Using Annual Review Planning to Solidify Client Relationships

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Why do year-end planning? We do it for many reasons, not the least of which is to help our clients minimize taxes, review their estate plans, and prepare for the next year. Since this is being done in 2013, we will talk a lot about 2013 and 2014, but the techniques will apply in any year. Another reason is that you really do solidify your client relationships. I cannot emphasize how important that is. You have documentation that you meet with your clients and that you review important planning concepts. These actions will help you with any compliance issues going forward. Finally, not the least important, is creating a great fourth quarter for yourself and your firm. It is an opportunity to see your best clients, year in and year out, to have time to visit with them, and to talk about what is going on in their lives.

Why did we create this year-end planning, annual review program? You may remember in August 2005 the Gulf Coast was visited first by the most powerful hurricane ever to be in the Gulf of Mexico, Hurricane Katrina, bearing down on one of the greatest cities in the country and in the world, but a city that is below sea level—New Orleans. We know what happened. New Orleans was under water for several weeks, and Katrina disrupted commerce for months. What you may not know or remember is that Katrina hit the east coast of Louisiana, and three weeks later the most powerful hurricane ever to be in the Gulf of Mexico made landfall on the west coast of Louisiana—Hurricane Rita. Now, imagine all your clients live and work from the Louisiana/Mississippi coast through Houston. All the roads are closed, there is no electricity, Internet service does not work, the bridges are all out. There is nothing. The city is shut down. The Gulf Coast is shut down.

How do you maintain your practice under these circumstances? After a few weeks, to avoid losing my mind, I read several practice management articles, and one of those was about performing annual review planning for clients. I was so intrigued with the idea that I found and read as many articles as I could about year-end planning and annual review planning. As a result I built a planning program for annual review planning. Over the years I enhanced the program by attending seminars like this and other seminars and workshops sponsored by NAIFA and MDRT. I came across some other information that I have incorporated here. I want to give special credit to a real good friend of mine from Jackson, Mississippi, Larry Fortenberry. Larry gave me a lot of information that we use for drilling down into tax forms. I appreciate everything Larry has done for me.

Let's return to dealing with the disaster and creating the program. How does one respond when a city is destroyed by this type of natural event? The great philosopher Thomas Carlyle said, "The block of granite which was an obstacle in the pathway of the weak becomes a stepping-stone in the pathway of the strong." I have used that philosophy not only to build from this disaster of 2005, but also to continue to build our practice since then. Business school often teaches to think outside the box. Sometimes the answer is actually inside the box. That is what we determined as we went through this exercise at the end of 2005.

We developed a complete planning program that dealt with annual planning. Our plans were that in January and February of 2006, whenever New Orleans opened back up, we were going to hold seminars on planning because people needed information and assistance. However, I wanted to

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test it first, so here is what we did. We sent letters to our top 72 clients and said, "Let's test this plan on them." Because we already had all of their business, there was nothing else to do. The year was shot. We decided to go ahead and take those last two months to visit our clients, if we could find them, visit them and talk about planning. What we found was really fascinating. We learned that even with our A-list platinum clients we didn't have all of their business. And there was a lot more planning we should do and could do.

Let me share these results with you: First, the letter we sent out was on October 31, 2005, Halloween. We sent out a letter along with an organizer and concerns sheet. We sent this letter to our top 72 clients. Over the course of the next two months we had 123 meetings—almost all of those in our office. We had 15 unsolicited referrals, 12 of whom became clients. We did 44 transactions for a total of $122,000 first-year commissions. A year that was lost was saved by doing year-end planning.

Now, if I were like too many of our colleagues, this worked so well I would never do it again. However, we have done it year in and year out. I want to share some other results with you. October 31, 2011, again sending letters only to our A list, which then totaled 125, we had 32 meetings, 2 unsolicited referrals, 40 transactions, and $60,000 of first-year commissions. We are going to highlight just the results that are round-table credits. What you will see with these round-table credits is that there are no $50,000 or $60,000 commissions there. Most of these are small add-ons to existing planning we have already done. In fact, I think the largest transaction is not even five figures. It may be about $8,500 of commissions.

