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July 2017

Professional Assistance = Time Management

"You have to live on 24 hours of time. Out of it you have to spin health, pleasure, money, content, respect and the evolution of your immortal soul. Its right use…is a matter of the highest urgency."

Arnold Bennett, "How to Live on 24 Hours a Day"

How much of our time is spent merely existing instead of living?

This was the question posed by Arnold Bennett in his 1910 book "On Living." Bennett, a novelist and magazine editor, concluded that the Industrial Revolution had resulted in a life so dominated by the rigidly structured demands of business and earning a living, that it left very little time for enjoying the supposed benefits of innovation and greater wealth. Sound familiar?

The Tyranny of the "Have-tos"

Here's a simple self-assessment of the time in your life. It can be done in your head, but there might be value in putting the answers on a sheet of paper or the electronic device of your choosing.

- Make a list of the **"have-tos"** in your life, i.e., the things you must do on a regular basis to keep yourself alive and well. Have-tos might include eating, sleeping, working, paying taxes, etc. Earning a living is likely your ultimate have-to, because what you earn determines what you eat, where you live, and how the other have-tos are addressed.
- Make another list of the **"ought-tos."** These are things you don't have to do, but know would be to your benefit if you did them. Ought-tos might be things like getting in shape, acquiring a new job skill, saving for retirement.
- If you can, think of your **"want-tos."** These are items that you'd like to develop or experience because, in the words of psychologist Abraham Maslow, you see them as part of your self-actualization, of becoming all you were meant to be. Maybe it's the work you'd do if money wasn't an issue, or your "bucket list" of experiences.
- Finally, make a list of **distractions** or **diversions**, things you do to relieve the stress of all the have-tos and ought-tos that get in the way of never getting around to the want-tos. It's going out with friends, watching the game on TV, hitting the nearby casino, or doing the Sunday crossword.

In This Issue…

If you're like many Americans, your assessment will show a time-consuming list of have-tos, a number of ought-tos that you're trying to address, and some distractions that give you just enough relief to keep you hoping you might, one day, find the time and resources for your want-tos.

You might also conclude you are wasting a lot of time. It's easy to look at your distractions and say, "If I didn't blow two hours watching Robin Williams' stand-up routines on YouTube, I could have…" and insert an item from your ought-to or want-to list.

But even if we eliminated all wasted time, most of us still couldn't get to our want-tos, and maybe not even all of our ought-tos. Here's why: There are only 24 hours in a day, and have-tos can be very demanding. Furthermore, the idea that we can be productive every waking moment is a myth; we need diversions. Experts say the typical employee works only three hours in an eight-hour shift; the rest is filled by distractions, like reading e-mails, gossiping with co-workers, etc. With greater discipline, you perhaps could rescue a few distracted hours, but not enough to satisfy the ought-tos and want-tos.

Successful time management is not about devoting more hours to more activity. Rather, it is primarily about becoming more efficient with our time, often by leveraging someone else's time and expertise.

A proven way to be more time-efficient is to get professional assistance, especially for help with your ought-tos. These professionals are individuals who are willing to make your ought-tos their have-tos. They add knowledge, assist in execution, and focus your efforts so that your ought-tos get done – in less time. But how many of us ***proactively*** use professionals for anything?

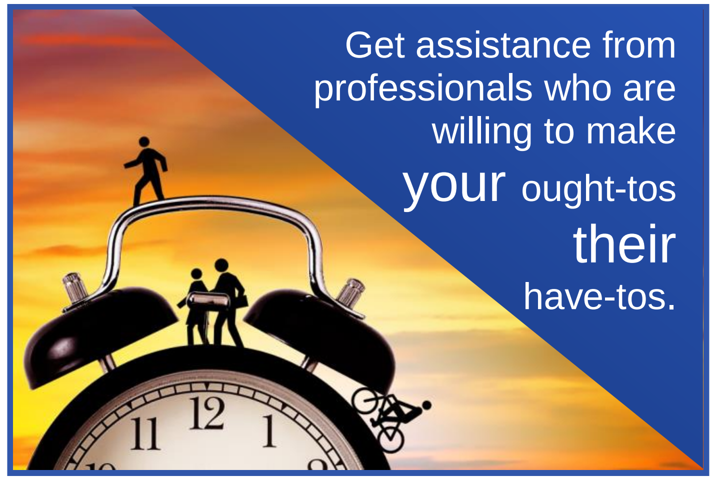
Benefits of Professional Assistance in Personal Finance

