Newsletter of the AICPA Personal Financial Planning Division
planner

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Chair Message

The PFP Section is committed to delivering thought leadership to our members via learning opportunities like our webcasts hosted by nationally-known speakers and technical experts, our highly rated Advanced PFP Conference each January, and via in-depth articles on financial planning.

In an effort to get relevant content out to our members in a timely manner, we will be suspending the current bi-monthly format of *Planner.* In its place, we will be releasing articles as emerging issues, hot topics and thought leadership on the core financial planning subject areas (tax, estate, retirement, risk management and investment planning) are identified. This will ensure that you get the most recent and relevant thinking when it first becomes available.

Watch your weekly *PFP News* to access the latest articles. We will also be posting them to the PFP web site.

We are focused on creating an exceptional PFP/PFS member experience and delivering value consistent with your expectations. If we can improve your member experience in any way, please send your feedback to financialplanning@aicpa.org.

Lyle K. Benson, Jr., CPA/PFS
Chairman, PFP Executive Committee

In This Issue

Best Planning Ideas 2014: Retirement
The annual "Best Planning Ideas" presentation was held during the Advanced PFP Conference in January 2014. Participating in this year's panel were Lyle K. Benson Jr., CPA/PFS (moderator), Stephen R. Akers, JD, Robert S. Keebler, CPA, MST, AEP (Distinguished), and Michael Kitces, MSFS, MTAX, CFP®. Discussion topics included income and estate tax planning, investments, the Defense of Marriage Act, the Patient Protection and Affordable Care Act, and retirement—the topic of this article, which includes various points made during the presentation. Read through to the end of the story to find out how to obtain an audio recording of the entire presentation.

According to a *Financial Advisor* article published in May 2014, the hottest market for financial advisors is providing advice and guidance on retirement issues to post-World War II baby boomers. Yet, in any discussion of retirement planning, a logical starting point may be to better understand the broad realities of finance, demographics and public policy. The numbers are not encouraging. In the United States, more than half of the adult population has no pension benefit and 35 percent have set no money aside for retirement. Today, Social Security provides 75 percent of retirement income for those over 65 years old, and in developed countries across the world, governments currently provide 59 percent of retirement income.

The youngest members of the boomers are now 50 years old, and with longevity increasing, the average length of retirement is now approaching 20 years. When you factor in a potential lack of savings, the outcomes are predictable and less than encouraging. In the United States alone, the shortfall in retirement dollars for those ages 55 to 65 is $113,000 per household (source: U.S. Census Bureau).

Though the averages these statistics measure may not represent the typical client base, the realities affect us all in terms of higher taxes, reduced or means-tested retirement benefits, inflation and rates of return. Certainly clients will need advice and guidance in retirement planning—and it's up to you go provide this service.

Equity Glide Path
Traditional retirement planning advises clients to hold equities when they are young, and to reduce the equity portion of their portfolios as they approach and go through retirement. New research, however, suggests that retirees should consider ratcheting up the equities balance during retirement.

In fact, strategic variations in equity holdings make sense, given today's changing retirement realities. Clients typically build up equities during their middle, higher-earning years. As a result, shifting to lower-risk, fixed-income investments as clients approach retirement is the traditional approach. However, new planning research suggests having a high equities balance when building for retirement and the lowest equities content when you have the largest overall account balance—precisely when retirees pull the trigger and start living off that money for the rest of their lives—exposes retirees to the damage an unexpected bear market would cause.

This new view on equity glide paths also suggests that clients should then live off annuities or other fixed income in the early retirement years, leaving equities untouched and, hopefully, to grow. This allows equities to slowly ratchet back up over time. If returns are good, that's positive. If equity returns are less than optimum, clients can rebalance into equities and benefit from dollar cost averaging into equities as their exposure slowly rises.

Certainly, clients long schooled in the traditional strategy may find this equity model a bit hard to accept. Yet, by framing the approach correctly, and by discussing asset allocation in the context of today's realities, planners can help clients understand this logical and productive strategy. Here's a link to Michael Kitces' blog, *Nerd's Eye View*, with more information on equity glide paths.

