years.

INSURANCE FOR BUSINESS PLANNING

The LASER Fund can be used for exactly this type of buy-sell agreement, which makes for an excellent "exit strategy" in business planning. Whether partners decide to leave the company, they pass away, or they become disabled, the insurance compensates the remaining partner with money to buy out the company. In the case of death, most attorneys will arrange for the money to go directly to the widow, so it can be possibly transferred tax-free, helping the widow avoid capital gains tax on the "sale" of the business. And it also helps make the transition simple, without the widow "inheriting" partnership in the business and having to decide if he or she wants to take on running a company—and helps the remaining partner avoid the awkwardness of deciding if that's even plausible.

The LASER Fund can also be used for business planning in the form of "key person insurance." Here, The LASER Fund is used to cover the economic value of a key person in a business. For example, if a CEO is integral to a company's brand or financial success and were to suddenly die, the policy provides tax-free capital to be transferred to the business, to help the company recover from the loss of the primary figure in the business.

This strategy can be valuable for many companies, large and small. There are also options in how it can be structured. While some companies may choose to maximum fund the policy, other companies choose to minimum fund the policy for the maximum amount of death benefit they desire. (In this case, the goal is to keep costs low.)

What's more, should the key person reach retirement alive and well, the policy ownership can be transferred to the key person, who can then choose to maximum fund the policy and name her or his loved ones as beneficiaries. At this point, the key person can use The LASER Fund in all the same ways we are describing in Section II—for an income-tax-free death benefit for the family, as well as living benefits, such as retirement income, working capital for future business ventures, etc.

LEAVING A LEGACY FOR EMPLOYEES

Bill Zimmerman (his real name) was always fascinated by personal financial planning and investments. He started reading "The Wall Street Journal" in high school and majored in economics and accounting in college. Shortly after finishing college, he joined the International Association for Financial Planning (IAFP) and began his career as an independent financial advisor, specializing in tax-favored investing, retirement accumulation, and life insurance.

After building a successful practice as an independent advisor, Bill started helping other insurance and financial advisors build their own independent firms using the tools, strategies, and techniques he had found successful. Over the years, this became a very successful business helping independent financial advisors nationwide to properly advise their clients in retirement planning with life insurance and investments.

About ten years ago, Bill decided he wanted to reward his employees by sharing ownership in the company with them. He set out to create an employee stock ownership plan that would allow them to acquire lasting ownership in the company with no out-of-pocket cost and, therefore, no market risk to them.

The first part of the plan was straightforward—employee acquisition of stock:

- When employees reach their five year employment anniversary, they are given the opportunity to purchase shares of stock in the company with 100% financing at an extremely favorable loan rate.
- The valuation of the shares is based on a conservative formula, based on the company's revenue. As the company's revenue grows, so does the value of the shares.
- The interest rate on the loan is the lowest allowable by law, and there are no payments due for ten years from date of purchase.
- The collateral for the loan is limited to the shares of stock, themselves.
- Employees have all the rights of ownership of their stock, including the earnings of the company equal to their percentage of ownership.

The final part posed a challenge—ultimately empowering employees to own 100% of the company through a buy/sell agreement between Bill and the company.

The buy/sell agreement requires that 100% of the stock held by his estate, when he dies, would be sold to the company. The agreement would also require that the company buy the stock from the estate.

The question was: how to fund the purchase of such a large block of company stock?

One option would be to borrow the money, but that would burden the company with debt to borrow such a large amount.

Another option would be to start a sinking fund to save up enough money to fund the purchase of the shares. That option posed the same challenges as any other savings: Where do you put money that is liquid, has no market risk, and pays decent interest? And what to do when you do not know when you will need the entire lump sum? Bill would need enough life insurance to pay 70% of the value of the company to fund the buy/sell agreement at some unknown time in the future after his passing.

The solution? A LASER Fund.

Bill took out a policy on himself, and as anticipated, funding that policy, with its massive tax advantages, has proven to be less expensive than the other options. In addition to providing enough money to fund the buy/sell agreement, the policy has allowed for access to money for emergencies as the years have gone by. And at the time of this writing, the employees own nearly 30% of the outstanding stock in the company. The original shares are worth nearly twice the original value, and the employees have received dividends every single year since the plan was set up.

With his buy/sell agreement, most people would say there was no need for Bill to buy any personal life insurance. His family would be well cared for with his sizable estate created from the large amount of cash generated by the sale of the company stock, as well as his other assets. But as a financial professional, Bill knew he could do even better for his family. Find out how Bill leveraged his assets to create a better approach to his estate plan—and had money when he needed it most—in the next chapter.

OUR OWN COMPANY

Live Abundant has taken advantage of The LASER Fund as key person insurance. As the longtime face of the company, Doug's role as a national thought leader, bestselling author, radio show host, and speaker has made him a central figure for the work we do. While Emron and Aaron and other members of the management team are taking on more of those roles, at this moment, if Doug were to suddenly pass away, the company would benefit from additional resources to continue the momentum (and of course, time to mourn the loss of Doug!).

For that reason, the company has taken out key person insurance on Doug. This gives the company and all of its employees the reassurance that there will be plenty of capital to continue work as usual and make plans for further growth.

BUILDING SECURITY

For more than thirty years, Henry Solomon has patiently built his real estate company from the ground up, literally. What started out as a business fixing up old homes has turned into a multimillion-dollar company owning and operating high density housing in an entire section of town. His net worth is upwards of $20 million. One of his sons works with him in the business, but Henry is largely the one running the show.

The company has taken out key person insurance on Henry to ensure that if Henry passes on, the company will have the capital necessary to continue. The insurance would also play a key role in maintaining family harmony should he pass on earlier than anticipated.

There are times when the head of a lucrative family business passes on, and the children not involved in the business may pressure those working with the family company to sell, so they can "get their share." In cases like this, the key person insurance helps protect the company, while a separate, personal LASER Fund can provide for tax-free wealth transfer to posterity, keeping the lines clear and helping families avoid unnecessary rifts over money.

WIRED FOR BUSINESS PROTECTION

Bryant Minden is an orthodontist. Still in his thirties, he has established successful practices in two cities. He has LASER Funds established that will serve as a special kind of buy-sell agreement, called a cross-purchase agreement. The difference is the policies are not in place with business partners. They're actually with competitors.

