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The 10 Most Important Things to Help Ensure Your Family's Wealth and Well-Being

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Several lifetimes ago, when I was a newly minted wealth advisor, I would often begin planning conversations by listing all the many ways that comprehensive money management could help families find personal excellence in their busy lives. Fortunately for all concerned, I soon realized that, in my enthusiasm to impart everything there was to know, I was sharing too much information in too short a time for it to have lasting value. As I gained experience, I learned to replace this information overload with a commitment to listening more, speaking less and reserving what I did have to say for the most important subjects. In that spirit, here are my 10 most important planning steps to help ensure you make meaningful financial choices for yourself and your family.

Important Thing #1: Make sure your will, living trusts, durable powers of attorney and durable powers regarding health care (also known as health-care directives) are in place AND recently reviewed.

A few years ago, a husband and wife met with me to sign some investment documents. I came to find out that the wife had lost much of her vision, and could not see where she was supposed to sign. The need for her husband to sign the document on her behalf became very apparent. I asked if they had durable powers of attorney for one another, and they affirmed that they did.

So far so good. Until we called their attorney's office to secure the paperwork. The attorney's assistant looked up the document and told us it had expired, and the couple would have to come in to update it. In short, the husband could not act on behalf of his wife without this document being current. Luckily, we were able to easily correct the situation, but in other circumstances, this detail could have caused serious problems. A little regular maintenance to your legal documents can make a big difference.

Important Thing #2: Develop a written master plan for your business and personal wealth designed to maximize value during your lifetime, prepare for your desired legacy and minimize income and estate taxes.

Imagine what would happen if you owned a business and you suddenly died or became totally disabled. Well, this actually happened to one family I knew. They owned a business and rented out most of their farmland. "Mom" and "Dad" had numerous pieces of property and nine adult children when Dad died in the late 90s, leaving Mom to run the ranch and make decisions that the two of them should have reached together when he was alive.

Not all nine children wanted to work the ranch, nor could it have supported nine families. You can see the dilemma. How do you divide the land so some family members could continue farming and the others could sell their share and get on with their lives?

To further complicate matters, Mom died suddenly last year, at age 84, of a major heart attack. She had standard estate planning documents in place, such as a living trust, pour-over will, durable powers of attorney and health-care directives. Unfortunately, they did not address other problems, specifically the payment of a $5 million dollar estate tax, valuation of the property and the division of the ranch. One of Mom's goals had been to create harmony among her children. Instead, having never completed a written master plan, the surviving family was left doing the best it could under far less-than-ideal conditions, all while mourning the loss of both parents. It is well worth taking the time, particularly when complex inheritance issues exist, to prepare for the future with a comprehensive, integrated written plan.

Important Thing #3: An Investment Policy Statement (IPS) should be your guiding document. It should also help keep you and your investment advisor on the same page and mutually accountable.

I believe a comprehensive written plan that both connects you to your fiduciary wealth advisor and guides your strategy helps ensure positive investment decisions. An IPS helps you focus on what you can control, such as how you plan to: (1) Capture expected market returns according to your goals and risk tolerance, (2) Stay on course with your personalized financial plan, and (3) Minimize fees and taxes. When appropriate, it can also help build a roadmap for managing your income and spending with traded CD and bond laddering strategies.

Important Thing #4: Don't try to play the market by picking individual stocks. Instead, use the science of evidence-based investing to participate in the market.

Nearly everyone I have ever met has wanted to make smart decisions with their money. For many investors, a "smart decision" means finding a way to dodge the stock market dogs and presciently pick the darlings. Unfortunately, it is impossible for you, your broker, some stock market "guru" or anyone else to consistently forecast or predict future returns, then overcome the trading costs involved when it's tried.

Truly smart decisions come from becoming an informed investor and heeding the evidence on how to build personal wealth tax-efficiently in volatile markets. Focus on your asset allocation, your progress toward your long-term goals, the costs you've incurred and where gaps or overlaps may exist in your exposure to expected market returns. Build, and stick with, an efficient, low-cost portfolio customized for your personal willingness, ability and need to balance market risks and rewards. Leave the stock picking to those who want to gamble rather than prudently invest their wealth.

Important Thing #5: Review all your insurance coverage to make sure it is providing the appropriate benefits and protection.

Insurance is intended to be there when you need it the most, which is why I am surprised by how often I find families whose coverage is a patchwork of policies accumulated over the years. That can easily result in excessive, excessively priced or missing coverage. When it's effectively implemented, in harmony with a family's total and distinct exposure to liability, insurance can be a powerful estate-planning tool. It can address liabilities such as survivorship coverage, debt pay-off, disability income, long-term care, buy/sell agreement funding, key man protection, salary continuation, errors and omissions, business succession, automobiles, home ownership and estate taxes. A big-picture review from an objective wealth manager can bring your insurance needs into tighter focus.

