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You need an advisor

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More than $50,000 annually

YOU NEED AN ADVISOR

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Do executives on their way up the ladder of success still believe that as soon as they earn $50,000 or more a year all their financial concerns will disappear? Experience says that nothing is further from the truth. The more a person makes and the more he accumulates, the more concerned he should become about family financial matters.

What were luxuries years ago have become necessities. The living style the executive now seeks on retirement—or for his family after he is gone—bears no resemblance to that style he dreamed of years ago. Moreover, he now has to deal with income tax and estate tax laws that may well deplete the funds he wishes to provide to his family.

Executives are busy people. Business and community responsibilities make enormous demands on their time. They often seem to have time for everything but taking care of their own financial affairs. In addition, an executive seldom has the required specialized knowledge. Income tax and estate tax laws, executive compensation packages, and tax oriented investments are very complex subjects.

As a result of this lack of time and knowledge, the organization and planning of the executive's personal financial affairs seldom gets done. To fill this void, a number of people offer financial planning services for executives. In fact, many business periodicals report that such counseling is one of the hottest fringe benefits being offered executives today by their companies.

To define financial counseling and state who is performing the service is not as easy as it might seem. The services can be as narrow or as broad as the executive and his counselor wish. Limitations are imposed only by the wishes and needs of the executive or by the background, ability, and knowledge of the person or group rendering the

Continued on page 44

counseling service that has been requested.

The desire to offer this service has drawn a great many individuals and companies into financial counseling. Education, experience, and professional credentials vary greatly. At one extreme, there are salespersons with limited technical knowledge who are not subject to regulation; and on the other extreme are CPAs and attorneys who have met educational requirements and passed professional examinations and are subject to professional rules and ethics. Somewhere in between there are individuals or such institutions as banks, brokerage houses, and newly formed counseling companies.

An Executive Financial Counseling Program

Since financial counseling varies according to the qualification of the counselor, the best way to explain this service is to describe the one with which I am most familiar.

At Touche Ross, executive financial counseling is an objective planning service geared to shift much of the financial and tax planning burden other than decision making from the individual executive to the professional counselor. Executives can receive this service on an individual basis or as a company-provided fringe benefit.

The benefits to the executive go beyond mere peace of mind. He is provided with a single professional counselor who can coordinate all the interrelated aspects of his personal financial affairs. Such counseling may include any or all of the following: tax return preparation, income tax planning, estate tax planning, and family security or retirement planning. Cash management and utilization of company benefits may also be provided. And finally, the counselor may cover certain aspects of investment analysis. Once all of these are coordinated, each executive can conduct his personal affairs in much the same logical manner as he conducts his corporate affairs.

The benefit to a company of having outside professional advisors help its executives is apparent. First, this service is an important and discernible executive fringe benefit secured at a low cost to the company. Also, once the executive's affairs are in order, he can devote more time and energy to both his company and his family responsibilities. An additional benefit is a better appreciation by the executive of his company's overall compensation program.

Comprehensive financial planning starts with the assignment of an experienced senior financial counselor. He will be an accountant who has specialized in the field of taxation and he may also have legal training. The executive is interviewed by the counselor, who records all personal and financial information as well as the family's financial objectives, using specially designed forms. (Often the objectiveness and experience of the counselor help the executive formulate his objectives more clearly.) Wherever feasible, the spouse is included in financial counseling.

Following the initial interviews, the counselor will provide the executive with consulting services, tailored to his needs, in any or all of the areas listed below. Each phase of the project will be documented by written analyses, recommendations, and summaries. Many of these phases are also reviewed periodically to determine if any changes are required.

1. *Tax Return Preparation*

The simplest kind of financial service is the preparation of income tax returns. This covers all federal, state, and local income tax returns that the executive is required to file. The counselor is also available to represent the executive in any possible examination of his tax return. Most counselors, other than accountants, do not prepare tax returns. However, preparing tax returns is a necessary service and a building block, as well as a source of valuable information for financial planning. A counselor can, of course, work from income tax returns prepared by others.

2. *Income Tax Planning*

Income tax planning includes a complete review of the executive's income tax returns and his current activities. Emphasis is placed on tax reduction and tax deferral, and recommendations include the timing of both income and deductions. The counselor works with the executive throughout the year to make sure that he benefits from maximum tax-saving opportunities under existing tax laws.