These orthodontists have amiably agreed to put agreements in place where should one of them pass away prematurely, they would use the policy to buy the other's practice, with the money going directly to the remaining spouse. This way it's a win-win for everyone. The orthodontists are able to have the funds to purchase the other's practice, while the deceased's spouse and families benefit from tax-free money.

Bryant and his wife also has a personal LASER Fund to provide for income-tax-free death benefit and future retirement income. But by adding cross-purchase policies to the mix, he is able to secure added protection for his family should he pass away, and an opportunity to expand his business should one of the other orthodontists pass on.

WHAT CAN GO WRONG

As the owner of a busy print shop, Tom Paulson created a LASER Fund to use as key person insurance in case he passed away prematurely. After a couple years of funding the policy, his print shop business started to decline. He figured it was just a down year, so he borrowed from his policy, tax-free, to cover expenses. As the business continued to spiral downward over the next few years, he continued to borrow from the policy. A few years later, he sold the company at a loss.

With a depleted LASER Fund and no money to pay back the loans, he cancelled the policy. He expressed that he wished he had prioritized funding the policy or repaying at least part of the loans, because at least he would have been able to turn to his LASER Fund for tax-free income after the loss of the business.

BEST LAID PLANS

Prudent business planning calls for mitigating all kinds of possible risks, but often the premature loss of a critical business leader is something businesses don't plan for. When managed properly, The LASER Fund can help companies create valuable exit strategies—strategies that can not only help the business move forward, but also provide much-needed relief for those left behind.

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Life's Emergencies

When the Olsons were in their 70s, they had set aside a good amount for retirement, mostly in taxed-as-earned accounts. After learning about The LASER Fund, they started a series of strategic roll-outs (as explained in Section I, Chapter 14) to move money from those accounts to a LASER Fund. They wanted to diversify their portfolio and enjoy greater safety and tax-free advantages.

Over time, their initial $500,000 premium bucket accumulated a cash value of $1.6 million. For several years, the Olsons took out a modest $30,000 a year to supplement their retirement income (they have always been a frugal couple).

Now in their 90s, health challenges have necessitated their move to assisted and full-time care facilities. Their LASER Fund has gone from providing retirement income, to serving as a robust emergency fund capable of covering the costs of the care they require.

For the Olson children, now raising their own children and grandchildren, their parents' LASER Fund has been invaluable. Not only has the money made the best care possible for their parents, but it has also alleviated the otherwise significant financial burden they would be struggling to bear.

The Olsons simply borrow from their policy to pay for their costs each month. Because LASER Fund loans do not have to be repaid during the life of the policy, the loan balance will simply be deducted from the death benefit when they pass away. In all, their LASER Fund will have blessed their lives in many ways—from retirement income to an emergency fund, and finally an income-tax-free death benefit for their loved ones.

IN TIMES OF NEED

There's not one of us that hasn't experienced life's unpredictability. Whether it's an injury, an illness, a job loss, or a friend or loved one in need, The LASER Fund can be a valuable reservoir, supplying the means to manage unexpected financial challenges.

The LASER Fund's liquidity is key—with the ability to borrow money from the policy with an easy transfer, you're empowered to respond relatively quickly in times of need. Its tax advantages are also critical. With many other types of traditional vehicles, you may pay taxes and even penalties for early withdrawal when taking out money for an emergency. With The LASER Fund, the money you borrow from the policy is tax-free.

And, as explained in Section I, Chapter 7, the money in your policy continues to grow even when you take out a loan. Let's say your policy is averaging 7% interest, and you're being charged 5% interest on the loan. So between what your money is averaging, 7%, and what you're being charged for the loan, 5%, you're still averaging a 2% spread, depending on costs.

If you decide to never repay the loan, the balance simply goes against the death benefit upon your passing. If you choose to repay the loan, then your policy's cash value can grow even more. The LASER Fund can give you peace of mind knowing that no matter how difficult life may get, your finances won't have to be difficult.

HELPING OTHERS

The Lees opened their LASER Fund primarily for wealth transfer. Between good pensions and Social Security, they knew their retirement income would be covered. They wanted to put something in place that

would ensure their children would receive a sizable inheritance upon their passing, income-tax-free.

They are in their 70s now, and they have been able to stick to their plan, relying on other sources of income for their retirement needs. There have been times, however, when they have dipped into their policy—times when they have been so glad to have it as a resource.

Over the years, some of their family members fell on hard times. As a tight-knit group, the Lees wanted to help, so they borrowed money from their policy to lend to loved ones. As those family members paid them back, they put the money right back into the policy.

Today their LASER Fund is growing steadily, and they are grateful to have been in a position to help loved ones get through rough times.

EMERGENCY HOME REPAIRS

With their children grown and a while to go before retirement, the DeWitts were ready to get serious about planning for retirement. Working with their financial professional, they designed a LASER Fund policy with a $200,000 premium bucket and began funding it with about $40,000 a year. After their fourth year of funding, they needed to do some emergency repairs on their home.

Rather than go through the hassle of qualifying for a home equity loan (with fees and required repayments), they turned to their LASER Fund. They borrowed $60,000, tax-free—grateful for the liquidity and tax-advantaged access to the money when they needed it.

Once the repairs and renovation were complete, the DeWitts decided they would not repay the loan. It wasn't essential, and while it would impact the policy performance slightly, it was better for their budget to leave the policy about 70% funded.

Within a few years, they received an unexpected lump sum inheritance of $70,000. They wanted to put the money to work in a safe, tax-advantaged environment, and they were thrilled to have the perfect place for it—their LASER Fund. They used the $70,000 to repay their policy loan. Today, their policy continues to grow, and they are looking forward to tax-free retirement income from the LASER Fund, along with an income-tax-free death benefit for their family when they pass away.

ESTATE PLANNING TURNS TO LIFE-SAVING HEALTH CARE

In Section II, Chapter 7, we introduced Bill Zimmerman (his real name), a longtime financial professional who about ten years ago, utilized a LASER Fund to fund a buy/sell agreement between his company and his employees. Having grown a successful business, Bill had also generated a high personal net worth. Between the value of his company, his real estate assets (a family home and a couple rental units), his brokerage account, IRA, 401(k), and cash, one might assume his estate plan was in a good place.