As an example, consider the ought-to of personal finances. Managing your financial affairs is a big ought-to; there is a lot to know, and a lot to manage. Unless you're part of that (very) small percentage of Americans who considers managing their finances a want-to, it can be hard to find the time and energy to do the job on your own. Yet if you don't have mastery over your finances, it dramatically lessens your chances of being able to pursue your want-tos – for lack of time and money. For most households, personal finance is an ought-to that begs for some specialized assistance. Done right, professional assistance can deliver substantial time-related efficiencies:

Transactional Efficiency: When financial professionals perform services (like tax return preparation or legal documentation) or provide products (like insurance and investments), their expertise ideally results in a more efficient and effective financial life for the consumer; things get done quickly and correctly. This frees up time not only today, but in the future; if it's done right the first time, it shouldn't have to be done again later.

Strategic Efficiency: Financial efficiency isn't just about transactions. It's also about getting them to fit together to accomplish your larger objectives. In a 2008 white paper, CFP Thomas Warschauer listed six aspects of personal finance that benefit from professional input:

- Emergency fund management
- Debt management
- Insurable risk reduction
- Investment risk control
- Goal assessment
- Tax and estate assessment



Financial professionals can integrate these disparate pieces into a cohesive whole by helping you decide on your priorities and determine the strategies you will use to achieve them.

Making Professional Assistance Work for You

In many ways, seeking assistance from a professional is similar to enlisting the services of an executive coach. A January 2009 *Harvard Business Review* article, "Ingredients of a Successful Coaching Relationship," identifies the critical factor for successful collaboration: **Is the individual highly-motivated to change?** If so, the *HBR* says there is a good chance coaching will be effective. Conversely, "Blamers, victims, and individuals with iron-clad belief systems don't change." Professional assistance is a waste of time if you're uncoachable.

Another key factor highlighted in the article was the necessity of good chemistry between the individual and the coach: "The right match is absolutely key to the success of a coaching experience. Without it, the trust required for optimal executive performance will not develop…Do not engage a coach on the basis of reputation or experience without making sure that the fit is right." To continue the sports metaphor, there are many game plans for personal finance. **You need to find the coach, or coaches, that can help you win the game you want to play.**

This Is All About Time

It's understandable that many interactions with financial professionals focus on money. As a result, consumers often miss the idea that effective financial management is ultimately time management; it gives you more time – and money – to pursue your want-tos, the things that are most important to you.

It is no exaggeration to say that most consumers under-utilize the services of financial professionals. They don't take advantage of the variety of efficiency "extras" many professionals offer, often on a complementary or discounted basis. It might be an app that aggregates and updates your accounts in real time, preferred access to other professionals, or just the wisdom that comes from years of seeing the "next big thing" come and go.

Time is a fixed element in life. You can't buy a longer day to get everything done, you can only be maximally efficient with today's minutes. So, when you consider the breadth of issues involved, and the accompanying details, making personal finance a do-it-yourself project seems incredibly inefficient.

If you are really motivated to change the way you spend your time, it may be time to get serious about professional assistance. ❖

Jocks, Docs and Disability Insurance

There still may be individual athletes who match the old stereotype of a dumb jock, but more and more, it is apparent that highly-skilled athletes have a far better sense of their occupational risks. In fact, you might say pro athletes have a doctor's appreciation of disability insurance.

NFL Prospects Protect Their Earning Potential

In its current collective bargaining agreement, the National Football League has a salary structure for rookies tied to a player's draft position – the earlier a player is selected, the higher the starting salary. For the top tier of college players, this slotting system creates some quirky economic incentives. The better they play in college, the higher their starting pay as a pro. But if past performance has already established they *will* be drafted, every additional game in college has a significant downside, because an injury could either drop their draft position, or in a worse-case scenario, end a lucrative career before it starts.

Take the case of Jake Butt, a tight end from the University of Michigan, who, in April 2017, was selected in the 5th round of the NFL draft by the Denver Broncos. Following his junior year, pro football talent evaluators saw Butt as a potential first-round draft choice if his skills continued to develop during his senior season. Butt met expectations, winning the Mackey Award as the best tight end in college football, setting himself up for a substantial first contract.

But playing in his last (unpaid) college contest, a postseason game on New Year's Day, 2017, Butt suffered a serious knee injury that required surgery. The subsequent recovery period makes it questionable whether he will be ready to play when the NFL's 2017 season begins in September.

As a projected late first- or early second-round pick, Butt was in line for a guaranteed salary of around $4 million. But due to his injury and projected recovery time, he dropped to pick no. 145, where the guarantee is less than $400,000. Even if he recovers and plays at a high level, Butt's decision to participate in what was essentially an exhibition (his team was not part of the championship playoff) was a costly one.

