FINANCIAL SERVICES ADVISORY
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Are You Putting Too Much Money Back Into Your Business?

When you started your company, no doubt investment capital was at a premium. Many entrepreneurs borrow from family and friends, tap home equity, and run up credit card balances to the limit. Though risky, that's just the cost of following a dream. But now, with your business humming along, you may face a different risk. Failing to take money out of the company could imperil your long-term personal financial health.

One problem with paying yourself too little and not funding retirement savings is familiar to anyone who remembers the corporate meltdowns early this decade. When erstwhile Wall Street darlings suddenly crashed and burned, employees were left holding virtually worthless company shares. A similar fate could await owners of small businesses who keep most of their net worth tied up in company stock. If you've poured all of the profits back into the business, what will you be left with if it ultimately fails?

And even if it keeps growing, at some point you need to ask yourself exactly what you hope to accomplish. Are you planning to take the business public someday, generating a big, long-deferred payday for you and the company's other investors? Do you hope to hand off the business to another member of your family? Or are you simply plowing money back into the business for growth for its own sake?

In some scenarios, it may make sense to reinvest as much capital as you can. But the road to an initial public offering is long and treacherous, and very few small businesses ever get there. And what if the heir you're counting on to take the reins ends up having other plans? Though there are plenty of other ways to exit a business, including a sale to a competitor or to your own workers through an employee stock ownership plan, those options, too, put off your ultimate payday and assume the company will continue to thrive.

Instead, you could approach your role with the business as if you were leading a major corporation. Though corporate executives may defer some compensation, they also make sure to receive generous salary packages and fully funded retirement plans. They realize that while they may be on top now, that could change overnight. They also want to be able to live well, enjoying the perks of success while still young and healthy.

How much should you take out of your business? And what are your options? You might start with your own compensation. "Pay yourself first" is

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To Be, Or Not To Be... A Fiduciary

Definition: The **fiduciary** duty is a legal relationship of confidence or trust between two or more parties. One party holds a **fiduciary relation** or acts in a fiduciary capacity to another, such as an investment advisory firm with a responsibility to its investors. As a fiduciary, we at FSA are required to act at all times for the sole benefit and interests of our clients, with loyalty to those interests.

Many brokers of financial products (investment, insurance, real estate, etc), for example, are not held to a fiduciary standard. Simply put, they are not required to do what's best for you, but rather to merely make sure that you're suitable for the investment. Ever hear of the teacher who bought a $700,000 home, while making $40,000 per year? A mortgage broker could argue that at the time of getting the loan, she was "suitable" due to the creative (now we know, harmful) mortgage solutions – but was it in her best interest? No. And that's the difference.

We hope you have comfort knowing that our advice to you always stems from one thing – making sure that your interests come first. For more details, read the article regarding the role of a fiduciary. Also enjoy other articles around IRA rollovers and how to best handle planning with blended families.

Lastly, as you come across friends, family, or colleagues that are questioning their advisor or investments, please have them call us and we would be happy to give them the advice that you would be proud of.

Jim Joseph, CFP®
Vice President

Ensuring A Smooth, Smart IRA Rollover

When retirement finally beckons and you begin to tap the funds in your 401(k) or other retirement plan, you can expect to give the IRS its share—at ordinary income tax rates as high as 35% of any withdrawal. But if you don't need the cash immediately, a better option may be to transfer the money to an individual retirement plan, or IRA.

A properly executed rollover to an IRA postpones current tax on the funds you transfer and keeps the money growing tax-deferred. (You can do this when changing employers as well as at retirement.) Eventually, you must make taxable withdrawals, but not until the year after the year in which you turn age 70½. It's also possible to transfer money from an existing IRA to another IRA, to get a better menu of investments, say, or to consolidate accounts.

Though making a successful rollover isn't difficult, several pitfalls could lead to unnecessary taxes. Avoid these six common mistakes.

1. Not meeting the rollover deadline. The tax law requires you to complete a rollover within 60 days of receiving funds from your cashed-out retirement plan. Otherwise, the distribution is fully taxable on the current year's return, and you could face a 10% penalty for a premature withdrawal if you're under age 59½. That could get pretty expensive—50% or more of the value of your account when you consider federal and state taxes along with the 10% federal penalty and possible state penalties.

2. Not arranging a trustee-to-trustee transfer. Unless you make other arrangements, your company's retirement plan administrator will impose 20% income tax withholding on a payout, even if you intend to meet the 60-day deadline. Though you may recoup the money when you file your taxes, you'll have to come up with the cash before then to complete a tax-free rollover. To avoid the issue, instruct your plan to send funds directly to the new IRA.

3. Not rolling over sufficient funds. If you don't use a trustee-to-trustee transfer—say, you need to use the funds for 60 days—you must deposit the exact amount in the IRA that you received as a distribution. Any shortfall is subject to tax (plus a possible early withdrawal penalty).

4. Making this an all-or-nothing proposition. You don't have to roll over your entire retirement account balance. If you need cash now, you could take a partial taxable distribution and transfer the rest to your IRA. Alternatively, to better manage the tax implications, you could transfer the entire amount and do a separate distribution from the IRA.

