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10 strategies to help you build and preserve your family's wealth

With life expectancies continuing to rise, your retirement is likely to last 20 years or more. That means your savings must stretch further than ever before if you want to maintain your standard of living and still have something left for your children.

Here are 10 strategies for building and preserving wealth for your family.

1. Take inventory

You can't create a roadmap for achieving your financial goals unless you know where you are today. So the first step is to take inventory of your wealth to see how far you have to go. By estimating the value of your current assets, you can also determine the potential impact of gift and estate taxes.

Create a lifetime giving plan to share your wealth with your children or other family members.

2. Build a nest egg

Work with your investment advisors to develop a balanced savings plan that reflects your objectives, time horizon and risk tolerance. Be sure to take full advantage of IRAs and employer-sponsored retirement plans, such as 401(k)s, that allow your savings to grow tax deferred — or tax free in the case of Roth IRAs and Roth 401(k)s. At a minimum, contribute enough to your 401(k) to receive any employer matching available.

3. Give it away

Create a lifetime giving plan to share your wealth with your children or other family members. The annual gift tax exclusion allows you to gift up to $12,000 per recipient tax free ($24,000 if you split the gifts with your spouse). Annual exclusion gifts reduce the size of your taxable estate without using up your lifetime gift or estate tax exemptions. You can give away even more tax free by paying medical or tuition expenses on behalf of family members.

4. Maximize the value of life insurance

Life insurance provides liquid funds to pay taxes and other expenses and can even create an estate where none existed before. If you own your policy, however, a big chunk of its value may be lost to estate taxes. You can avoid these taxes by setting up an irrevocable life insurance trust (ILIT) to purchase and hold the policy. You can also transfer an existing policy to an ILIT, but you must survive for at least three years to keep the insurance proceeds out of your estate.

5. Get your house in order

If you're like most people, your home is one of your most valuable assets. You can minimize the impact of gift and estate taxes by transferring your primary residence or vacation home to a qualified personal residence trust (QPRT) for your beneficiaries. You reserve the right to live in the home for a specified term of years and, provided you survive the term, the home's value (including any posttransfer appreciation) is removed from your taxable estate. The initial transfer of the home to the QPRT is subject to gift tax, but the taxable value is reduced by the value of your right to live in the home during the trust term.

6. Generate income

By transferring assets to a grantor retained annuity trust (GRAT) you remove the assets' value from your taxable estate while reserving an income stream (in the form of annuity payments) for yourself. So long as you survive the trust term, the remaining assets will be transferred tax free to your beneficiaries. As with a QPRT, transferring assets to a GRAT is considered a gift, but depending on how you structure the trust, you can minimize or even eliminate gift tax.

7. Buy peace of mind

A life annuity is an investment contract, usually with an insurance company, in which you pay a lump sum or annual premiums in exchange for periodic payments for the rest of your life. With their modest rates of return, annuities aren't a good choice for long-term planning. But if you're nearing retirement, they offer an income stream you'll never outlive.

8. Be charitable

A charitable remainder trust (CRT) can provide valuable financial planning benefits. A CRT is an irrevocable trust that pays income to you or your beneficiaries for life or for a specified term and then distributes the remaining assets to a qualified charity. By transferring highly appreciated assets to a CRT, you can convert them into an income stream without triggering capital gains taxes. If you were to sell the assets and reinvest the proceeds in income-producing property, you'd owe taxes on the capital gain as well as the income you earn from the new investment.

With a CRT, however, you or your beneficiaries pay taxes on income you receive from the trust, but capital gains taxes on the assets' appreciation in value are eliminated permanently. Add to that a current income tax deduction for the charity's remainder interest, and you've generated substantial benefits for yourself and your family while satisfying your philanthropic goals.

9. Keep it in the family

A family limited partnership (FLP) is a powerful tool for managing and transferring family wealth. As long as it's designed and operated properly, an FLP allows you to transfer a business or other assets to the younger generation at a minimal tax cost, without giving up management control.