But Bill's financial education, training, and knowledge told him that his estate plan had two challenges. First, he understood the difference between theoretical paper losses and actual cash losses. With the major market corrections of 2003 and 2008, he knew that even though stocks come back over the long run, the market can require a multiyear correction.

He knew that if you don't sell your stocks when the market is down, you have a theoretical paper loss, but you still have your shares. If you sell when the market is down, you realize an actual cash loss. This is why it is important to have at least three to six months' worth of cash for emergencies. It's also why if you're anticipating funding a big expenditure with money tied up in stocks, it's critical to liquidate those stocks well in advance. Otherwise, the market may drop when you have to sell, and you will be stuck realizing an actual cash loss.

Bill decided that he did not want to be subject to the whims and limitations of the market; he wanted to allocate $500,000 to a cash reserve account that could transfer to his family upon his passing.

He understood, however, that almost every traditional vehicle for cash reserves that are risk-free, liquid, and safe have their limitations: they pay little or no interest and are taxed as ordinary income. This is why Bill wanted a LASER Fund.

He appreciated the safety of a 0% floor in the case of a downturn in the market, as well as the safety of working with reputable life insurance companies that have never defaulted on this type of account. He knew that the rate of return was likely to be reasonable, averaging around 7%, and he loved the tax-deferred growth. He liked knowing his policy provided liquidity, with money accessible in a few days with a simple phone

call or transfer request. And he was relieved it could blossom and pass on to his family as an income-tax-free death benefit.

Now, Bill already had ample life insurance to provide funding for the buy/sell agreement in his employee stock program. It could be argued that he didn't need any more.

After considering all of his alternatives, Bill decided to purchase a relatively small policy, channeling that $500,000 into his LASER Fund over the next five years. In it, he had liquidity, with money available for emergencies, earning a good rate of return, providing an eventual income-tax-free death benefit to his family, instead of going to the government in taxes.

A year and a half after he started this policy, Bill was diagnosed with stage 4 throat cancer and given a 50% chance of survival. He remembered it had a provision for critical illness: the policy could advance a percentage of the death benefit to help cover costs of a severe health crisis.

He had funded the policy with just $150,000 at this point, yet the company assured him he could collect $540,000 in advance, and still have a $400,000 policy with $40,000 in cash value. He used the money to provide for round-the-clock care, providing much-needed peace of mind for him and his wife to focus on his battle against the disease.

Talk about unintended consequences. All Bill wanted was a safe place to put some of his money he wanted to transfer to his family. What he got was a lot more by implementing a LASER Fund.

By the way, Bill beat the cancer. His LASER Fund continues to grow tax-deferred, and it will transfer to his family income-tax-free when he passes away, which thanks to his brave recovery, won't be any time soon.

WHAT CAN GO WRONG

The Deans were a frugal couple in their 50s. With retirement around the corner, they opened a modest LASER Fund with an $80,000 premium bucket, putting about $600 a month into the policy. About a year-and-a-half into their contribution phase, Paul Deans decided to make a change, pursuing a new career as a financial professional.

With the temporary cut he would take in pay as he built his new business, they needed emergency money to replace his income. They were about to borrow money from their policy tax-free, when Paul became enamored with the mutual funds he was starting to sell his clients. He was convinced he could do better by moving his money from his LASER Fund into mutual funds, so the Deans decided to cancel their policy, pay the surrender charges, and transition their money into the at-risk, taxed-as-earned mutual fund.

A few years later, Paul mentioned that his job venture did not pan out, and now, even closer to retirement, they wished they had left their LASER Fund in place. He expressed regret over pursuing a short-term gain rather than holding to financial discipline and a long-term perspective.

FOR ALL TYPES OF EMERGENCIES

Unfortunately the Deans missed out on what so many other families have benefited from—The LASER Fund's flexibility and tax-free access to money. LASER Funds are typically created for the income-tax-free death benefit, with additional objectives like retirement income or estate planning. But for many, when life's unseen setbacks strike, The LASER Fund provides critical money for covering emergency expenses, providing for health care, and helping others.

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Estate Planning

When Gerald and Jean Schwartz started their LASER Fund, they did not have a lot of extra money to set aside. Their policy was structured so they could put in smaller amounts over a longer period of time, much like the "Starting Younger" example in Section I, Chapter 9.

Over the years, they dutifully socked away money whenever they could. What began as a modest policy grew to a significant amount of money over a few decades. As they neared retirement, Gerald and Jean began to do the things they had always dreamed of, borrowing money from their policy to travel and make memories with their children and grandchildren. They could not wait for retirement—they had so many things they wanted to do during their golden years.

Those years were cut short, however, when Jean suffered a heart attack. To honor his wife's legacy, Gerald used the death benefit from her passing to start another LASER Fund. He structured this policy as part of a trust that called for equal opportunity versus equal distribution, outlining specific rules of governance for how Gerald's children and grandchildren could access the money for worthwhile pursuits like education and religious missions.

Gerald eventually married again, hoping to lessen the loneliness that had seeped in after Jean's passing. The family grew alarmed, however, when the second wife was frustrated that she could not get to the money in the trust. The second wife eventually moved on, leaving Gerald grateful that the trust, with its rules and guidelines in place, kept the money protected for his children and grandchildren. Gerald lived for a few more years, making the most of his time with his family.

Upon his passing, his children were surprised to learn they would receive more than $600,000 in an income-tax-free death benefit. Their humble parents had not only taught them valuable life lessons, but the Schwartz's financial discipline had blessed their posterity's lives through the family trust, and now again, through the gift of the death benefit.

PLANNING WISELY

As discussed in Section II, Chapter 1, there is a difference between traditional estate planning, which often relies on an equal distribution model, and the approach we recommend, an equal opportunity system. With equal distribution, while the parents are alive, the children and grandchildren often clamor for equal amounts of money, or cars, or vacations, doled out freely, without expectations or responsibility. And after the parents pass away, it's usually a simple formula: take the number of kids and divide that into the net worth, then divvy it out.