5. Rolling over to the wrong IRA. You can make a tax-free rollover only to an IRA you own. Mistakenly transfer the funds to your spouse's IRA or another account, and the distribution is taxable.

6. Making too many rollovers. A "rollover" is when you take possession of the funds before re-depositing them in an IRA. While you are allowed multiple "transfers" per year, you are only allowed one "rollover." Subsequent rollovers within the same year will be treated as a taxable distribution.

If you'd like our help in arranging a safe, tax-free rollover or transfer to an IRA, please give us a call.●

Trust A Fiduciary To Act In Your Best Interest

You may have heard of the term "fiduciary," but do you understand what it means for your finances? Is there really a difference between a fiduciary and a non-fiduciary advisor? You betcha. And that difference is you.

A fiduciary has a legal obligation to act in your best interests, above his own and those of his firm. While many industry associations have certain fiduciary recommendations or oaths that they require of their members, all fiduciaries must adhere to these principles of the advisor-client relationship:

1. Be competent and exercise due care
2. Loyalty to the client
3. Full and adequate disclosure

Today, Registered Investment Advisors (RIAs) commit to a fiduciary responsibility and have to state it in writing. Commission-only reps, on the other hand, are merely in the business of making financial transactions—like helping you to buy mutual funds or annuities. They have no obligation to choose the investments that work best for you, and, naturally, may steer you towards suitable, but not the most ideal, investments that give them greater commissions.

Hybrid advisors—those who work on both commissions and fees—have a more opaque situation. They can charge you rates for providing advice, but then can also receive commissions for selling you certain investments. By receiving commissions, the objectivity of their recommendations becomes uncertain.

With a fiduciary advisor, the clients' needs must come first. If there are any conflicts of interest, they must be fully disclosed. A fiduciary advisor carefully assesses

Solutions To Problems Second Families Often Face

A "blended" family with children from more than one marriage face an array of financial problems and choices that a traditional family never has to consider. The complications that come into play when there are children from one or two previous marriages and many sets of parents and grandparents can be daunting. Ex-spouses, remarried or not, only increase the complexity and financial challenges.

Studies show that blended families are less likely to have a clear idea of retirement goals and more likely to have problems saving enough money for retirement. Those who get past these stumbling blocks may encounter another hurdle—ensuring their estate is distributed according to their wishes and equitably addresses all of the competing interests.

Suppose you want to make sure your children from an earlier marriage receive benefits from your estate. Or you may hope to provide financial assistance to your in-laws from a first union. You could simply leave those responsibilities to your current spouse, bequeathing everything to her and trusting she'll be equitable in carrying out your intentions. But she could easily choose another course, spending all of the money, directing it to her own parents or children, or remarrying and giving to her surviving spouse.

Here are three common estate-planning situations blended families may face, with possible solutions for handling the complications.

Take preemptive action. You are about to remarry, and you want to ensure that your children from a prior marriage inherit a portion of the assets you are bringing into the new marriage. The most effective way to accomplish that is to forge a prenuptial agreement (also known as a premarital or an ante nuptial agreement) before the wedding.

A "prenup" can include any provisions that both of you agree on.It could state that the assets each of you bring to the marriage will remain your property, to be distributed however each of you sees fit if either spouse dies or you divorce.

Keep in mind that in most states, if there's no prenuptial agreement, your new spouse will have "spousal elective share rights" upon your death. This means the surviving spouse will be entitled to claim a certain percentage of your property, with the proportion typically determined by how long you were married. A prenuptial agreement can waive the normal provisions of state law or restrict them to certain property types.

Close the barn door. Suppose you're already in a second marriage and there's no prenup, yet you want to protect assets from a future claim by your current spouse. A post-marital or postnuptial agreement could accomplish the same purpose as a prenup. Postnups, honored in all states, specify each spouse's rights and responsibilities in case of divorce or death. As with a prenuptial agreement, both spouses must reveal all of their property and assets and must sign the agreement, and that may be an issue, particular if the marriage isn't going well. If a spouse can prove he or she was coerced into signing, the document may be invalidated.

Spread the wealth. A prenup or postnup isn't the only way to make provisions for your current spouse while also assuring that your estate benefits your children from a prior marriage. A QTIP (qualified terminable interest property) trust can be an effective way to head off issues that may arise if you simply leave all of your assets to your current spouse and assume she'll carry out your wishes. Though you and your spouse may agree now on how your property will be distributed, things could easily change after your death. Your spouse could remarry, and that new husband or wife may want a share of the estate. There's also the chance your spouse could mismanage and squander the inheritance.

A QTIP trust can provide lifetime income for the surviving spouse while mandating that the trust assets ultimately go to your children, typically after the death of the surviving spouse. A trustee, who can be your spouse or someone else, is responsible for managing the money and making distributions according to the terms of the trust.