10. Save for college

529 plans are even better now that the Pension Protection Act of 2006 made the tax-free treatment of qualified distributions permanent. 529 plans allow you to make significant cash contributions to an investment account to fund qualified higher education expenses. Contributions to a 529 plan for your child or other beneficiary are considered taxable gifts. But you can bunch five years' worth of annual gift tax exclusions into one year and contribute up to $60,000 tax free ($120,000 if you split the gift with your spouse). These contributions, as well as the earnings, are also removed from your taxable estate.

Review your options

These are just a few of the techniques available to help meet your family's financial needs. Review your situation and goals with your financial advisors to develop a strategy that's right for you.

Buy-to-let investments: A potentially sweet deal but no cakewalk

Thinking about purchasing rental property and becoming a landlord? Be it residential or commercial real estate, rental property offers an opportunity to diversify your income sources with little risk. If the real estate market ever goes south, you'll still have a tangible physical property asset, unlike with security investments.

So what should you consider before putting out a "for rent" sign?

Living the landlord life

Three major benefits of buy-to-let investments include:

1. A potentially good return on your investment from rental income, equity appreciation and capital growth,
2. The ability to offset mortgage payments with the rental income, and
3. Flexibility that comes with being your own boss.

On the other hand, you must manage and handle all rental-related activity. In particular, two major areas of responsibility are:

Property management. You must take care of advertising, showing and renting the property, and collecting rent payments. If you don't care to get into the nitty-gritty details of property

management, you'll need to hire a property manager to perform these tasks. This will, of course, eat into your rental income.

Property maintenance. You'll need to take care of landscaping, cleaning common areas and outer windows, and making plumbing and roofing repairs. And you must meet habitable and safe-housing requirements, including, for example, ensuring there's adequate heat, working smoke detectors and properly installed fire extinguishers. If you don't have the time or don't enjoy such work, you'll need to hire contractors or employ a building engineer. Additionally, you'll need to learn about local laws concerning property rentals. For instance, some cities may set limits on the maximum amount of rent you can charge.

Tax deductions provide the icing on the cake

As a landlord, you may be eligible to claim various tax deductions to help offset your rental income, including:

- Property depreciation,
- Mortgage interest on loan payments for buying or improving the property,
- Credit card interest on purchases of goods and services for the property,
- Property maintenance and repair expenses,
- Home office expenses for property-related needs, and
- Advertising and travel expenses pertaining to the property.

Other key factors

Other important considerations that should factor into your decision before you invest in a rental property include:

Location. Choosing a safe and convenient location will make the property easier to rent. Consider the importance of easy access to major metropolitan areas, public transportation, highways, airports and amenities such as restaurants, shopping and recreation.

Expenses. Remember that any rental income will be reduced by mortgage interest, property taxes, property and liability insurance, utilities, property management, and maintenance and repair costs. Make sure you can charge enough rent to make a profit after subtracting all your expenses.

Cash flow. Plan for potential gaps between tenants moving in and out where you won't be able to collect any rent.

Think it through carefully

Whether a buy-to-let investment is a good idea for you depends on your financial situation and whether you think you're cut out to be a landlord. Consult a financial advisor to help you assess the potential return on investment for buy-to-let arrangements vs. alternative investment options.

Out of site, out of mind

How to get your Web site noticed

Creating an online presence to help attract prospects or transact business with customers is a must in today's increasingly Internet-oriented business environment. But just because you build a slick Web site doesn't mean that customers will flock to it. After all, your site is just one of millions competing for attention.

Drive them there

To drive customers to your Web site, devise a plan to promote your site. Four key planning elements include:

1. High search engine rankings. Get your Web site registered with Internet search engines, such as Google, Yahoo and Ask.com. A variety of software and online services are available to facilitate the registration process and help improve your company's rankings among search engines.

To improve your rankings on a search engine — for example, to make sure your company's site is listed on the first page of search results or, even better, listed among the top five sites — add to your site content as many relevant key search words as possible. For example, an office goods retailer would want to sprinkle throughout its site keywords such as "office goods, equipment or supplies" and brand names of specific lines of office supplies and equipment sold. You can also supplement your search engine plan with a targeted, predetermined pay-per-click search engine strategy for keywords pertaining to your product or service offerings. In effect, you bid on popular keywords and pay only when a user clicks on the ad.