There are times when this calls for the successor trustee (often the oldest child) to liquidate assets in order to carve it all up. But this can be killing the goose laying the golden egg. If it's a family business or real estate holdings, suddenly the family is forced to sell it off—even if it may not be the best time to sell—just to satisfy the demands of the estate plans.

Instead, it can be more prudent to incorporate principles of equal opportunity into your estate planning. This way, while the parents are alive, the money in the family's Legacy Bank—in a LASER Fund policy, for example—is available to those who comply with the family's rules of governance.

Say, for example, you had a LASER Fund from which your grandchildren could borrow money for education. That "equal opportunity" would be

there for all of your grandchildren. But it's not without accountability and responsibility. Your rules of governance may require them to save half of their tuition, which you would match with money from your LASER Fund. Or it may call for the loan to be repaid back into the policy, at a nominal interest rate.

Upon your passing, your Equal Opportunity Trust may require family members receiving part of your income-tax-free death benefit to meet certain requirements, or use part of the money to open another LASER Fund policy for their own children and grandchildren. This way you can perpetuate the family's Legacy Bank and Values & Vision for generations to come.

However it's structured and utilized, The LASER Fund can be a valuable, flexible part of your estate planning.

TAX-ADVANTAGED PLANNING

Stan McDowell is in his early 60s, actively engaged in his career, the community, and family life. Having planned well for the future, he has several financial strategies in place that will provide for a comfortable retirement in the next few years.

A few years ago, Stan wanted to explore his estate planning options, with the goal to set aside money that he would not touch during retirement—he wanted it exclusively for wealth transfer to his kids when he passes away. After looking at a number of strategies, he opened a LASER Fund. He liked the tax-deferred growth, the safety from losses due to downturns in the market, and above all, the income-tax-free death benefit.

He created a policy with a $300,000 premium bucket, which currently would provide more than $700,000 in income-tax-free death benefit for his family should he pass away prematurely. If he lives to age 85 or more (which with his good health and life expectancy he should), his family will receive more than $1 million in income-tax-free death benefit. That is considerably more than they would have received if he had put it in a traditional account, and he is grateful to have found a solution that can blossom in value and bless his family when he is no longer around to provide for them himself.

WELL-BEING FOR THE ENTIRE FAMILY

The Romanos had built a health and wellness practice for over forty years and were getting ready to retire when they learned about The LASER Fund. Over the next five years, they created a total of four policies, repositioning assets that had been in traditional low-interest savings accounts, IRAs and 401(k)s. They were glad to see this money now safe, liquid, growing tax-deferred with predictable rates of return, and positioned to transfer to their children income-tax-free upon their passing.

In the years since, their policies have grown enough that they could currently take as much as $200,000 in tax-free retirement income if they chose to. They do have other sources of income, though, so they are content to let their policies continue to grow for an eventual wealth transfer. Since their death benefits are already double the amount they originally put into their LASER Funds, this has proven an optimal estate planning strategy for the Romanos.

Based on the principles discussed in Section II, Chapter I, in addition to cash, the Romanos are also intent on transferring their KASH to their posterity. They have created a KASH Blueprint, which has guided the establishment of their Equal Opportunity Trust, a revocable living trust with rules of governance for equal opportunity, rather than equal distribution.

Now their children and grandchildren have specific parameters to ensure that those who want to access the money in their family's Legacy Bank will be able to do so for things like college, religious and humanitarian missions, weddings, business ventures, and more.

By utilizing The LASER Fund, outlining their KASH Blueprint, and establishing an Equal Opportunity Trust, the Romanos will pass along far more, in every aspect of life, than they ever thought possible.

WHAT CAN GO WRONG

With more than $15 million in net worth, the Ramseys were confident in their financial future. They had never considered acquiring life insurance, as they assumed their sizable estate would be more than enough to transfer their wealth to their children. That was, however, until they learned more about estate taxes.

At the time, estate taxes for estates valued at over $675,000 ranged from 37% to 55%—due within nine months of the second parent's passing. When they considered the impact that would have on their family—likely necessitating the liquidation of $6 million in assets to cover 55% in estate taxes—they decided a policy that could cover the eventual cost of estate taxes might be a good idea after all.

They designed a $6 million second-to-die policy that they would minimum fund—this policy was created to cover the eventual cost of the estate taxes. They also opened a LASER Fund with a $3 million death benefit on Rex and another with a $2 million death benefit on Nancy. They planned on maximum funding these policies, looking forward not only to the income-tax-free death benefit these policies would pass on to their children, but also the safety and tax-deferred growth.

Within a couple years, Nancy contracted a terminal illness. With a shorter life expectancy, the Ramseys adjusted her policy to minimum fund it, so it could provide the most death benefit in the shortest amount of time possible. Nancy passed away, and her $2 million income-tax-free death benefit passed on to her children. (Rex had named them the beneficiaries, as he did not need the money.) Within two years, the children had squandered that $2 million death benefit. They assumed it would not be a problem—their family estate had plenty more where that came from.

Rex soon experienced health complications himself. He named one of his sons successor trustee so he could step back from the day-to-day management of the estate. That son let the $6 million policy designed to cover estate taxes lapse. He also let his father's LASER Fund lapse. When Rex passed away unexpectedly from an accident, the children found themselves with no death benefit to help them pay for estate taxes, let alone receive the inheritance they had anticipated.

A PRUDENT PLAN

When funded and structured properly, The LASER Fund can provide the means for an income-tax-free transfer of your estate's wealth to your children and grandchildren. When combined with a KASH Blueprint and Rules of Governance, it can also become a generator for future generations to successfully perpetuate your family's legacy of Authentic Wealth.

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Real Estate

The Meachams had long believed in IRAs and 401(k)s. That is, until 2008 when they nearly lost everything in their traditional accounts. They were frustrated and did not know what else to do for retirement. They learned about The LASER Fund, but were skeptical—didn't everyone say insurance isn't the answer?

They investigated the strategies further and decided to give The LASER Fund a try. Over the next six years, they maximum funded their policy and then did something they never thought possible: bought a retirement home for cash. They borrowed the money from their policy and paid for it, completely.

