

Who Is Your Family's CFO and What Role Should They Play?

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You may be surprised but there are many similarities between the role of a corporate CFO and the fiduciary responsibility of a household. Some people may not want to mix business with family, but applying certain business principles of accountability and strategic planning can help your family's financial future.

What happens if the family CFO doesn't fulfill his/her obligation? The consequences might include a child attending community college rather than an Ivy League school, higher than necessary tax burdens or a suboptimal retirement. If you consider it, the family CFO, which may be yourself, has the same responsibility as the company CFO. However, rarely does an individual view the family job with as much scrutiny. This article will give some simple, yet important suggestions to shore up a family's financial situation.

There are four major stages of the personal financial lifecycle: planning, growing, protecting and transferring. Each brings its own series of questions and answering each question will provide a basis for your financial plan and its success.

Planning

Companies have strategic plans to achieve success but does your family have a similar approach? An annual budget is an excellent tool, but this exercise calls for the discussion of a long-term strategic financial plan. Have you matched up expected future cash outflows with expected cash inflows and rates of returns? What is the required rate of return to achieve

your goals (college, second home, early retirement, etc)? How often do you monitor actual vs. expected results, and what happens if there is a variance? Like everything in life, a documented, revisited plan can

contribute to success. These answers can help you start formulating a plan for your family's financial strategy.

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Growing

Growth must continually be monitored by the family CFO and changed when needed.

For example, what vehicles do you use to grow your money so that you can achieve your goals? What is the mix between tax exempt, tax deferred, and taxable accounts/holdings? What is the asset allocation? How tax-effective are the holdings? There are so many types of growth vehicles: 401(k), 529, annuities, insurance, separately managed accounts, mutual funds and many more. The titling of accounts, asset allocation, fees, and tax effectiveness all affect the ultimate rate of return, and therefore your goals. It is best to make certain that you are evaluating your financial growth at least annually, and keeping up to date on new products and

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Who Is Your Family CFO? *from front*

legislation that might be able to enhance your overall return.

Protecting

A family CFO needs to provide security for his family and sometimes answer tough questions. What happens to your goals if the market returns three down years like it did during 2000-2002 and your portfolio drops 40%? How have you attempted to minimize the risk of a market downturn? Are you aware of the various investment products to protect your portfolio? If you have life insurance, when was the last time you looked at the cost of coverage, cash value, dividend rates, death benefit, etc.? These are thought-provoking questions and many family members often shy away from their discussion because of the life situations associated with each. However, for the benefit of you and your family they need to be addressed. For example with life expectancy increasing, cost of insurance has decreased, and it may be possible to either lower your annual premiums or increase your death benefit for the same cost.

Transferring

Here's an area where a family CFO can generate creative savings and make critical decisions which could have immediate beneficial results for the entire family. For example, did you know that while life insurance proceeds are income tax free, they are included in the taxable estate, and subject to estate taxes? Holding them in an Irrevocable Life Insurance Trust removes the proceeds from the taxable estate. Questions that a family CFO needs to answer include: How have you attempted to minimize the taxes your spouse and/or heirs will pay upon your passing? Did you know that taxes

potentially could eat up over 2/3 of your qualified retirement plan (i.e., a \$1M IRA or 401k could pay over \$650,000 in taxes, and therefore leave your heirs only \$350,000). Have you titled accounts to take advantage of the maximum estate tax exclusions? These are significant questions and a financial advisor can provide innovative answers and actions which can have an immediate positive impact upon your family now.

By thinking of yourself as a fiduciary with your family finances, your chances of successfully planning, growing, protecting, and transferring your money tax effectively dramatically increases. Unfortunately, these answers will not happen overnight and will require time, patience and thoughtful analysis. Just like in the business world, a family CFO has to answer difficult questions, but proactive and innovative thinking will ensure the financial security and success of your family.

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