Wealth Management

Your Next Essential Business Plan

By Scott P. Hansen, CFP

Every successful business owner understands the value of planning. In fact, creating a well-crafted business plan is one of the first challenges most new entrepreneurs face.

Yet many business owners become so embroiled in the day-to-day running of their companies that they fall short in crafting another, equally essential plan - a wealth management strategy that integrates personal and business planning.

As a business owner, while you continue to grow your company and build your personal worth, the financial issues and challenges you face become increasingly complex.

For example, some entrepreneurs may not integrate their retirement and other investment planning, a common approach among business owners. They invest using their company's 401(k) plan and also invest excess personal income separately. This can result in possible inefficiencies or risk because of duplication and overlap in their equity portfolios. Many entrepreneurs, on the other hand, may set up 401(k) plans for themselves and their employees, then let them ride, ignoring the plans for years. In the meantime, the retirement strategies may become outdated.

Stock options may comprise a substantial portion of your income, and careful management of these options is vital. Having an integrated plan may help you balance your investments and navigate complex regulatory and tax issues that may arise when exercising these options.

It's also essential to review and update your financial plans with a business succession planning professional each year. For example, small business owners may have outdated succession plans in place. A buy/sell agreement may have been established years ago, funded with life insurance that would allow the succeeding partner to buy out the other's interest in the company. These plans often aren't updated. If the value of the company rises greatly and one partner dies, the insurance may not be sufficient to fund the sale of the company to the surviving partner – often resulting in part or all of the company being sold.

Business owners also should plan for the unexpected. For example, the owner is the most important asset of many small companies, so it is important for the owner to be prepared by including disability planning and insurance in his/her wealth management strategy.

Planning also can ease transition and business succession especially important for business owners since, quite often, the company is the largest single component of the owner's family wealth. For example, some business succession plans involve establishing and transferring ownership of a company to a trust. This can help with an orderly and cost-effective transition.

Tax laws have changed dramatically in the last five to 10 years, so it's vital to work with the appropriate tax professional to keep current on new laws and options. New laws may provide some business owners an exclusion from taxation for personal retirement investments that might previously have been taxed, particularly if the owner is considerably older than the average rank and file employees. Further, there may be other types of plans that provide owners better benefits than a 401(k). Tax professionals may also help you develop strategies to lower your liability for example, by shifting tax burdens to family members in lower brackets. This is especially important when it's time to move on.

Most business owners at some point may expect to sell their companies or transfer ownership to their family. Yet they may tend to focus on growing the business without paying attention to how they'll get out of it one day, only to then wake up 10 or 20 years later and say, "I'm tired of this – I want to do something else," or "I want to retire." That's when the reality of high taxes may hit in full force. Integrated planning could have potentially helped reduced their tax burden.

A wealth management professional can help you identify the financial planning issues that are most important to business owners and their families, and then bring together a team of investment and business succession planning specialists who can help clarify your total financial picture and leverage your assets more efficiently while working with

*Please see page **21***

Putting it Together

Issues to consider when you're integrating personal and business wealth management plans:

- **Take stock:** What is your company's cash flow? What are the projections for the next five, 10 and 15 years? What risks do you and your company face that could affect your assets?

- **Establish goals:** Be specific about your goals for wealth, retirement and other issues. Do you want to retire in 10 years and pass ownership of your company to your children? Will you exercise stock options, sell your company?

- **Develop a plan:** Choose debt structures that protect the value of your assets, and develop risk management and insurance strategies to protect your business and your personal estate.

- **Implement, monitor and revise the plan:** Keep your plan up-to-date as situations change, for example, when your business grows and your insurance needs change, when one of your children becomes an officer in your company or when you sell the firm and need to invest the proceeds.

Also in this issue:

17 Your Next Essential Business Plan

18 *Solving the Succession Puzzle:* How to Ensure a Successful Transition for Your Business

20 *Retirement Savings Vehicles:* Does This One Come With Navigation?

20 The Evolution of the Family Office

21 *The New Nimble:* The Importance of Timely Planning

Wealth Management

Solving the Succession Puzzle:

How to Ensure a Successful Transition for Your Business

By Mark Kenny and Min Yoo

Perhaps the most significant risk to the future of any business is one that is often overlooked: What will happen when the ownership or leadership changes? Many business owners put off succession planning—to the detriment of family, employees, and the business itself.

Much can happen without an effective, up-to-date succession plan. One recent example is a company that had an outdated buy-sell agreement when a majority shareholder unexpectedly died. The agreement provided for the deceased shareholder's estate to receive an amount that far exceeded the actual market value of the business, which had declined due to economic conditions. The company did not have sufficient liquidity to pay off the deceased shareholder's estate and it was required to obtain a business loan just to meet the obligation.