Fortunately, there's more to the story. According to Darren Rovell, an ESPN writer who covers financial issues in sports, Butt secured a $2 million total disability policy prior to his senior season at Michigan, along with a $2 million loss-of-value rider. Sources said the rider, which cost roughly $25,000, was tied to Butt's draft selection; if Butt was not picked by the middle of the third round (the 80th pick), he would receive $10,000 each time he was passed over. By falling to 145, Rovell reports that Butt is set to receive $543,000 from the policy.

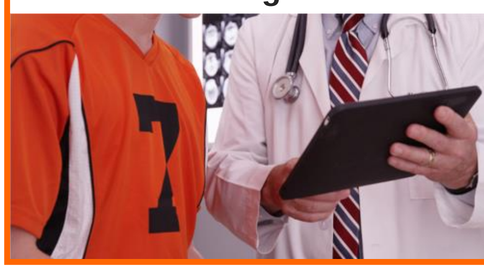
If you're doing the math, the drop from 80 to 145 is 65 places, which corresponds to $650,000, not $543,000. Several sources (including a tweet from Butt himself) indicate there are conditions which determine the final settlement. Whatever the final number, the insurance payment will restore some of Butt's lost earnings.

The risk of injury in football is high, and these policies are not cheap. As not-yet professionals, college athletes often borrow to pay for them, using their projected future earnings as collateral. Typically underwritten by a specialty insurance company, the application process includes an exhaustive review of an athlete's medical history, as well as expert assessments of their professional potential.

Whitney McIntosh, writing for uproxx.com, says some college football programs tap their Student Assistant Fund, an account designated for assisting student athletes, to help pay premiums for pro prospects. In some instances, this benefit is a recruiting tool, either to induce players to enroll, or to have them stay for an additional season, with the thought of further improving their draft status (and guaranteed pay) in the subsequent year.

Even with disability insurance, some college athletes take a more drastic approach: they stop playing. Christian McCaffrey, a junior running back from Stanford, had a breakout year in 2015, and followed up with an equally impressive 2016. Even though McCaffrey had taken out a $5 million disability policy, with a $3 million loss-of-value provision if an injury dropped him lower than the 40th pick, he announced in December 2016 that he would leave Stanford, forgoing not only his senior season, but also not playing in the team's post-season bowl game. Economically, the decision paid off. A healthy McCaffrey was selected eighth by the Carolina Panthers, and is in line for $25 million in guaranteed money – before he plays in the NFL.

Medical Residents Protect Their Earning Potential



Medical Residents Protect *Their* Earning Potential

Professional athletics is a specialty occupation, with some unique disability insurance issues. But there are some interesting real-life parallels, both specifically and generally.

Prospective doctors can often secure disability insurance before they finish their residencies, based on a projected starting pay. Like college athletes, residents have yet to "turn pro," but have shown enough aptitude and achievement to believe they will soon be profitably employed. And similar to the loan agreements for amateur athletes, many insurance companies provide financing options for residents to pay premiums before they begin their professional careers.

In addition, many of these pre-employment disability policies have riders that guarantee the right to increase coverage at specific intervals as the doctor's income grows. Unlike the athlete who takes a loss-of-value rider to protect his first paycheck, these riders make it possible to protect future paychecks as they get bigger.

"The Best Ability Is Availability"

A professional athlete's lifetime earnings may be compressed into a decade or less. While this may give an athlete a better appreciation for the perils of a disability, the long-term view is pretty much the same: our lifetime economic value easily runs to several millions.

In pro football, there is a saying, "The best ability is availability," i.e., you can't get a big payday if you're injured and unable to play. A pro may have to show up healthy and ready to work just once (on draft day) to collect a big payday, while the rest of us have to remain healthy and ready for work on a weekly basis for three or four decades to see the same benefits. But if a prospective athlete is willing to borrow to protect one big payday, shouldn't the rest of us be willing to use a small percentage of current income to ensure hundreds of paychecks will continue for the duration of our working lives?

Disability insurance makes sense. Athletes know it, and so do doctors. What about you? Have you protected your earning potential? ❖

Turning home equity into cash through a home equity line of credit or a new mortgage is a common transaction. With the house as collateral, the interest rate and monthly payments will be lower than most unsecured loans, and under current tax law, the interest may be deductible. Some loans may permit a period of interest-only payments, which further reduces the monthly obligation.

But what if it were possible to access home equity ***without adding a monthly loan payment?*** That's the attraction of several investment companies that offer cash to homeowners in exchange for an equity position in their house. Quoting a website blurb: "(W)e make it easy for homeowners to sell small fractions of the equity in their home to investors."