Annuity Income

After reviewing historic and more-recent research on retirement income, focused primarily on retirement glide paths and bucket strategies, retirees should leave a portion of their portfolios untouched, while drawing down other portions during retirement. Research shows that partial annuities support sustainable income during retirement with steady income and without heavy drawdowns of the portfolio during early retirement years.

For clients that eventually live beyond 90 years of age, an annuity provides an exceptional income stream and a very positive return. Because those long-lived retirees receive ongoing payments, regardless of how long they live, they win the so-called "mortality bet" against those who pass away earlier. That longer-living cohort is, of course, a smaller percentage of those who choose the annuity strategy, but they generate an outsized return.

Though the analysis has shown that retirees who live a more normal lifespan can also benefit from the annuity model, new research suggests that the benefits in such situations may actually not be due to the annuity itself, but rather, the kind of bucket liquidation strategy it creates.

The reason is that if wealth and asset allocation are graphed, income is depleted as the annuity is spent down and equity rises as the growth runs. This creates a scenario in which total equity exposure increases throughout retirement. This counter-intuitive approach can actually be helpful, and it is implicitly part of the value of using an annuity; but notably, clients can realize these same benefits without using an annuity in the first place.

The research suggests an optimal approach is cutting equity exposure down to around 30% at the start of retirement, and then liquidating bonds during the early years of retirement, and finally allowing the equity portion to rise incrementally during retirement to as much as 60% of the latter-stage portfolio.

Revisiting the Strategy

As retirement approaches or continues, planning should ensure that projections are conservative enough to account for higher taxes, as well as increased health care and longer-term care costs.

Planning reviews should also evaluate changes in inflation and rates of return, increased longevity, uncertainty relating to pensions and Social Security, and changes in the needs of dependents. Based on research and real-world experience, planners may want to consider a few sensible guidelines.

Given that many clients fall in the range of $1 million to $5 million in net worth, post-retirement tax planning will be crucial. Governments around the world will be seeking higher tax revenues to support the coming demographic wave of retirement entitlements.

At the same time, real pressure is mounting to limit or means-test Social Security, public and private pensions, and other fixed retirement payouts. For clients 50 years old or younger, many planners now project retirement income, using just 75% of expected Social Security benefits, an outcome that will occur if we never do anything to fix the system for the rest of the century.

Given the global economy, the children and grandchildren of our clients are not doing as well as previous generations. So, retirees often help those relatives with financial assistance and other support, thus further drawing down their own resources.

Many CPA financial planners deal with the top earners in which clients will hopefully be somewhat better prepared. The vast majority of people, however, are going to work longer, depend more heavily on their children and experience lifestyle declines in their retirement years.

In summary, the panel suggested that you should not position yourself as a doomsayer; yet, you may want to advise clients to plan for higher costs and taxes, and for more modest rates of return. Offer a total cost-of-living perspective on retirement planning and encourage your clients to save and invest more for retirement.

Retirement Planning Resources

Michael Kitces, along with Stephen R. Akers, JD, Robert S. Keebler, CPA, MST, AEP (Distinguished), and Lyle K. Benson Jr., CPA/PFS, participated in the "Best Planning Ideas Panel" presentation during the Advanced PFP Conference held in January 2014. In addition to retirement, panelists discussed income and estate tax planning, investments, DOMA, and the Affordable Care Act. An audio recording of this presentation is available in the AICPA's online library. Registered attendees for the 2014 conference have complimentary access when they log in through the website (see instructions to access). Those who did not attend can create an account to purchase audio recordings and presentation materials.

A webcast, "Retirement Planning and Issues Related to Aging," will be held June 10, 2014, from 1-2:45 pm, ET, featuring panelists and CPA/PFS credential holders, Jean-Luc Bourdon, Lori Luck and Ted Sarenski and moderator, Lyle Benson. Register for the webcast with CPE (discounted for PFP/PFS, Tax and PCPS members); register to attend for free without CPE (PFP/PFS members only).

PFP Section members, inclusive of CPA/PFS credential holders, have access to many retirement planning related resources, including, for example, The *CPA's Guide to Social Security Planning* and The *CPA's Guide to Financing Retirement Healthcare*. The Retirement Planning Resource page includes these guides as well as information on Roth IRA conversions, safe withdrawal rates, long-term care planning and more. Forefield Advisor provides clear and concise consumer-oriented materials on many of these topics with special resource centers for Social Security and healthcare reform.