Income tax planning requires an extensive knowledge of tax laws. The tax implications of salary, bonuses, stock options, investment income, capital gains, and various deductions is a complex matter. So is the interrelation of the minimum tax on tax preferences, income averaging opportunities, the maximum tax on personal service income, and the taxing of capital gains. Add tax-sheltered investments and the counselor's job clearly calls for a broad knowledge of tax planning.

3. *Family Estate Planning*

Estate planning is an essential ingredient of personal financial planning. An estate planning assignment begins with formulating family objectives. Although it is the executive who decides what is to happen to his assets on death, the counselor's experience and objective approach can be invaluable.

The next step is to develop a profile of the present estate—really, a fair market value personal balance sheet. It is done in conjunction with a review of wills, trust agreements, life insurance policies, and company benefit plans. The purpose is to estimate estate taxes, evaluate the liquidity of the estate, establish what the beneficiaries will receive as income and assets, and determine how the results compare with family estate objectives.

The last step in estate planning is to recommend changes that will reduce taxes and help the family to achieve its objectives. This final point is important. All planning and tax savings are meaningless if they do not further the family objectives.

4. *Cash Management*

Another function of counseling involves cash flow forecasting. This is the analysis and projection of cash receipts and cash disbursements. Although this sounds rather mundane, it provides information for most other aspects of financial planning. For instance, how would one devise a plan for exercising stock options over a period of years without the benefit of a cash flow forecast? It is not at all helpful to suggest an investment program to an executive who will not have sufficient cash to invest.

Next comes cash budgeting and management, determining cash flow and cash needs, and then working out a program to make proper use of the available cash. It is intended to discipline the executive's handling of his own finances. Many executives need—but very few seek or receive—help in cash budgeting and cash management.

5. *Company Compensation Benefits*

This phase includes reviewing, summarizing, and advising the executive on whatever company compensation plans and fringe benefits are available to him and how best to utilize such benefits. The advantages to the executive are obvious. But well-planned company benefits are also advantageous to the employer because they create a more satisfied executive—one who is less likely to seek employment elsewhere. Consultation in this area is closely coordinated with both income tax and estate tax planning.

It is important to note that the counselor does not recommend methods for improving company benefit plans. However, after the first year of counseling the executive group, he is available to assist the company in an overall review of its executive compensation program. Obviously, he will be in an excellent position to discuss the effectiveness of such a program and whether or not there are alternative benefits that may be more appropriate from both the company's point of view and the executive's point of view.

6. *Analysis of Investment Opportunities*

By and large, executives believe they are paying too much in taxes. In the past, many have looked to an investment with tax advantages—a tax shelter—as a remedy for their tax problems. However, it is questionable how many will now be interested in tax shelters, considering the investment results of the last few years and the enactment of the Tax Reform Act of 1976. Financial planners can offer many levels of advice concerning tax shelters. It may range from a mere educational effort, to a limited evaluation of specific investment opportunities brought to the counselor by the executive, to giving specific recommendations on whether to invest or not to invest.

At Touche Ross, the counselor assists the executive in analyzing the tax and financial consequences of tax shelters and other investment opportunities brought to his attention. It should be noted that, although this does not include specific purchase recommendations, it does cover advice on specific tax implications, risk liquidity, an investment's overall merits, and its appropriateness in the client's financial situation. When necessary, of course, the consultant will work with the investment advisor or broker.

Finally, there is the implementation. A written report documents the information gathered, its analysis, the appropriate calculations, and recommendations. The counselor then meets with the executive, and where feasible with members of the family, to explain the written report and to assist in decision-making.

Occasionally, the question of confidentiality is put to one of our certified public accountants. Our response is unequivocal. Each executive is considered a separate client, and his information is kept on a confidential basis.

Implementation of the planning may involve attorneys, investment advisors, bankers, and insurance advisors. The financial advisor helps to coordinate these individuals.

Conclusion

Few consultants have the experience that an accountant has with tax returns, income and estate tax planning, cash forecasting and budgeting, utilization of company benefits, and the tax aspects of investments. By utilizing his broad, professional background and his working relationship with members of the financial, legal, and insurance communities, the accountant can offer his clients a comprehensive approach to executive financial planning. Moreover, his primary concern is to give professional advice and service. He is not selling insurance or investments, nor does he receive a fee, as trustee or executor of an estate. Since his only remuneration is the counseling fee, he can be objective and analytical.

During the past few years, executive financial counseling has become an exciting new field. It provides all the information one must have in order to manage and plan one's financial affairs. In this age of specialization, such a counselor has emerged as a much-needed advisor to the executive and his family. △