

Protecting Assets through Proper Estate Planning

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This is the third of six articles to be written for the *ACG Update* in 2011 based on the six themes in the Physicians' Financial Navigator™, a proven wealth management system for physicians.

The process of “Estate Planning” can refer to many financial techniques and objectives. Most commonly, it involves the coordination of insurance, investment assets, business interests and legal documents to preserve and ultimately transfer net worth.

For purposes of this article, we will look at three facets of estate planning, with the intent of providing enough motivation to take appropriate action:

- When to act
- The role of life insurance
- The role of retirement assets

When to act? – How about now!

Even in normal financial times, it is understandable to be hesitant when plans involve the transfer of assets “now.” Loss of control, finality and the potential lack of future access can dampen enthusiasm and postpone decision making. The economy and current tax uncertainty create further challenges. The “two year patch” implemented by Congress to the gift and estate tax rules in December 2010 has only added to confusion and speculation. In contemplating estate distribution options, some individuals are considering inaction as a current strategy.

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There are alternatives, however. Despite the current uncertainty in tax policy and estate laws, there are techniques that allow you to transfer assets for estate purposes today, allow for assets to grow outside of your estate and still maintain a degree of control to unwind the arrangements in the future, as we have clarity on where the ultimate estate and transfer tax issues settle.

These techniques involve the use of legal trusts that require an estate planning attorney to be involved, as well as the appropriate coordination of life insurance to be owned by and paid for by these plans. At a minimum, your advisory team should include an estate attorney, a CPA and an insurance professional.

In many cases these plans can be coordinated around existing life insurance, if you have medical history that would prevent you from updating your insurance with new, perhaps more appropriate plans.

The bottom line is that the current uncertainty surrounding our fiscal policy should not prevent you from engaging in strategic, comprehensive estate planning. There are plenty of opportunities to accomplish your objectives, while being flexible enough to accommodate potential changes in the future.

The role of life insurance

Life insurance is possibly the most flexible financial tool in our current financial system. As a death benefit, it provides a predetermined amount at a specific but uncertain time. The after tax premium payments allow for tax deferred growth of assets and tax free withdrawals when properly structured. The premiums can be paid for from current income, through retirement plans, or through loan arrangements with other assets. In some instances, private practitioners can get a partial tax deduction for their premium payments, further enhancing the

tax efficiency of these plans.

Too often, I find clients that have spent too much time trying to compare life insurance to various other types of financial vehicles such as mutual funds and bank notes, rather than focusing on the appropriate role of insurance in their overall financial and estate plans.

To be clear, life insurance is a financial product that has two primary attributes:

- It provides a lump sum, tax free death benefit of a fixed amount when an insurance person has what we refer to as a “liquidity event.”
- Some contracts accumulate cash in a tax favored escrow account.

Before entering into any insurance program, you should understand and be confident in your objective(s). Common goals are to provide replacement income at a pre-mature death, to pay future estate taxes, to provide liquidity if all of your assets are tied up in real estate or private practice interests, and to accumulate assets without ongoing taxation.

The role of retirement assets

As you mature in practice and in financial sophistication, it is likely that one of your most sizeable assets will be your qualified retirement plans. Often, this is a combination of IRAs, 401(k)s, 403(b)s and other such programs.

For most of the people reading this, a common characteristic of these plans is that the value of those assets are growing without ongoing taxation and that ultimate distributions will be taxed as ordinary income.

It is imperative that these assets be considered and coordinated with your estate plans. Current opportunities are:

You may be able to purchase and obtain life insurance in your retirement

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plan, allowing for the premium payments to be made from a different set of assets. By using permanent life insurance in these plans, the premium payments are not necessarily lost or subtracted from your retirement program but are simply transferred from the “general” account to a specific insurance based account.

Retirement plans such as 401(k), 403(b) and SEP accounts can be consolidated and structured as part of a “Stretch IRA” arrangement, enabling your ultimate

beneficiaries to stretch out the distributions of these accounts over several generations and life expectancies, significantly enhancing the ultimate value as these assets continue to grow without taxation over that time period.

For private groups, retirement plans can be coordinated with life insurance in supplemental retirement programs that allow physician partners to gain a current tax advantage over and above the qualified plan limits, while providing supplemental insurance protection to provide for busi-

ness liquidity or personal estate planning needs.

In all of this, it is essential that you have a qualified team of professionals who can work together and advise you on the most efficient and effective strategy to accomplish your goals.

It is easy to put off planning. However, the most effective plan is to take action now based on everything that we know to be true and then plan to revise and evolve as the law and your circumstances change. [AICG](#)