View from the Summit - Who Advises the Advisors?

Case Study prepared by the 2010 Symposium Committee:
Melanie Twietmeyer, Kathy McMillan, Russell Todd

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DISCLAIMER

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WHO ADVISES THE ADVISORS?

The 2010 Symposium case study will consider the personal and business needs of a typical 56-year-old business owner looking to retire within the next 5 to 7 years.

We will examine issues around business succession planning, estate planning with a blended family, asset allocation and systematic withdrawal plans - examining not only the numbers and projections for retirement, but equally important, the psychology of retirement and the need for your clients to be mentally prepared. We will also take a look at specific challenges related to end-of-career planning, and how professional resources can help a business owner (coincidentally in this case, a financial planner!) transfer ownership and transform a successful career into successful retirement.

The conference is designed to help delegates be forward-thinking in developing the solutions needed by their clients in the future - in a world of rapidly changing technology, legislation and a plethora of financial investment products and services.

It is critical for professional financial planners to develop and maintain expertise in many areas of financial planning, and also to develop working relationships with other professionals in various specialty areas. This case study helps to identify the essential value that financial planners, especially those who have worked to attain and maintain the title of Registered Financial Planner (R.F.P.), can bring to their clients.
CASE STUDY

Client Background

Russell is an independent planner working with his step-daughter, Melanie, and several key employees in a small office. He is 56 years old and finally starting to think about his own retirement and related questions involving succession planning. His goal is to retire within 5 to 7 years.

Russell has enjoyed a long illustrious career in financial planning. Over 25 years, he has built a solid, loyal client base through his ability to build effective portfolios and find innovative solutions for his clients’ life challenges. He has a reputation for integrity, and he really cares about his clients. They have come to realize and appreciate that, with current clients often referring other new clients to his firm.

Russell and his wife Diane (married 25 years) are in good health. They are starting to think it’s time for a lifestyle change focused on travel and leisure. They have three adult, unmarried children, and want to focus more on their lifestyle and enjoying family pursuits.

When Russell was 20 he married in haste and has one daughter Kathy whose life Russell was and is very involved in. The divorce was amiable. Kathy is now 35 and started a Health and Wellness Centre 5 years ago. Her business is just starting to make a profit after 5 years of hard work.

Diane has a daughter, Melanie, from her previous marriage. Melanie, aged 33, joined her step-father’s planning practice 6 years ago. After finishing her Commerce degree, Melanie worked 4 years for a big bank and 3 years for a major insurance company.

Together, Russell and Diane have a son, Terry. Terry recently finished law school (U of A) and is articling in Edmonton with a major law firm, working day and night. He shows great promise in his career.

Russell and Diane have always been careful to treat their children equally in every way.

Melanie’s work experience has proved invaluable to Russell and she has shown quite a flair for the planning business. Russell thinks she will eventually be a great successor but worries about her age and experience, with regard to running the business.

As a small business owner who has built an extremely successful private practice, Russell is reluctant to pass ownership and control in the near future. He doesn't know the value of the business, and would welcome an offer from either Melanie or an outsider, with a condition that the outsider allows Melanie to maintain some ownership of his practice or, at the very least, continue on with her profession and employment.
Primarily Russell worries about how to ensure he is fair to all three of the children in sharing the net value of their estates after he and Diane pass away.

**RKM Planners & Wealth Advisors Inc.**

Russell initially started his planning practice as a sole proprietor, but incorporated the business 10 years ago as **RKM Planners & Wealth Advisors Inc.** The firm provides both fee-for-service planning and charges asset-based fees for wealth management services. Total assets under management are $85M for 350 families. Russell wonders how a business valuator might assess the value of his business for an outright sale or for succession purposes by Melanie.

RKM employs 4 employees, plus Russell and Melanie. These are: Associate Financial Planner, Plan Writer and Researcher, Personal Assistant, and Processing Assistant. He is planning to hire another financial planner to work with RKM.

**Personal Financial Security Issues**

Years ago, Russell implemented a group RRSP, Life Insurance and disability plan for the company to provide basic personal protection for himself and his loyal employees. The added employer-paid benefits are his way of rewarding his staff for helping the firm increase in size and profitability. It was also a way for Russell and Diane to protect themselves in a tax effective way.

