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WEALTH MANAGEMENT

THOUGHT LEADER FORUM

There's a lot of financial uncertainty out there.

Wealth management is about investing and growing your assets but it also encompasses vital tax services and issues with estate planning. It's an investment-advisory discipline that incorporates investment portfolio management, financial planning and a number of financial services.

Everyone from high net worth individuals to small business owners can benefit from wealth managers to coordinate retail banking, estate planning, and offer fundamental guidance on how to manage wealth. Even for someone with just W-2 income, there may be simple strategies to consider for reducing taxes. Building a relationship with a trusted advisor becomes invaluable for establishing and keeping track of both short and long-term planning goals.

Thought leaders recently got together to provide fresh insight that can help you and your family get the most out of your portfolio. At the table were Kripa Raguram, CPA and senior manager with DiLorenzo & Company; Tim Donnelly, vice president and regional team leader for Wealth Management & Advisory Services at Washington Trust Bank; and Ryan Berning, CFP and Wealth Advisor with Confluence Wealth Management LLC. Contributing writer, Erica Heartquist moderated the discussion on behalf of the Portland Business Journal.

Erica Heartquist: What mistakes do you see people making, particularly business owners, with wealth management planning?

Ryan Berning: What we see a lot of times with business owners is they're asset rich but perhaps cash poor. Their business is doing very well, generating a lot of income for them, but they're not diversifying their wealth away from the business by funding some type of retirement or investment account. Creating that asset diversification and removing some liquidity from the business prior to retirement is something we see missed and not thought about until retirement is looming.

Kripa Raguram: From our end, we want to help business owners to start thinking about succession planning, to help address issues such as 'Does the business owner have a continuity plan for his business? Does he have a good exit strategy and does that exit strategy take into consideration tax, gift and estate planning goals? Does the business owner want to sell to third parties or does he want to sell to his children? Or, does he want to give the business to his children?' The appropriate tax planning strategies would basically depend on the choice the business owner makes. Having a right team of advisors can prove to be invaluable for succession planning.

Tim Donnelly: We think it's never too early to start thinking about when and how, and to consider not only the financial aspects but the emotional and personal ones. On the exit strategy in particular, at Washington Trust we focus on letting the goal drive the strategy rather than the strategy drive the goal. Because we all tend to get excited about how to have a tax efficient plan or how to have the balance between asset allocation and liquidity. I mean, that's what we do. But one of the things that we try to do first and foremost and be disciplined about is: what do they want? So in the example of 'Do they want the kids to continue the company?' Well, what does that look like? Do the kids want it? Are they capable of doing it? Have you talked to them about it?' I am talking really, fundamental, basic things. It seems obvious, but it's also difficult. How many business owners have you talked with who don't want to talk to their kids about that yet. Perhaps they're still 10 to 15 years out and that means recognizing their own mortality. Or, for them, talking about scary next steps for retirement, 'What am I going to do with myself?' Or, 'My son is 28, I don't trust him.' Without being too cliché, it's the old: 'A failure to plan is a plan to fail.' Understanding what your goals really are and then actually doing something about them rather than thinking, 'Oh, it'll work out.'

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KRIPA RAGURAM

CPA AND SENIOR MANAGER, DILORENZO & COMPANY

Kripa's duties rotate among the varied tax aspects of trusts, estates and gifts, non-profits, high net worth individuals and the U.S. tax aspects of foreign transactions. Kripa also serves as a technical tax reviewer in the firm's closely held business practice. Kripa coordinates the firm's in-house Tax School, an educational effort aimed at fostering accelerated learning and betterment.

The firm's tax specialties focus on M&A taxation, etate/gift/trust tax, tax dispute representation and U.S. tax aspects of foreign transactions. The firms well rounded commercial tax services are best focused in the manufacturing, distribution, technology, agricultural, real estate, professional and high value add services sectors.

TIM DONNELLY

VICE PRESIDENT AND REGIONAL TEAM LEADER AND WEALTH MANAGEMENT & ADVISORY SERVICES, WASHINGTON TRUST BANK

Tim ensures that his team of highly credentialed and experienced advisors provides outstanding trust, investment and estate advisory services.