Member Discount on *The Kitces Report*

If you liked this article, then you might be interested in a monthly subscription to *The Kitces Report*. Michael Kitces has extended a discount on a monthly subscription to *The Kitces Report* to PFP members, inclusive of CPA/PFS credential holders. Click here and enter discount code AICPAPFP to obtain 10% off a new standalone subscription.

5 Reasons Why CPA Financial Planners May be Avoiding Life Insurance
By Susan Bruno

There are several business models for the CPA financial planner, but the one that has been most widely embraced by the profession is the registered investment adviser (RIA) model. The adviser is typically compensated based on a percentage of assets under management (AUM), hourly fees, retainer or a mix of the three.. RIA models are referred to as "fee-only" when the practitioner receives no commissions from product related sales.

For many CPAs, this RIA model "feels right" for many reasons, including the fact that it is generally not product-driven or transactional. Unfortunately, until now, the same has not been said of the commission-based life insurance model, despite the fact that most life insurance can be purchased only in this way. Not only do many CPA financial planners frown on the life insurance business model; they may also go as far as avoiding the life insurance discussion altogether with their clients. *The result*? Clients will continue to have this valuable tool ignored.

Life insurance is my area of expertise based on the time I spent at Price Waterhouse when I was a senior tax manager, so I designed this model to offer an unconflicted life insurance business model. I strongly believe this life insurance business model for the CPA financial planner can also feel right and involves the following three components:

1. **Comprehensive Financial Plan**. A financial plan is prepared, for a fee, and life insurance is a proposed strategy when suitable. The engagement letter includes full disclosure of all potential revenue, including the fee and possibly an insurance commission. There is no pressure to purchase a policy *and* no return or reduction of the planning fee if a policy is purchased.
2. **Life Insurance Engagement.** A client wishes to hire the planner to purchase a policy. The engagement letter offers two options: either pay an hourly fee for consultation or allow the planner to broker the transaction and be paid out of the commission. Note that this is appropriate only if life insurance is being considered for purchase and not just evaluated; otherwise only the fee model is offered. The client should be told that a commission will ultimately be paid to the broker or agent who sells the policy, in addition to the fee paid to the planner if the fee option is chosen.
3. **Life Insurance Servicing**. All insurance professionals need to provide ongoing monitoring and servicing for each policy sold, even if no additional compensation will be paid after the initial year the policy is sold. The type of monitoring and servicing should be explained at the time the sale is proposed, and again when it is finalized.

To protect objectivity, the CPA planner can choose not to have an allegiance to a specific insurance company. This will eliminate the concern that a quota must be reached which may jeopardize the planner's objectivity. It may also increase the odds that the client is getting the product that is in their best interest.

The CPA planner should also consider licensing requirements. Insurance policies are state specific and the situs is generally based on the location by the owner, not the insured. This means that if the trustee is in a different state than the person being insured, the policy will be issued in the state of the trustee at the time of purchase and will follow the laws of that state. Note that you need a license in your resident state and then must be licensed in each and every state in which you sell a policy.

There is also a difference between being licensed to sell insurance and the need to get appointed by a specific carrier to sell their product. Each state has a different rule regarding when a broker has to be appointed with a carrier. Some require an appointment prior to taking an application, while others allow an appointment within a certain period of time after the application has been taken. All carriers require that you are licensed in advance of any appointment.

If you're a planner who continues to avoid life insurance discussions with your clients, you may want to consider re-evaluating your personal objections in order to provide a more holistic approach to your client's overall financial plan. Here are the most common objections shared with me over the years from fellow CPAs, along with my suggestions on how to deal with each one:

1. They don't know how to start the conversation.
Discussing life insurance with your clients isn't easy for many reasons, but it's important, so here are a few strategies that you can try.

