



# Planning Considerations for the Entrepreneur

C3 Business Forum  
May 9, 2016

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This presentation available with active internet links @ [vfa.cc/C3](http://vfa.cc/C3)

# Topics

- Protection / Risk Management
- Succession / Exit Planning
- Cash Flow / Debt / Taxes
- Estate Planning
- Diversification of Net Worth

# Protection / Risk Management

- Not just insurance
  - Entity structure to encapsulate liability
  - Asset ownership (e.g. delivery vehicles owned by one entity, real estate in another, operating entity in another)
  - Cultivate a management team / successor who is capable of stepping up in the event of your absence.

# Life Insurance

## Key Points:

- Risk mitigation tool – not an investment
- Determine needs
  - Personal – survivor benefits
  - Key man
  - Buy / Sell – company owned vs. cross purchase
- Term insurance most appropriate
- It pays to shop around
- Whole life insurance for permanent insurance needs (estate tax planning), not for investment

## Action Items:

Visit [vfa.cc/C3](http://vfa.cc/C3) for a link to term life insurance quotes (without an agent or sharing your name).

Compare quote to current policy.

If whole life, why?

# Disability Insurance

## Key Points:

- Group disability forms base
  - Inexpensive
  - No portability (can't take it with you)
  - Social Security integration
- Individual disability supplements
  - Portable
  - Expensive
  - Buy before group policy
- Definition is key (own occupation)
- After-tax premiums = tax-free benefits

## Action Item:

Verify you are paying premiums with after-tax dollars.

# Property & Casualty Insurance

## Key Points:

- Gaps in home owners coverage by captive carriers (State Farm, AllState, etc.):
  - No "Guaranteed Replacement Cost"
  - No "Mysterious Disappearance"
  - Limited Water/Sewer backup (\$10,000)
- Gaps in Umbrella Liability Insurance:
  - No coverage / less than net worth
  - No uninsured/underinsured policy rider
  - Fail to report pool, golf cart, trampolines

## Action Item:

If you live in a \$1,000,000 +/- home and your insurance company sponsors your favorite sporting event, you have a high likelihood of a gap in coverage!

Find an independent insurance agent.

# Succession / Exit Planning

- Develop Plan
- Include Experts on Your Team
- Keep Options Open

# Develop Exit Plan

## Key Points:

- Formulate a plan early:
  - Most successful transitions are years in the making
- Cultivate potential successor
  - Key individual
  - Management team
- Include experts early in the process
  - Specialized attorney & CPA
  - Valuation expert (helps remove emotion from the process and provides IRS / Court-tested valuation method)

## Action Item:

Start your plan today!



# Keep Your Options Open

## Key Points:

- Strategic sale – external buyer
- Internal sale
  - Family members
  - Key individual
  - Management or employees
- Exit types
  - Cash / stock exchange
  - Installment sale
  - Seller financing
  - Leveraged buyout (LBO)
  - Employee Stock Ownership Plan (ESOP)
- Tax Impact – asset vs. stock sale

## Action Item:

The more options you have, the better you can maximize the value of your business.

Don't eliminate options prematurely.

# Managing Business & Personal Finances

- Cash Management
- Debt
- Taxes

# Cash Management

## Key Points:

- Average bank savings account pays 0.10% APY
- Top online banks pay 1.00%+ APY
- \$250,000 balance for 1 year earns:
  - \$ 250 at 0.10% APY
  - \$2,500 at 1.00% APY
- Consider:
  - Barclays (1.00%)
  - American Express (0.90%)
- Electronic link to primary checking with easy 1 day push/pull for deposits/withdrawals

## Action Item:

Check the interest rate on your savings account.

Visit [vfa.cc/C3](http://vfa.cc/C3) for links to establish an online savings account.

# Shopping Your Mortgage

## Key Points:

- It pays to shop around
- Why one bank might be best on Tuesday but not on Thursday
- Fixed rate vs. Adjustable Rate (ARM)
  - Benefits of living within your means
  - Minimize risk by paying ahead

## Action Item:

Check your current mortgage rate and terms.

