SOLVING YOUR FINANCIAL PUZZLE

HOW PAUL FAIR ASSOCIATES USES EVERY PIECE OF YOUR FINANCES TO HELP YOU REALIZE YOUR RETIREMENT PICTURE

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Paul Fair has been helping business owners, retirees, and those preparing for retirement achieve financial security and peace of mind since 1988. Paul's philosophy is that creativity and a determination to explore all available options is what allows clients to maximize their opportunities and meet or exceed their financial goals.

Paul's company, Paul Fair Associates, became a registered investment advisory firm in 1995. Due to his belief that financial success involves more than just investing, Paul collaborates regularly with attorney Elizabeth Morelli and CPA Ron Ryder to help clients with all of their retirement, estate, and tax-planning needs. Paul is also licensed to offer insurance products. By providing assistance in all these areas, Paul's clients enjoy the peace of mind that comes from knowing that all aspects of their finances are in sync. After all, it's no use getting a return on your investments if everything ends up going to Uncle Sam.

The following are some of Paul's thoughts about the economy, the markets, and how they relate to the average investor.

Economy, Demographics, and Healthcare

The idea that everything is connected plays a large role in Paul's philosophy. For example, Paul believes that proper financial planning doesn't take place in a vacuum, but affects and is affected by the world at large. That's especially true when it comes to exploring retirement planning and investment options, where it is critical to look at the economy as a whole. "We are a capitalist economy that's run by spending," Paul explains. "Seventy percent of all the spending done in this country is by consumers. Looking at the jobs report, the more people are working, the more money they have to spend. When less people are working, there is less spending, and the economy slows down. This has an impact on what areas we invest in and when we can retire."

Paul points out that there are approximately 118 million full-time workers and 28 million part-time workers in the U.S., with approximately 10 million people unemployed. That number has been declining incrementally over the past two years. The problem, according to Paul, is that 91 million Americans are not working or currently looking for a job, and therefore are not contributing to the consumer economy.

“I was surprised that the recent employment numbers were bad, yet unemployment dropped,” Paul says. “That’s because people left the workforce. That will be an issue moving forward. Again, what happens with the economy affects the markets, which in turn affects our investments.”

Another consideration is America’s aging population. “The probability of a male age 65 living to age 92 is one in four,” Paul says. “A female living to age 94 is one in four. When they are married, they have a one in four chance to live to 97. When we look at the workforce, the concern is the disparity between people who have been paying into the system and those who are already out of the system. The large number of Baby Boomers reaching retirement age is already a big problem now, and it’s only going to grow. That will have a negative impact on the economy and on our investments.”

Healthcare is a third issue to consider. “The *Affordable Care Act* is supposed to get the healthier younger people to pay premiums to offset the costs for older people,” Paul explains, “but both ends are getting squeezed. Younger people will be paying more, and older people will be paying more also, because they’re going to have higher deductibles.”

Health care represents one sixth of our entire economy, Paul says. “Business owners are in a state of flux because they don’t know what is going to happen as the Affordable Care Act is modified and fully implemented. They don’t know what they’re going to be obligated to do regarding healthcare or what the healthcare costs are going to be. Currently, if a company with more than 50 employees hires someone and they don’t provide healthcare, they’re going to have to pay a fine, so that may prevent them from hiring someone.” Decreased hiring leads to more unemployed, which leads to less consumer spending. This in turn results in diminished corporate profits, which directly affects the markets. When the markets are affected, so too are your investments…and thus, your finances in general.

See how everything is connected?

Investing in the Stock Market and Other Considerations

Stocks and stock funds as an investment vehicle are not the only, or necessarily the best, option, Paul says. “There has been a lot of volatility in the stock market, especially from 1998 until the end of last year. Over that period, with the ups and downs of the stock market, what we have found is the average rate of return has been kind of slim. And that erodes the money you set aside for retirement.”

“Look at the expanding debt in the country,” Paul continues. “That slows things down. Our country is over $17 trillion in debt. Spending by the Federal Reserve, which used to have a low correlation to performance of the market before the last crash, is now extremely highly correlated. Prior to 2007 the total spending by the Fed was approximately $1 trillion; since the recession, that amount has increased to $4.3 trillion, on top of our debt that we are already obligated to pay. That can be another drag on the market as well,” Paul said.