It is now time to review the preliminary process. I think you should send out the letters by October 1. Recall that my first letter went out on Halloween, October 31, and we still had those successes that first year. Right now we send it out about mid-September. To begin, sample the process with your top 10, 20, or 30 clients. See how it goes and learn about what's on the client's mind by using the checklist that is included with this program. That is a three-page checklist that will prompt you the questions to ask your clients. Think about using these year-end appointments at year's end or in the last quarter of the year. Request that your clients fill out concern sheets. It takes a minute or two to complete that document. Make sure you get the checklist. Also, if you have a small practice, you need to set up these appointments yourself. As you grow, your staff can set up these appointments for you. Use the letter, which is included in this program, but make sure to get your compliance department to approve all of these documents. If staff is calling, make sure the letter states that fact.

The next step is education. You need to learn how to review the documents. Through the rest of this presentation I am going to train you how to review the documents. We have two documents. The first document is an organizer and concerns sheet. What we have with this is a checklist to prompt the clients on what to bring to our meeting. The second part of this document asks about their concerns. What are they concerned about this year? This checklist is used in the interview with the clients. Those interviews usually last about 30 minutes. We have their concerns sheet, we have their documents, we have any updates to their brokerage accounts, 401(k), or whatever else is going on in their world, and we have this checklist, which prompts the questions for you to ask.

How do you conduct these meetings? The first thing is to review these checklists from the year before. Check your notes from the year before. Did you do the things you said you were going to do? Did the clients do the things they said they were going to do? Then you want to review the documents the clients bring in. Take a quick review of those documents while they are in your office, but then hold them for follow-up analysis and meetings. Schedule a follow-up, if necessary, at this meeting while you are sitting down with the client. Finally, and this is very important, you need to send an email summarizing the meeting. It is important for several reasons. First, it reminds the client of the follow-up appointment. Number two, it summarizes all the things you talked about and hits the important points. Number three, the email is great for compliance purposes since you have a record of the meeting and the things you have done. We also now get our fee clients to sign an annual review statement that outlines any changes we need to implement.

So what do you do after that? The first thing is to review all of the notes from the meeting. Then you want to review all the clients' documents. After you have done these, review and follow up with an email. Prepare any proposals you need to prepare, and keep in mind the last business day of the year. It is important for the clients who are making year-end contributions to retirement plans, 401(k) plans, and other business contributions to understand deadlines for such deposits. Of course, you have your personal deadlines as well for your annual goals and dreams.

How do you go through the analysis of the documents? First are payroll forms. Too many of my colleagues disregard

the value of the review of the payroll form. There is a lot of gold in there. We will talk about tax returns. There is a lot of gold in tax returns as well for your review. What about clients' statements and documents? There is a lot of value and gold in there too. And finally, the clients' concerns sheet because that's what is going to tell you what is important to them.

Let's just start with payroll and tax forms. Here is an example of a W-2 form; there are some very important boxes on this W-2 form. This one says "2006," but it really doesn't matter; they haven't changed a whole lot. They will be changing in the years to come as a result of "Obamacare" legislation because part of this document will indicate how much the clients are paying or the company is paying for their health insurance. What are some of the important boxes here? Is there a difference between line 1 and line 3? That's income (wages, tips, and other compensation) and social security wages. Why is this important? Number one, it is going to tell us if they are contributing to some type of deferred compensation plan, usually a 403(b), 457, or 401(k) plan. If you are working with state workers or teachers, there may be zero dollars in the social security box, telling you that the client or client's spouse works for one of these entities. That is important as well because they usually have a nice nest egg of benefits when they retire. You want to note this in your file so you know when retirement comes up.

What type of retirement plan do they have? This is an opportunity to ask for statements such as the 403(b), 401(k), and any other retirement plan statements they may have. Why is this important to you as an advisor? Let's think about this for a second. You look at their statements and notice they work for a nice sized company, and they have five investment options in their 401(k) plan. If you, or anyone in your office, or any of your colleagues do 401(k) plans, this is an opportunity to go visit with the owner of that company to talk about her or his plan and about the limitations she or he has on investments options. It is the same thing with a 403(b) plan. What if they have an annuity tied to that with a very long surrender charge? What if they have a variable annuity or some type of annuity attached to their plan? They could be very satisfied with their 403(b) plan, but these are opportunities to drill down and open up other opportunities for us and our firms.

