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# Adding Investment Planning to Your Practice

BY ROGER OCHS, PRESIDENT, H.D. VEST

With a combination of never-ending tax reform, the tax code's significant and complex changes, and market volatility, your clients need your guidance more than ever. Your clients already trust you to provide professional advice that is in their best interest, so why keep referring your clients to another financial professional for their investments? Enrolled Agents like you choose to add financial services because clients request it; they want to be competitive; they want to diversify their practice and increase their revenue.

By adding financial services to your tax practice, your clients will benefit from professional, personal services; expert knowledge; comprehensive financial services; reduced taxes and increased income; trustworthiness; cost-effectiveness; a wide range of investment alternatives; education; and financial guidance. In addition to helping your clients meet their financial goals, you'll see increased client satisfaction, more referrals, practice growth and increased revenues, personal satisfaction and diversification of revenues.

Are you not sure how to get started? By leveraging the knowledge gained from preparing your client's tax return and understanding your client's long-term goals and other personal factors, you can develop financial solutions for clients. Many investment areas can be explored with clients by using a client's 1040 as a roadmap to start the financial planning process.

At H.D. Vest, we believe tax professionals like you are the most appropriate, and perhaps the only, professionals who can provide comprehensive financial services to clients, because they understand both the clients' tax and financial situations.

## Working from the 1040

A simple review of line items on the Form 1040 can open a whole world of investment planning opportunities for your clients. This is one way to identify your clients' needs and begin the dialog to help them fulfill those needs. Tax professionals just starting out in the investment arena may find it easiest to provide three basic types of investment planning for their clients: retirement funding, educational funding and risk management.

Several quick areas of focus are lines 6 (exemptions) and 7 (wages, salaries, tips, etc). Let's explore how easy it can be to uncover areas where your clients need your help.

## Exemptions: Lines 6a – 6d

The exemption section of the tax return provides you

with an overall picture of the client's family situation. There are several key areas you can analyze to identify weaknesses that may exist in your client's plans for his or her financial future. These areas may include college planning, life insurance, disability insurance, will, property and health insurance.

## Education

One of the most neglected areas of personal finance is educational funding for children. This may well be the biggest financial challenge parents will face. Two issues make education funding a challenge: a short time horizon – all saving must typically be done within an 18-year timeframe – and the fact that the cost of education has outpaced inflation, sometimes by two or three times, over the last 20 years. At the same time, it is one of the easiest financial hurdles to overcome. Any client with young children should be encouraged to start an educational fund immediately. There are many tools at your disposal to discuss with clients such as Coverdell Savings Accounts (formerly Education IRAs), Section 529 Plans and UTMA/UGMA's.

## Will

Your clients should have wills. By not having wills, your clients are neglecting an important part of their futures and the futures of their intended beneficiaries. Estate plans should be reviewed and updated whenever any significant changes occur in their lives.

As their tax professional, you should recommend and/or refer your clients to an attorney who can assist them with the preparation of a will or in updating their existing will, if appropriate.

## Life Insurance

Does the client and his or her spouse have adequate life insurance? The two biggest mistakes of life insurance are: buying too much and buying too little. The primary concern for most clients is having enough insurance to continue the current lifestyle for the surviving spouse and children. A thorough needs analysis is critical.

You also will want to review your clients' current policies to determine if you could provide them with coverage that offers similar or better benefits at better rates.

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If you are not insurance-licensed, you should consider becoming insurance-licensed in order to provide comprehensive services to your clients.

## Disability Insurance

It is estimated that people between the ages of 35 and 65 are six times more likely to become disabled than to die<sup>1</sup>. Your client needs life insurance only if he or she has dependents to protect, and to pay final expenses and personal debts. Clients will need disability insurance if they do not have sufficient assets on which to live for the remainder of their life expectancy. The most likely candidates for disability policies are those individuals who are self-employed or who work for companies that do not provide this coverage.

## Other Insurance

Although you may not be licensed to offer these types of insurance products or may not wish to offer them, the more you know about them, the more you can help your clients avoid unnecessary risk. You should ensure that your clients have major medical coverage, adequate homeowner's insurance that provides for replacement cost and liability protection, and/or a personal umbrella liability policy if applicable.

## Long-Term Care

With increased life-expectancy averages for men and women, the issue of how to plan for quality care in the later years, coupled with the desire to preserve wealth for the next generation, has created a tremendous need for long-term-care insurance. Unless your clients have long-term-care insurance, qualify under limited conditions for Medicare coverage, or become impoverished, they will pay out of their savings for nursing home or in-home-care services. You owe it to your clients to become educated on eldercare costs and options. People who prepare for the cost of long-term care can be secure in the knowledge that they have greater freedom to choose their care and that their assets (and the assets of spouses/families) are more secure.

## Line 7: Wages, salaries, tips, etc.

Hundreds of billions of dollars flow out of 401(k)s into IRAs each year. This amount is expected to increase dramatically as baby boomers hit retirement age in the coming years<sup>2</sup>. Besides the retirement of a client, triggering the need to roll over a 401(k) plan, the easiest investment planning idea to look for on the Form 1040 is multiple W-2 forms indicating a job change. This is an excellent opportunity to suggest an IRA rollover from an employer-sponsored qualified plan. With the job market turmoil of the last few years and the propensity of today's worker to change jobs every five years or so, IRA rollovers are big business. This may also enable you to consolidate your clients' IRAs, or capture

assets controlled by another advisor.

In addition, if your clients or their spouses are employees of tax-exempt organizations (public schools, hospitals, or charitable organizations) or employees of a state or local government, retirement plans may be available at the employer's discretion and should be brought to the clients' attention.

If your clients or their spouses are employees of tax-exempt 501(c)(3) organizations, such as hospitals or schools, a 403(b) qualified retirement plan should be considered. Alert your clients to the proper contribution limit for the year plus the additional catch-up amounts allowed for those over age 50. If your clients or their spouses are employees of a state or local government, a 457 nonqualified retirement plan should be considered. The same new contribution limits and catch-up contributions are allowed for these plans.

## A Step-by-Step Approach

By using those two lines, you have started identifying your clients' needs. Now it's time to talk about how to help them. Most clients want someone to help them because taxes and investments are confusing. They want to listen to someone they trust, like their tax professional, and they know you won't risk the relationship you've built with them by recommending some fly-by-night investment. They will respect you for helping them identify a need and filling it. Of course, there is a lot more training involved in choosing the appropriate investment to solve the issues you may uncover by examining 1040 forms of your clients.

Before embarking on a financial services career, it is important to be aligned with a financial partner who can provide the proper training, technology, support and turnkey solutions that will help identify and address clients' financial goals.

Stop referring your clients to the broker down the street and begin offering your clients the trusted financial support they have come to expect from you. As an EA, you have the knowledge and understanding to make a difference in their lives. It's time to start realizing the benefits that you can provide your clients and your practice. ◀

<sup>1</sup> The Health Insurance Association of America

<sup>2</sup> Oppenheimer Funds



**Roger Ochs** is President of H.D. Vest Financial Services® and manages the day to day operations of the firm while pursuing the vision of providing innovative solutions and the latest tools to help H.D. Vest Advisors meet their clients' needs.