If you are going to expose yourself to the stock market, you might want to think about tactical allocation and tactical money management, Paul advises. "There are companies using tactical allocation money management that will actually work to protect your money when the market goes down," he said. "They will remove it from the market, and as the market goes back up, they'll push money back into the market. Most companies look at benchmarking themselves. Looking at stocks for example, most benchmarks would be the S&P 500. The idea is to outperform that, but at the same time, you need to have consistency, especially if you are withdrawing from an account for your retirement. If the market is down and you take money out, you're taking out much more proportionately. If you're withdrawing five percent, and the market is down 40 percent, you might be truly withdrawing at an eight or ten percent rate. That's money you will never see again. Tactical allocation makes it a lot simpler to work with the markets," he said.

Bonds, CDs, Annuities, Social Security and Medicare

"Bonds took a hit last year," Paul says. "Thirty-year treasury bonds were down 12-14 percent last year. In the early 80's you could have gone to the bank and purchased a CD that paid 10-14 percent interest. Over the past 30 years, bond yields have been coming down and interest rates have been coming down. That meant the value of bonds was going up. Now we're at a turning point where interest rates are very low and it appears they are going to start going back up. When that happens, a one percent increase in interest rates can affect bonds quite a bit."

Paul continues, "A two-year bond can drop almost two percent. Five-year treasury bonds go down a little less than five percent and the longer term they are, the bigger the drop." If you have bonds in your portfolio, having someone manage that portfolio to help prevent losses can be very beneficial.

"Looking to CDs for income, you're not making much money," Paul says. "Annuities are a safe alternative that may provide higher returns. There are four or five different types. One very popular type is an annuity that goes up when the stock market goes up, and goes flat when the market goes down. It doesn't lose anything. Over the past couple of years, these types of annuities have added income riders so that no matter how long you live, you're going to get a check, which can be a problem with other forms of annuities. Even if your annuity runs out of money, you still get a check. These annuities are guaranteed by the insurance company."

Of course, Social Security is a valuable source of income as well. "Today, most people don't look at all the options they have when they go into retirement, as far as Social Security goes," Paul points out. "The Social Security Administration will not give advice. For that reason, you should know what you want before you go through the door. There is software available that allows you look at different options for yourself. Finding the best option really makes a difference, especially if you are married. There are ways to maximize your benefits, so failing to do so really is like leaving money on the table."

Finally, Paul advises people to look closely at Medicare. “Medicare is part of the health care system, and can be rather complicated,” Paul says. “For example, when you go to the hospital, your status as an “outpatient” rather than “inpatient" (admitted) can cost you some big bucks, because Part A hospital coverage only applies if you are categorized by the hospital as an “inpatient.” Otherwise, only Part B coverage applies, which involves more co-payments. Additionally, Medicare will only pay for follow-up care in a skilled nursing facility if you have spent at least three nights in the hospital as an “inpatient.” Educating yourself about the ins and outs of Medicare is a great way to save money in the long run.

Pieces of the Puzzle — The Importance of a Comprehensive Approach

“You’re not going to do much in one area that’s not going to affect another,” Paul says, “so if jobs are a problem, then you better have everything else in order. If you are looking at your health care, that’s another issue. If you’re looking at longevity, you don’t want to outlive your money. All of these issues together are pieces of the puzzle. If you take one piece of the puzzle out, it doesn’t work anymore. You really need to take a look at the whole picture and put everything in its proper place to be financially successful.”

To that end, Paul Fair Associates helps provide business owners, retirees, and those preparing for retirement with options to help ensure they don’t outlive their money, and to help them pass on their assets to the next generation with the least amount of interference from the government. Because there are a multitude of issues that can come into play, Paul’s strategy is to apply what he calls a “multi-disciplinary approach.” He uses the analogy of a football team. “In football, the best teams are the ones that excel in all areas. You’d never win a game with bad linemen, safeties and special teams, no matter how good your running back is. The same is true in finance. You could have the best investments in the world, but it won’t do you any good if your tax situation is a mess, or if you don’t have the right insurance when you need it. For my clients, I’m the quarterback, but there are many other positions on the field. These other positions are the people I rely on quite heavily—attorney Beth Morelli and CPA Ron Ryder. They help me look at everything from a tax point of view and a legal point of view, and they are very instrumental in making sure that we get everything done. And if, God forbid something happens and one of our client families ever needs help, they’ll have the proper tools to work with.”