Unfortunately, this scenario is not rare. Only 30 percent of family businesses pass successfully to the second generation, according to the Family Business Institute. Still fewer—only 12 percent—survive to the third generation.

With such negative potential consequences, why would business owners delay succession planning? Several barriers and misconceptions are commonly to blame.

- Many entrepreneurs fear succession planning will require relinquishing control of the company they've spent their lives building. The opposite is true: a well-designed, properly implemented plan can ensure that the business owner maintains control, both now and in the future.

- Owners don't understand their options or think their original operating plan will suffice. For example, the husband-and-wife founders of one company assumed they could not increase their 15-year-old life insurance policy, since they were approaching 80. They were facing a $40 million estate tax and lacked the liquidity to meet the obligation. They were also unsure how management of the business would be handled among their four children. Their succession planner was able to develop a strategy that allowed them to replace their life insurance policies, reducing the premiums, and created a succession plan that gave eventual voting control to the two children involved in the business while fairly compensating those who were not.

- Many business owners are so intensely focused on running their business today, especially in challenging economic times, that future planning takes a backseat.

Planning a Successful Succession

The most important step in the process is clarifying objectives and determining whether they are attainable. An experienced succession planner can help business owners envision what they feel is the ideal situation for the future. Complexity may increase if the goal is to transfer the business to family members, as issues of control, compensation, ownership percentages, and personal relationships come into play.

Often, the offspring have conflicting interests. Some want to sell the business to monetize their share; others want to keep the business going. Because the business is often the primary source of income for the immediate family, a detailed cash flow projection and an up-to-date estate plan are also essential, especially given emerging legislative proposals that may affect estate taxes.

If the owner plans to sell the business, to employees or others, tax consequences should be analyzed and steps should be taken to position the business for the sale. In some cases, the owner may want to transfer ownership to the next generation or to a charitable foundation prior to the sale. If structured properly, transactions like this can help business owners manage the tax consequences of the sale.

Once objectives have been articulated, the succession planning team can analyze the business' current situation and devise appropriate wealth-transfer strategies. Each business structure poses unique tax, operational, and legal issues.

Once a plan is approved, the final step is for the succession planner to work with the business owner's CPA, attorney and other advisers to implement the plan. The business owner can now enjoy the peace of mind of knowing their business objectives will be addressed, both now and in the future.

Mark Kenny and Min Yoo are senior wealth strategists at The Private Bank of Union Bank. To schedule an appointment to create a succession plan for your business contact Robert C. Ramos at (818)316-3164 or Ronald A. Chaisson at (818) 316-3162 at the Warner Center Private Bank of Union Bank.

Ramos

Disclosure: The foregoing article is intended to provide general information about business succession planning and is not considered financial or tax advice from Union Bank. Wills, trusts, foundations and wealth planning strategies have legal, tax, accounting and other implications. Clients should consult a competent legal or tax adviser.

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Retirement Savings Vehicles: Does This One Come With Navigation?

By Stephen Rischall

It would be nice to have "retirement GPS", but you won't be seeing that in stores anytime soon. Every second the world is changing, and with it numerous economies around the globe. Murphy's Law states that if something can go wrong, it will, and after experiencing a run up in the markets following the dot com bubble it was only a matter of time until the U.S. economy turned south. There are so many horror stories about people losing half their retirement savings invested in a 401(k), now cynically dubbed a "201(k)." It's scary to see that America's largest generation–the baby boomers–are stuck between a rock and a hard place. If there's anything America's younger generations can learn, it's to start saving for retirement early and often.

Saving for retirement is a necessity, especially with the growing concerns over Medicare and Social Security. A great place to start is by participating in an employer sponsored retirement plan such as a 401(k) or 403(b). But face it, you probably don't want all your retirement assets tied up in your employer's plan because the investment options can tend to be limited. Saving through an employer sponsored retirement plan is a great foundation, but in today's economic climate individuals need to devise a s trategy to save more for retirement. The most common type of personal qualified retirement savings is an Individual Retirement Account or IRA for short. There are several types of IRAs, but the Traditional IRA, Rollover IRA and Roth IRA are the most common. These types of individual retirement accounts provide tax incentives and allow for a vast array of investment choices, but there are several advantages and nuances to each.

> *Saving for retirement is a necessity, especially with the growing concerns over Medicare and Social Security.*

The Traditional IRA is one of the most common vehicles used for personal retirement savings. Contributions to a Traditional IRA grow tax deferred; meaning money won't be taxed until it is withdrawn. When normal distributions commence after age 59½, all withdrawals will be taxed at the individual's ordinary income tax rate for that year. If distributions are taken before age 59 ½ then a 10% federal tax penalty will be assessed along with ordinary income taxes. It is important to note that once an account owner reaches age 70½, they will be required to take minimum distributions each year. The amount they are required to withdraw is based on a calculation of their age and the value of the account. Aside from providing a means for retirement savings a Traditional IRA can potentially offer an immediate tax benefit. Depending on your financial situation you may receive a full, partial or no deduction from taxable income for contributions made to a Traditional IRA. This deduction can potentially lower your marginal tax rate and substantially reduce income taxes, but be sure to consult a tax professional to see how this applies to your specific situation.