Important Thing #6: Talk with your family about your wealth.

How long has it been (if ever) since you and your spouse or partner, and potentially your adult children, have had "that conversation"? You know the one I mean. What assets do you, as a family, own? Where are they? What would be the best thing to do with them should the unexpected occur? I frequently hear parents say they are leaving all of their assets to their children, while the children admit they have no idea how to handle them. Lacking any context or clarity, heirs sometimes just want to liquidate assets to cash as fast as they can. Too often, they are then at the mercy of some stockbroker, insurance agent or large bank (most likely its private wealth management department) and the hefty fees they extract for the disservice of disassembling a legacy that took a lifetime to build. Don't let years of hard work be lost because of a few key conversations that never took place when the opportunity was at hand.

Important Thing #7: Your retirement planning should go hand-in-hand with your investment planning.

It is critical to establish your goals for retirement, because your investment plan will come out of those objectives. Most people randomly buy investments (such as a stock, a limited partnership, gold, commodities, hedge funds or a rental property) because it looked or sounded like a good idea at the time. I call this the "grocery-cart investment plan." Have you ever gone to the grocery store without a menu in mind or a list of important ingredients you would need to serve a meal? You tend to walk down the aisles, picking things off the shelf that look or sound good in the moment. There's no rhyme or reason; it's all based on emotion and instinct. It does not have to be that way. In fact, emotions and instincts are your enemy when it comes to investing.

Important Thing #8: Do not buy annuities unless they fit, exactly, into what you are trying to accomplish and there is no other choice (such as other guaranteed fixed income or guaranteed interest rate).

What have I got against annuities? Mostly, it relates to their tax inefficiencies and other costs I consider excessive. On the tax front, they don't get a step-up in basis on death. Rather, they convert otherwise lower-taxed capital gains into higher-taxed ordinary income and they produce (taxable) income in respect of a decedent. They also can have high costs and significant back-end fees that can trap you into the product for years. Yes, you can get up to 10 percent per year without a deferred sales charge from the insurance company, but if you are under age 59½, you could be hit with a 10 percent penalty tax imposed by the federal government plus inclusion of any growth as taxable ordinary income. In addition, you are required to take out the (taxable) growth first. Need I go on? Before signing on for an annuity, recruit a fiduciary advisor who has no skin in the game. That advisor can offer you an objective assessment of the product.

Important Thing #9: Never surrender or lapse a life insurance policy if you are over 65 without first checking the secondary life settlement market to see if the policy could be sold for greater value.

Here's a handy tip that's often overlooked: There is a special market where you can sometimes sell your life insurance for cash, assuming that it's a policy you no longer need, you are over 70 and your health has changed since the policy was originally issued. Please note there are also some special tax rules, so it is important to work with someone who can give you all the information you require to make sure this strategy is in your best interest.

Important Thing #10: If you are a business owner and you offer any type of a retirement plan, consider delegating your investment selection liability to a professional advisor (in writing).

As a retirement plan sponsor, you are a trustee and fiduciary under the plan. You can be held personally liable for a breach of fiduciary responsibility. While you cannot delegate away all of your fiduciary obligations, the laws governing retirement plans do allow you, as the plan sponsor, to delegate investment selection liability to a professional advisor who is willing to accept the duty in writing. If you are paying someone to manage your plan for you, it only seems reasonable to ensure that the firm with whom you are working is taking on that obligation as part of the services it is providing.

Consider following-up on each of these 10 important planning recommendations, because if you knock off this handful — perhaps with the help of a fiduciary advisor — you'll have already made an excellent start to safeguarding your family's wealth and financial well-being.

About Ross Hoffman, President, Hoffman & Associates Financial and Estate Advisors, Inc., Ventura, CA

Ross F. Hoffman is President and Chief Executive Officer of Hoffman & Associates, Financial & Estate Advisors, Inc.. Ross helps business owners maximize the value of their businesses upon their exit into retirement or other ventures. Ross helps business owners to sell their company when they want, to whom they want, and for the amount they need to secure their income for the rest of their lives. With over 30 years of professional experience in financial and estate advising, Ross has earned the financial industry's most respected professional designations, including the Accredited Wealth Management Advisor (AWMA®), Accredited Investment Fiduciary (AIF®), Chartered Financial Consultant (ChFC), Certified Financial Planner (CFP) and Chartered Life Underwriter (CLU) designations. Ross' outside interests include enjoying time with his eight grandchildren, golf and traveling with his wife, Carolyn.