- **Inventory your clients' life insurance** by creating an Excel matrix that includes the following information: the insured, risk class, owner, beneficiary, carrier, policy number, date of purchase, death benefit, duration, premium amount, premium date, current cash value and number of premiums expected to be paid when they first bought the policy. It also makes sense to list the broker and the insurance company contact information for each policy. This is simple to prepare and is very valuable for clients to have in their personal files—their attorney will love to have a copy, too! This matrix can then be provided to the servicing broker (or consultant) for a checkup, leading to all kinds of questions that should be addressed annually. Your clients will appreciate the review, especially if they get an A+ on their checkup. Why not do the review at tax time, and if you e-vault their other documents, include a copy of the policy as well?
- **Ask about fiduciary responsibility.** Simply ask if your clients are trustees for an irrevocable life insurance trust. In addition to their personal policies, they need to be aware that it is their fiduciary responsibility to review the trusts policies regularly. Don't forget to mention Crummey notice compliance as well.
- **Apply the Goldilocks Rule**. Ask your clients if their current coverage is too much, too little or just right. Most don't know and won't sit down to do this until it may be too late. Do they, for example, have children nearing college age, but have inadequate savings? Maybe they should consider 10-year term insurance which often is inexpensive for the valuable protection. Did they buy a policy to pay estate taxes that may no longer be necessary since there's a current federal estate exemption in excess of $5 million?

STOP! Don't let them drop the policy before you consider the value as a fixed income asset in the overall portfolio. After all, they have already paid the load, plus the interest-crediting rate and potential IRR may be quite attractive. Also, if the client is over age 75 or unhealthy, the policy may have greater intrinsic value than cash surrender value. The secondary market is alive and well-funded again, which may lead to a hidden asset for your client!

2. They are afraid of what they don't know and don't know who they can trust.
As CPAs, we have taken an oath to provide services only in areas we have an expertise in. Generally speaking, CPA financial planners know little about life insurance, so they hesitate to even go down this path with clients for fear of not being able to converse intelligently about even the basics and then looking bad in front of their clients. *Solution?* Expertise can come in two ways. The first is gaining the knowledge by taking classes, reading what they can and meeting with other professionals who provide life insurance services. The second is to learn the basics by bringing in an expert. After all, we provide estate-planning services, but don't go as far as practicing law without an attorney. It's not that different … so herein lies the next dilemma: *Who to trust*?

You have plenty of insurance professionals knocking on your door, so how do you know which one to choose? My suggestion is to ask your most trusted professional network who has already guided you in creating the rest of your professional network. Get a few names and start working on case reviews together. The suggestion to exchange every policy being reviewed is likely a red flag, as not all policies need to be replaced; many just need to be *repaired*. If the insurance professional really understands how the products work, then he or she will know how to fix a broken policy, too. You will earn respect and have happy clients, especially if it involves saving or making money for your client! However, keep an open mind, because replacement can be an appropriate course of action, too.

3. They, or their clients, have been burned in the past.
If this is the case, find out why. It's like the stories about the asset manager who was badmouthed until you later find out the client had unrealistic rate-of-return expectations. The good news is that many of today's life insurance products are actually quite transparent—if you know what to ask for. You need to know to request the "expense pages" and make sure you review them with the broker and your client thoroughly. Feel free to ask as many questions as you like.

Finally, know that insurance brokers also get burned. The classic case is working with a broker for months on both underwriting and plan design, possibly providing estate planning design advice, and then have the broker lose the case to the golf buddy who may have done little or nothing other than take the final illustration and put in the sale order. Don't pit two brokers against each other. It's bad for the client and confusing for the insurance companies when they get applications from different brokers on the same individual at the same time. Instead, get a second opinion from an insurance consultant, but expect to pay for that advice.

4. They try to avoid transaction-based fees, better known as commissions.
As mentioned above, the planner who charges a fee based on AUM is comfortable using the term “fee-only”. The fee is based on a percentage charged on a client’s AUM, with a lower percentage charged for a higher amount of assets. However, it’s not necessarily correlated with the amount of work being performed. Also, the AUM planner gets paid regardless of an increase or decrease in account value. Yes, fees generally increase if the clients’ accounts increase, so the planner can be said to be “aligned” with the clients’ best interest. But, again, the planner is still paid even if his or her work has led to a reduction in account value. OK—blame it on the market. Yes, fees *sound* better than commissions, but let’s not forget we are not talking about a fee that is directly correlated to the work performed, so let’s not be too quick to judge the insurance-based revenue model.

