

EXPERT CONTRIBUTOR | BY RICH GROFF, CFP



Part 2: Post Covid-19 Shutdown Intensifies Investment Concerns

In continuation of June's Part 1 article (which is available at www.RichGroff.com if you missed it), let's now focus on creating future income that won't be subject to either stock market risk or increased taxes, as both are great concerns, now more than ever. As most of you know, since we just added almost another \$3 trillion to the national debt, which is now nearly \$26 trillion, it is inevitable that our government will need to increase taxes.

If we look back to 1945, following WWII, we'll see that the highest tax rate was 94%. This was assessed on incomes of over \$200,000, which equates to nearly \$3,000,000 in today's dollars. Before Ronald Reagan became president, he would often stop working on movies after 6 months because he knew, after paying California state income taxes, he was basically working for free by working past June.

I believe that our government currently has only two ways to reduce the national debt: reduce spending and increase taxes. What do you think will happen? I do know where I've

been with my clients over the past 15 years, especially those still working. My strategy has not been based on deducting everything from 401ks, IRAs, SEPs, etc., in hope that tax rates will be lower when they retire.

When one examines a bank's financial statement, one will discover where they invest their monies. One large line item is insurance. When designed correctly, insurance can be one of the most valuable assets you can own. In doing so, banks can typically avoid as much as 100% of stock market and income tax risk while living. Consider also that 100% of a much larger death benefit goes to your heirs without taxes as well. I'm amazed at the number of people who share with me that they don't like insurance. And yet, while reviewing their tax return information, I find pension income. I will then ask, "How do you like your pension income?" Their response is always, "I love it," not realizing that it's paid by an insurance company.

A client of mine in Texas, passed on a book I gave him, "The Power of Zero" by David McKnight, to a work colleague.

Photo by Kelsey Groff



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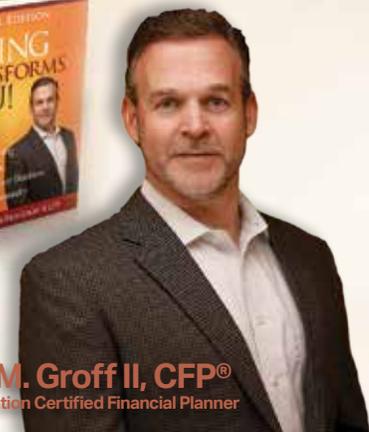
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Rich M. Groff II, CFP®
3rd Generation Certified Financial Planner

This individual contacted me with an interest in establishing a “private, tax-free pension,” otherwise known as a Life Insurance Retirement Plan (LIRP). He had informed me, during our conversation, that he had previously spoken with two local insurance agents whom he had known for many years. I suggested that he include his 3 children, as well as his younger wife into this unique planning strategy. He responded that no one had directed him to consider this option. He also stated, upon further discussion, his desire to invest \$500,000 annually. At that time, I told him that his income qualification would allow him to consider utilizing OPM (Other People’s Money), which could then double and possibly triple his tax-free income. Additionally, he could use a bank lender, which if his budget was \$500,000, could pay this in interest and principal with the bank funding a much larger amount. This strategy would substantially increase his income at retirement. This has all the benefits of a Roth IRA but an IRA “on steroids,” if you will. This includes no ERISA income limitations or restrictions of age 59½, or a 10% penalty upon early withdrawal, as well as age 72 (rather than 70½ which was effective 12/20/19 with the Secure Act) forced distributions, or a whopping 50% penalty assessed. And for most states, the cash value is fully protected from creditors just like a 401k plan.

Please be aware that this is a very unique area of planning that only the top 2% of all wage earners even qualify for. Therefore, most financial advisors aren’t familiar with this, or if they are, they don’t possess experience in much of this type of planning with any frequency. This is a niche market which requires a degree of expertise, especially when the design includes OPM.

Upon further review of this potential client’s needs, we were able to substantially reduce his current income tax liability and redirect those funds towards a future tax-free income, as well as remediate the oversight his attorney made in his estate planning which would have created difficulties for his loved-ones.

Please note that the LIRP design can be done not only for future income planning, but also for death tax liquidity planning for those with considerable wealth tied up in businesses, farms, and ranches. Unfortunately, the death (or estate) tax is due only 9 months following death and has caused many businesses and farms to be sold at auction for pennies on the dollar because there weren’t sufficient liquid funds to pay Uncle Sam. The lender minimums to qualify are net worth of \$5,000,000 and they would like to see income close to \$500,000 as well.

Rich Groff II, CFP is a 3rd Generation Certified Financial Planner and resident of over 3 years on Flathead Lake with offices in Polson (across from Pure West Realty) on the lake, and Peoria, AZ serving wealthy clients throughout the country since 1989. He is a distinguished Top of The Table advisor which is awarded to less than 5% of all financial advisors in the world! Refer to www.RichGroff.com for company’s client minimum. He offers qualified inquiries an initial 30-minute complimentary strategy conversation and then will outline within a consulting agreement those areas most important to you before a retainer fee is accepted. Unlike an attorney, he guarantees a value of at least 10-fold in the first year alone! Any questions can be directed to him Rich@TheMoneyMD.com or call 1-888-858-4996 and coordinate a mutually convenient time with his assistant, Kathy Webber.

COMMUNITY



Local Farmers Markets

POLSON FARMERS MARKET

Fridays from 9am–1pm
@3rd Ave. West, Downtown
Locally produced vegetables, fruit, meats, cheese, eggs, honey, jams and jellies, baked goods, plants, art, and much more!

BIGFORK VILLAGE MARKET

Mondays from 5–7:30pm
@Lake Baked (formerly Brookside Yard)
Family-friendly event featuring local vendors, craft beer and spirits, educational talks, and more!
Live music and yoga to be added as health restrictions are lifted.

BIGFORK FARMERS MARKET CO-OP

Wednesdays from 3–6pm
@22 Swan Way Hwy 35 next to the Liquor Barn
Locally grown produce, food, baked goods, arts and crafts.