

PERSONAL FINANCIAL PLANNING

Financial Planning Reasons Why Your Individual Clients Should See You NOW

By Lyle K. Benson, Jr., CPA/PFS, CFP®

Now that you have finished all of your individual clients' tax returns, it is a great time to reach out to them to talk about a wide variety of personal financial planning issues. This might start with year-end tax planning, but should also incorporate their overall financial planning, estate planning, investment strategy, and insurance needs. There are some compelling reasons to take a look at their situations now based on the current volatile investment climate, political and tax uncertainty, and economic environment. Many of these situations are timely and should be addressed before year end. We thought it might be helpful to share some questions to pose to clients so you can continue to expand your client services.

1. *Review where you stand for 2011 year-end income tax planning.* Keep in mind that this could be a year when mutual funds that have declined in value still payout capital gains. What can you do about this before year end? Are there losses you should be harvesting before year end to offset capital gains? Do you have capital loss carryovers that need to be taken into account for planning purposes?

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2. *What you can do now to plan for potentially higher income tax rates.* We already know about the additional Medicare surtax on investment income starting in 2013, but it is very likely that many of your clients may also face higher income tax rates after 2012. Is there anything you can do to shift future income to this year or next to be taxed at today's low rates that we have through the end of 2012? Or maybe it makes sense to defer deductions to future years where there may be more tax benefit.
3. *Consider exercising stock options while tax rates and stock prices are low.* For corporate executives it is a good time to consider whether there is anything you should be doing now with your stock options and other compensation/stock based awards. If tax rates do rise after 2012, it may be better to bring income in before that time. It may also be better to exercise these options when the stock price is lower and the out-of-pocket cost is less. How much of your net worth is tied up in the company stock? Single stock concentration is one of the biggest issues for many corporate executives.
4. *Update your retirement planning.* As we live with market volatility and future tax and entitlement program uncertainty, it might be a good time to check your planning assumptions and your progress toward those long term goals. Small changes in inflation and

- return assumptions can have a big impact on the sufficiency of your assets. Go through those assumptions to make sure they are appropriate in today's environment.
5. *Take advantage of historically low interest rates.* Have you taken full advantage of this on the debt side of your balance sheet? What is the current rate on your home mortgage or any other debt you have in place? Is it time to move from an adjustable rate to a fixed rate mortgage? If you have not refinanced recently, it may very well make sense to look at this, even in this challenging banking environment. The low rates also create the opportunity to put certain estate planning strategies in place. For instance, with historically low IRS interest rates, loans to family members and grantor retained annuity trusts (GRATs) can be excellent ways to transfer wealth to the next generation.
 6. *Have there been any major changes in your life?* Events like the death of a spouse or parent, birth of a child, divorce, marriage, etc., all have a profound impact on your planning and may cause the need for an update of your overall planning. With an unemployment rate of close to 10 percent, many of your clients may have experienced a job loss and the related planning issues.
 7. *Have you thought about the decision on when to take Social Security benefits and Medicare coverage?* This is an area that can create planning opportunities, as well as headaches, and needs to be thought through carefully. There are numerous strategies based on your own personal situation.
 8. *Reevaluate your children's college education funding strategy.* Are you still on track to reach your education funding goals? It is important to make sure that the asset allocation still matches the time horizon for needed funding. Will financial aid be a factor in funding education costs?
 9. *Does your estate planning still match your goals, especially in light of the increased (\$5 million) lifetime federal estate tax exclusion?* It is possible that this increase has changed how your assets pass to your heirs, and it may not be consistent with your goals. Is the appropriate amount going to your spouse vs. your children? If you are in a second marriage, this may be a very important issue.
 10. *Is your estate potentially subject to state estate tax?* Many states have their own estate tax/inheritance tax structures that impose tax at lower levels than the federal estate tax. Make sure your estate planning takes this into account.
 11. *Do you own property that will pass outside of your will?* Examples of assets passing outside of probate include jointly owned property, IRAs and other retirement accounts, life insurance, etc. Making sure these assets are titled properly or have appropriate beneficiaries is critical to meeting your estate planning goals. Clients often forget to coordinate these assets with the rest of their planning.
 12. *Make sure your asset allocation is in line with your targets.* If you have not looked at this in a while, it may be out of alignment with what makes sense for your risk tolerance and return goals. This is especially true after a quarter like we have just seen. Are you well diversified across a wide variety of asset classes? Diversification is generally considered to be a good way to lower the risk in your portfolio, assuming that you have uncorrelated asset classes.
 13. *Have you incorporated alternative investments into your portfolio?* Alternative assets might include long/short strategies (more mutual funds are offering this investment style), precious metals, real estate, commodities, etc. Are they really providing diversification benefits at a reasonable expense and tax cost? Are they truly uncorrelated with your other asset classes? How have they performed in the past quarter where equities really struggled?
 14. *Talk to your parents about their personal financial situation.* Too many times, we do not think about having these conversations until it is too late. With the volatile markets, low interest rates, and increasing health care costs, it is very important to make sure that your older relatives are doing all of the planning they need to do.
 15. *Review your existing life insurance policies in light of the increased \$5 million lifetime exclusions.* You may not need the coverage that you put in place to pay estate tax. As your financial situation evolves over the years, it is important to make sure your insurance plan fits your goals. Are your life insurance trusts

fully funded? You might want to use the expanded gift tax exclusion to put more cash into the trusts.

In times like these, it is critical to communicate with our individual clients. Spending time with each of them before year end can serve to rein-

force the holistic approach you take to their personal financial situation. Thinking about their individual situations and being proactive are key to deepening that relationship. Hopefully we have given you some planning ideas that you can use to get this conversation started now.

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