So where’s the real rub? What’s the big reason life insurance is avoided? Life insurance is sold on a commission basis and most brokers receive the majority, if not all, of their compensation as soon as the first year premium is paid. This amount can be equated with the present value of servicing the client for that policy for many years to come. Unfortunately, the public’s perception of the industry—and often, deservedly—is that the broker has no incentive to provide those years of service and therefore doesn’t.

Like any profession, this does not apply to the majority, but rather to a few bad apples. This bunch actually provides a great opportunity for the CPA planner, who has embraced the life insurance model described above, because he or she can separate from the pack! CPA planners are held to a higher standard as a result of their professional ethics, so they are much less likely to run their businesses in such a negative way. Yes, you can find many competent insurance brokers and agents who conduct themselves with their clients’ best interests as the priority, but the CPA planner is required to do just that.

5: There is a potential dilemma to lose the AUM.
Like it or not, asset managers do not want to see their AUM turn into insurance premium payments. Why? Because their income is based on the amount of assets they manage, and fewer assets means less income. Thankfully, again, CPA financial planners would not let this dilemma stand in the way of what is in the best interest of their clients.

Conclusion: A Call to Action!
In order to offer truly holistic personal financial planning services, as we all strive to do, life insurance must be addressed, even if it is dismissed as unnecessary for the client’s financial health. Only a small percentage of clients *never* need life insurance at some point in life, so your clients should be able to count on you to guide them appropriately. Try to lose the bias, if you have one, in favor of learning more about the current best practices in the industry.

About the Author
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insurance and tax planning is the basis for the comprehensive, multi-generational plans that she develops for her clients. Contact her at sbruno@beacon-wealth.com.

Insurance Resources Available to PFP Section Members

The webcast, “Economics of Life Insurance” was presented by Amy Sonstein in September 2013. Among other topics, she discussed the true cost of life insurance and how the type of life insurance owned affects your clients’ retirement lifestyle. PFP members may access the audio recordings and presentation handouts in the PFP webcast library.

The 2014 Advanced PFP Conference included several sessions on insurance and retirement topics, including “Life and Disability Insurance Strategies in Live Situations” and “Retirement Income Strategies.” Audio recordings and presentation materials are available in the AICPA’s online library. Registered attendees for the 2014 conference have complimentary access when they log in through the website (see instructions to access). Those who did not attend can create an account to purchase audio recordings and presentation materials.

If you haven’t visited the Insurance and Risk Management resources page on the PFP Section website, you should! Here, you’ll find a number of resources on all types of insurance, including publications, archives from prior webcasts and member benefits. A self-study CPE course on the Fundamentals of Insurance Planning is also available, discounted for PFP/PFS members.

A life insurance audit plan, developed by Lee Slavutin, is presented in Volume 2 of *The CPA’s Guide to Financial and Estate Planning* (available free to PFP/PFS members and for sale to non-members). Make the most of planning meetings with clients to ensure that their insurance policies are in order by utilizing the checklists in Exhibit 7-2 and accessing the recorded webcast and presentation materials for Insurance Analysis & Implementation: What CPA Financial Planners Need to Know.

Post-Mortem Administration Checklist for the CPA Financial Planner
By Andrew L. Whitehair

In a letter Benjamin Franklin wrote to Jean-Baptiste Leroy in 1789, Franklin quipped, “In this world, nothing can be said to be certain, except death and taxes.” Though we can debate who first coined this iconic phrase, mortality, both ours and our clients’, is *not* debatable. As the American population ages, dealing with the complex tax issues surrounding client deaths will inevitably become more prevalent for CPA financial planners.

Given the low frequency of deaths in any particular client base, many CPAs have not yet gained much experience with death-related issues. As a result, many of those unfamiliar with post-mortem administration may miss several important opportunities or fail to avoid major pitfalls. Conversely, those familiar with the intricacies can provide some well-thought-out strategies for future generations’ success.

The following post-death checklist provides some key areas to consider when handling your client’s estate.