2. Relevant content. Offer a FAQ (frequently asked questions) page that addresses pressing business challenges or answers common questions on your products and services. Also use your Web site to provide practical tips, articles and customer case studies. But be sure to keep your content fresh. If a customer finds the same content that was posted months earlier, it will likely be his or her last visit.

3. Targeted e-mails. Send brief e-mails to target customers and prospects on company news; new products, services or enhancements; and upcoming events and special offers available only through your Web site. This will require you to not only gather e-mail addresses from your customers and prospects, but also update your list regularly. Once you have a solid list of e-mail addresses, you can turn e-mail into an inexpensive information and marketing tool that drives people to your Web site. But

make sure you comply with the federal government's CAN-SPAM law (go to www.ftc.gov for details about the law) for any e-mail program you develop.

4. Strategic Web links. Look for opportunities to link your company site with those of suppliers, trade associations, customers, and business directories and listings. In particular, reciprocal link partnerships with relevant sites can enable you to receive referrals in exchange for providing referrals. Using the office goods retailer example again, the retailer may benefit from a reciprocal link partnership with an office furniture retailer. The amount of reciprocal links to your site is a key factor that many search engines are apt to use for determining the value of your site. Generally, the more links you have to your site, the better your ranking will be.

Finally, include your Web site address on all company marketing material — from press releases, advertisements and brochures to product packaging, employee business cards and e-mail signature information.

Keep them coming back

Once you get your target customers and prospects visiting your company's Web site, don't turn them off from coming back in the future. Along with keeping your content fresh, make sure your site is user friendly, the navigation is intuitive, fonts and graphics are legible, and animation and sound are used sparingly.

Is your family's financial disaster recovery plan in order?

Every family is at risk for taking a financial hit from a natural or manmade disaster. You can minimize your risks by preparing a financial recovery plan. To get your plan in order:

Understand your risks. Think through the potential risks you and your family face and the financial impact they could have. The obvious disasters may include a hurricane or fire, but just as devastating are disability or premature death, divorce, or simply tough economic times. Even where you live may pose a risk, such as living near a nuclear power plant or a fault line.

Establish short- and long-term financial strategies. Estimate how long it will take you to recover financially from a disaster. Then set aside emergency funds to help cover immediate expenses until you or your family can access bank accounts, insurance benefits or investments.

Review insurance coverage. Many risks can be mitigated through insurance. Make sure that key risks are identified and coverages fit the risk.

Inventory financial assets. Prepare a list of your bank accounts, investments and trusts, titles and deeds, mortgages and home equity loans, insurance policies, credit and debit cards, and tax records. Also include contact information for any account managers and financial advisors.

Keep financial records safe and accessible. Back up your key financial records on a CD or portable USB flash drive and store both hard and electronic copies with your financial planner and in multiple, secure places such as a fire- and waterproof safe at your home and a safe deposit box at your bank. Consider storing a copy in a different geographic location in case of a wide-scale disaster, such as a hurricane or earthquake. For an emergency evacuation situation, prepare a portable storage box with some cash and traveler's checks, your financial assets inventory list and electronic copies.

Finally, because your financial situation and risks may change over time, periodically revisit your disaster plan and update it as needed.

Don’t overlook the tax implications of buy-sell agreements

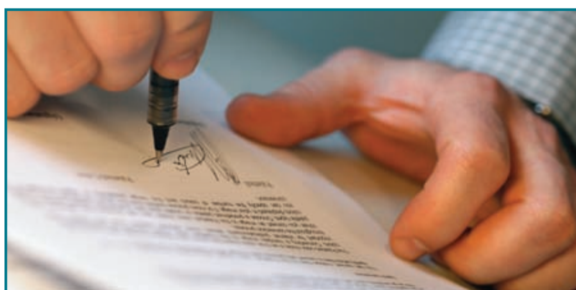
Every closely held business should have a buy-sell agreement. By establishing buyout terms in the event an owner dies or becomes disabled, retires, or leaves the business, these agreements can create a market for otherwise unmarketable shares, provide an owner’s heirs with liquidity to pay estate taxes and other expenses, keep ownership within a family or other select group, and help avoid disputes over the disposition of ownership interests. Moreover, a buy-sell agreement can establish the value of business interests for gift and estate tax purposes.