Elizabeth K. Morelli, Esquire

“I like Paul’s metaphor of the team,” says attorney Beth Morelli, an expert in estate planning and estate administration, “because when you’re talking about financial planning, it’s tied in with estate planning and taxes. I got to know Paul 13 years ago. Planning your finances and planning your estate are very closely related, because you’re planning not just for now, but also for the future and for everybody. That involves an eventual estate plan. You really need to be conscious of what your assets look like now and how they are going to take care of you in the future, and what’s going to happen when you pass away.

Estate planning involves preparation of a will or trust, designating a power of attorney, crafting a living will, and addressing the myriad of issues related to financial gifting. Small business considerations include formulating the company structure and buy/sell agreement; having appropriate key man life insurance; and succession planning— who will be in control of the business?

"It's really important for your family's sake and your business' sake to have some sort of succession plan," Morelli says. "Most small businesses have some sort of shareholder agreement or an LLC agreement that provides for what happens upon the death of a shareholder. Sometimes the estate is compensated and that's how the family is taken care of. Sometimes there's key man insurance that's designed to take care of losing that employee of the business. All of those things really need to be looked at in terms of how the business is going to carry on."

Morelli points out that statistically, 60 percent of people die without a will. "You have no control over where your estate is going to go," she says. "The legislature of Pennsylvania then makes a will for you and they decide where your estate is going to go. It may or may not be exactly what you had planned," she adds. "Some people think if you don't make a will the state's going to take everything. That's not the case either."

Power of attorney is just as important, if not more so, than a will, Morelli stresses. "It's so important to designate somebody. If you don't, then you have to go into court. The court sticks its nose into your assets. They want to see an annual report. You have to bring a doctor in to testify. It's a lot more invasive. Power of attorney is really important especially in light of the Health Care Privacy Act, HIPPA law as most people know it.

"With retirement accounts, if you don't have a power of attorney, by definition, only one person can own a retirement account," Morelli says. "With any kind of life event, documents need to be reviewed, and on top of that every couple of years just get them out and look at them."

In addition to a will and a power of attorney, Morelli always recommends a living will, for the family's sake, for the sake of doctors. "Those are end of life instructions," she explains. "People have a chance to designate what types of treatment they would or wouldn't want if they are at the very end stage of their life. It's a really tough decision to make for somebody else."

In addition to those three basic documents, there's the issue of beneficiary assets. "The will doesn't control those types of assets," Morelli says. "Who is the beneficiary on your IRA? The will doesn't control everything."

Finally, there's the issue of gifting. "Gifting is a way to get some money out of the estate to avoid inheritance taxes," Morelli explains. "PA has an inheritance tax. IRS rules are that you can gift $14,000 per person per calendar year. That's an estate planning tool we use and try to take advantage of."

Business Succession Planning

"When I talk to a small business owner, I ask them to bring their buy-sell agreement, their shareholder agreement, to review what's going to happen upon their passing," Morelli says. "How does that fit in with their estate plan? Is their family going to be compensated?"

"The other thing is key man life insurance," she says. "Is there private life insurance you want to get to compensate your spouse or family members? The nice thing about life insurance is it's a way to leverage some money into more money. And there's no Pennsylvania inheritance tax on it."

"I think a lot of business owners put their head in the sand when it comes to succession planning," Morelli says. "They don't think about who is going to take over. How's that going to affect the company? Are they going to manage the same way I do? It's important to talk about that. What's the company worth? All those things fit into the puzzle."

Estate Administration

Estate administration involves choosing professionals as the executor/trustee, attorney, accountant and financial planner.

"Once somebody passes away, what we do is sit down with the client and look at the assets; how the assets are titled really drives what, if any, involvement I'm going to have," Morelli says. "If there are assets titled in an individual's name alone with no beneficiary name, then we need to file the will for probate. We need to get an attorney involved. There's going to be an executor. You need to think about whom you are going to choose in your will as an executor. It should be somebody who is organized and pretty on task, not somebody who is going to drag his or her feet. And geographically close."