Another alternative is an irrevocable life insurance trust, or ILIT. The trust owns an insurance policy on your life, and the death benefit, which goes to the trust, will be distributed according to your instructions specified in trust documents. For that matter, a plain old life insurance policy can also assure a benefit to children of a prior marriage.

We can help you identify your planning goals and develop and maintain a plan to reach them, even as they grow more complex over the years. ●

your financial situation and recommends a diversified portfolio that serves your financial goals. The fiduciary advisor will start with what you want to achieve—from paying your children's college costs or buying a second home to funding your retirement—and considers how long you have to get there. She probes your comfort level with investment risk then designs a mix of investments most likely to move you toward your objectives. She also analyzes your need for insurance and assesses the impact of taxes.

A 2007 federal court ruling helped clarify the distinction between financial planners and advisors and non-fiduciary fee-based advisors affiliated with broker/dealers. The court ruling ended an exemption from the Investment Advisors Act of 1940 that had allowed broker/dealer-affiliated advisors to charge fees and call themselves financial planners and investment advisors while not being held to a fiduciary standard of conduct.

When dealing with our firm, you don't have to worry about conflicts of interest related to selling products. We have a legal obligation and a professional oath to put your interests first, and you can trust that we will strive to go above and beyond that obligation. ●

A Walk Every Day Can Keep Aging At Bay

It's much easier to talk the talk about staying young than it is to walk the walk. Starting in our 20s and 30s, we commence a long, seemingly inevitable physical deterioration. Our maximum heart rate declines, and with it the amount of oxygen-bearing blood the heart can pump. Muscle is gradually replaced with fat and weight edges upward. And decade by decade, as oxygen intake drops, it becomes a little harder just to get around. Eventually, in our 70s, 80s, or 90s, most of us lose our "functional independence," the ability to live on our own. We move to assisted-living or nursing homes because, literally, our living needs to be assisted.

But what if there were a simple way to turn back the clock? In a recent article in the British Journal of Sports Medicine, Roy Shephard, a physician at the University of Toronto, reports that for people 64 and older, a vigorous, hour-long walk five days a week cuts a dozen years from their biological age. In a review of other published work on the subject, Shephard found that such an exercise program could also extend a person's functional independence, which tends to be lost when maximal oxygen intake falls below 18 milliliters per kilogram per minute in men and 15 ml/kg/min in women.

Without this kind of exercise program, about 10 years of physical aging normally corresponds with a loss of about five ml/kg/min. But Shephard found that beginning a program of vigorous aerobic exercise could restore about 25% of maximal oxygen intake within three months, raising that essential level by an average of six ml/kg/min and decreasing biological age by 12 years.

Shephard also found that regular exercise provides other benefits, helping prevent conditions that may hasten aging including obesity, high blood pressure, diabetes, heart disease, osteoporosis, and even some kinds of cancer. And the improved muscle tone that comes with brisk walking, swimming, or other aerobic activities may help older people avoid falls.

Another study, from Texas, further highlights what exercise can do. In 1966, five healthy 20-year-olds were kept in bed around the clock| for three weeks—and suffered many of the ills normally associated with aging. They gained weight, their heart rates and blood pressure rose, and their hearts lost pumping capacity. Then, an eight-week exercise program more than reversed the effects of inactivity. In a follow-up with the men 30 years later, actual aging had imitated the effects of the forced bed rest. But here, too, an endurance exercise regimen undid most of the damage, restoring all of their lost aerobic capacity.

The moral? Exercise always helps, and it's never too late to start pushing back the hands of time. ●

Too Much Money Back In

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timeworn advice, but it's also essential, and in developing the annual budget for your company, begin by penciling in competitive compensation for yourself. Once you acknowledge that as a necessary cost of doing business, it will become less of an issue as you chart plans for future growth. And the money you take home will be a tangible reminder of what you've been working so hard to achieve.

For retirement savings, there are many possibilities. If you have done little so far or simply want to pull out maximum cash from your business, a defined-benefit plan could help. Here, you work backward from a specified future benefit to determine how much your annual contribution must be. In most cases, this requires actuarial calculations taking into account years to retirement, life expectancy, and other factors, and you'll need to fund future benefits for a number of your employees as well. Businesses with only a few workers can consider off-the-shelf defined-benefit plans, while plans built around annuities or life insurance might enable you to set aside several hundred thousand dollars a year. And all of the company's contributions are tax-deductible as a business expense.

A wide range of defined-contributions plans, from garden-variety 401(k)s to SIMPLE and SEP IRAs and profit-sharing plans, could also help you pull out money from your business while reducing taxes and providing retirement income. One major advantage of such plans is that, unlike defined-benefit plans for which annual outlays are mandatory, you may be able to contribute less in years when business is slow. And while annual contribution limits are lower for defined-contribution plans, your business could use both kinds of plan to maximize tax-advantaged savings. Moreover, 401(k)s and most other defined-contribution plans offer relatively broad investment options that can help diversify your retirement savings.

We can work with you to sort through the many options for funding your current and future compensation and will gladly answer whatever questions you may have on these topics. ●