Russell has group life insurance of $500K for himself and a personal joint life policy for $1 million for Diane and himself. Diane has never worked outside the home since their marriage but Russell always recognized the need to insure her. He knew he would require domestic help to raise the 3 children in the event something happened to Diane when their children were younger. He now questions the need for insurance at this stage of their lives, with their children all adults and independent. They have no other insurance protection plans.

Diane is also 56 and, given statistics, will probably out-live Russell. Russell wants to provide for her lifelong security but also ensure a fair division of the estate to their children.

Russell has $635,000 in portfolio investments, and a commercial property limited partnership interest. Diane has $160,000 in portfolio investments. Russell holds a no-interest demand loan to his company RKM with a current balance due to him of $300,000. The loan exists to provide operating capital but has stayed at this level for some time. They each have 50% of the voting shares of RKM which they think are worth from $300K to $900K based upon cash flow. Their net worth after the loan on their recreational property is $1.9M.

Their personal investment portfolios are the classic case of the shoemaker's children - while Russell has been diligent in choosing the optimal investments for clients, their own portfolios are not well balanced and lack clear investment objectives. The unequal division of values
also concerns him, as this is their only retirement capital funding, beyond what the sale of RKM will provide to them.

For the last 10 years Russell invested his own funds to grow RKM Planners & Wealth Advisors, but knows he must dedicate more cash flow toward their personal retirement security.

Russell is struggling with how to ensure his business succession plan provides a secure capital and income stream for personal retirement security within 5 to 7 years.

He is now considering where to get the planning advice needed to start on the path to a successful retirement for him and Diane

Challenges Facing this Business Owner
Here are some of Russell’s expected challenges:

Lifestyle & Travel
Russell wants to ensure he and Diane are able to travel and spend more time on their Vancouver Island property before and in their retirement years.

Business Succession Planning
What is the business worth if it were to be transferred or sold – outright or over time? Should it be sold as a business or as a professional practice? What steps need to be taken to develop a succession strategy? Who should participate in the succession planning process? What legal issues are critical in this succession planning project?

Insurance
How can he fairly divide his assets between their three children? How can he best provide for Diane in the event he predeceases her? What risk management strategies will affect his succession and retirement plans?

An investment strategy for his personal investments
What Investment objectives and asset mix strategy is needed for current investment capital? What investment considerations are needed for business sale proceeds, when they are paid out? Are there opportunities in a business succession plan related to personal investments?

Portfolio construction
What does he need to do with his portfolio now – initial steps?
What strategies and planning factors affect long-range portfolio construction for business owners?
Can this process ensure Russell and Diane have the cash flow for an active retirement lifestyle?
What risk factors are unique to Russell in this business transition planning?

**Psychology**
Russell loves his career and defines himself by his work. Can this perspective change in retirement?
What must change in Russell’s life in transitioning to retirement?
How will Diane and Russell, a self-professed workaholic, redefine their relationship in retirement?
Does business succession planning include personal change?
What skill sets should the advisor working on his investments have to best serve the client?
Has Russell discussed with Melanie how she feels about her future role options in the company?

**Communication**
When and how should he communicate his succession plan to employees?
When and how should he communicate his succession plan to clients?
What communication challenges face Russell regarding his clients and employees?
What discussions are needed with family members on his retirement plans?

**Estate Planning**
Where do estate planning strategies fit in the planning project?
Are there some issues around blended families and business transfer that pose risk?
What estate planning documents need to be reviewed and what are the key provisions?

**Lifestyle Needs – Now & In Retirement**
Their current lifestyle requires $10,000 per month (after tax) before savings.
Russell thinks they will need $6,000 per month (after tax) in retirement, before inflation.
They are unsure how to provide for a contingency reserve fund for lifestyle purposes.
Net worth summary for the client

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<th>Russell</th>
<th>Diane</th>
<th>Joint</th>
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<th>Notes/ACB</th>
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**Notes:**
- Limited Partnership - Real Estate – expensed for ACB, $10k/year cash flow on commercial property, no sale date known.
- No formal valuation of shareholder equity value for RKM at present.
- Russell thinking of selling RKM over 10 year payout on any sale value agreed upon.
- Home downsizing possible, drawing cash to invest.
- Recreational property will be kept at least for their lifetimes.