"I always talk to whatever professionals this person has used, and if they haven't already, I'll suggest even at this point, let's get an accountant in because inheriting this IRA is going to affect your taxes, or whatever the case may be. And the financial planners are a huge help to me. They can tell me what the date of death value is on these assets. Who are the beneficiaries? How is this structured?"

Morelli always suggests that clients ask how people charge. "Some attorneys, years ago it was the norm just to charge a five percent fee for an estate," she says. "That's not the case any more. There may be a lot more work involved in one case versus another. You should choose an attorney who is looking at what type of work is involved and charges based on that. Your fee needs to be reflective of how much work they are doing. You want somebody like Paul. Ask questions."

“Putting a good estate plan in place assures that when someone passes away, we have steps to follow. We have a plan in place and a direction to go with those assets. Not planning means we may have a lot more time involved in terms of either liquidating assets, getting to assets, finding assets. I tell my client to make a list of where your assets are. Keep it with your will, so when the time comes, the executor has that. They know where to go. They know what banks to deal with. You really want to be organized in terms of your plan.”

Failing to plan can be very costly in the long run in terms of time, money and aggravation. In terms of your business, it could cause upheaval and even dissolution. From a financial standpoint, increased taxes, fees, and lost opportunities could be costly.

“It’s been great working with Paul,” Morelli says in conclusion. “His clients are really well informed. It’s sort of a team. Paul is going to be the quarterback, but you want to work with both the financial advisor and the tax person to really get a complete picture for a client and make a good plan.”

Ryder & Company, Inc.

Ryder & Company, CPA is one of the most dependable accounting, tax and consulting firms in Pennsylvania, serving the extended Berks, Lancaster, Montgomery and Chester County areas. Ryder & Company caters to all types of businesses, no matter the size. They offer personalized, professional accounting and business consulting to individuals and businesses.

Ron Ryder points out that tax planning is not just for the wealthy. “It is often easily accomplished with proper guidance, but it is important to use a certified and licensed professional who is continually updated on recent tax changes,” he said.

Ryder says that the complexity of the tax code makes self-preparation of tax returns daunting. “Self-preparation may miss valuable deductions and expose you to greater audit risk,” he said. “Professional tax preparers are not created equally. Use a certified and licensed tax preparer trained in the current tax laws.”

Ryder & Company prides itself on being an exceptionally affordable and valuable resource for their clients. Their services encompass nearly every aspect of financial life, including accounting and bookkeeping, payroll services, business consultation, taxation, IRS problem resolution, estates and trusts, business formation, financial planning and investment, and real estate and business sales.

Ryder & Company consults with small businesses on matters of control of cash flow; proper record keeping; payroll vs. non-employee payments; federal/state/local taxing authority scrutiny; new business formation; need for business loans; tax planning; quarterly and annual tax filings; and financial decision-making assistance.

“We focus on freeing the business owner to do what he or she does best— operating the business!” says Ryder.

Ryder & Company also offers assistance to medium-sized businesses including: expert financial guidance for businesses unable to hire an internal CFO; effective tax planning; compensation of officers, owners and staff; insurance programs; banking relationships; accounts receivable, payable, and inventory process controls; succession planning; internal controls; budgeting and goal setting; and financial and trend analysis of financial data.

Ryder & Company's dedication, experience and expertise are just the right solution to ensure your financial future and company's bottom line. Ryder & Company offers free reports and newsletters on financial strategies for business owners, individuals and investors, to help clients reduce taxes, make better business decisions, and learn how to grow wealth.

The essence of good financial planning is that it comprises *every* aspect of your finances. Just like a puzzle would be incomplete without every piece, just as a football team needs strength in every area of the field, so too do retirees, pre-retirees and business owners need assistance with planning the totality of their finances. Investing, taxes, insurance, estate planning, and being informed about the economy all play a crucial role. All these things are connected. They are constantly affecting and being affected by each other. Those who want to enjoy their dream picture of retirement would be well served to consult with someone who knows how to put the pieces together.

To learn more about the information contained in this article, please contact Paul Fair, 334 Washington Street, Birdsboro, PA 19508; 610.478.9500 or contact@paulfair.com.

Paul Fair is an investment advisor in Birdsboro, PA
"Providing Retirement and Income Solutions"

Contact information: **Phone: 610-478-9500**
Email: **contact@paulfair.com**
Website: **www.paulfair.com**