

# Wealth management for business owners

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*An interview with National Director of Financial Planning (NDFP)*

**Q: What is wealth management and how does it differ from investment management?**

**A:** Investment management is the process of managing financial assets like stocks, bonds, cash and mutual funds in order to achieve a specific goal like retirement or college funding. Wealth management expands the focus considerably by looking at virtually everything that impacts an individual's net worth: a privately-held business, personal residence, vacation property, insurance, loans, taxes, the needs of beneficiaries and so on.

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**Q: When business owners consider this total net-worth package, is there a particular area they tend to overlook or neglect?**

**A:** Business owners seldom pay enough attention to [estate planning](#) because it's difficult and, to a certain extent, it's unpleasant. They also tend to forget that retirement benefits and life insurance policies should be treated as part of an overall estate. If these assets are managed improperly or ignored, the IRS will gladly pay attention to them.

**Q: What's the most common mistake business owners make when it comes to managing personal wealth?**

**A:** Neglect. They simply don't have the time to handle the tremendous number of details wealth management requires. If you're already working 80-hour weeks, how much time can you spend considering how assets are titled, or whether there are methods of shifting tax burdens to family members in lower brackets, or whether there's too much risk in an investment portfolio?

**Q: Since most business owners already have relationships with professionals such as tax advisors, lawyers and bankers, why do they need wealth managers?**

**A:** Wealth management pulls all the disciplines together on the client's behalf. You can have the greatest players of all time on your team, but if they don't play together you won't win any championships. So a [wealth manager](#) works with a line-up of legal and financial advisors to implement an agreed-upon game plan.

**Q: Is there a one-size-fits-all wealth management approach that works for owners of, say, tech firms and retailers or agribusinesses?**

**A:** There are significant differences for each type of business. A family farm, for example, can utilize a family limited partnership, where a publicly traded tech firm cannot. On the other hand, the shareholder of a publicly traded firm can sometimes gift stock options to an irrevocable trust. There are hundreds of

income and estate tax strategies. The job of a wealth management team is to pick the right approach for the individual situation.

**Q: Does wealth management include succession planning for family-owned businesses?**

**A:** Absolutely. You can't manage wealth if you're not paying attention to a client's largest asset.

[Succession planning](#) is typically something that needs a team of players and considerable clarification of personal values. What does an individual ultimately want to do with a business? What's important to them? It's really a decision based more on principles than economics.

**Q: Stock options have become an increasingly popular way of rewarding and motivating people, including business owners. What do option holders need to consider before exercising?**

**A:** Most people know they have to consider the regulatory and tax issues carefully before making a decision to exercise. What many option holders don't think about is that a small change in the underlying stock price can override those issues. In addition, option holders usually have what amounts to an unhealthy concentration in the stock, and those securities tend to be restricted as well. So managing stock options needs to be part of an overall wealth management plan.

**Q: You're suggesting that option holders worry primarily about tax consequences when the real issue is far broader?**

**A:** People get so focused on deferring \$200,000 of taxes that they ignore the fact that a one dollar drop in the price of the underlying stock can result in a paper loss of \$500,000. Taxes are certainly an issue, but they're not the only issue.

**Q: Speaking of taxes, are there some estate planning approaches that are useful for entrepreneurs?**

**A:** One program that's particularly effective is split-dollar life insurance. As an individual, I can own either the cash value or the death benefits associated with a policy. The other portion can be owned by somebody else. For example, the corporation can own the death benefits and a beneficiary can own the cash values. It's a method of getting life insurance for an individual at a very low cost.

**Q: What about the outright gifting of assets?**

**A:** There are many ways to accomplish that, but each needs to be looked at extremely carefully because there are complex rules that govern the permanent shifting of assets. That said, I'd cite transferable stock options as one example of an effective gifting strategy. If you pay the tax on the difference between an option's current value and the strike price, you can then gift that option to a charitable remainder trust or a family member. If the stock then appreciates significantly over time, you've transferred value out of the company while avoiding a significant amount of the tax bite.

**Q: Does a wealth management strategy get implemented all at once or are there a number of gradual steps?**

**A:** It's a process, not an event. It's taken years for the business owner to build the company and gain the wealth the company represents. By the same token, it may take years to properly enhance and

protect that wealth. A good wealth management team takes the time to evaluate all the issues, then starts with those that are easy for the client to do. At the same time, the team should be emphasizing the strategies that are most critical for the client whether they're easy to accomplish or not.

**Q: Are you suggesting that the implementation of a wealth management strategy is difficult for the business owner?**

**A:** I don't want to make this sound like a root canal procedure. As part of a wealth management team there are many things I handle for my clients without them getting involved. A good wealth manager saves the client time and helps the client address those issues that create the most value.

**Q: After the implementation of a good wealth management strategy, does the business owner find that there's a flow-through benefit to the company?**

**A:** Most of our clients tell us they value our advice on issues like employee benefits, cash-flow management, improving returns on accounts and business tax management. You can't separate a business from its owner; it's one package. The entrepreneur's the expert in his particular area of expertise, but most business owners find there's a beneficial transfer of knowledge to the areas where they're not experts.

**Q: What should a business owner look for in a wealth manager?**

**A:** A good wealth manager needs high levels of expertise and an ability to work alongside professionals who are currently serving a client's legal and financial needs. By the time I finish looking at a client's situation, I understand their cash flow, their tax bracket, their cash-flow projections for the next 15 years, the risk involved in the business and other assets.

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