IRC Section 645 Election. Many of the planning opportunities described below hinge on making this strategic election. If the decedent has the power to revoke the trust on the date of the decedent’s death, then the trust is deemed a qualified revocable trust (QRT) and eligible to make an IRC Section 645 election. This election effectively treats the QRT as part of the estate and provides numerous benefits, including selecting a fiscal year-end and combined tax reporting. The election is made on Form 8855 and generally must be filed on or before the due date, including extensions of the estate’s initial income tax return. Late-filed Section 645 elections are not allowed, so pay careful attention to the filing deadline.

Fiscal Year Ends. While trusts typically must adopt a calendar year end, estates are free to choose a fiscal year end. Since QRTs that make a Section 645 election are considered estates for tax purposes, QRTs can adopt the fiscal year end most beneficial to them. For example, if your client dies in March 2013 and a Section 645 election is subsequently made, the trust can adopt a fiscal year end as late as February 2014. Distributions made from the estate, trust or both during 2013 are reported on the Feb. 28, 2014 fiscal year end return, passing through any taxable income to the beneficiaries’ 2014 tax returns. This provides an additional year of income tax deferral. Be mindful to work closely with other advisers to ensure optimal timing of (1) income receipts, and (2) asset sales to ensure tax minimization and maximum tax deferral.

S Corporation Status. A Section 645 election can also help a client avoid tax pitfalls, particularly if a client’s estate owns S corporation stock. Trusts are eligible S corporation shareholders only in limited circumstances, and generally only if an election is made. However, an estate is an eligible shareholder during the period of estate administration. A Section 645 election can extend the time by which a trust is an eligible shareholder, potentially avoiding the disastrous result of an inadvertent S corporation termination. Pay special attention to the expiration of the Section 645 period (the longer of two years from date of death or six months from receipt of an IRS closing letter), because S corporation shares that continue in trust may require a special election.

Charitable Set-aside Deduction. Trusts are generally able to take a charitable deduction only for amounts authorized by the trust agreement and actually paid to charity. However, an estate or Section 645 trust is eligible to claim a charitable deduction for amounts permanently "set-aside" for charitable purposes. Taking advantage of this deduction can provide income tax savings for estates of which a portion of the residual estate goes to charity.

IRA Planning. If the beneficiary of an inherited IRA is a surviving spouse, that spouse can roll the IRA into his or her own name, possibly deferring distributions until age 70½. Non-spouse beneficiaries must understand that distributions can be spread over their life expectancies, allowing for greater deferral and stretching the tax impact over several years. Furthermore, if a decedent dies after the required beginning date for required minimum distributions (RMDs), then the IRA beneficiaries must take the remaining RMD by the end of the year of the decedent's death. Failure to do so can result in a 50% excise tax penalty.

IRD Deduction. An important but often overlooked deduction is the one allowed for income in respect of decedent (IRD) items, such as IRAs, qualified plans and wages. The deduction can help partially offset taxable IRD income for beneficiaries of larger estates subject to the estate tax. Calculate this deduction for the estate and create carry-forward schedules to ensure the deduction is claimed in future years when the related income is recognized.

Estate/Trust Distribution Planning. Given the top marginal rate of 39.6%, plus the fact that the 3.8% net investment income tax applies to estates and trusts with taxable income in excess of only $12,150 in 2014, it is important for clients to consider making interim distributions from the estate, trust or both during the administrative period to avoid paying unnecessary tax. To simplify reporting and avoid unfair tax treatment, pro-rata distributions are generally best.

Final Individual Tax Return. If the decedent has a surviving spouse who did not remarry, married filing joint status is available in the year of death. Therefore, consider which filing status will best maximize tax savings and do not overlook the deduction for medical expenses. Care should also be taken in allocating the income correctly between the 1040 and 1041, ensuring inclusion on the proper tax return. Also, while most carryovers are eliminated at death, pay special attention to both Section 469(g)(2), which allows passive activity losses in the year of death, if the loss exceeds the value of the step up in basis, and Section 196(b), which allows a deduction for unused qualified business credits.

Verify Basis "Step-Ups." IRC Section 1014 provides that property acquired from a decedent receives a new tax basis equal to the fair market value (FMV) at the date of the decedent's death or alternate valuation date if elected. While many investment firms have processes in place to ensure the basis is correctly adjusted upon death, mistakes frequently happen. Add value by working closely with your client's investment advisers to ensure assets are correctly stepped up to their FMV and coded as long-term property.

