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Knopinski & Fauver
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A Quiet Revolution Has Altered Financial Planning

Goal-based planning is quietly changing the way Americans plan financially. While business coverage in the media focuses on hot stocks, corporate scandals, and movie box office numbers, this is a major story that can change your financial outlook. The difference between a goal-based financial plan and a traditional cash-flow-based plan is in the level of detail. Cash-flow plans are far more detailed and the details can get in the way.

With a cash-flow plan, based on your current income, spending habits, savings rate, tax bracket, and portfolio, software is used to make projections about your financial future over the next 10, 20, or 30 years, or even longer. Each investment—every bond, every stock—is subject to a forecast breaking down the dividends, interest, and capital appreciation it is expected to provide over the period. Each expense must similarly be projected, year by year, from your mortgage to what you spend on food. Gathering all these numbers poses a problem. Many people simply never do it. Their financial plan ends before it ever begins.

Apart from this human foible, a bigger problem with cash-flow based plans is that the projections rely on so many variables. Forecasting your rate of return on an individual security or what you will spend on gasoline during the next 30 years is too iffy. If your return forecast is off by a percentage point or two in either direction, your plan can be well off the mark. In other words, while intuitively you may believe that more data makes a financial plan more reliable, the opposite may actually be true. Limiting the variables may indeed provide a better view of the future.

That's the approach of goal-based planning. With a goal-based financial plan, you essentially admit that predicting your income and expenses with accuracy is too difficult. Instead of relying on projections of your income and expenses, goal-based plans focus on how much you are saving now and the return you expect to earn.

In contrast to traditional financial planning, which calculates how much you could save, given your current income, expenses, and taxes, goal-based planning starts with how much you are saving. Instead of estimating your retirement income by requiring you to forecast returns on individual securities and accounts over the next 10, 20, or 30 years, a goal-based plan estimates how much of a nest egg you'll accumulate by making a single assumption about the return on your total portfolio. Instead of requiring a budget forecast based on dozens of items, your expenses are estimated based on your major goals in life. The focus on your goals makes a plan more meaningful to most people.

Bob Curtis, the founder of Pie

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Fee-Only And Full-Service

The way a financial planner is compensated can directly affect the advice he or she gives. Most financial planners earn some or all of their income selling financial products (stocks, mutual funds, annuities, or insurance) to implement their recommendations.

We are full-service, fee-only advisors—compensated solely by fees paid by our clients. We believe this approach reduces the potential for conflicts of interest. We're on the same side of the table, so to speak.

One misconception about fee-only planners is that we do not provide a full range of services—that the planner makes the recommendation but the client does the legwork.

At Knopinski & Fauver, this is simply not true. Our clients enjoy a full range of advisory and investment services, including complete portfolio services as well as insurance and estate planning information.

Most importantly, we view financial planning as an integral part of investment management. Investing without a plan is like taking a road trip without a map. You'll get somewhere, but probably not where you expected.

Give us a call to see how a truly integrated approach to planning and asset management can help you meet your long-term goals.

Colleen & Rob

When A Life Insurer Goes Belly-Up

When the economy falters, so do many companies—and life insurers are no exception. But much of your family's financial future may be tied up with the health of the company holding your life insurance policy. How can you tell if your insurer is in danger? And what can you do if it is?

The U.S. government does not guarantee life insurance policies. Instead, life insurance is regulated at the state level. State insurance commissioners monitor insurance companies' capital reserves, which are used to pay claims. If the reserves get dangerously low, or a company declares bankruptcy, the state commissioner steps in and tries to find a way to save the company. If that can't happen, the commissioner normally develops a plan to sell the troubled company's policies to another insurer.

That may seem like good news for policyholders, but often it isn't. In order to safeguard its investment in the purchased policies, the new insurance company is likely to institute an across-the-board rate hike. Your coverage will automatically continue—you won't have to reapply or undergo a new medical exam to qualify for coverage—but the price increase could be so steep that you'll be forced to drop the policy.

