NAPFA Planning Perspectives

NAPFA Headquarters
3250 N. Arlington Heights Road
Suite 109
Arlington Heights, IL 60004
888-FEE-ONLY
847.483.5400

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NAPFA Consumer Education Foundation

Promoting Consumer Financial Education

In past years, NAPFA has offered the public an opportunity to have their financial questions answered by professional advisors. This year, NAPFA continues to offer these "Jump-Start" online sessions in partnership with Kiplinger. The year's first session was held Feb. 20. The second session was held June 5. In both sessions, NAPFA members answered hundreds of questions from consumers. Past and future sessions can also be viewed here.

NAPFA and Kiplinger will offer two more Jump-Start programs. The next one will be held Sept. 25, and there will be another program in December.

Kiplinger Timely, Trusted Personal Finance Advice & Business Forecasts

Thinking About the Future

It's not always easy to keep a goal in mind, especially when it's a long way's off. Retirement is a goal that most people have, and yet it often seems to sneak up on them, finding them unprepared just when it matters most. That's why having a trusted team of advisors is so important—to make sure that your future needs are being met while you're focusing on succeeding in the present.

James Gallo of KDI Financial Planning LLC discusses some important questions about retirement that are often misunderstood: What do you want to do when you retire, and will you be financially prepared to do those things? These questions are about more than just having the financial means to play golf every day, for example. Instead, Gallo asks whether your financial plan allows for you to find meaning in your retirement, rather than just leisure.

In his article, Gordon Bernhardt of Bernhardt Wealth Management explores some estate-planning mistakes made by the very wealthy and how their oversights can be object lessons for us all—not only those whose wealth exceeds the new federal estate-tax exemption limits.

Finally, Gary Pittsford of Castle Wealth Advisors, LLC, addresses the concerns of business owners who want to plan for a successful transition once they're ready to hand over the reins. He list some specific steps business owners can take to increase the value of their life's work so that their legacy will endure for the next generation.

Reaching Every Generation

NAPFA continues to expand the ways in which it reaches out to consumers who need the services of a financial advisor (i.e., everyone!). Recently, it announced a partnership with the newly formed XY Planning Network.

The XY Planning Network brings together a network of Fee-Only planners who specialize in serving Generation X and Generation Y clients. These clients (and the advisors who serve them) understand that many in these generations have specific needs and deal with financial concerns different from those of baby boomers.

Are You Really Ready to Retire?

By James S. Gallo, CFP® KDI Financial Planning, LLC www.kdfinancialplanning.com

Many of us count the days until we are ready to retire. We can't wait until we can just relax and go fishing, play golf or tennis, and hang out at the club. But actually, retiring can be one of life's difficult transitions if we don't think about what really has meaning and purpose for us and how we want to spend our retirement years.

Many of those who have retired from an active, engaging job and decided that they were just going to relax, play their favorite sports, and enjoy life without pressures have found that after a short while—a few months or perhaps as long as a year—there's something missing in their lives. After all, for many, their job or role in society defined who they were—how they contributed to society and supported their families. Now, after a time of fun and relaxation, they're starting to feel the void. Who am I? What is my purpose? Am I no longer important or the person I used to be in my role as engineer, chemist, teacher, or doctor? Now they begin the search for meaning in their lives.

This can be a difficult journey. Many eventually find meaning by continuing personal development of their mind and body—perhaps by going back to school nights and studying for a new career or taking up Pilates or Yoga to develop the mind-body connection, or training for an athletic contest or event. For others, meaning is found by contributing to society, by serving the more unfortunate through volunteer work at a hospital or soup kitchen or by joining an organization dedicated to improving the environment or the education of inner city children or the poor in our society. For some, it might be a combination of these.

In retirement, we would like to be able to do these things and not be under the stress and pressure of having to exceed last quarter's performance or to beat some performance metric, and we still want some time to relax or play our favorite sport or participate in a card game at the club.

Living this lifestyle does require that we have the funds to do so, and that's where a good financial planner comes in—assisting us in developing and implementing the plans that allow us to do the things that are important to us when we retire. But sometimes, we also need more than calculating the numbers to find out how much we need to just live—we need to find someone who understands the transition that occurs in retirement and who is willing to probe a bit and challenge us to think about goals that will really allow us to find meaning in life while in retirement.

When looking for a financial planner, consider seeking out one who is both good at running the numbers and also has training in major Life Event Planning or who has been through the retirement transition once themselves.

What We Can Learn from Philip Seymour Hoffman's Estate Planning Mistakes

By Gordon J. Bernhardt, CFP®, AIF , PFA, CPA   Bernhardt Wealth Management   www.bernhardtwealth.com

The Oscar-winning actor Philip Seymour Hoffman was incredibly successful at his craft and left an enduring legacy. Sadly, when Hoffman died of a drug overdose in early February, part of his legacy was leaving his heirs an estate planning disaster.

For many of us, estate planning has lost some of its urgency because of the new $5.34 million federal estate-tax exemption. However, Hoffman's estimated $35 million estate exceeded the exemption limit and, therefore, required significant planning. His lack of advance planning illustrates the problems that can arise for anyone who puts estate planning on the back burner.

Lessons we can learn from Hoffman's mistakes include:

- Wills should be continually updated. Hoffman's will was more than a decade old and mentioned only one of his three children. Notably, because of a provision in New York law, Hoffman's younger children likely will be provided for even though they do not appear in his will. However, be sure to check the specific provisions in your state.

- Non-traditional families require more planning. Hoffman left all his money to his girlfriend, Marianne O'Donnell, the mother of his children. Because they were not married, federal and state taxes will devour an estimated $15 million of his $35 million estate, and any assets that remain at O'Donnell's death could get taxed again. Of course, O'Donnell could choose to disclaim all or part of her inheritance and place the assets in a trust, but that would take time and require additional estate planning.