Also an attorney, Donnelly counsels clients and prospects on the real-life implications of their estate and legacy planning by combining his legal expertise and his experience administering trusts and estates. He collaborates effectively with clients and their legal and tax advisors to help families develop customized plans that address their unique circumstances. Whether facilitating generational wealth-transfer strategies, serving as a neutral arbiter during periods of family discord or advising small business owners on the value of proper succession planning, Donnelly engages his clients impartially and honestly to help them develop and achieve their financial goals.

Donnelly holds a bachelor's degree from Eastern Washington University and a law degree from Gonzaga University School of Law.

RYAN BERNING

CFP AND WEALTH ADVISOR, CONFLUENCE WEALTH MANAGEMENT LLC

Ryan is an experienced wealth advisor focused on working with individuals, families, and small businesses.

He works with his clients to simplify and coordinate their entire wealth strategy through a personalized approach. While no client is alike, Ryan takes the time to listen to the goals and needs of each client. He believes that everyone should have access to quality, conflict-free financial advice and is passionate about helping his client's achieve their financial objectives. When he's not working with clients, Ryan can be found enjoying the outdoors with his wife and three children or out on a golf course.

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Raguram: For baby boomers wanting to transition to millennials, an important consideration would be to determine if millennials are ready. If not, they may find themselves having to work longer before they can execute their succession plan.

Berning: I think you both touched on it but, planning in advance, really thinking long term and not two or three years out, but five to 10 years in advance and asking yourself 'How do I want this to go and what does succession look like?'

Donnelly: I'm sure you've both seen this and have had clients that have said, 'Okay, I'm out at 62.' And, at 61 and eight months, they say, 'Hey, junior or daughter, are you ready to run the business?' And they say, 'Wait, what? I knew someday but we haven't talked about this.' Also, is the owner really prepared to step away and not hover over the new owners? The emotional bonds to the business can get in the way of making the transition successful. So the more advanced planning, the more advanced conversations you can have is ideal. I think the millennial question in particular is interesting. What we're seeing anecdotally and wondering if it's the beginning of a trend, is that it's not necessarily that they don't want it, it's that they're deferring it. They're deferring it for a variety of reasons: financial recession, mom and dad are working longer, etc. There's a whole host of reasons and so we're in the wait-and-see phase there.

Berning: We've never really bought into millennials being as different as many other people have said. Echoing what Tim said, it's delayed. Millennials are going to graduate school, doing some traveling perhaps and everything seems to be later in life than previous generations. But, the trend is starting to show that eventually the millennials are getting married, having kids, and taking over family businesses. Another trend we see for millennials is on the investment side. They are taking more environmental and social responsibility. They are thinking more about the investments that they have in their portfolios and wanting to do social good through their businesses and investments.

Heartquist: Speaking of previous generations, what are your thoughts on the anticipated mass wealth transfer, the so-called "silver tsunami," as Baby Boomers wind down?

Donnelly: Pre-crisis and then even in the midst of the crisis, there was a collective expectation in our industry, I would say, that it was going to be: 'The baby boomers will retire and there will be this massive wealth transfer.' Well, the financial crisis hit, home values dropped, 401K values dropped and became a contributing factor to the delay on the millennials realizing that 'suburban dream.' Mom and dad and whomever is in the boom generation and early "X" generation deferred a little bit longer. Frankly, we've seen a re-set in psychology. People saying, 'I just went through the worst financial crisis since the Great Depression, my goals have changed. I love my kids, but they're perfectly capable. This is my legacy. I want to make sure I have no worries.

Berning: When we talk about this mass wealth transfer, a lot of the conversation immediately goes to 'What do I want to leave to my kids or the inheritance?' What we're focused on is the lifespan of Boomers which could be over 30 years. In fact, a couple aged 62 today has nearly a 50 percent chance one of them will live to age 90. We're focused on looking at that client and their spouse. The wealth transfer that's going to happen first, before any inheritance is passed on, is to their spouse. Making sure that the couple is aligned and understands their wealth strategy is crucial because ultimately, one of them is going to pass before the other. At that point, they will have enough on their plate emotionally and we don't want them to also have to worry about their finances.

Raguram: The tax reform proposals which call for doubling the current estate tax exemptions could change federal estate tax planning strategies. Regardless, Pacific Northwest residents would still have to plan to eliminate or reduce state inheritance taxes with no known increases to state exemption amounts.

Berning: Clients are definitely saying, 'Do I still have enough saved to last my lifetime?' People are living longer and want to make sure that they can maintain their lifestyle. And so it's a balancing act of giving now and while still accounting for lifestyle needs. People are much more conservative now after seeing two stock market crashes less than 10 years apart.