This unique transaction, just recently available to consumers, is a new take on monetizing home equity. While the suitability of this strategy depends on individual circumstances, the underlying concepts are straightforward. Instead of assessing a borrower's ability to repay a loan, the investing institution is relying on the property's anticipated appreciation to yield a profitable return.

Here's an overview of a hypothetical transaction:

Consider a home with a market value of $500,000, and an outstanding mortgage balance of $300,000. The homeowner's equity position is $200,000 or 40% of its market value.

A home-equity investment firm offers $50,000 to the homeowner in exchange for a 10% equity position in the house.

What if it were possible to access home equity ***without adding a monthly loan payment?***

Based on an analysis of the property, the agreement may call for the investor's ownership to increase incrementally over time. Assume this calls for the investor to be a 12% owner by the end of the agreement. Within 10 years, the homeowner must buy out the investor, at a price based on the home's value at that time. This can be accomplished through three different procedures:

- The property can be sold, with some of the net proceeds used to pay the investor.
- The property can be re-assessed, and the homeowner can use other funds to buy back the home equity.
- The property can be re-financed (as either a new mortgage or home equity line of credit) to complete the buy-out.

Suppose the home's value increases to $600,000 over 10 years. The investor, now holder of a 12% stake in the property, is due $72,000 from the homeowner. But if the market value declines, the investor might receive less than the original $50,000 buy-in.

Like other equity transactions, investors are hoping for share appreciation. The $22,000 gain on a $50,000 investment might seem substantial, but over 10 years, the annualized return is less than 4 percent.

There are additional risks for the investing company. If a homeowner defaults on the mortgage, it could result in a foreclosure to the lender, and the possible liquidation of the property at a discount, leaving investors with a loss or, in a worst-case scenario, nothing at all.

To mitigate against this possibility, the investment company typically takes an equity position of no more than 10 percent, and strives to ensure that the homeowner retains at least a 20 percent equity interest. If there's a foreclosure, these parameters make it more likely there will be enough excess equity to fully repay the investors.

Better? No, Just Different

Compared to a home equity loan, a fractional sale of home equity might seem attractive because it requires no payments, and the eligibility requirements, in terms of equity percentages and creditworthiness, are less stringent. But the adage "There is no free lunch" applies to this transaction.

- Like a home equity loan or new mortgage, a fractional equity sale incurs fees and closing costs, which are typically subtracted from the cash received by the homeowner.
- Further, the investment companies say the true cost to the homeowner is estimated at between 7% and 11% annually (compared to a 5% average annual interest rate for current home equity loans). But actual costs will not be known until the investors are bought out.

  In the example above, an investor seeking a 7% annual rate of return over 10 years would have to receive close to $100,000 from an initial $50,000 investment. To hit this target, the $500,000 home in the example must either have a market value of closer to $1 million after 10 years, and/or the investor's ownership stake must incrementally increase to more than 12 percent.

- Homeowners with a lot of equity may not be able to access as much when compared to a home equity loan. A $1 million-dollar house owned free and clear might be able to secure a home equity loan for 70% of value, far more funds than a 10% equity sale would provide.

That said, there are circumstances where a partial sale of home equity could be a good fit. An April 23, 2017, *Wall Street Journal* article offers the example of a California couple with a property valued at $1.7 million, of which they held $1 million in equity. The homeowners received $170,000 in exchange for a 10 percent share of their property, using the money to eliminate debts, make renovations, and lower their monthly obligations.

As a “clean-up” prior to retirement this transaction could fit, especially if the homeowner plans to downsize. The cash flow benefits are immediate, and the requirement to buy out the investor is covered by the anticipated sale of the property.

Converting home equity to cash may be a financially savvy move, but whether it’s a loan or fractional sale, transactional costs should be factored into the decision. Homeowners don’t have to consult with anyone beyond a lender or potential investor before accessing home equity, but a conversation with one of your financial professionals before pulling the trigger might be prudent. ❖

The Details of Distribution

Cash-value life insurance is an ingenious combination of financial and actuarial fundamentals. And because of this creative complexity, insurance companies and financial professionals continue to find new ways to construct and utilize policies. Many of these options may involve a future distribution of cash values.

Because cash-value life insurance is a financial instrument that can be hard to explain in a single conversation with someone who has no previous exposure to it, initial discussions tend to focus on the accumulation mechanics of a policy, while giving less attention to the methods and regulations under which cash values can be distributed. As long as the policy is in the accumulation phase, this ignorance is not an issue. But once a policyowner contemplates a cash-value distribution, it is essential to understand the options for distribution and the subsequent impact they have on the other components of the policy.