Moving on to box 12c, taxable cost of group insurance. You may have a client who is an executive, and box 12c contains a large number. This is an opportunity to talk to the executive, who may actually be one of the owners or high enough in the food chain at the company to get you involved with the decision makers about alternatives to having this big taxable group term insurance and having this income on their W-2.

Take a look at these other box 12 codes, (D, E, G, S, or Y). These indicate elective deferrals that the client is making into those retirement plans. They will give you the exact amount of what the client is contributing. Is the client maxing out her or his 401(k) or 403(b) plans? Do you know if the client is taking advantage of the catch-up provision? These are opportunities for you to differentiate yourself from other advisors because they may not even know about these opportunities. Just a couple of weeks ago we had a client with substantial income outside of his employment, about $500,000 in other income. He was not maximizing his contributions to his retirement plan. He was only investing $5,000 a year in an IRA. He could put in $22,000, so think of the joy when I told him this year he had another $17,000 to put away in his retirement plan on a tax-favored basis. There is very powerful information in these boxes.

Code AA for box 12 outlines Roth contributions. I don't know how you feel about Roth contributions. I have my own opinion, which I will save for another time. But it's an opportunity now to review that, to see if the client really should be contributing to Roth 401(k) plans as opposed to taking tax deductions today.

As you can see, much analysis can come from the W-2 form, and we went through it very quickly. Think about what is on the rest of the tax returns and how valuable it can be.

We are now going to jump to Schedule A. Schedule A tells me a lot of things about the clients, the most important of which is their charitable intent. What are they contributing to charity? We will discuss charitable giving in detail in a few moments. The main thing about Schedule A is that it tells me that if they are in a state like mine, Louisiana, they are probably itemizing their deductions.

If a top client is in Texas, it is different. We have a lot of clients in Texas. There is no state income tax in Texas. So in Texas clients may or may not itemize their deductions, but they do have higher real estate taxes in Texas. So maybe that affects their itemized deductions as well. In your state you will have to determine what is best for you.

There are a lot of issues with the Schedule A. You have to consider the phasing out of itemized deductions based on their income. Assume they can itemize deductions, and they will get a deduction for that. Then, maybe we look at some of these year-end planning techniques if they need extra deductions in the year in question. Maybe they pay their mortgage

one to two months earlier. What will that do? That increases their interest deductions for that particular year. Maybe they want to defer that. That is something that is important as well. What about paying their state taxes? Do we want to delay deductions to 2014 when tax rates may be even higher? These are considerations we go through while doing these year-end planning reviews. Your clients will appreciate your knowledge in these particular areas.

What are some things that are not eligible for prepayment or really do not make any difference whether you prepay them or not? Prepaying consumer interest is ineffective because most of that is not deductible anyway. Prepaying any health insurance will not count as an itemized deduction. What about investment advice? If you are giving investment advice to clients, there is a secondary miscellaneous floor, a deduction floor, so keep that in mind. I can tell you what we do with some of our clients. If we have both IRAs that we manage for a fee and non-fee IRAs that we manage for a fee, we work out a deal with the client that fees come out of the IRA. That makes it all effectively tax deductible, and you can certainly do that. So you can see, there is a lot of value there on the Schedule A.

Now what about contributions to charities? Once again, I said this is the most important thing on Schedule A for me. Okay, how do they handle charitable contributions? They can write a check to the charity. That's a direct contribution to the charity. They get an itemized deduction for the year. They can contribute to donor-advised funds if they so desire. They can contribute to foundations based on if they have substantial wealth, and they might like a charitable remainder trust. This whole section could be a Focus Session by itself.

Here are a couple more strategies that are really important. First is the gift of appreciated securities. Depending upon the capital gains tax that exists, it could be an opportunity to talk to clients about giving appreciated securities or appreciated real estate to charities or charitable trusts. As you do these things, there is an opportunity to create what we call a wealth replacement trust. This is nothing more than an ILIT, or an irrevocable life insurance trust. Let's say a client donates $500,000 of appreciated securities to the charity, then $500,000 goes into a trust, and the client gets a tax deduction for a part of that $500,000. She or he avoids capital gains taxes, particularly in 2013, if they are 30 percent or more. Your clients avoid that tax. They get a tax deduction, and it's possible they can get income from that trust for a lifetime and the lifetime of their spouse or other beneficiary. You can use tax deductions to seed the ILIT. That funds the ILIT to replace the asset that would go to the charity upon the death of the donor back to her or his beneficiaries. And under current law, it's all income and estate tax free. It's a pretty powerful tool to use when talking about charitable giving. There are a lot of opportunities there, and we use charitable giving as a big part of our practice.