- Planning can minimize taxes. Most people want to ensure that their assets are distributed to their heirs with minimal tax impact, but the exemption limit and tax laws change constantly. Hoffman could have lessened Uncle Sam's tax bite by giving monetary gifts small enough to avoid taxes during his lifetime. He also could have established trusts to shelter some of O'Donnell's inheritance from taxes.

- Revocable trusts can safeguard your privacy. Wills go through very public probate courts, but trusts don't. You can avoid any publicity for very little money by creating a revocable trust. Your will would then simply state that everything you own goes into the revocable trust, which remains private.

- Living wills can help express your wishes for your heirs. Hoffman specified in his will that he wanted his son to be "raised and reside in or near the borough of Manhattan in the State of New York, or Chicago, Illinois, or San Francisco, California." However, that provision was in a section that applied only if a guardian had to be appointed for his children. These details matter. If your will conveys specific wishes on childrearing, discuss the details with your lawyer and review those sections very carefully. Also, it's often best to supplement your will with a "living will" or another such document that offers supporting detail.

An estate plan should not be a static document that's drafted once, signed, and then placed in a drawer. Rather, estate planning should be an ongoing activity, informed by changes in your life and changes in tax law. Because estate law is complex and ever-changing, ensuring that all your wishes will be met requires the expertise of an estate-planning attorney who is well-versed in your state's laws.

Building Value for the Future

By Gary Pittsford, CFP® Castle Wealth Advisors, LLC www.castle3.com

Over the years, you have grown your company and have managed it with the goal of making a profit and, hopefully, building the value in your business so that you can eventually sell it and retire, knowing that you've left a valuable legacy. We've helped many business owners value their companies and make decisions about retirement income, reducing taxes, and building their net worth for the future. Sometimes, business owners who have run their companies for more than 20 years have been surprised when the valuation report was finished—they thought their company would have been worth more. After all, shouldn't more time create more value? Unfortunately, that isn't the case.

To increase the value of your company, there are a few key items that you should focus on.

First, focusing on increased sales is always a good idea, but the more important topic is your gross margin. If you don't strive for the highest gross margins in your market area, then increasing sales won't help much. For example, for the next 12 months, strive to increase your gross margins by 1 percent or 2 percent and, at the same time, to decrease your expenses by 1 percent or 2 percent. After a year, you'll see a more profitable income statement. Increasing your gross margin and decreasing expenses will help tremendously in increasing the value of your company.

Second, focus on your largest expenses. For most of you, that would be your payroll and occupancy cost. Managing expenses is one of the most difficult topics for closely held business owners. If your gross margin, or usable cash flow, is 39 percent of sales and your annual expenses are 39 percent, then don't expect to build much value in your company.

For most closely held business owners, the largest expense is employee payroll. Too many business owners allow their payroll to creep up over a period of many years. If the national average for payroll is 20 percent of gross sales and your payroll costs are 25 percent, then you're not increasing the value of your company. For most owners, the second-biggest expense is the occupancy of their facilities. However, if the owner of the business also owns the real estate and is paying rent to himself, then high rent is fine. That excess rent can always be added back at the time of sale.

In short, focus on growing your business income, but, at the same time, try for the highest gross margin that you can and spend time every month managing all of your expenses—but especially your employee cost.

The next important item to focus on is tax management. If you work hard and make a profit, then you also need to spend time minimizing taxes and maximizing the amount of profit that you can retain. If you plan to retire in five to 10 years, ask your accountants to be thinking about the future and the best way to minimize taxes when you sell the company. Talk with your accountants about the type of entity that you've chosen to house your business. Should you have a limited liability company (LLC), an S-Corporation,

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Succession Planning

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or a C-Corporation? Are you maximizing your depreciation and other deductions annually? All of these tax decisions are difficult, because most business owners are not experts in these tax fields.

This is where I recommend to most business owners to surround themselves with excellent advisors to help you with tax, legal, and financial decisions. You need to concentrate on what you do best and let your advisors help you in these other areas that you aren't comfortable with. Corporate attorneys can help you with corporate minutes annually, updating stock redemption agreements, and reviewing contracts before you sign them. Estate tax attorneys should review your wills, trusts, titling of assets, and beneficiaries at least every four to five years. Your accountant normally wants to know what your business did last month or last year, and those are also the same advisors who prepare your corporate and personal tax returns. They are important individuals not only to document what you did yesterday, but also to help you project where you're going tomorrow.

Your attorneys and the accountants all are paid on a fee-only or fee-for-service basis. The third member of your team should also be an independent Fee-Only financial advisor who understands closely held family businesses.

Over time, you've hopefully pulled income out of your business and have put some of that profit into conservative liquid assets that you can use in the future. Also, if you sell the business, you'll have more liquid assets that need to be invested prudently with the least amount of cost in order to provide you with future income and also to provide for your spouse, your children, grandchildren, and other beneficiaries. I've always told business owners that if you're going to take a risk, do it inside the business where you can control the risk. If you're lucky enough to make a profit at the end of the year, don't take that profit and risk it a second time.

Building value requires increasing corporate income, increasing gross margins, and properly managing all of the expenses. Retaining that value usually requires that you have an excellent team of advisors to help you manage your corporate entity and your corporate and personal income taxes.

Being able to pass on that higher business value to the next generation within your family requires the combined efforts of you and your handpicked advisory team. Pick that team carefully, and make sure that they understand not only closely held family businesses, but also family dynamics. This next item is important: Invite them all to come together for at least two hours every six months so that you can pick their brains and get all of the new ideas that they can provide you. Soak up all of their advice, and put it to good use in building value, retaining value, and passing on the value of your company.

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