And sometimes the picture is even grimmer. If potential buyers deem the troubled company's policies hopelessly unprofitable, your insurance might be canceled, leaving you scrambling to find new coverage.

How often do life insurance companies fail? According to the latest figures from Weiss Ratings, now known as TheStreet.com Ratings, which rates financial services companies, three life and health insurers went under in 2005, and four failed in 2004.

To avoid the dire consequences of an insurance company failure, it makes sense to shop for coverage from financially stable insurers. (See the table below.) Then, once you've chosen a policy, you should periodically check to make sure your life insurance company remains strong.

Weiss Ratings is one of five ser-vices that rate life insurers. Others include Best, Moody's, Fitch, and Standard & Poor's. All use several yardsticks to measure a company's financial health, but their methods and results vary, and their rating systems can be confusing. For example, an A+ rating from Weiss Ratings is "excellent," compared with superior (Best) and good (Standard & Poor's).

To improve your chances of choosing a good life insurance company, you may want to check several services' ratings and look for an insurer that ranks among the best in all of the ratings. Still, not every service rates every life insurance company, and an insurer that tops one service's list may not appear in the ratings of a competing service. That can make it difficult to draw accurate comparisons. If you need help judging an insurer's financial health and reliability, please give us a call. ●

Life Insurance Companies To Consider—And To Avoid

Here are the 10 insurers that one rating service considers the most financially sound, along with the 10 it deems shakiest.

Strongest Life Insurance Companies	Weakest Life Insurance Companies
Teachers Insurance & Annuity Association of America	Humana Insurance Company of Puerto Rico
State Farm Life Insurance Company	North America Life Insurance Company of Texas
Country Life Insurance Company	Key Life Insurance Company
American Family Life Insurance Company	Texas International Life Insurance Company
American Fidelity Assurance Company	American Century Life Insurance Company
State Farm Life & Accident Assurance Company	Directors Life Assurance Company
Northwestern Mutual Life Insurance Company	American Home Life Insurance Company
New York Life Insurance Company	Melancon Life Insurance Company
Massachusetts Mutual Life Insurance Company	Bankers Life Insurance Company of America
Pacific Life Insurance Company	Preferred Security Life Insurance Company

Source: Weiss ratings, January 31, 2007

Who Would Pay Your Bills, If You Were To Become Disabled?

What would happen to you if you became disabled or incapable of caring for your financial affairs? Who would pay your bills? Who would make crucial estate planning decisions? Who would execute trusts and make other important financial choices on your behalf?

If you don't have answers to those questions, you need to know about a legal instrument called a durable power of attorney, or DPOA. Establishing a DPOA probably isn't as high on your must-do list as, say, writing a will. But the DPOA may be even more important. While a will can help your loved ones after you're gone, you may need a DPOA when you're alive and most vulnerable.

Creating a DPOA is generally a job for an attorney, who can write your will and health-care proxy at the same time. A DPOA is similar to a health-care proxy in that both give someone you trust the right to make decisions for you under circumstances that you specify.

Some states permit two types of DPOA: a "springing" power of attorney that becomes effective only when you become incapacitated, and a "general" power that is effective the moment you sign it—even if you are in good health. Some people, who balk at the idea of giving even a trusted friend carte blanche to make financial decisions, may favor a springing power. With a springing power, however, if you are in a car accident or otherwise suddenly become incapacitated, a doctor must certify that you aren't able to make your own decisions. And physicians are sometimes reluctant to do that for fear of becoming enmeshed in a family struggle for your assets.

To solve this problem, you could establish a durable power that names two agents and requires them to act

Harsh Financial Realities For Widows

It seems to be a fact that women outlive men. In 2003, there were 21 million older women and 14.9 million older men—a ratio of 140 women for every 100 men—according to the latest data from the U.S. Administration on Aging. The ratio gets even more out of whack with age, the report says. In the 65-69 age group, there were 115 women for every 100 men. But it widens to a high of 226 women to 100 men in the 85-and-over age group. And, according to the U.S. Census Bureau, women comprise two-thirds of all people over age 85, or almost 2.5 million people, compared to 982,000 men in the same age bracket.

