



# Will Power

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## WEALTH MEASUREMENTS & CREATION

Wealth, as we know it, is changing. I am going to show you how our government and financial institutions fail to measure the wealth that Americans have and are accumulating, and how we are experiencing a historical transformation in the way that we create and preserve wealth as we live, work and retire. I'll conclude with a thought about how your estate planning will affect whether you and those you love will be living with wealth or without it.

First, I'll address wealth measurement. A lot has been written about America's dismal savings rate. The Associated Press recently reported that the "personal savings rate" was at its lowest point since the Great Depression. But the truth is, the method that is used to measure "savings" is out of date. *Investors Business Daily* ran a column back on February 2, 2007 stating that the "savings rate" is actually much higher than reported.

How can that be? In order to answer that question you must first consider what isn't counted in the personal savings rate calculation. That calculation fails to include, for example, the money that Americans have built up within 401(k) plans, unrealized capital gains on stocks and real estate, increased equity in the pay down of their mortgages, and the equity Americans have invested and accumulated within their own private businesses.

What the reporters of bad times fail to understand is that Americans don't like saving out of after-tax income when they have so many different ways of "saving" that are either tax deferred or are tax deductible. In other words, the actual amount of cash in the forms of certificates of deposit, money market accounts and savings accounts don't really matter, net wealth does.

In the past three years alone, the total value of all assets, including stocks, bonds, bank accounts, houses and retirement funds – after subtracting debt – has increased \$16 trillion in the United States. This is an increase of average household net worth by \$140,000 – the largest jump in such a short period of US history.

Going back to the comparisons with the Great Depression – few of the financial instruments that Americans use to "save" today were available back then. The only thing a 1930s citizen could do was put money into a low-interest savings account. Americans today are just a lot smarter about how wealth is actually created, and they have better tools for doing it. But we are living in a time of historical transformation, the use of the microchip. The evolution of the microchip, in how we live, work and play, not only changes how we must measure wealth, but how it is created and ultimately who will benefit from wealth and who will lose wealth. I refer to this as "new wealth".

This "new wealth" is not only measured in income and assets, but will be measured in subjective factors, such as whether you have

purpose and meaning in your life, whether you enjoy your stage in life, what you are able to do, whether you have good health and access to excellent medical care and institutions, whether you have independence from the control of others and a variety of other factors. How you establish your estate plan will have a direct impact on all of these factors, and will also affect whether you, your spouse and your children and grandchildren prosper.

The creation of "new wealth" in this microchip era will be affected by trends already developing. Unskilled, uneducated workers will suffer as the global marketplace moves wages and benefits from expensive markets to markets where they are cheapest. That's why most of the manufactured goods you buy come from places like China and Indonesia.

Conversely, those amongst us who are highly skilled and educated will demand a premium for our talents and services. The microchip, Internet and advanced communications technologies allow one person to do in minutes what it used to take a roomful of people to accomplish in days or weeks. This allows creative and educated individuals to prosper. We will therefore likely see an explosion of entrepreneurial firms over the next several years.

The *Wall Street Journal* recently reported that the average entrepreneurial firm is headed by individuals who are between the ages of 40 – 65. Those are the "peak" entrepreneurial years because by the time one reaches his or her 40s, he or she has amassed enough wealth, professional and business contacts, and experience to put his or her talents to the highest and best uses. Over the next several years America will have more individuals living within this age demographic than at any time over its history.

One of the challenges for those with current wealth, or for those entrepreneurs who are creating new wealth is to create legal structures to minimize taxes and regulation, while maximizing wealth creation and preservation. This is where a purposeful estate plan is necessary.

So rather than the gloom and doom that you read about in the press over low savings rates, I see the creation of "new wealth" in our society to accelerate over the next several decades. How you plan for the use of this "new wealth" to generate its subjective benefits will be impacted by the legal and business structures you implement within your estate plan, and may affect whether you, your spouse and descendants enjoy the benefits of the "new wealth" that is being created.

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