One last thing on charities occurs when you see large amounts of charitable giving on a client's Schedule A. It's an opportunity to ask these questions, "Mr. and Mrs. Client, I see that you are giving a substantial amount to this or that church. Who will make these contributions after you are gone? How important is it to you that these contributions continue?" If they say it's very important and that no one will make those contributions, it is time to talk to them about using part of current contributions to fund a cash value life insurance policy. The cash value is owned by the charity, so the charity can use it. The charity may already have foundations set up or some types of accounts they have for their charitable holdings. This is a place to hold that and upon the client's death, this insurance will flower and will fund the contributions for years to come. Again, there is very powerful information on Schedule A.

Moving on to Schedule B. What does it tell us? Asset location is now as important as asset allocation. Think about deferral strategies for the client as Schedule B is about interest and dividends earned. We now know what they earn on interest and dividends. Should we be deferring some of it? In today's world do we still have the advantage of qualified dividends taxed at a maximum of 15 percent? Clients who are CD buyers are sitting there now with CDs that are paying what kind of interest rate? I just looked at the newspaper yesterday, and the rates are still very low. Clients are struggling low interest rates, and they have to pay full ordinary income tax on that and deal with inflation. They are losing money each and every year. What can we do? What tools do we have to help them so we can get just a little bit more of yield in their portfolios without taking any more risk? There is a whole array of annuities that will pay higher rates than a five-year CD today.

When we are looking at Schedule B, we want clients to know there could be year-end dividends. These dividends could be ordinary dividends, they could be qualified dividends, and they could be distributions that mutual funds make. We all remember back to the awful year of 2008 when clients' accounts were down 20, 30, 40 percent. They were not very happy with advisors because in January and February, they started receiving their 1099 forms and found

out they had taxable gains on an account that lost much value. Here is an opportunity for you during your year-end review session not only to explain this to the clients, but also to document that you did. Again, Schedule B is a very important document for us to review.

Schedule D shows capital gains and losses for the year. What do we see here? We are going to see if there are a lot of trades taking place. If they have an account that has multiple Schedule D pages to it, or summary pages, are their accounts being turned or churned? Is there something going on there we should know about? It is a question to ask the clients. Do they prefer mutual funds or actual stocks? They could be good prospects for a variable annuity. What is their strategy? There are variable annuities that include guaranteed living options; those may be a good strategy for your clients.

When was the last time the client reviewed or balanced her or his portfolio? Ask the questions, "When was the last time you rebalanced your portfolio? When was the last time this portfolio was compared against your risk profile?" The client may not have an answer, and you probably have a new account or a new client. Is there anyone overseeing the client's or prospect's portfolio? These are things that are important not only in your annual review sessions, but any time you get a new client and you are reviewing these tax returns. These are questions that you can ask the client.

What do we do with Schedule D to help the client? First, should we harvest some losses? If the client still has losses in an account, this is a good time to ask why. Must we look at tax savings? Does the client want to clean up the portfolio? What do we have as concentrations in one sector or another? Is the client a candidate for stock swaps? We can do stock swaps and maybe pick up some capital gains this year. The current law states that if you sell something, you cannot rebuy that security within 30 days. In order to maintain tax treatment of that sale, we buy something in the same industry that may be a very similar company and keeps the client's allocation pretty much where it was before. Finally, you may be able to get the client a little bit better performance in his or her portfolio(s).

When we talk about reallocating these accounts, there are really two separate lenses. There is the asset allocation theory lens that says we should rebalance these portfolios over a period of time, whether it is quarterly, semiannually, or annually. That is up to you and the client. It is a preference. Why do we want to do that? For our clients, back at the end of 2008, we sold a lot of securities that had lost money that year. We swapped them for other securities, and we built up a warehouse of losses. In the future, if we want to take down those losses, we will not pay income tax on it. If we want to take down gains, we will not pay income tax on those because we have a warehouse of losses for our clients.