While there are countless jokes about why women outlive men, the financial implications are no laughing matter. With eventual widowhood a distinct statistical likelihood, it makes sense for women and their families to make plans now to confront what may soon become the harsh realities of a singular financial life. Here are several issues widows are likely to face.

Vanishing Income. Many couples in their 70s collect a corporate pension or a pension from the armed services. But a man's military pension drops when he dies, and payments from corporate pensions can be reduced or eliminated at the husband's death. At retirement age, an employee typically must choose between getting larger payments that end at the employee's death, or a smaller amount that will continue at a reduced level for a surviving spouse after the worker dies. Assuming the man was the family breadwinner, a woman will be lucky to be left with half the corporate pension after her spouse dies.

Women should confront the likelihood of a singular financial life

Social Security also gets reduced, if the couple had a traditional lifestyle in which only the man worked. A woman usually will get less than two-thirds the Social Security payment she received when her spouse was alive.

Here's an example of the kind of fix many new widows find themselves in. Suppose a retired couple had been living on a total retirement income of $80,000: $20,000 from the U.S. Army, $30,000 from the husband's former employer, and annual Social Security payments of $30,000. When the husband dies, how much will the wife continue to receive? She might get $7,000 from the Army, $20,000 in Social Security and little or nothing from her husband's former employer. Suddenly, her annual income may drop to about $27,000.

Who To Trust? A widow often must depend on her children for care that she needs. This, unfortunately, can cause problems. Often one child will take more responsibility than another will, and that can cause resentment among siblings. The helpful child may be seen as angling for a larger inheritance, and may in fact deserve more. But depending so heavily on a child raises a difficult issue, particularly if the child must be given control over financial matters. When a son or daughter has control over your accounts and also is an heir to your estate, the relationship between the two of you can become stressful for both—and all the more so if you are widowed after a second marriage and those responsible for your care are offspring of your deceased husband. One solution is to appoint an independent trustee to oversee the child's management of financial affairs.

Estate Planning. A widow should update her estate plan after the death of her husband. If there was no plan, establishing one now is essential. A new will may be needed, and she may want to consider setting up a trust to ensure her assets will be distributed as she intends after her death. A trust is more difficult to contest than a will. She also may want to begin making annual tax-free gifts to her children, thus reducing the size of her estate. And if she was the beneficiary of her husband's IRA, she'll have to decide whether to take distributions from the account based on her age or to continue to use her husband's distribution method. Or she may decide to establish new, separate IRAs with her children as beneficiaries. ●

If You're Not Sure, Here's An Idea

jointly on your behalf. Putting your financial decision-making in the hands of two people you trust should eliminate any fear of wrongdoing.

You could write a DPOA yourself, using software or forms available in an office supply store. However, the boilerplate language of do-it-yourself solutions may not cover all of the situations that your document should address. For instance, your DPOA could allow your agent to make gifts of your assets to family members if you become incapacitated. Such gifts or transfers to a trust could allow you to qualify for government assistance in a nursing home without first having to deplete all your assets. Even if you are married, your spouse can make decisions only about assets that you hold jointly. A DPOA could allow your spouse or another agent to manage the assets that aren't held jointly.

These days, with life expectancies lengthening and Alzheimer's Disease on the rise, DPOAs have become an essential financial planning document. And they are not just for the old or infirm. A DPOA can protect anyone who becomes suddenly disabled or incompetent, even if just for a temporary period. ●

Funding A Friend's Business Venture

Sandy thinks her friend Danny has a great business idea—an exciting, almost revolutionary new service. Now he wants her to make a significant investment in the corporation he's starting in exchange for a 10% ownership stake.

Sandy is tempted. Why not help a friend see his vision to fruition, claim partial credit for launching the wave of the future, and potentially earn extremely handsome returns?