Donnelly: The reality check on the economic cycle and then the lifespan has really narrowed the focus to, 'Can I make it?' and then everything else is secondary, by and large. It's good to hear that you both are experiencing the same thing.

Raguram: Some business owners may pretty much have only one main asset, their business. They likely have children who actively participate in the business and those that don't. If they leave their business to the child who actively participates, then what would they leave for the others? Coupled with the fact of their own longer life spans, they would look to people like us to help them make sure that they have good plans in place.

Heartquist: How are advisors grappling with the rise in technology, be it robo-advisors, access to information or otherwise?

Raguram: I would think that the primary issue is going to be gaining awareness of what, when and how new technology is going to affect our profession. Basically, the challenge would be to grasp the magnitude of the change, so as to be better prepared to offer new services and adapt ourselves to those technological changes.

Berning: The big buzz word in the finance and investment world is robo-advisors with the thought 'I can put all my money here, it's really cheap and it's going to do everything for me.' This is all good and well until you have a question. Then what do you do? The accounting world encountered a similar trend when automated tax software like Turbo Tax was released. Everyone started talking about how accountants would be out of work. What really happened was that they were able to leverage the technology and become more valuable to their clients. Accountants now have software that helps them to do the computations so that they can spend more time planning a tax strategy for clients and thinking more deeply about how to optimize their client's tax situation. The same thing is happening in wealth management today. We can now leverage technology and give our clients a better product, experience, and ensure that their investment portfolios are positioned how we want them in real time.

Donnelly: Two things come to my mind immediately. I think this is one area where there is a demographic difference both from the millennial and the generations prior. It's not that they don't appreciate the advice, but the way that they access and vet advisors is more through social media, web interface or somehow using technology to say, 'Okay, I'll talk to him.' So if we don't have a robust web presence, and a robust outreach, we might not even be in the space where people might be looking. The other thing, and I think Ryan is absolutely on the money about the robo-advisor piece, there's no substitute for wisdom, advice, planning and conversation. You can't build an algorithm to evaluate goals. So, it's an opportunity to differentiate and leverage technology and it's not going away, it's just 'how do we embrace it and use it to our advantage?'

Raguram: Just being aware of what the receiving end is looking for is important. A perfect example of that would be social media. Should you have a presence there? The other technology buzz word I'm hearing a lot is 'block chain". This is going to impact the accounting, auditing, business and tax professions. It will be important for CPA's to keep track of what's happening here and to understand the developments, so as to be able to adapt and leverage technology to deliver value.

Heartquist: For those who may not have an established wealth manager (or who are looking to change), where should they start in identifying the right partner for their situation?

Berning: You should always start by asking your professional team, such as you CPA, estate attorney, or an insurance agent for a referral. That's a good starting place. Once you receive a few referrals, you'll want to start asking questions like: What is their education and background? Do they have specialized designations (Certified Financial Planner, Chartered Financial Analyst, etc.)? Are they a fiduciary who puts their client's interest ahead of themselves? Another thing to think about are the demographics of the firm. You might really like an advisor, however, they may be late in their career and planning to retire soon. Making sure the advisor and firm will be around for you over the long-term is something a lot of people forget to ask about.

Donnelly: I think the power of the referral, somebody that you trust vouching for a provider is key. We are 100 percent relationship based and one client at a time and it's very much that warm referral of seeking out of people you know and trust. How do people buy things on Amazon and Costco? It's the same thing. You crowd source it. It's just a little bit more hand to hand and interpersonal. I think when you do identify a pool of potential providers, not only what they do and how they do it but how they're compensated for it is, and Ryan hit it on the head, the fiduciary aspect of it. There are different structures and there are different arrangements and if somebody has a financial incentive that works in any way contrary to the clients' interests, I think you should question that.

Raguram: I concur and agree on the referral approach, especially with all the financial scandals that have happened in the very recent past. When you provide a few referral names, it allows the client to check out, 'Is this person a good fit for me? Is their personality a good fit for me? Can I work with this person long term?' Maybe there's a client who prefers to work with a really aggressive personality but for some others soft skills may be as important as the knowledge base of the professional.

Heartquist: How does the current political landscape impact wealth management and investment strategies?