They decided they would rather act as their own bank than give interest to yet another institution. So the Meachams are paying "themselves" back, making regular loan payments to the policy faithfully just as they would a mortgage company. In a couple years when they have paid off that loan, they will begin to take retirement income from their LASER Fund.

Coming off the losses of 2008, they marvel at the difference in how they feel: safe from the whims of the market, confident and in control of their future. They are grateful they dared to take a look at insurance, because it empowered them to make real estate decisions they could not have otherwise. And as they look ahead to retirement, they realize insurance is an effective answer.

REAL ESTATE STRATEGIES

Real estate is a core part of many Americans' financial portfolios. Whether it's a condo, a large home, or a string of commercial properties, most of us have ownership of some type of real estate.

However, as a financial vehicle, real estate can be fickle. It can provide equity and security during good economic times, but it can also prove to be a liability and loss when the market turns south.

By combining The LASER Fund with prudent real estate strategies, however, many of those liabilities can be mitigated, and really profound things can happen.

GETTING REAL

Spacious, in a picturesque location, the Russells loved their home. They had raised their family there and planned on staying in the home as they approached retirement. As we met with them, we helped them reframe how they saw the value of their house. Now that they were empty nesters, they did not need such a large house. If they downsized, they would have even more money to set aside for retirement.

They caught on to the idea, realizing if they sold their home for a $600,000 profit, they could turn around, buy a smaller retirement home for $300,000 and put the other $300,000 into a LASER Fund, where it could compound safely, with liquidity, predictable rates of return, and tax advantages just waiting for them in retirement. They one-upped the original plan, deciding instead to pay just $50,000 down on their retirement home so they could set aside another $250,000 into their LASER Fund.

They sold their big home, bought a beautiful retirement home, and transferred the money into their LASER Fund over the next five years.

Now, they have more than enough to make the mortgage payments (the mortgage is 4.5%, and their LASER Fund has been earning 7% to 10% over the past few years). In fewer than ten years, their policy has now grown to the point where they are about $200,000 ahead of where they would have been had they paid cash for their new house and invested just the $300,000 net equity out of their sale. The Russells successfully leveraged real estate to create a LASER Fund that will not only provide a valuable income-tax-free death benefit for their children and grandchildren someday, but that will also provide retirement income throughout their golden years.

LOCATION, LOCATION, LOCATION

When the Heaths first moved to their home in Northern California, it was in a lovely, middle-class area. Over the years they added to the home, made some renovations, and enjoyed raising their family in the growing community. With several children and plenty of expenses, however, they had not been able to set aside much for retirement.

By the time the kids had grown—many of them living in other states—they wondered if it wouldn't be a good idea to sell their home. Their area had become one of the most sought-after locations in California, with home values skyrocketing. But they hesitated over capital gains taxes. Would it just be better to sit on the house and try to figure out a Plan B for retirement?

Then they did the math, which was enough to convince them. They sold their home for $4.3 million and paid capital gains taxes of just over $1 million. They built a large, beautiful home near children and grandchildren and had $2.4 million left to set aside.

By the time The LASER Fund is maximum-funded and they begin taking retirement income, they will be able to take about $200,000 a year, tax-free. On top of it all, when the Heaths pass away, their children will receive a sizable income-tax-free death benefit. They cannot believe the difference it made for their retirement to combine the power of real estate and The LASER Fund.

CLOSING THE GAP

The Sheltons could have found themselves in a bind. They were about to close on their new home, one they had fallen in love with and planned to retire in within the next ten years or so, but their current house was still in escrow. With at least a month's gap between the closings on the two homes, they would have been at risk of forfeiting the purchase of the new house.

Fortunately, the Sheltons had two LASER Funds they could turn to—one with a $450,000 premium bucket, and the other with about a $200,000 premium bucket. They borrowed from both policies and used that tax-free access to completely pay for their new house, in cash.

About a month after moving in, the sale of their previous home was finalized, and they put the money from the sale of that home right back into their policies to repay the loans.

Today, they are living in their retirement home which they own with no mortgage, and their policies continue to grow. In a few years, they'll begin to take tax-free retirement income from their LASER Funds, and enjoy financial peace of mind during their golden years.

LANDING A GOOD DEAL

Alicia Derrick was selling an office building she owned, implementing a reverse 1031 exchange (which provides unique tax advantages). She was also poised to buy a parcel of land, the purchase of which was urgent. Rather than stress about trying to get financing in a relatively short amount of time, she borrowed money from her LASER Funds to cover the purchase of the land.

She had $1.3 million between her two LASER Funds. She took out a total of about $400,000, tax-free, bought the land right away, and now she has the luxury of time to sell the office building in the coming months.

While she does not have to, Alicia is planning to repay the loans with money she gets from the sale of the office building. She has several years before retirement, during which time her policies can accumulate even more value. Eventually she plans on taking tax-free retirement income from her policies, and in the meantime, she is grateful for the flexibility

her LASER Funds have given her to manage her real estate investments. Imagine if her money were in a highly appreciated stock, she would never sell the stock to buy the property because she would pay significant capital gains. Or if her money were in IRAs or 401(k)s, she would never take out that much money in one year because of loan limits and taxes. Her LASER Fund is extremely flexible, and gave her the ability to get the money when she needed it.

CHANGING THEIR FUTURE

The Heatons owned a small business, working hard every day to provide for their family. With an eye toward the future, they were disciplined savers. With safety as a priority, they were leery of losing money in the stock market, so they had been setting aside money largely in traditional bank accounts, earning very modest interest.

They worried, though. Between their savings and Social Security, they would not have enough during retirement to make ends meet. In the short-term, if Zach Heaton were to die prematurely, the family business would likely not survive. They wanted to find a better way to secure their financial situation now—and down the road.

One of their greatest assets was a piece of real estate, but they knew the property risked losing value if the real estate market turned. They decided to reposition and transfer the value of the bank accounts and the real estate from one asset class to another, and they opened a LASER Fund. Sure enough, the market did drop in their area, and they were grateful they had taken action, otherwise they would have lost the value of the property.