Section 754 Election. In addition to step-ups on brokerage accounts, clients with interests in partnerships should also consider making a Section 754 election. There are three points to keep in mind:

1. In many cases, another tax preparer may handle the partnership's tax returns, so coordinate with that preparer to ensure a Section 754 basis adjustment is made to accelerate deductions into earlier years.
2. For clients with real estate partnerships, consider suggesting a cost segregation study to ensure any basis adjustment is allocated into the correct asset classes. This will shift basis to assets with shorter depreciable lives.
3. The popularity of publicly traded partnership investments provides another area to add value for deceased clients. Contact the tax support hotlines of these investment partnerships to inform them of the death, and ensure future K-1s accurately report capital and ordinary gains on the eventual sale of the partnership.

Excess Deductions on Termination. Under Section 642(h)(2), non-business deductions in the year of the estate's or trust's termination pass through to the beneficiaries as miscellaneous 2% expenses. If the estate/trust will receive no benefit in a prior year, consider deferring those deductions or accelerating payment to avoid the 2% limitation.

Administrative Expenses. The attorney preparing the estate tax return may be focused primarily on minimizing the estate tax, hence maximizing estate tax deductions. However, administrative expenses may generally only be deducted on either Form 706 or Form 1041, but the same expense cannot be claimed on both forms. Because an election waiving the right to claim administrative expenses is generally needed on Form 706, it is important to communicate with the estate attorney so that expenses are taken where they generate the most value. With top marginal income tax rates now higher than top estate tax rates, the choice of where to claim administrative expenses is not always apparent and requires careful planning and coordination.

A Way to Build More Business

Though every estate presents its own unique challenges, these planning ideas may help you add value and avoid mistakes. Knowledge of post-mortem administration can build business among your existing clients and referral sources because they view you as a valuable member of the estate planning team. No one likes to think about death, but CPA financial planners prepared to have the necessary difficult discussions and equipped with post-mortem administration skills can bring substantial value for their clients and survivors for the long term.

About the Author

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AICPA PFP Resources

The AICPA's PFP section has a number of resources with more information to help CPA financial planners educate themselves, and their clients, on end-of-life matters.

- *The CPA's Guide to Financial and Estate Planning*—This guide is designed for professionals who structure, tailor and administer financial and estate plans. In the clearest of language, the guide explains all the important planning concepts, and examines the most important techniques used to set and meet the financial goals of clients and their families. The guide, available as a free download to PFP section members, inclusive of CPA/PFS credential holders, includes four separate volumes, with content in each one applicable to post-mortem administration.

- *A Guide to Financial Decisions: Implementing an End-of-Life Plan*—Although the content in this publication is designed to educate the public on these issues and encourage them to seek professional assistance, the guide is available as a PDF at no charge for CPAs to use as they interact directly with their clients and prospects as well as other professionals who might be involved. The guide can also be customized with your logo on the front cover and your name and contact information on the back cover.

- Elder Planning Websites—This comprehensive list includes organization websites related to aging and eldercare.

CPA/PFS Profile: Jerry Nightingale

Although it often seems we live in a self-centered world, self-interest is the furthest thought from the mind of Jerry Nightingale, CPA/PFS. Located in Palo Alto, California, Jerry focuses solely on his clients' needs and desires. Planner *recently visited with him to learn more about his practice methodology, his investment philosophy, his volunteer work and leadership positions, and what makes him tick.*

Planner: *What kind of relationship do you have with your clients? Is it all business*?
Jerry Nightingale: My clients and I are very friendly toward each other. I have been the financial adviser for many of my clients for many years. Over that time, we have become close and it is pleasant working with each of them. Exchanging ideas and information and giving advice is rather consultative and amiable. We talk about what's happening with them and their families, their ideas about current events, what the future holds for them, and what's important relating to their financial situation at that time.

Planner: *What is the ideal personality profile of someone engaged in personal financial planning*?
Jerry Nightingale: I don't think I can give the ideal personality profile of someone engaged in PFP, but I do have some ideas. I think financial advisers should have their clients' welfare utmost in mind. They should develop and implement everything around what the clients' needs are, while at the same time, educating them about their finances. Advisers should be relaxed, positive with a ready sense of humor, enjoy problem solving and monitoring the clients' progress toward achieving their goals. Of course, if advisers love what they do, so much the better.

