Key Challenge in Finances

What's the best way to integrate your financial team?

By Paul Ahern

Contrary to public opinion, wealth management encompasses much more than a financial planner picking a few securities and other investment options. In fact, a well-qualified financial planner helps clients in four key areas of comprehensive wealth management — portfolio management, estate planning, tax planning and risk management. To accomplish that, the financial planner needs help from at least a CPA, an attorney who specializes in estate planning and an insurance professional. Think of the financial planner as the lead adviser, a person in charge of defining clients' goals and key challenges.

Let's look at a financial planner's interactions. Start with the estate attorney. An estate attorney must review how assets are titled to make sure it's consistent with the client's wishes in trust documents. Titling issues are a big deal. If accounts are improperly titled, a person could inadvertently leave money to the IRS. Meantime, some court costs could be minimized and some capital gains taxes could be eliminated. Additionally, estate attorneys should review beneficiary designations to ensure that estate and gift taxes are avoided upon death. And an estate attorney can advise whether a client should set up an irrevocable trust and fund it with current assets. This kind of trust keeps future growth (and subsequent taxation) out of the estate. The financial planner must work with the estate attorney to identify all those areas.

A good adviser should provide a written financial plan that forecasts future growth inside the client's estate. This allows both the planner and the estate attorney to pinpoint potential estate or gift tax issues arising upon death.

Moving on to the CPA, tax returns tell a lot about a person and help financial planners do their job more effectively. For example, a client with a concentrated stock portfolio that has highly appreciated might be less inclined to sell some of those stocks because they want to avoid capital gains tax. However, by working with the client's CPA, an adviser could determine if there were any prior-year losses the client was carrying forward. Capital losses offset capital gains dollar for dollar.

Tax returns also allow a financial planner to create tax-sensitive investment strategies by using various investment alternatives that minimize income taxes.

Then there's the risk management specialist, or insurance professional. A risk manager helps clients identify potential areas of exposure and address them before they become costly. For example, if a client goes into a nursing home, it can cost tens of thousands of dollars annually. One solution is to buy long-term care insurance in advance.

In addition, a risk management specialist helps clients save on existing insurance policies by reviewing current coverage and premiums to make sure they are consistent with the original goals and objectives. Risk managers also work with financial planners and estate attorneys to help wealthy clients maintain enough liquidity at death to pay estate taxes. A risk manager can guarantee the needed liquidity by providing insurance to be paid out to the beneficiaries.

Frequently, this insurance is paid inside an irrevocable life insurance trust; thus, it may pay out free from estate and income taxes. Integrating your financial team helps ensure that they are working together to achieve your goals and objectives effectively. A well-qualified financial adviser will make certain that your financial team is communicating on a consistent basis.

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