# Extending Your Income Tax Return

## Key Points:

- Defer filing, but not paying taxes
- Avoids the April rush
- Fresh set of eyes for return preparation and review
- No impact to credit and no higher risk of an audit
- Amending a tax return does increase audit risk

## Action Item:

Extend your tax return.

Review final return with your financial advisor and CPA after busy season.

# Tax Loss Harvesting

## Key Points:

- Process of selling investments at a loss to offset capital gains
- Even if no sales you may have capital gains from mutual fund distributions
- Requires a proactive conversation by your advisor and coordination in situations where multiple advisors
- Not just a year end activity - February 2016 was a great time to harvest losses

## Action Item:

Check with your financial advisor to review year to date capital gains and opportunities for tax loss harvesting.

# Indiana 529 Plan Tax Credit

## Key Points:

- \$5,000 contribution = \$1,000 state tax credit (20% to maximum of \$1,000)
- Even if you don't have long to invest or are currently paying for college, the tax credit is still available by using money market investment option
- Multiple kids to save for? Consider your parents, siblings, adult children or other relatives making a contribution to 529 plan
- [www.collegechoiceplan.com](http://www.collegechoiceplan.com)

## Action Items:

Make sure CPA includes your 529 contributions on your tax return.

Visit [vfa.cc/C3](http://vfa.cc/C3) for a guide on how to check your past tax returns for the credit.

Share the tax credits with Aunt Millie!

# Indiana Homestead Deduction

## Key Points:

- Property deduction for primary residence that reduces property tax by 50%+
- Deduction needs to be filed with county after the purchase of primary residence (12/31 deadline)
- Deduction may need to be refiled after mortgage refinance, change in ownership such as transfer to trust, adding or removing spouse

## Action Item:

Confirm Homestead Deduction filed with your county assessor.



# Giving Away What You Accumulate

- Estate Planning
- Charitable Giving

# Estate Plans

## Key Points:

- No estate plan / "in progress" / old plan
- Missing/incorrect beneficiary designations:
  - 401(k) Plans, IRAs & Pensions
  - Life insurance
  - Annuities
- Out of state property ownership
- No consolidated list of accounts & assets
- Do not just use any attorney - use an estate planning attorney

## Action Item:

Update your estate plan & prepare list of accounts/assets.

Visit [vfa.cc/C3](http://vfa.cc/C3) for a link to find a local estate planning attorney.

# Charitable Giving Strategies

## Key Points:

- Gift appreciated stock or mutual funds:
  - Avoid capital gains tax
  - Charity pays no capital gains tax
  - Invest cash to step up cost basis
  - Easier for charity to get cash vs. stock
- School Scholarship Credit (SGO):
  - 50% Indiana state tax credit
  - 39.6% Federal tax deduction
  - Can gift appreciated stock
  - Brebeuf, Cathedral, Guerin, etc.

## Action Item:

See if your school qualifies for SGO credit at [vfa.cc/C3](http://vfa.cc/C3)

# Diversification of Net Worth

- Retirement Plans
- Investments
- Real Estate / Alternatives
- Social Security
- Medicare

# Roth IRAs

## Key Points:

- After-tax contributions, tax-free growth, tax-free distributions, no required minimum distributions
- Direct contributions limited by income
- Indirect contributions at any income - nondeductible IRA contribution + Roth conversion
- \$5,500 (\$6,500 if age 50+) /person/year
- Available for non-income spouse
- Available for children with earned income

## Action Item:

Don't have a Roth IRA.....get one!

# Roth IRAs

## Example Scenario:

- Physician funds Roth IRA from age 45 - 65 (\$125,000 total).
- 8% growth = \$300,000 IRA at age 65.
- No distributions to age 90 = \$2,000,000
- Inherited IRA to 60 year old child allows distributions to be stretched over their life expectancy.
- Total tax-free distributions = \$6,510,473

## Action Item:

Don't have a Roth IRA.....get one!