Now, over a decade later, their LASER Fund has over $1 million in cash value. Their money continues to grow tax-deferred in the policy, and they have the reassurance of an income-tax-free death benefit of over $2 million. When they retire, they will be able to access annual tax-free income of over $78,000. If they had left their money in their traditional accounts, it would have yielded just over $15,000 in annual retirement income. Things look much brighter for the Heatons, and they love the peace of mind that brings.

WHAT CAN GO WRONG

As mentioned throughout this book, financial self-discipline is critical for LASER Fund success. The lack of that self-discipline can prove counterproductive, as in this example of a client who wanted to use the LASER Fund for real estate purposes.

The Hafens had been contemplating making extra payments to the mortgage company to pay off their home within fifteen years. They decided, instead, to put those dollars into their LASER Fund to maximum fund their policy sooner (in five years rather than the seven or eight they had been planning).

This way those extra dollars could go to work earning tax-deferred interest in the policy, rather than just paying down a mortgage. They liked the idea of eventually having enough to pay off their mortgage if they chose to borrow it out of the policy, but thinking they would likely leave the money in their policy where it would be liquid, safe from downturns in the real estate market, and able to continue earning a rate of return.

Things were moving along, with the extra payments they were funneling into their LASER Fund on target to have enough to pay off their mortgage in twelve years (setting aside the same amount that a fifteen-year mortgage would require). Then they decided to take some money out for a family vacation with the kids. Then they decided to purchase an RV, so they pulled more money from their policy. While they were at it, they decided to scoop a large chunk of money out to finish the basement of their home.

Within fifteen years, they were frustrated they did not meet their goal of having enough money in their policy to pay off their mortgage—and their policy was still not maximum-funded. They had depleted their policy to consume, rather than funding their policy to save. They ended up cashing out what was left in their policy. Treating their policy like an ATM not only led to disappointment, but it also robbed them of the LASER Fund's liquidity, safety, rate of return, and tax advantages that could have helped sustain them throughout their retirement years.

BRINGING IT HOME

When looking at retirement, you can blend real estate and The LASER Fund in multiple ways to make the most of your future. If you're looking to downsize, selling valuable real estate can provide the means to set aside a good amount of money for retirement—money that might not otherwise be available in your financial situation. Conversely, if your LASER Fund has enough value, you can leverage its liquidity to take out a loan and purchase real estate outright. However you approach it, combining strategies can give you more momentum toward a brighter future.

11

Strategic Rollouts

The time had come. George Witt was now age 70½, which meant he would have to begin taking Required Minimum Distributions on his IRAs or face IRS penalties. But he did not need the retirement income yet. And he did not like the look of how taxes would take a toll on those minimum withdrawals. He was worried this approach would eventually drain his nest egg, perhaps before he passed on.

He had already survived one of the worst decades in America's financial history, where his IRAs suffered big losses, twice. In 2000 he had $600,000 in his traditional accounts. By 2010, his battle-worn accounts were just barely recovering, returning to the original $600,000 balance. He wanted safety. And he wanted better tax advantages.

George decided to do a strategic rollout, get his taxes over and done with, and transition his money into a LASER Fund that could provide greater safety, predictable rates of return, and tax-free income.

Over the next five years, he pulled $150,000 a year from his IRA, paid taxes, and moved it to a LASER Fund. By the end of those five years, he had

paid all of his taxes and maximum funded his policy. His money was now safe from the volatility of the market. He was enjoying predictable rates of return of 7% to 10%. He could take an annual tax-free income of more than $50,000 from his policy—which was over three times the $16,000 he would have been taking in after-tax annual income from his IRA).

George's financial portfolio was now providing so much more than he needed that he was able to create a family Legacy Bank, which his children and grandchildren could access for endeavors like school, weddings, and business ventures. In addition to it all, he now had an income-tax-free way to transfer his wealth to his children through The LASER Fund's death benefit.

THE ADVANTAGE OF STRATEGIC ROLLOUTS

As mentioned in Section I, taxes are a necessary part of a thriving democracy. We're proponents of everyone paying their fair share. But we're not advocates of paying more than is necessary, and it has been argued that IRAs and 401(k)s were set up with Uncle Sam's blessing for a reason. From penalties on early withdrawals to RMDs and penalties for late withdrawal, the IRS can get exactly what it wants from these traditional accounts.

That said, IRAs and 401(k)s can have a worthwhile place in your financial portfolio. It is simply wise to look at times when it's prudent to move money from traditional accounts and into a LASER Fund.

This empowers you to get your taxes over and done with on money in those accounts, especially if you have room in your current marginal tax bracket. To illustrate, let's say you're married filing jointly, and your taxable income this year is $325,000. According to current tax rates, you're in a marginal tax bracket of 32%. Let's say you want to move money from your 401(k) to a LASER Fund in a strategic rollout. The next marginal tax bracket starts at $400,001, so you essentially have "room" to move $75,000 out of your 401(k) and still remain in your marginal tax bracket of 32%.

Getting taxes over and done with could be compared to pre-paid legal, where you're paying in advance for something impending down

the road. You're essentially pre-paying taxes in a bracket that you will probably never see lower again in the future.

As discussed in Section I, Chapter 14, when that is the case, strategic rollouts can provide an effective means to get taxes over and done with, and to reposition part or all of your money in vehicles like The LASER Fund that can provide greater liquidity, safety, predictable rates of return, and tax advantages.

ROLLIN' ON

Their IRAs were burgeoning. By the time the Moores were ready to retire, everything they had set aside, from pensions to 401(k)s and IRAs, had rolled over into overstuffed IRAs with over $4 million in their tax-deferred accounts. They were in the highest tax bracket, and the thought of eventually taking RMDs of about $200,000 a year and getting hit with about 40% in taxes felt like a painful way to access retirement income.

They learned about The LASER Fund from a family member who had enjoyed all the liquidity, safety, predictable rates of return, and tax advantages, and they wanted to consider their options. They decided to do a strategic rollout, get the taxes over with, and move their money where they could get better safety and tax-free access.

They are in the process now of transitioning that money, and in another five years or so they will have maximum funded a couple policies. In all, they will save over $1 million in taxes using this strategy rather than keeping their money in the IRAs and withdrawing RMDs.

