Pass It On

Issue XLV

Planning to Keep Families in Business

Since 1947

I Love Dave Ramsey

HE teaches what I learned as a young man from Larry Burkett, Ron Blue and others, but in a much more entertaining manner. I enjoy listening to him on the radio and agree with him on most of what he says. I've listened often enough to observe that he does make the occasional exception to his standard precepts. In my opinion, from an estate perspective, he may be wrong about some things, but he's never confused . . . I like that.

Things he is certain about (with which I totally agree) include:

1. Get out of debt, including paying off a home mortgage as quickly as possible.
2. Save up for major purchases and either destroy credit cards or pay the balance off each month to avoid interest charges.
3. Buy used vehicles, again saving the money and paying cash.

Things he is not certain about, and why:

1. He has a will, not a living trust, because the trusts are too expensive, too complicated, and in most states, unnecessary.

What we have observed over 40 years is that there are circumstances where a living trust is superior:

- In states (California, Connecticut, New Jersey, North Carolina . . . to name a few) where probate expenses are punitive, costing up to 10% of the estate value.
- Older clients who have no spouse can streamline the process of choosing someone to help them with their finances when they begin to lose their capability and interest. (My mother has a trust.)
- Property ownership in multiple states; a trust avoids having to probate your will in each state.
- Specific personal situations where your attorney suggests that a trust is better to avoid liabilities and complications of managing assets if disabled.

2. He recommends that everyone buy only term life insurance, and cancel it when the children are grown. He argues that if you have no debt, have invested your surplus at an average 12% return (in growth mutual funds) your investment portfolio will replace the need for life insurance.

As with most of his advice, he is targeting a specific market, young families with children and debt. If you listen to his radio show long enough, you'll hear him respond to certain callers with a different message. He acknowledges that business buy/sell agreements, estate tax liquidity trusts and charitable bequests are some situations that might benefit from life insurance that lasts longer.

I'll let the financial planners analyze the odds of a family putting their premium savings into mutual funds every month instead of covering budget items, the risk in assuming a 12% average return, and what happens if you need to access those funds following a 40% market downturn. The fact is that most invested assets create income and capital gains taxes as they grow, whereas life insurance cash value grows tax-deferred and death benefits are paid tax-free.

In our world at Pass It On, Inc., we deal with business owners every day who need life insurance to fund their company debt, buyouts, and the notes they receive when they sell their companies and receive installment payments for far longer than they would have anticipated. We also frequently attempt to find life insurance for older clients who let their term insurance lapse years ago, or who outlived the term period and became less insurable in the ensuing years.

> **"WE BUY THINGS WE DON'T NEED WITH MONEY WE DON'T HAVE TO IMPRESS PEOPLE WE DON'T LIKE." – DAVE RAMSEY**

Finally, Dave rightly boasts that he has followed his own advice largely due to the mistakes he made as a younger man, and that he has virtually no debt, substantial assets in mutual funds and real estate, and yet . . . Dave said a few years ago, "I'm 47 years old and still carry a few million in term insurance because SWI." He gets this southern boy grin and explains, "SWI is because Sharon wants it." (Sharon is Dave's wife.) He is now age 55, and I wonder if he plans to purchase new coverage when what he has expires, and if he'll still be insurable.

I'm nearly 70, have adequate assets to retire and to provide for my wife, Wendy, for the rest of our lives. If, that is, we don't run into a "market risk" problem just when we need the money. Our real estate, retirement funds, individual stocks and mutual funds are not guaranteed to provide full value in cash on the day when we need it.

Like Dave, I maintain substantial life insurance because WDI (Wendy deserves it) and all of it is permanent, so I don't have to worry that it will disappear before I do. Further, every penny of permanent life insurance builds cash value that grows without tax, and which we treat as a "tax-favored money market", drawing on it for unusual cash needs. The rate of return on my policy last year was 9%, which is 8.8% higher than our best money market. Just sayin'.

I mean it when I say, "I love Dave Ramsey." He is trying to save the current generation of young families from the pain and heartbreak of an ever-spiraling whirlpool of debt, the kind that takes down and destroys individuals, marriages and families.

However, as people get older and their financial picture includes companies they own and estates that need planning, they need to listen to other voices. . . .

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Misty Meschter and Don See of Pass It On, Inc. (est. 1947) work with a national clientele designing and funding succession plans for privately held companies.

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