# SEP IRA vs. Solo 401(k) Plan

## Key Points:

- Both available to defer tax on self-employment income (consulting, moonlighting, IP royalties)
- Solo 401(k) balance not taken into account when making Roth conversions
- SEP IRA balance makes Roth conversions tax inefficient
- Ability to rollover SEP IRA to Solo 401(k)

## Action Item:

Establish a Solo 401(k) plan and rollover your SEP IRA.

# Defined Benefit Pension Plans

## Key Points:

- Ability to save up to 100% of self-employment income on a pre-tax basis
- Annual actuarial calculations & administration expenses
- Employees can complicate tax efficiency

## Action Item:

If you have significant recurring self-employment income, consider establishing a Defined Benefit Pension Plan.



# Investments - Index Funds

## Key Points:

- SPDR S&P 500 Index ETF (SPY):
  - 0.09% annual expense ratio
  - \$900 per \$1,000,000
  - Tax-efficient
- Average Large Cap mutual fund:
  - 1.09% average annual expense ratio
  - \$10,900 per \$1,000,000
  - Tax-inefficient
- 86% of mutual fund managers failed to beat their benchmark in 2014
- Survivorship bias

## Action Item:

Compare your actively managed mutual funds to the Index.

# Investments - Municipal Bonds

## Key Points:

- Individual municipal bonds:
  - Protect against rising interest rates if held to maturity
  - Tax-efficient
  - Retirement income stream
- 3% municipal bond in top tax bracket = 5%+ tax-equivalent yield
- 10 Year U.S. Treasury @ 1.78% (5/6/16)

## Action Item:

Build municipal bond portfolio to supplement retirement income.

# Investments - Real Estate

## Key Points:

- Income producing
- Inflation hedge
- Tax-efficient (depreciation and leverage)

## Action Item:

Consider adding investment real estate to your portfolio.

# Investments - Alternatives / Private Equity

## Key Points:

- Underwrite the deal sponsor before the deal
- Make sure sponsor has skin in the game (10% co-invest minimum)
- Be prepared to invest 2 - 3x your original investment
- It is not as fun as it sounds

## Action Item:

If investing in this space, diversify by sponsors and time to build a portfolio of vintages....don't put all your eggs in one basket.

# Social Security / Medicare

## Key Points:

- Wait until Full Retirement Age (FRA):
  - Born 1943 - 1954, FRA = Age 66
  - Born 1955 - 1959, FRA = Age 66 - 67
  - Born 1960+, FRA = 67
- Delay Social Security until age 70 and grow your benefit 8% per year (0.67% per month)
- Contact Social Security 3 months in advance of your 65th birthday to enroll in Medicare (even if you are not retiring)

## Action Item:

Review your most recent Social Security Statement online.

A link to view your Social Security statement is available [vfa.cc/C3](http://vfa.cc/C3)

# Questions?

### Our Mission

Valeo's **mission** is to improve how clients consume and advisors deliver financial advice. Our service is a continuous process of thoughtfully identifying and implementing **solutions** to ensure all aspects (insurance, cash flow/taxes, investments and estate) of your financial life are integrated with one another, to lower costs (interest paid, taxes and fees), to achieve better risk-adjusted investment results, to become better organized and repeating this process so you have peace of mind to know it is going to stay that way.

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#### Advice not Products

Advice from someone being compensated for the product they are recommending is simply not objective. We NEVER receive any compensation from anyone other than directly from our clients.

#### Accessibility

We believe the most common reason a client-advisor relationship fails is a lack of proactive communication. We embrace this industry flaw by limiting the number of clients each advisor is allowed to work with to ensure this does not happen.

#### Reasonable Fees

Transparent and easily found on our client agreements, invoices, website and other forms of company communications. Reasonable for the work we do and not simply what the market will bear.

#### Growing with Our Clients and Advisors

While the majority of our clients' situations merit regular, recurring meetings, we can provide substantial value for clients who are in the early phases of growing their net worth.

#### Giving Back and Paying Forward

We are fortunate to earn a living doing what we love and must give back to the communities that allow us to do so.