Though such opportunities may feel like the chance of a lifetime, there's plenty that can go wrong. If there's any rule of thumb for investing in a private venture as a minority owner, it's that you should do it only with money you can live without.

Consider Danny's corporation. With no market for its stock, Sandy's capital is likely to be tied up for five to 10 years. That's how long it may take to build a company that can go public or attract an acquirer. During the incubation period, Sandy must be prepared to rely solely on other assets to meet her financial commitments.

Then there's the failure scenario. Unlike stock in a deteriorating public company that can usually be sold for something on the way down, private shares' lack of marketability means the investor is strapped in for the full ride to zero.

There's also the matter of taxes. Owners of S corporations as well as partnerships and most limited liability companies pay income tax on their share of the business's earnings, even when those profits aren't distributed. While she's waiting to get her investment back, Sandy might have to spend more money on taxes.

Still another concern is share of ownership. Assume things go swimmingly and the company seeks to expand. Can Sandy remain a 10% owner? Depending on the laws of her state and the articles of incorporation, she and other shareholders may, or may not, be entitled to first crack at any new shares the corporation issues, in the same proportion as current ownership. (Partnership and LLC operating agreements, when properly drafted, indicate whether owners have the right to maintain their original percentage of ownership.) Without that promise, Sandy's interest could be diluted and her share of the profits compromised.

Not just money but also relationships may be at risk. If the venture bombs, will Sandy blame Danny? Will their friendship suffer? If it does, will she mind? Even with a successful venture, resentment can arise if some of those involved feel others are prospering more than their contribution merits.

For all of these reasons, investing in a friend or relative's business can present problems from the get-go. Sandy should obviously research the investment before diving in. But her friendship with Danny could hinder her ability to objectively analyze his business plan and his ability to execute it, and could make it awkward to quiz him about the plan's marketing or financial assumptions.

Dream deals do sometimes come along. But what often separates successful capitalists from dreamers is finding the right reason to say "yes" or "no." Before you make an investment in a friend or relative's company, talk to us. We can help you analyze the numbers and evaluate the opportunity. ●

A Quiet Revolution

(Continued from page 1)

Technology, which makes goal-based planning software for financial professionals, cites the example of John and Ann, a couple who are both 59 years old and want to retire within four or five years. Whereas a traditional approach to planning might determine that the couple needs a retirement income of $124,000 a year to afford everything they want and that the couple's savings can fund only about three-quarters of that amount, goal-based planning separates out John and Ann's goals and lists them in order of importance. It determines, for example, that they need $72,000 a year to fund their basic living expenses. It estimates that they may be able to afford additional goals—$20,000 a year for travel until age 78; $10,000 annual gifts to their children for 10 years; a new $30,000 luxury car every four years; a $20,000 second car every six years; and additional outlays for dining, entertainment, and other niceties.

Those goals aren't all of equal importance to Ann and John. Obviously, meeting basic living expenses is a must; next, in order of importance, come the luxury car, travel, the second car, the children's gifts, and extra living expenses. It turns out John and Ann can retire at age 63 and expect to fund almost all of their goals, though they'll likely have to pinch pennies on entertainment.

Approaching financial planning this way has several advantages. For one thing, it's hopeful. Instead of simply saying you will fall short of your goals and run out of money during retirement, the goal-based approach tells you what you can afford. It allows you to choose which goals are most important to you and design strategies to improve your situation. For example, retiring two years later might allow you to fund all of your goals, and switching to a riskier portfolio could be worth considering as well.

Creating a goal-based plan with fewer data inputs makes planning easier. Plans can easily be updated, making them more likely to be reviewed every year. Instead of the 75-page reports spawned by cash-flow-based plans, which often end up collecting dust, you receive a succinct report showing your progress toward meeting your goals annually. Our firm uses goal-based planning because we believe it serves you better. To find out more, please don't hesitate to call us. ●

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