What follows are three questions and answers to familiarize you with some of the basics of cash-value distributions.

Q1: Is this a one-time withdrawal or periodic payment?

Cash-value distributions fall into two categories: one-time withdrawals or periodic payments. Besides being available for financial emergencies, one-time distributions might be intended for big-ticket purchases like a car, a home improvement project, or down payment for a business. A series of distributions (monthly, or some other regular period) could provide additional retirement income, cover ongoing long-term expenses, or be payments for an item purchased over time. The amounts and timing of the distributions can influence some of the decisions that follow.

Q2: Will the distribution be classified as a partial surrender or a loan?

Cash-value life insurance policies typically offer two options for distribution of cash values. One is a partial surrender, in which the owner essentially “sells” a portion of the insurance policy. The owner receives cash, but also reduces the policy’s insurance benefit by a corresponding amount.

Policyowners also have the option of borrowing against the cash values. The insurance company loans the policyowner money, using the cash values as collateral. The terms of repayment are flexible, and determined by the policyowner. Interest accrues against unpaid loan balances, and if this amount exceeds the cash values, the policy may be lapsed or terminated. While outstanding, any loans against a policy decrease both the cash surrender value and the insurance benefit.[1]

The decision to take a distribution as a partial surrender or loan can depend on several factors, including whether the policyowner intends to eventually return some or all of the distribution to the policy, and whether the distribution is taxable.

Q3: How does a distribution affect the policy?

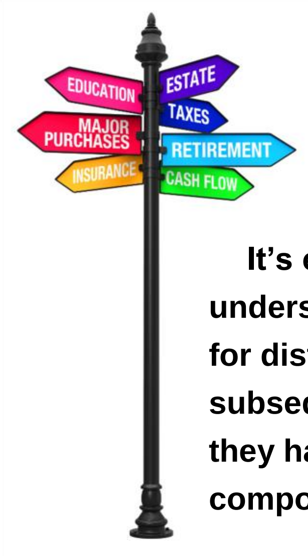
Remember, a cash-value life insurance policy is a blend of several financial and insurance concepts. When a distribution is taken from a cash-value policy, it can impact other parts of the contract. Such as:

- **The insurance benefit.** In general, distributions of any type will diminish the insurance benefit. However, some policies are designed with an increasing benefit during the accumulation phase of the contract, so distributions may simply result in an incremental return to the original benefit.
- **The future accumulation of cash values.** If cash values are used to pay accruing interest charges on policy loans, this cost can slow or even reverse the growth of cash values. Similarly, a partial surrender reduces the principal on which many policies calculate their annual dividend payments.
- **The premiums required to keep the policy in force.** If a policyowner’s partial surrenders or loans exceed the ongoing costs of maintaining the insurance benefit, higher premiums (or minimum loan payments) may be required to keep the policy in-force.
- **The dividend option.** Policies typically permit a variety of dividend options, some of which can be changed during the course of the policy’s life. Depending on the type of distribution, a change in the dividend option may be desirable or necessary.[2]

- **The cost basis.** For tax purposes, all premiums (including amounts used to purchase paid-up additions to the policy) comprise the basis in the policy. Surrenders reduce this basis, while loans do so only if they remain outstanding for a policy that is terminated prior to the death of the insured. The basis is used to determine whether any portion of a particular distribution is taxable.

If you've read this far, the following disclaimer/suggestion should be obvious: The technology that makes complex calculations possible with a keystroke on a laptop has ushered in a new level of creativity by life insurance professionals, especially when it comes to distribution scenarios.

Those who decide to make cash-value life insurance part of their financial portfolio should retain professional assistance for the ongoing management of their policy and the execution of transactions, particularly distributions. ❖



Contemplating a cash-value distribution?

It's essential to understand the options for distribution and the subsequent impact they have on the other components of the policy.

[1] Policy benefits are reduced by any outstanding loan or loan interest and/or withdrawals. Dividends, if any, are affected by policy loans and loan interest. Withdrawals above the cost basis may result in taxable ordinary income. If the policy lapses or is surrendered, any outstanding loan considered gain in the policy may be subject to ordinary income taxes. If the policy is a Modified Endowment Contract (MEC), loans are treated like withdrawals, but as gain first, subject to ordinary income taxes. If the policy owner is under 59½, any taxable withdrawal may also be subject to a 10% federal tax penalty.

[2] Dividends are not guaranteed. They are declared annually by the insurance company's board of directors.

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