Planner: *Tell us about your investment philosophy.*
Jerry Nightingale: My investment philosophy focuses on individualized asset allocation, diversification and rebalancing the portfolio. I have a fundamental approach with a tactical overlay. Within that framework, I think preservation of capital is paramount. I strive to preserve capital and minimize losses.

Warren Buffett once said that the first rule of investing is don't lose money; the second rule is don't forget rule number 1. If you lose money, you are further in the hole than if you didn't gain, but at least you can start from level ground when the market recovers. When money is lost, you not only lose money, but you also lose time for additional growth by digging yourself out of a hole, back to breakeven, before you can continue growing. Minimizing losses also makes for less anxious clients.

Planner: *You've kept your practice small. Why is that*?
Jerry Nightingale: I like to provide personalized service to my clients. I like to be familiar with them, their accounts and things that can help them. I also like to keep current with my technical skills, such as investments, social security, tax planning and other matters. In order for me to achieve that, I guard against spreading myself too thin, so I try to manage the size of my

practice. I like to be able to have that good balance between knowing my clients, knowing my subject matter and having a healthy life.

Planner: *What is your compensation model? How do you decide how much to charge a client for services*?
Jerry Nightingale: My model is simple. I charge my investment management clients a percentage fee based on assets under management. The more the assets, the lower the percentage charge. That fee includes anything, anytime, and any advisory service I perform, including financial plans, consultations and attending meetings with them. The advisory fee is all-inclusive and facilitates a conversation without clients feeling like they are on the clock. If the person is not a client for whom I manage assets, I charge a flat fee for financial plans based on the complexity of the plan, or charge on an hourly basis for people who want to come in to consult with me about something financial. Those people are usually referrals from other CPAs.

Planner: *You've been very involved over the years with the California Society of CPAs. How has your volunteer work helped you be a better planner to your clients*?
Jerry Nightingale: Another CPA asked me to become involved in the state society years ago, and since then, I've participated on many committees, including Financial Literacy, Finance, and Investment, as well as steering committees and industry forums. My volunteer work has not only led to leadership positions in CalCPA, but also given me skills to hold leadership positions in some non-CalCPA organizations.

My positions in various state and local chapters have helped me become a better planner! I get to listen to, work with and plan activities with very intelligent, creative and good CPA planners and non-planners. We share ideas about planning, taxes, leadership and other matters. Even on the AICPA level, these and other activities open lines of communication so we can contact each other to bounce off questions or concerns. I'm constantly learning from CalCPA and AICPA members.

Planner: *Looking back at your career, what would you have done the same or differently*?
Jerry Nightingale: I wouldn't say everything was easy—and it wasn't without work. But, I think I would do things basically the same. I believe that if you enjoy your work, you almost never work a day in your life. I know many planners who enjoy their work, too, as I do.

Planner: *What book is currently on your nightstand and why are you reading it*?
Jerry Nightingale: I'm currently reading *Flash Boys – A Wall Street Revolt* by Michael Lewis. If the stock markets are rigged, as Brad Katsuyama, a former head trader at Royal Bank of Canada, says in the book, it's important to know if it's true and how. If so, there could be a significant impact on investor confidence, how stock exchanges operate, how trading is conducted by high frequency traders, and on setting guidelines for algorithms and technology.

As a person with a master's degree in Business Administration, and Operations Research and Management Science from the University of Michigan Graduate School of Business Administration, I thought that, someday, operations research would give people an advantage when competing in business. It never dawned on me that management sciences would be used as described in the book. Also, when *60 Minutes* ran its segment with Michael Lewis, one of my clients called me the next day and asked me what I thought about it. We talked some then, but I want to give him a full book report.

Planner: *If you were stranded on a desert island with access to only one piece of technology, what would it be and why*?
Jerry Nightingale: With all the publicity about Amazon drones, and news about private and military uses of drones, I want to have access to a drone that's large enough to transport me to the nearest commercial airport. Then, I can go wherever I want.