Moving on to taxes. How do they fit into all this, including the clients' portfolios? We talked a lot about taxes, but what about just ordinary income taxes? Do we need a more tax-efficient portfolio? What about Monte Carlo simulation, the simulation of their portfolio and their contributions against what their goals are for retirement and other goals? Once again, Schedule D is another very important schedule.

Then we get to Schedule C. When I see a client with a Schedule C, particularly if it's for the client's primary business, I do something like this, "Oh my goodness, we have a brand new client because he should not normally be a Schedule C filer." Under today's rules they have unlimited exposure to payroll taxes, including social security and Medicare taxes. So we want to do something about that. Maybe set up an LLC that's taxed as an S corporation. Consider setting up an S corporation, put them on a reasonable salary, and have the rest paid as some kind of dividend or draw, and you can save your client thousands of dollars each year in payroll taxes. If she or he is stuck in a Schedule C and you are at the year's end, you want to reduce that income. You want to get that income down because there is unlimited exposure to the payroll tax. So what can you do there? Maybe the client's business needs equipment, and if it is going to buy equipment within the next year, the client should go ahead and buy it today. If she or he can't afford it today or is are waiting for a big check to come in January, put it on a credit card. It's still a purchase for the current tax year. What about furniture? Maybe the business needs furniture or equipment; maybe it is a lawn business that needs to buy a new tractor or lawnmower. It is a good time to buy in this year, this tax year, to get as many deductions as we can for Schedule C. And beginning in January of the new year, you, as a good advisor, would have changed the structure of the business so that then the client will not have these unlimited payroll taxes looking forward.

So when you get to a Schedule C, what do you do with these thousands of dollars that you are saving in taxes? One technique to consider is to use those funds to help offset a client's loss of potential social security earnings in the future. We are not going to get into a discussion of social security, but I can tell you I would rather have my clients control those assets than send it to Washington, DC. The idea is to set up new accounts for the client. Let's say she or he saves $15,000

in payroll taxes. That is not unusual in these situations. Take $12,000 of that and open a Simple plan or a SEP plan or just an IRA for the client and his or her spouse. Now we get a tax deduction for that where before there was none. The $12,000 may only cost $8,000 or $9,000 after taxes and but there was $15,000 of tax savings. We spent $8,000 or so in net cash, and we are left with about $7,000. Then, use that other $7,000 and buy life insurance and disability income insurance. You have enhanced the client's retirement plan, you have taken care of her or his family in the event of the client's premature death much better than social security would have, and there is still a social security benefit. What if the client is prematurely disabled? She or he now has a tax-free disability benefit. That is much easier to collect than social security. These are all very positive things you can do with the money you have saved the client. How has it affected their cash flow? Absolutely zero! This is what separates the really good advisors from people who are just trying to sell products. Also, it is an opportunity to study that business owner's expenses and see if there are some things that you can do to help them cut those expenses or maybe use those in some other type of way.

What about Schedule E? Schedule E tells us if they have rental real estate. It's a supplemental income and expense form, and we will be able to look there and see if they have a mortgage on the property. If they have a mortgage, do we need to insure that mortgage? Are they involved in a partnership? If they are, is there a buy-sell? There is much information and tax implications outlined on this schedule. If they have royalty income, what is the source of that royalty income? We now have a lot of clients across the country becoming very wealthy due to hydraulic fracturing, or fracking. Fracking is a process where they go into lands that have a lot of shale. They fracture the shale, gas bubbles up, and the clients become multimillionaires. There are some opportunities there to find out what is the source of that, and when you can find that cash flow you can help these clients. You can also make sure they are taking the proper deductions and depletion allowances.

What about the alternative minimum tax? First of all, it's a horrible tax, and it is affecting more and more taxpayers. If something along the lines of the Buffet Rule passes in the Senate, which I personally don't think will happen, but if it does, that is another form of the alternative minimum tax. Unfortunately, if they are paying more than the alternative minimum tax, then they are paying more than maybe they should be paying in taxes. How can we push the client's regular tax bill down to alternative minimum tax? Is there a way to save her or him some money there? It's very important to review the alternative minimum tax issues.