When designing a buy-sell agreement, it’s important to consider the tax implications, particularly with regard to funding and valuation provisions.

Funding options

Buy-sell agreements generally fall into one of two categories:

1. *Cross-purchase agreements*, in which the remaining owners buy back a departing owner’s shares, and
2. *Redemption agreements*, in which the company buys back the shares.



Typically, life insurance is used to fund these agreements. With a cross-purchase agreement, each owner purchases policies on the other owners’ lives. In the case of a redemption agreement, the company owns policies on the owners’ lives.

Cross-purchase agreements can offer some tax advantages. The surviving owners receive a stepped-up basis equal to the purchase price, which reduces income taxes in the event they later sell their shares. Also, because the insurance proceeds bypass the company, they avoid any corporate alternative minimum tax (AMT) issues.

Cross-purchase agreements are more difficult to administer because each owner must maintain separate insurance policies on the lives of every other owner. So, for example, a cross-purchase agreement for a company with 10 shareholders would require 90 life insurance policies.

A redemption agreement is easier to administer — a 10-shareholder company would require only 10 policies — but can create tax problems. The surviving C corporation owners don’t enjoy the benefits of a stepped-up basis, and the company may be subject to corporate AMT on the life insurance proceeds.

Valuation provisions

A buy-sell agreement’s terms for valuing shares and setting the purchase price are critical not only to ensure that the deceased owner’s family receives a fair price, but also to avoid unexpected estate tax liabilities. If the IRS determines that the shares have been undervalued, an owner’s family may find that the sales proceeds won’t cover the estate taxes.

Generally, the most effective valuation approach is to conduct regular, independent appraisals of the business, but a well-designed valuation formula can be an effective low-cost alternative.

When a family business is involved, however, Section 2703 of the Internal Revenue Code comes into play. The provision allows the IRS to disregard the terms of a buy-sell agreement in valuing an interest in a business if more than 50% of the business is owned by members of the same family. The family can avoid this result, however, by proving that the agreement is a bona fide business arrangement, has terms comparable to similar arrangements entered into by unrelated shareholders, and meets several other requirements.

Get professional help

To avoid unpleasant tax surprises, consult tax and valuation professionals for help in designing a buy-sell agreement that will achieve your objectives while withstanding an IRS challenge.

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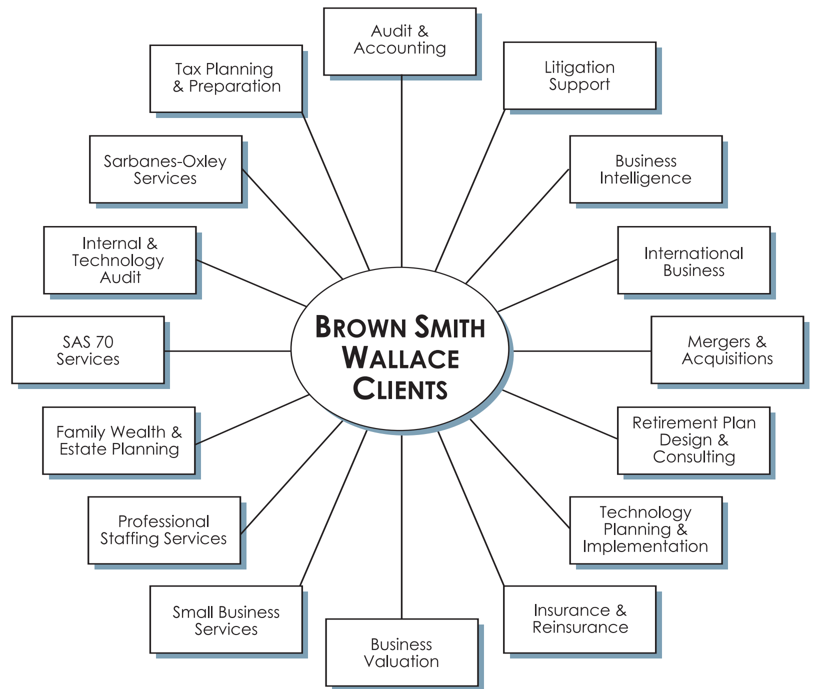

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