Similar to the Traditional IRA is the Rollover IRA. The main advantage of a Rollover IRA is that it allows individuals to maintain the tax deferred status of funds accumulated in an employer sponsored retirement plan, such as a 401(k), 403(b), or profit sharing plan. You may want to consider a Rollover IRA when switching to a new employer or upon reaching retirement. Compared to an employer sponsored plan a Rollover IRA can provide greater control of assets, increased access to investment options, and withdrawal flexibility. The Rollover IRA is ideal for consolidating retirement savings from past employers and setting them aside for distribution in later years. Typically you will not make additional contributions to a Rollover IRA because it may entail unintended tax consequences. Prior to making any decisions about rolling over funds from an employer sponsored plan be sure to review the summary plan description and plan documents provided by the plan administrator. Employees are only eligible to roll over funds from an employer sponsored retirement plan under certain conditions.

The newest player in the game is the Roth IRA which was created by the Tax Payer Relief Act of 1997 and is commonly noted as the most significant change to IRA legislation since its creation in 1974 by the Employee Retirement Income Security Act (ERISA). The Roth IRA has several advantages compared to its predecessor. First and foremost, a Roth IRA serves as a tax free savings vehicle, contributions made to a Roth IRA grow tax deferred and can be distributed tax free after age 59 ½. Surprisingly up to 100% of original contributions can be distributed from a Roth IRA without tax or penalty at any time; however the growth on the account will be subject to a 10% federal tax penalty and ordinary income taxes if you have not reached age 59 ½. Additionally, for investors that may never need to draw income from a retirement account, a Roth IRA is appealing due to the absence of required minimum distributions. This can potentially reduce taxes in later years of retirement that stem from withdrawals for required minimum distributions. Although Roth IRAs offer appealing tax benefits they are not for everyone. Eligibility requirements restrict contributions by individuals whose earnings exceed certain levels and there are situations in which a Roth IRA may not be as advantageous as a Traditional IRA.

When these strategies are implemented correctly individuals have a much better shot at accumulating and diversifying retirement savings. If you're not saving for retirement don't place your bets on the "hope plan:" "I hope there will be enough," "I hope I'll win the lottery," "I hope my children can support me"... Speak with a qualified financial advisor today to discuss your financial situation and develop a retirement savings strategy that works for you.

Stephen Rischall is a financial advisor with Waddell & Reed. He specializes in retirement planning and transition strategies for business owners and individuals. Stephen can be reached at (818)-712-9055 or SRischall@wradvisors.com. For more information please visit his website at www.rischall.wrfa.com.

Disclosure: This article is meant to be general in nature and should not be construed as investment or financial advice related to your personal situation. Please consult your financial advisors prior to making financial decisions.

The Evolution of the Family Office

By Jim Schlager

When we think of the traditional "Family Office,"certain connotations may arise, such as, exceptionally wealthy families (greater than $100 million net-worth). These ultra wealthy families tend to employ a family office type business model as a means to facilitate their complex financial lives. The services they are looking for may require numerous experts that may include a CFO, bookkeeper, attorney(s), money managers and the list goes on- depending on the family's needs. The choice to use a family office may include confidentiality, control, and customization of services. Providing a truly seamless integration of all these components in a collaborative manner can be the overarching reason a family chooses this type of business model.

Many of us have our own version of a family office in one form or another. By way of example, most people utilize a CPA, an investment advisor, an attorney, a life insurance agent, a property casualty agent, a mortgage broker, perhaps a business consultant, and financial planner. With this plethora of service providers comes the frustration of trying to coordinate all of these professionals so that one hand knows what the other hand is doing. In fact, many times advisors will not necessarily understand their clients' overall goals and objectives and in most cases never speak to one another. The generalist advisor who takes gains in your portfolio and fails to collaborate with the CPA is a prime example. Unknowingly, the advisor finds out later that you had recently sold a business property with a large capital gain, inflaming your taxes for the year.

So how can a family with less than $100 million gain all the benefits of a family office environment without incurring all the costs?

Those involved in the entertainment industry quite often use a business manager. This business manager role is similar to that of a CFO. In this role, they may be accountants, bill payer, coordinate the refinancing of your home, maintain your books and records and coordinate the other components of their client's financial life. Besides bill pay services and maintenance of books and records, many times these business managers must outsource other services through other advisors and vendors (e.g. the estate plan, investments, mortgage to name a few) This may be a more cost effective solution for most, however you may also experience struggles that you may not receive from seamless integration of services.

