

# Family Financial Risk Management in Turbulent Economic Times

Purpose: *We live in difficult financial times that can often impact families negatively. This presentation will identify common risk factors that threaten the financial well-being of families and offer strategies for dealing with these threats. We define risk as anything that can erode wealth.*

## Threat #1: Failure to keep proper money management in perspective.

### Strategy: Proper Money Management is a Spiritual as Well as Temporal Subject

- One of my favorite scriptures is D&C 88:119 *Organize yourselves; prepare every needful thing*; and establish a house, even a house of prayer, a house of fasting, a house of faith, a house of learning, a house of glory, *a house of order*, a house of God.
- Malachi 3: 8-12 Pay tithes
- Luke 14:28-30 Count costs before buying or building
- D&C 75: 28 Provide for your own family
- D&C 19:35 Pay debt, release self from bondage
- Genesis 3:19 Teaches the value of work, "In the sweat of thy face thou shall eat bread".

Money is a tool to be used to provide for education, mission, home, family, retirement and to help others. It is also to be used to pay tithes and other offerings to the Lord. Don't covet riches. Often times, very rich people may not be happy. We are told to seek after eternal life:

- D&C 11:7 Seek not for riches but for wisdom; and, behold, the mysteries of God shall be unfolded unto you, and then shall you be made rich. Behold, he that hath eternal life is rich.
- Teach your children to save for specific purposes such as missions, college, marriage, retirement and personal items
- A Family's Wealth Comes in Several Forms:
  - Spiritual Strength
  - Family Members
  - Family Happiness
  - Family Values
  - Family Legacy
  - Family Material Capital
  - Etc.

**Threat # 2: The failure to properly manage money can lead to marital disharmony and divorce.**

**Strategy: Proper Management of Money is Essential to Marital Happiness**

- A very high percentage of divorces in the U.S. can be attributed to arguments and accusations over money.
- A perspective wife or husband should be more concerned with how their perspective spouse manages money versus how much money he or she makes. For instance, does your perspective spouse live within his or her means, or are they always in search of the next expensive toy, hobby or vacation.
- Faithfully paying one's financial obligations such as tithing is a key indicator of the one's financial maturity and personal integrity.

**Threat #3: Failure to adequately plan your estate**

**Strategy: Work with a qualified estate planning attorney to secure your necessary estate planning documents.**

- Ensure that you-not the IRS- select your beneficiaries
- Planning helps to reduce or eliminate estate taxes (Federal estate tax exemption \$5.0 mm in 2011 - 2012. In certain circumstances, the combined federal estate tax exemption between married spouses is currently \$10 mm using portability of the exemption. The Federal estate tax exclusion is scheduled to drop to \$1 mm in 2013. Note without proper planning, life insurance proceeds will be included in your estate tax calculation.
- Specify philanthropic wishes
- Maintain control over important personal issues such as health care and guardianship
- Reduce the likelihood of family disputes
- Protect your privacy and avoid distribution delays
- Consider including values-based statements in your estate planning documents including: Family Mission Statement, Family Motto, Family Scripture, and a statement defining The True Wealth of a Family, etc.

Four basic estate planning documents:

- Will: A testament to your life's work. Sets out a plan for your assets to be distributed to your heirs, names a guardian for you minor children and appoints an executor to execute the terms of your will.
- General Durable Power of Attorney: gives someone the right to make legal and financial decisions for you if you are incapacitated. Without this document, a conservator or guardian may need to be required to handle your financial affairs.
- Health Care Proxy: gives someone you trust the right to make health care decisions for you if you become incapacitated. Note that the Health Insurance Portability and Accountability Act (HIPPA) is a federal law that restricts health care providers (doctors, hospitals, nursing homes, etc.) from releasing information about you-even

to the people that you want to get that information so that they can act on your behalf- unless you have a health care proxy. This restriction can impact the operation of your living trust and general durable power of attorney.

- Living Will: Declares whether or not, and to what extent, you want to have extraordinary measures taken to prolong your life. Note that Terri Shiavo, a victim in 1990 of full cardiac arrest, and massive brain damage, did not have a living will. Her family, and the judicial system, was forced into trying to decide her intent. The legal battle to remove her from a feeding tube was concluded in 2005, thereby allowing her to die.
- Living Trust: Depending on the complexity of your estate planning, you and your estate planning attorney may also want to implement a living trust. A living trust is an arrangement in which one or more people manage or take care of property for someone else's lifetime. A living trust is a trust that is created during your lifetime.

Planning one's estate also means periodically inventorying your estate planning documents and placing them in a secure location. A trusted family member, friend or professional should have access to these original documents in case of emergency.