Berning: We have a pretty strong opinion of focusing on what we can control. History has shown that there's always some level of political turmoil. In general, half of the country is always going to like what's happening and half is not. But basing an investment strategy on political proposals and what could happen is not a viable strategy. What is originally proposed or what's happening in politics now does not necessarily mean that will be the end outcome. So, we stick to current regulations, what we can control now and re-evaluate along the way.

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Raguram: For us CPA's, it's always the challenge of dealing with constantly changing tax laws and regulations. Currently the focus is on the upcoming tax reform proposals. We have to keep current with what's happening, look at the options currently on the table and then tailor our clients' tax plans.

Donnelly: It's another 'be aware and prepare' type of scenario. I absolutely agree that you don't drive an investment strategy on two competing bills coming out of the House that are going to be forced to be married up and go through reconciliation. If health care legislation or the lack thereof is any guide, we'll see. Is it tax reform? Is it tax cuts? Is it how much pressure ramps up to do something and they just do something rather than what they want to do? So what we focus on is similar to you both, what's likely to happen and how can we build a durable plan that is going to withstand most of the reasonable eventualities. We don't have a crystal ball, but what can we plan for and what can we control?

Heartquist: In terms of regulation, how is regulation changing the way you do business? How has new regulation impacted your business and client experience?

Raguram: As CPAs, our job is to deal with constant changes in tax laws and regulations. So, it's an ongoing process for us. A few noteworthy regulations in the recent few years that have resulted in additional tax compliance and tax reporting are: international tax reporting and compliance under the Foreign Account Tax Compliance Act (FATCA), the tangible property repair regulations, the Affordable Care Act, the estate tax portability rules and late filing elections and the estate basis consistency and reporting requirements, just to name a few. An upcoming one is the new partnership audit regime generally effective for taxable years beginning in 2018, that is set to change the procedures for how the IRS is going to audit partnerships. These are some of the areas where we have been helping clients with compliance and reporting.

Donnelly: The fiduciary role is a good example of the 'be aware and prepare' for it scenario, and then actually deal with it when it becomes reality. Essentially it was geared to elevate providers who do retirement planning to be true fiduciaries. At Washington Trust, we have a wealth management group and within that we have both the discretionary money management, trust administration, estate settlement, and then we have the traditional bank brokerage. Our bank brokerage team initially wasn't excited about the fiduciary rule because it added non-revenue producing activities. They had to do more documentation and had to do things a different way and migrate from a traditional retail bank brokerage compensation structure to fee-only. They didn't love the process but they're okay with the outcome because it puts us on the same side of the table as the client in the compensation realm. As a bank, one of the things we're excited about right now is that during the midst of the financial crisis, the largest systemic risk institutions were the subject of the new regulation. Fortunately, we're big enough and nimble enough to absorb that but a lot of smaller, community banks didn't fare so well. I think that that theme is true of small business generally where there has been a little bit of relief on the regulatory side where it doesn't require Congress. That's been one area where there's been some relief on the business front which is good because people have a little bit more certainty and a better idea of what they can plan for.

Berning: At Confluence, we've always taken a fiduciary standpoint of putting our client's first so that was, in our minds good for the consumer to move forward with that. A lot of the new regulation, the spirit is good. It's to protect the consumer. On the client service end, it makes things a little bit more difficult. There's more documentation, personal information, and signatures required to conform to regulations. It becomes a balancing act to deliver a seamless client experience while adhering to new regulation, but we continue to stay on top of it to ensure that our client's information and financial wellbeing is protected.

Heartquist: What are some U.S. tax considerations that U.S. persons of larger global families should know about prior to their family's wealth crossing international borders?