We're basically finished with the review of the tax return documents, but I want to point out something. In fact, one of my friends and I were just talking about this: tax returns that are done by other advisors such as CPAs, bookkeepers, and tax preparers who are not professional planners. They look at things retrospectively, after they have already happened. Our opportunity is to look at things before they happen and really work in concert with those other advisors. That's an opportunity for you, when a client has a good advisor, to go sit down with that advisor and talk about what you do. I can tell you that almost all of my referrals are unsolicited from other advisors, and so I think that's very important.

What about miscellaneous items? As you go through the checklist, the items include 529 plan contributions. This is an important vehicle we can use to help save for college for our clients' children and maybe their grandchildren. There are some very specific rules associated, and you need to know these rules. The 529 plan is not a panacea; it's not perfect for everyone. You have to look at some other means that the clients might want to use to save for their children and grandchildren.

Part of that is when you are talking about grandparents. Don't forget Steve Leimberg's "Little Giant," the annual gift tax exclusion. This allows us to make donations of $14,000 per donor. If we have a grandmother or grandfather or a mom or dad who has three children, that's $42,000 that goes from dad to the three children, and $42,000 that goes from mom to the three children. That's $84,000 per year the "Little Giant" creates. It is a very powerful tool. Take that $84,000 a year and place it into a trust. It protects the assets for the child, particularly for the grandchildren later on.

A trust may also save the beneficiaries from any losses from bad business dealings because the trust will protect the assets. They may be protected from accidents they may have or bad marriages. All the money can be protected. Just think about what you can do with $84,000 of cash going into a trust every year. Can you think of something that you can put into that trust that will help that money become even more valuable, a way to leverage that? We know the answer. You can use a life insurance policy to leverage those contributions.

What about some other contributions? What about some other miscellaneous items? This is an opportunity to help the clients review their health care expenses, as these expenses

are becoming a bigger burden on retirees. It brings us up to a whole new body of planning—retirement income planning. If I get a chance at this meeting, I will talk a little about retirement income planning.

What about their credit review? It is amazing how many clients never check their credit reports. It is amazing how many clients do not know that they can get a free credit report from the three credit reporting agencies each and every year. Where do you go for that? www.annualcreditreport.com. It is an opportunity, and we advise our clients to do it each and every year. You should do it as well, and I would be shocked if many of you in the audience are even doing this yourselves. If you want a credit score, it is an additional fee, but you can get your complete credit report. It is an opportunity if the clients have issues on their credit report to help them resolve these issues.

Moving on to qualified plans. We want to make sure this is done by year's end—401(k), SEPs, Simple plans and profit-sharing plan contributions. The magic number in 2013 for 401(k) plans is $17,000. Simple plans are a little less. SEPs can effectively be 20 percent of the gross or net profit of Schedule C employees or employer or owner. If they are employees, they can contribute 25 percent of their salaries. Today there is a $5,500 catch-up provision on the 401(k) plan. That is important because you can get the client putting away almost $2,000 per month before tax dollars in a K plan.

Next we move on to questions and issues surrounding required minimum distributions. Are your clients 70 1/2 or older? If they are in their 50s, ask them if they have parents who are 70 1/2 or older. Here is an opportunity to talk about their parents' required minimum distributions. Often we run across clients who don't need those distributions but they have to take them and they are aggravated because they have to pay tax on them.

There are a lot of planning opportunities here to use with IRAs. If we have a chance, we will come back to that. If they have a lot of IRAs, is it an opportunity to consolidate those IRAs? Why do you want to do that? There could be multiple fees associated with those IRAs—they could be $50 or $100 each. If there are four, five, six, or eight IRAs, then that's several hundred dollars a year. It is also a good time to check those IRAs for the beneficiary designations to make sure they qualify for a stretch IRA status. Finally, do you want to talk to your clients about converting some of those IRAs to a Roth IRA? Once again that is a discussion that is a program in a box in and of itself.