#### **Threat #4: Making a home mortgage payment during retirement**

##### **Strategy: Have a plan for paying off your mortgage before retiring**

- Making a mortgage payment while in retirement can have a serious impact upon your likelihood of having sufficient resources for a comfortable retirement.
- Example: Paying for a \$500/month mortgage out of an IRA (assuming a combined 32% state and federal tax rate) would require an IRA balance of \$147,067 earning a 6% rate of return.
- Work with your mortgage company to calculate how much of a payment, and potentially extra monthly principal payments, would be required to pay off your mortgage by your retirement date or before.
- Often times, you can view your mortgage on your mortgage company's website and input various scenarios using their loan amortization calculator.
- Consider using 15-year versus 30-year mortgages to automatically pay off your mortgage faster.

#### **Threat #5: Assuming unnecessary and excessive debt**

##### **Strategy: Learn to use debt wisely**

- The use of debt should be avoided except for investments in homes, education or other vital causes.
- Excessive debt can lead to financial hardship, the loss of one's home, and extreme mental anguish.

## **Threat #6: Not living within a budget and failing to plan for the future**

### **Strategy: Live within a budget. Save for the future.**

- Budget spending wisely and avoid purchases of luxury items just because your neighbor has one (The keep up with the Jones syndrome).
- Fund a "just in case" rainy day fund of normally 3-6 months of living expenses
- Develop a plan to adequately fund your retirement. Use online tools or help from a professional to develop this plan.
- Use conservative rate of return numbers when developing your plan.
- Too high of a distribution rate from retirement accounts can cause your planning to collapse.

## **Threat #7: Failure to maintain adequate levels of insurance**

### **Strategy: Be sure you are adequately insured**

- Life Insurance
- Long-Term Disability Insurance
- Home/Auto/Health Insurance
- Umbrella Liability Insurance Policy
- Under-Insured Other Motorist Coverage
- Long-term Care Insurance

## **Threat #8: Failure to adequately plan your investment portfolio given geopolitical and macroeconomic risks**

### **Strategy: Develop an investment plan that takes into consideration these risks including but not limited to:**

- High unemployment
- Continued decline of home prices
- Massive US and developing country debt
- Mounting US budget deficits
- State and local budget issues
- Global competition for natural resources
- Potential for higher inflation and rising commodity prices
- Potential natural disasters or terrorism (Listen to the replay of our special 03.15.11 conference call *Global events and market volatility update* 888-203-1112, passcode 8521633)
- See our *Summary of Economic and Market Indicators Report*, dated 03.2011.
- See the *Decade Ahead* report published by UBS

## **Threat # 9: Taking on too much concentration risk in a portfolio**

### **Strategy: Reduce risk by diversifying your investment portfolio**

- Many people build wealth through concentration of resources (like their family business), but preserve wealth through diversification.
- In the volatile world in which we live, diversification can help you sleep better at night.
- Diversification does not mean holding a large position in the stock of your employer just because you are comfortable with the company and like your job.
- Diversification does not mean having all your money in five different mutual funds all with same basic underlying investments such as U.S. companies.
- Diversification means building a portfolio using assets classes whose returns are not highly correlated to one another. Examples of these asset classes may include:
  - Money Market/Saving/Checking for your most liquid needs
  - Fixed Income: Long-term CDs, corporate, government and municipal bonds, fixed annuities
  - Income Real Estate: Real estate investment trusts, rental properties
  - Domestic Equities: Small, mid, large-capitalization stocks. Growth vs. value stocks.
  - International Equities: Developed vs. emerging markets
  - Alternative Investments: Alternative investments such as multi-strategy multi-advisor hedge funds, multi-strategy multi-advisor managed futures funds, and commodity-based funds.
- Know what are your “just in case” assets

#### **Threat #10: Using short-term investments to solve for long-term issues:**

**Strategy: Match the maturity of your investments to the liability you are planning for.**

- Don't use short-term investments such as money market accounts, short-term bank certificates of deposit or short-term US Treasuries to solve for long-term liabilities such as college funding or retirement planning. Short-term investments have minimal rates of return that don't keep pace with inflation and don't normally provide one with the growth necessary to achieve financial goals.
- You can't be retired and have your money retired too.

#### **Threat # 11: Incomplete documentation or recordkeeping of financial matters**

**Strategy: Create a family financial statement to track your assets & liabilities and your progress in achieving your financial goals**

- See sample family financial statement

#### **Threat #12: Failure to adequately prepare the next generation to receive and manage wealth**

**Strategy: Implement planning, training, trust and communications strategies to prepare the next generation to handle wealth management issues.**

- According to the Institute for Preparing Heirs, the two greatest impediments to the successful transfer of wealth to the next generation is the lack of trust and communications within the family.
- Your family members have to know the rulebook and how to play the game.
- Discuss and practice your wealth transfer playbook.

### **Remember to Keep Things in Perspective**

“No other success can compensate for failure in the home” (David O. McKay).

Your greatest wealth that you can hope to achieve in this life is a firm testimony of the gospel of Jesus Christ and a family that is sealed together for time and all eternity

### **Close with my testimony**

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