So how do we find an affordable blend between a family office and business manager-that provides all the benefits of a family office-including seamless integration and coordinated services?

Wealth Services or Wealth Management firms may provide the seamless integration of services in a coordinated manner amongst their "in-house" advisors. Firms with this offering have business managers, bookkeepers, accountants, investment advisors, insurance agents, estate planners, business consultants, investment bankers and valuation experts. These services can be useful to a larger group of clients as a fully packaged offering or an "a la carte" offering, allowing families to add on services when their business or personal life cycle demands it.

A wealthy family who also happens to own a family business is a great example of the type of client who could benefit from a Wealth Service or Management firm. In this example, the client did not want the additional responsibility in employing all the in-house advisor professionals required to run a traditional family office. However, they were adamant about confidentiality and seamless integration of services-they did not want anything to fall through the cracks. Their lives were chaotic enough with children and grandchildren along with running the family business. They engaged the firm based on their highest priorities which were personal and corporate taxes, investment management, including their business pension, and business management. A few years later, the family was thinking about selling the business, so they completed a business and personal financial plan which then was integrated with their estate plan.

Because there were no family members to take over the business from the family patriarch, they decided to sell. The firm completed a valuation of the business and their investment banking arm facilitated the sale. A tremendous amount of planning is involved in this entire process, however as a result of a collaborative integrated Wealth Services approach, it was seamless.

Family office, business manager or Wealth Services, wealthy families, have a choice, based on their family and business complexities, personal needs and goals.

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Moss Adams Wealth Advisors was recently named one of the top investment advisory firms in the country. For more information contact www.mossadams.com.

The New Nimble: The Importance of Timely Planning

Preparedness as the antidote to uncertainty is not a new concept. It dates back to the Boy Scout mantra since the early 1900's.

What is new is the unprecedented shift in the economic, investment, and planning environment that has left in its wake a new reality — a reality where lessons gleaned from the past crisis are crucial to preparing for the future and one that dictates taking timely action even in the face of uncertainty. Especially in times of dynamic change, opportunities that present themselves must be acted on quickly and plans must be nimble enough to change course as needed.

For the foreseeable future, addressing the impact of sweeping changes and the agility to adapt will be crucial to effective overall wealth planning. The list of opportunities and planning techniques and the accompanying actions for consideration below enumerates just some of the compelling planning techniques for wealthy individuals and families to consider based on current economic and financial market realities. It is not intended to suggest specific action, rather it is meant to illustrate that nimbleness and adaptability — not inertia — will be vital attributes in navigating the next decade.

Asset Location

Weigh the potential, unique to each situation, of mitigating impact of higher taxes by placing high-dividend stocks and other tax-inefficient assets in tax-deferred accounts and shifting long-term growth assets to taxable accounts.

Current Low Interest Rates

Transfer wealth to children and grandchildren while the IRS-required interest rates (§7520 or Applicable Federal Rate (AFR)) are at historic lows.

Proposed Legislation

Monitor current legislation for potential changes. For example: further changes in income tax rates and estate tax provisions; possible extension of provision that allows a person over 701/2 to exclude from income a direct transfer of up to $100,000 from an IRA to a charity; proposal to tax part or all of the "carried interest" of hedge fund managers as ordinary income rather than capital gain.

Restrictions on Grantor Retained Annuity Trusts

Take advantage of short-term and zeroed-out GRATs to transfer assets to family members before proposed legislation makes GRATs less favorable.

Roth IRA Conversions

Consider converting a traditional IRA to a Roth IRA before increase in income tax rates.

Scheduled Increase in Tax Rate on Qualified Dividends after 2010

When appropriate, consider other asset classes, such as REITs, that are no longer burdened by a less favorable tax rate than investments paying qualified dividends.

Suspension of the Estate and Generation-Skipping Transfer Taxes

Consult counsel about feasibility of transferring wealth to children and grandchildren to benefit from lower gift tax rates and avoid incurring generation-skipping tax before the tax law changes in 2011.

Valuation Discounts

In cases where a family member business transfer is planned for non-tax (i.e., business or personal) purposes, consider reorganizing legal structure of assets into a partnership or limited liability company and transferring partial interests in the new entity. This can afford more efficient management and liability protection while also realizing benefit of currently available valuation discounts for transfer tax purposes.

For more information about BNY Mellon Wealth Management, please contact Tracy Nickl at (818) 963-0464 or via tracy.nickl@bnymellon.com.

Disclosure: Provided for illustrative purposes only. Planning opportunities should be considered in the context of each individual's unique situation, in consultation with a legal or tax professional.

Essential Business Plan

*Continued from page **17***

your tax professional to potentially help achieve maximum tax advantages for you and your family.

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