What about planning for 2014? Do clients have any milestone birthdays next year or are they 59 1/2? If so, it allows them in many plans to take an in-service distribution. So let's say they are in an inadequate 401(k) plan. They may have a few hundred thousand dollars in that plan, and they can roll that money out of the K plan into a managed account that you have, or maybe into a variable annuity that has living benefits that will help the client. There are nice opportunities with in-service distributions.

If they are 70, make sure they are taking the required minimum distributions. Talk to them about their social security checks. If they are still working, maybe they want to delay taking the social security until they are 70. What if they are retired and don't want to delay social security, should they take a check at 62? I think a lot of factors go into that, not the least of which is their family's longevity history. Did their parents, mom and dad, live into their 90s? If the client is 62, maybe they delay taking social security because you may have, if you are in good health, a long life expectancy as well. And so if you delay three, four, or five years, your distributions become much bigger and the net present value is a lot greater. Those are the things you want to talk about with social security.

What about other retirement plans such as IRAs? IRAs have to be funded by April 15. You must look each year you do this for the actual date. It is very important that you do so. It is an opportunity to review the strategies, goals, and objectives of the clients when you are talking about these IRAs relative to their retirement plans or whatever their goals are.

Finally, what about their household budgets or spending plans? We don't like to tell the clients that they need to be on a budget, but they should have a spending plan. What are those spending patterns as they roll into retirement? Many people think they will spend a lot less while in reality they may travel more and may do some other things that require them to spend a lot more money than they were expecting. What about the withdrawal rate in today's world that has such a low yield? Are we looking at a withdrawal rate of 5 percent? Should we drop that down to maybe 4 percent or even 3 percent? What about factoring in inflation? You know we have an inflation rate that is published by the government, but it amazingly excludes food and energy—the two things that are running up in cost right now, daily. These are the two things that affect people who are retired much more than buying new houses, which they probably are not doing anymore. What about health needs? We need

to make sure they have adequate health insurance coverage as they go into retirement.

Let us move on to some other planning tools for 2014. If you have a client who has children in college or about to go to college, it is important to talk about this government form, Free Financial Aid for Students Form, the FAFSA. You have to do this early in the year. We recommend you do it as early as possible. You want to get it in line for scholarships and grants as early as possible.

What other family dynamics are under consideration for 2014? Will your clients have weddings to fund? Has any of their family wedded during the year? Are they expecting any babies? It is an opportunity now for you to start building a referral list. What about, unfortunately, divorce? Divorces happen. It is an opportunity to talk to your clients if they have children getting divorced, and you can again discuss trusts that protect their assets from these types of things that really do happen in the real world.

Finally, we want to visualize April 15, that magical date, visualize that. What are we looking for here? Are they paying higher taxes? What kind of income changes will they have? Ask about underpayment tax penalties with which you must deal. Will they confront the alternative minimum tax due to wage creep? What are ways we can lower their income; can we create a planning shift for that? What if we look for additional deductions and plan contributions and credits for the clients? Again, take a look at their risk tolerance levels and perform a performance review. Can you envision strategies above and beyond today?

Keep something in mind each year. I have something here that is special and different. In 2005, it was keeping in mind the gulf opportunity zone. This was an opportunity for clients where we lived to get big tax credits for 2005 and beyond. This year it's retirement income planning. It is a whole new body of work. It's very important, and it is something with which we can help our clients. Many advisors have always focused on the accumulation of assets and not the distribution of those assets. It is a body of work that many of us are not prepared to do. You must receive training in that and talk to clients as they roll into their retirement years. We must talk to clients about retirement income planning. Look into training at places like the NAIFA and MDRT websites and try to learn as much as you can about retirement income distribution planning because there is lots of information there.

Here are some final takeaways:

- If you do nothing else, use a letter, use an organizer, use a checklist, and make sure you meet with your clients.
- As an advisor you exist to educate and teach your clients.
- Tax planning is important, but so is asset location and asset allocation.
- There are many nontax reasons to conduct year-end planning reviews.
- Retirement income planning is very important. Learn about it.
- Annual review planning will help you with compliance issues and will solidify your client relationships.
- Our professional organizations, NAIFA, FPA, and MDRT, exist to help us become better advisors and agents. Support these organizations with your membership and attendance at meetings.

I hope you learned a few things and, most importantly, I hope you learned that you must always continue to educate yourself.