Their money is growing tax-deferred in the policy. They will be able to take tax-free retirement income from their LASER Fund—several hundred thousand dollars a year if they would like. And when they pass away, their children will receive a multimillion-dollar income-tax-free death benefit.

ESCAPING THE TAX TRAP

The Barlows had been saving for retirement religiously, tucking away the maximum amount each year in Ray's IRAs and Sarah's 401(k). They

were looking forward to reaping the rewards of their financial diligence—until they realized how much Uncle Sam was looking forward to it, as well.

Upon closer analysis, they discovered if they continued making annual maximum contributions to their IRAs and 401(k), they would accrue about $750,000 in their tax-deferred accounts by the time they retired. When they eventually took withdrawals, they would likely pay at least a third of that in taxes, or about $250,000. If they buckled down and strung out their withdrawals, taking RMDs to their full life expectancy, their at-retirement tax bill could rise as high as half a million dollars.

The Barlows wanted to step away, far away, from the jaws of that tax trap and reduce their at-retirement tax bill. (The concept of the at-retirement tax bill is one we introduced in Section I, Chapter 2—making sure you put yourself in as favorable a tax situation as possible during retirement. You want to avoid being stuck with a majority of tax-deferred financial vehicles that can take a toll on your income during retirement.)

They performed a strategic rollout over the next seven years, repositioning their money from their IRAs and 401(k) into two LASER Funds and getting their taxes on that money over and done with. They simultaneously executed tax-saving strategies to mitigate their overall tax bill.

For the past twenty years now, their LASER Funds have been growing protected from downturns in the market, earning superior rates of return. They are looking at tax-free retirement income that is far greater than what they would have had with their taxed-on-the-harvest traditional accounts. They also have an income-tax-free way to transfer wealth to their children with the death benefit on their policies. This approach has created a more abundant future than they could have ever imagined.

WHAT CAN GO WRONG

With about five years to go before retirement, the Kramers wanted to minimize their at-retirement tax bill. They began a strategic rollout, getting their taxes over and done with and moving their money from their IRAs and 401(k)s to a LASER Fund.

Five years later, their policy was fully funded, and they began to take tax-free retirement income. Everything was humming along until they talked with a financial advisor who was not familiar with The LASER Fund. He convinced them they were missing out, not having their money in the market.

They decided to cancel their policy and move their money into a variable annuity. This was at the beginning of 2008. By the end of that year, their annuity had lost 40% of its value. Their son, who has a LASER Fund, has shared that the Kramers have regretted their decision ever since, watching his policy grow tax-deferred steadily and safely, protected from losses due to downturns in the market.

YOUR FUTURE, NOT UNCLE SAM'S

Strategic rollouts are an effective way to diversify your **at-retirement** income. You are deciding when to get the taxes over with, and you are deciding to position your money in a LASER Fund where you can enjoy tax-free retirement income and an income-tax-free death benefit for your beneficiaries. You are also putting your money where the market can't hurt it. Indexing protects your money from losses due to volatility in the market, and predictable rates of return can give you the reassurance of gauging how much growth you can expect, on average. These knowns can provide greater peace of mind as you approach your future.

12

Tax Reduction

They had just turned age 60 when they started to seriously analyze their retirement plans. The Garners had spent their careers working hard, earning a moderate income. They anticipated they would have enough for retirement between their pensions and other traditional accounts (including 401[k]s, 403[b]s, and TSAs—with a total value of $250,000). They had just rolled these supplemental accounts over into an IRA, and were wondering whether they should begin withdrawing money from the IRA during their 60s, or wait until later. At the advice of an accountant, they were leaning toward waiting until their 70s, thus deferring and delaying the inevitable tax. They met with us to look more closely at overall, long-term tax-minimization strategies and immediately saw the fallacy in continued tax-deferral.

If they waited until age 70½ to start taking RMDs, they could end up sending as much as $250,000 in taxes to Uncle Sam over the course of their retirement years (because they would be "stretching the IRA out" to their life expectancy). This was shocking, as they only had $250,000 total in their IRA at the time. They couldn't afford to give Uncle Sam that much—and they wanted a better quality of life for themselves.

They ended up deciding to do a strategic rollout. Over the next five years, they moved their money from their IRAs, got their taxes over with, and transferred their money into a LASER Fund. By doing so, they ended up paying about $60,000 in total taxes on that $250,000—which is over four times less than they would have if they had kept their money in the IRAs.

Now their money continues to grow in their LASER Fund, where it is safe from downturns in the market and can provide tax-free retirement income from this point forward.

TAX REDUCTION

One of the best ways to make the most out of retirement income is make sure *you* get the most out of your retirement income, rather than Uncle Sam. That's why tax reduction tends to be one of the primary reasons people choose LASER Funds.

If you're putting money into a LASER Fund that has already been taxed (such as from regular income, a money market, savings account, the sale of a property, etc.), once inside your LASER Fund, your money can grow tax-deferred, and you can access it tax-free and transfer it income-tax-free to your heirs upon your passing.

If you're looking to put money into your LASER Fund from tax-deferred accounts, you will likely want to do a strategic rollout (see more on strategic rollout in Section I, Chapter 14 and Section II, Chapter 11). This way you can minimize the impact of taxes—and adhere to TAMRA—while you transition your money into a LASER Fund.

Now keep in mind, it's not imperative to move every cent you have in tax-deferred accounts to a LASER Fund. As we discussed in Section I, Chapter 2, it is just as important to diversify your "tax portfolio" as it is to diversify your financial portfolio. Depending on age, tax brackets, health, and other factors, there may be compelling reasons to keep part or all of your money in tax-deferred accounts. If so, there may be options for how to manage the money within those accounts that can give you better liquidity, safety, predictable rates of return, and tax advantages. It's important to work with an experienced financial professional to weigh all of your options and choose solutions that are best for you.

FROM HIGH TO LOW

Steve and Leslie Franks had been in the highest tax bracket for years. Now in their 60s, they were looking ahead, and the last thing they wanted to do was split their future retirement income with Uncle Sam any more than they had to. Having suffered the ravages of the Great Recession, they were also eager to enjoy better predictability without market risk—and they wanted to ensure their money would pass on income-tax-free to their children through a death benefit.