Raguram: As the world becomes more mobile, the tax implications of wealth crossing borders start gaining significance. A U.S. citizen or a resident, a U.S. person, is generally taxed on his or her worldwide income, whereas a non-citizen or a non-U.S. resident, a Nonresident alien, is only taxed on U.S.-sourced income. So, family wealth of U.S. persons can cross borders, either through the U.S. Person investing or gifting outside the country; Or, the U.S. person receiving gifts or inheritances from their family abroad. This transfer can happen either outright or can be structured through trusts. The focus then becomes not only on U.S. income tax considerations, but also on U.S. estate and gift tax considerations and on top of that, the most important thing, information reporting and disclosure requirements. That's huge. Say for example, a U.S. person receives a cash gift from their family abroad, their non-resident alien parents, and then, if that cash gift is large enough, say greater than $100,000, then he or she will have an information reporting requirement on Form 3520 (Annual Return to Report Transactions with Foreign Trusts and Receipt of Certain Foreign Gifts) with significant penalties for failing to file that form. Similarly, if you are a U.S. beneficiary of foreign non-grantor trust, then you would have to look into income tax as well as information reporting considerations. Taxpayers should review tax treaties between countries and foreign tax credit rules for possible relief on double taxed income. While significant penalties are associated with failure to file these forms, there are also options available for taxpayers with previous failures to file. It is important to look at the facts of each specific situation and ask 'Okay, what are the best options available to my specific situation which would incur the least amount of penalties and administration costs?' I think many people just don't realize that there may be tax and reporting consequences when they transfer or move money across borders.

Berning: Following up on Kripa's comments, it certainly gets complicated quickly and making sure you have your team of professionals assembled is crucial. You need an attorney, CPA, and wealth advisor who are experts on international laws because every country is going to have different tax treaties with the U.S. and different laws regarding the passing of wealth. It might sound like a great idea to buy a foreign property or start a foreign business, but the financial implications of doing so can be very complex. There's a lot to think about and having an expert such as Kripa on the tax side is what you need.

Donnelly: I'm interested to see where talk about a territorial tax system goes and if that component of the proposals on the table right now makes it through, because I think there are a lot of consequences, some good and some maybe not so ideal. I think it could be a bit of a game changer. Specifically on the individual income tax front, the world continues to globalize and the U.S. population isn't growing without immigration. We require an inflow of human capital. I don't think we're unique in that, at least in the developed world. So, there's a lot of momentum behind the need for financial advisors to be more well versed, and aware, or know who to call who is, or you're sunk. Two real life examples: the first was as simple as a parcel of land in Canada. And you think, 'Oh, it's Canada, it's probably just like our system.' Well, yes and no. To get a referral to a CPA in the area that knew the lay of the land, and what we needed, that was job one. It was really eye opening because we can only plan for what we know and when we get these surprises, they're learning opportunities. And then the other one was a G1, G2 and G3 estate plan that seemed good on paper and half of G3 are international; Central America, Switzerland, Norway, Sweden. We had people all over the place, so it was a crash course in building the right team.

Heartquist: What are some ways to factor charitable giving goals into wealth transfer planning?

Raguram: Lifetime giving vs. specific bequests at death, is supported by certain tax efficiencies. So, it allows for the gifted dollars to be taken off the taxable estate right away, when the charitable contribution is made. Since it's a lifetime gift you are likely also eligible for a charitable gift tax deduction. And then of course you get the charitable income tax deduction on your income tax return. In the case of a gift of non-cash appreciated securities to a public charity, the advantage is that, the capital gain is forever forgiven and is not brought into income. This also helps you manage your AGI limits, which can help with managing other taxes. The other lifetime gifting option is where clients age 70 ½ and older can make qualified charitable distributions up to $100,000 and rollover from their IRAs to their favorite charities; that rule has been made permanent. Contrast this to an IRA transferring at death and generally subject to double taxation – once by inclusion in the taxable estate and second by being subject to income tax upon receipt by beneficiaries. Also, what's helped with many of our clients, specifically for those who are sitting on the fence, is private foundations. They have the charitable intent and the money, but they don't know what, when, where or how to give. A private foundation is a great vehicle for that. Give it away slowly over whatever timeframe you choose, with a tax advantaged current charitable deduction.

Berning: There are many charitable giving strategies and finding the right one for your situation is the objective. Whether that takes the form of charitable donations through your IRA or with appreciated stock, donor advised funds, or private foundations to name a few, there are lots of avenues to donate if that is part of your legacy. You should look to identify a gifting strategy that fits within your overall financial plan. And most importantly, have fun with the charitable giving process.

Donnelly: The charitable intent has to be there, baked into the cake. But the other thing to think about is that having the intent doesn't necessarily mean you have the wealth to get there and so coming back to the conversation of, 'Let's make sure you're going to meet your goals.' It sounds so simple and obvious but it's funny how excited people get about doing good things. They want to be generous and they want to be philanthropic and we can facilitate that in a tax-efficient manner, but we must be mindful of the fact that people are living longer and they need to make it to the end.