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Begin at the beginning . . . and go on till you come to the end; then stop.

Alice's Adventures in Wonderland

(Reflections on beginning and ending the estate planning process)

Lewis Carroll's advice is so obvious that it leaves us scratching our heads. We wonder if we've missed something. Where *else* to start? Where *else* to stop?

When we apply his advice to the estate planning process, however, we find that it's not obvious on either count. Neither the beginning nor the end is immediately apparent even to those who have spent professional lifetimes involved in the process. It is the goal of this little essay to identify both a beginning and an end.

Our conclusion is that . . .

> . . . an effective estate planning process must begin where the estate owner thinks it should. The planning professional uses a cash flow analysis like a map to chart a course from the starting point to the estate owner's intended destination.

Lest even *that* begin to seem too obvious to be useful, let's . . .

Back Up and Get a Running Start

What is the purpose of estate planning? In answering this question, define "estate planning" as broadly as you've ever thought that it might be defined. Here's one way to think about the purpose of estate planning:

> We plan our estates only because resources are scarce. If each person had unlimited access to the resources required for the provision of food, clothing and shelter, no one would ever plan. We would simply walk out to the smokehouse or the orchard or over to the stream when hunger or thirst gripped us.
>
> We compensate for limited access by working for pay. We wouldn't plan if we could always work (and, it should be noted, *enjoyed* our work). All forms of estate planning anticipate the contingencies of death, disability and retirement -- each of which limits our current earning capacity. On the most basic level, we plan in order to replace that lost capacity.

If everyone recognized with equal clarity the problem of lost capacity, everyone would approach the planning process from similar perspectives and with similar degrees of urgency. That doesn't happen, however. Recall how "immortal" you felt at age 25 . . . or, if that's too long ago, think of an "immortal" twenty-something of your acquaintance. "Immortals" don't plan (at least not in much depth).

The professional planner routinely sees among clients a wide variety of perspectives, senses of urgency and proposed starting points for the planning process. However, most clients come to their advisors having already concluded that they want to do one or more among:

Death Planning

Retirement & Liquidity Planning

Tax Planning[1]

Business Succession Planning

Disability Planning

"Nonstrategic" Charitable Planning

[The accompanying table -- "Six Selected Planning Categories" -- expands on this list and identifies the kinds of questions which are answered by each type of planning.]

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1 The astute reader will recognize that "*tax* planning" is a component of each of the others. It is listed separately because clients sometimes visit their advisors for the sole announced purpose of current income tax planning. That same reader will overlook the "dormancy" of the federal estate tax in 2010. It <u>will</u> "wake up."

A determination on the part of the estate owner to "do" one of these six types of planning signals the beginning of the planning process. A mark of a professional planner's competence is the ability to begin where the client wants to begin.

On a time line, the end may be very close to the beginning, depending on which starting point was selected and what the estate owner is willing to do after selecting that starting point. The reason why the end may come quickly is found in the degree to which the different kinds of planning impact the estate owner's cash flow.

Cash Flow Analysis

The "Six Categories" table highlights this critical factor: ***All forms of planning except death planning impact the estate owner's current cash flow***. If death planning has been chosen as the starting point, once the wills and revocable trusts have been written, neither estate owner nor professional planner can safely proceed very far with any other kind of planning until a thorough cash flow analysis has been completed. The same is true, of course, if a starting point other than death planning has been selected. <u>Plans made without a complete cash flow analysis are tiny and temporary</u>.

Do people do it anyway? Is any planning beyond death planning undertaken without such an analysis? Of course. But it must always be only incremental, tactical planning -- unrelated to any coherent overall strategy and falling short of maximum impact on either the estate owner or the beneficiaries of the planning.

Interim Summary
Estate owners decide where to begin their estate planning. The typical starting points can be described as death planning, retirement and liquidity planning, tax planning, business succession planning, disability planning and nonstrategic charitable planning. To proceed beyond death planning in any meaningful way requires a current cash flow analysis.

Where Creative Planning Begins

With that cash flow analysis in hand, the estate owner and the estate planner can become really creative. Creative planning is for people who have excess cash flow even when the contingency requirements (death, disability and retirement) have been met.[2] Creative planning is for people who have discovered (perhaps to their own surprise) that they are philanthropic at heart and would really like to give away their taxes. It's also for people who will take the time to dream and to let life question them. People who know . . . or are willing to discover . . . the purpose of their wealth.

[2] For planning purposes, an estate owner has excess cash flow even if an underproducing asset must be converted in order to produce the excess.

Finally, Where Does It All End?

And the answer, of course, is that it all depends. It depends on someone's doing three things: First, understanding the relationships among the different types of planning; then recognizing the critical importance of a comprehensive cash flow analysis, and, eventually, being willing to venture into the challenging and rewarding world of planning with a destination in mind.

It usually takes **several** "someones" -- the estate owner, the estate owner's family, and at least one advisor (but preferably a team) who can tell the beginning from the end.

When you know the destination and the direction, you can develop your vision, mission and goals and translate them into a solid, well-conceived, well-documented financial model and legal design. Your current cash flow can be improved, taxes can be given to charity *and* you can achieve an unprecedented depth of clarity, comfort and confidence about your future.

You may begin where you wish. If any part of your estate is headed for a destination you didn't choose, then you've just barely begun your planning -- no matter how many legal documents you may have signed. Why not *really* begin now?