They made a plan for a strategic rollout, taking into account their unique tax implications. At the time, they were living in a state that did not have state income tax—but they were planning on eventually moving to a state that would have exorbitant state income taxes. Furthermore, federal tax brackets were set to increase soon. The resulting strategic rollout was aggressive, moving as much as nearly $2 million from traditional accounts and paying over $600,000 in taxes in a single year. While that may sound high, this strategy provided for considerable tax savings as compared to if they had waited to pay taxes.

In the end, they transitioned their money into four LASER Fund policies—two for Steve and two for Leslie—putting a total of $4 million into the policies. To further diversify their portfolios, they worked with two different insurance companies and chose different indexing strategies for each policy.

Fast forward ten years, and their money in their policies has grown to over $7 million. Because their taxes are over and done with, as they start to take retirement income now (just under $200,000 a year), they are doing so tax-free. With their tax-free income, their mortgage and other deductions, they are effectively in a 0% tax bracket now.

Going from paying the most in taxes to the least, the Franks are grateful to be looking forward to an abundant retirement, one where taxes can no longer impact their income, and where their heirs will receive an inheritance income-tax-free, through the death benefit on their policies.

THAT'S ENOUGH, UNCLE SAM

With just a few years left before retirement, Jim Woodrow had a diverse retirement portfolio awaiting him. But there was something nagging at him—one of his retirement accounts was an IRA, with $100,000. While he would not necessarily need that IRA for primary retirement income, he also did not want to pay more in taxes than necessary.

He decided to do a strategic rollout over the next five years, getting the taxes over with, and maximum funding a LASER Fund.

He has since finished the rollout, and his policy has been earning nearly 8% interest per year. He has just started taking out a nominal amount, tax-free, to supplement his retirement income—about $10,000 a year. He is relieved to have the taxes over with, and glad to add that $100,000 going to work in a tax-deferred environment, providing tax-free supplemental income, with the opportunity to pass along a death benefit to his heirs.

A CPA – CONVINCED OF A BETTER PATH

As a CPA, Sydney Weston is meticulous about her finances. When she heard about The LASER Fund through a professional networking group, she, like many people learning about these strategies for the first time, was impressed ... but hesitant. She wondered if it could really provide benefits that IRAs and 401(k)s could not.

She examined details like IRS codes 7702 and 72(e). She explored the safety of entrusting her money to 100-year-plus insurance institutions and a 0% floor during market downturns. She weighed the living benefits, such as tax-free retirement income.

Her thorough analysis did not stop there. She enlisted the keen eyes of colleagues, including a chartered financial professional and tax attorney. These professionals confirmed that the IRS codes were employed to create exactly the tax-free retirement income that had been suggested; that the IRS codes 7702 and 72(e) would in fact give her tax-free benefits for life; and that the structured format of the LASER Fund could provide the safe, cost-effective, and tax-advantaged solution she was looking for.

She opened a LASER Fund, and now enjoys the confidence of tax-free income—even to age 100 and beyond—and an income-tax-free death benefit for her heirs when she passes on.

THE ARTISTRY OF PRUDENT PLANNING

With a successful career as self-employed entrepreneurs in the arts, the Carters realized they needed to get serious about setting money aside for retirement. They veered away from IRAs and chose a LASER Fund, because they understood the value of paying taxes on the seed rather than the harvest.

They put about $3,000 a month into their policy to maximum fund their policy, but they wanted to do more. They sold their large home and downsized to a beautiful retirement community, then used the $300,000 from the sale of their home (which was capital-gains-tax-free) to create a second LASER Fund.

Over the past ten years, their LASER Funds have given them greater financial flexibility to pursue their other passions, including serving religious and humanitarian missions and traveling to visit their children and grandchildren. They pay taxes only on their earned income from their art business, and the rest—about $30,000 a year—is tax-free income from their LASER Funds. Like many of our clients, they are enjoying a lifestyle that is more than double what is reflected in earned income on their tax returns—which is in perfect compliance with tax codes.

Not only are they enjoying a more abundant life now, but they have the reassurance of knowing they will pass along that abundance to their children upon their passing, through the income-tax-free death benefit on their policies.

WHAT CAN GO WRONG

The Smiths had $450,000 in taxed-as-earned accounts, and they were tired of getting hammered on taxes. As soon as they learned about The LASER Fund's tax-deferred growth, tax-free access to money, and income-tax-free death benefit, they were ready for a brighter tax future.

They repositioned their money and were enjoying the tax-deferred growth for several years when they met with a financial advisor who was not well-versed in LASER Funds. He insisted they would do better by pulling their money out and allowing him to put it to work in the market.

We cautioned them—canceling the policy would trigger a tax event on the money their policy had gained over the years. Their policy had been averaging about a 9% annual rate of return, and its cash value was now over $900,000. They were determined, however, and followed through with their plan. They were shocked when April 15 rolled around and they had to pay taxes on the growth—totaling about $150,000 in taxes.

If they had left their money in the policy, it could have continued to grow tax-deferred, provided tax-free access to money, and income-tax-free transfer of wealth to their children through the death benefit. Instead of a tax reduction, they experienced tax devastation.

MAXIMIZING YOUR FUTURE

While paying taxes is an important responsibility for all of us as Americans, by utilizing proven strategies, it is possible to get necessary taxes over and done with, and avoid paying unnecessary taxes. With The LASER Fund's tax advantages, you can give yourself the ultimate advantage during retirement—tax-free retirement income and income-tax-free wealth transfer to your heirs.

You can also enjoy greater liquidity, safety, and predictable rates of returns that can empower you to bring opportunities to your children and grandchildren, to give more to charity, and to pursue personal pastimes.

In all, whether your goals include accessing working capital, managing risk in business planning, protecting yourself with emergency funds, or reducing your taxes, The LASER Fund's versatility can help you maximize your future in multiple ways. In addition, The LASER Fund's income-tax-free death benefit provides a way to transfer your wealth to future generations.

As you combine these strategies for the Financial Dimension with tactics for your Intellectual and Foundational Dimensions (mentioned in Section II, Chapter 1), you can leave a lasting legacy for Authentic Wealth to future generations. We wish you all the best as you move forward, toward a brighter, more abundant future.