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EDITION 04 | 2019

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How does managing total net worth increase an investor's value?

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▶ **High net worth individuals** often have complicated financial lives. Just a few of the dynamics at play can include business ownership, multiple investment accounts, shares in privately funded real estate or equity deals, multiple retirement accounts and trusts for various purposes.

As these pieces become more complex, the total picture becomes difficult to keep in focus. Varying tax and estate strategies may work at odds with one another. Some goals may become overfunded while others are neglected. Future cash flows can result in excess ordinary income or capital gains hitting all at once. Eventually, the purpose of each account can become obscured or even forgotten.

As these examples illustrate, it's essential to work with a team of professionals who understand your total net worth and can plan in accordance with both short- and long-term goals. A comprehensive strategy is imperative to optimize resources and ensure the financial plan's success in three key areas.

1. BUILDING WEALTH

Many wealthy people go through their income-earning years funding any promising investment they encounter. They max out their retirement plans, place a large portion of their income in a deferred compensation plan, invest in various deals mentioned by friends or colleagues and open trusts when tax laws change—yet they often end up with large portions of cash earning constricted returns because there's no designated place to send funds.

It's essential to think through the implications of each investment, based not only on return, but also on how the tax and cash flow patterns will work in the future. Key questions to answer may include, Have you chosen a five-year payout for all deferred compensation elections, resulting in a large tax bill in the first few years of retirement? Will your business sell in the same year that a lucrative real estate deal matures? Do you find that you are accumulating cash because you aren't sure where the next dollar should be invested?

2. USING WEALTH

While in retirement, careful cash flow planning can help reduce the need to liquidate investments at the wrong time, and help you avoid large tax bills when required minimum distributions (RMDs) or other types of income start hitting all at once.

Typically, there are a few years between retirement and the start of RMDs and Social Security payouts. With planning, this period allows you to make Roth conversions or use other strategies to intentionally incur taxable income while you are still in a relatively low tax bracket. Additionally, using qualified charitable distributions from IRAs can reduce taxable income and satisfy commitments to charitable organizations.

This can also be a good time to think about funding trusts or setting them up to capture future assets, depending on beneficiaries' needs. Taking advantage of current estate tax law and making annual gifts can build significant assets for future generations' needs.

Moreover, your financial team should review the purpose of each entity and account. Considerations include, Are there entities that can be combined or shut down? Can accounts be consolidated by type at one or two institutions? Are new investment opportunities worth the additional K-1 and uncertain cash flows at this point?

3. DISTRIBUTING WEALTH

Lifetime gifting and estate planning also require taking the big picture into account. Consider your tax bracket in comparison to those of your heirs, both now and in the future. Does it make more sense to incur income at your bracket and make an after-tax gift to an heir in a lower bracket? Or if you have highly appreciated securities, it may be best to allow those assets to pass through your estate, likely receiving a step-up in basis (under current tax law).

> "A comprehensive strategy is imperative to optimize resources and ensure the financial plan's success."

Working with your advisor to simplify your financial life can also be a godsend to your spouse or loved ones in the event of your incapacity or death. Creating an organized list of entities and accounts, and noting the purpose of each, is a great place to start.

Managing total net worth goes beyond overseeing investments and returns. It includes ensuring the optimal taxation of assets and income, the minimization of inopportune liquidation or ill-conceived investments, and smooth progressions between financial phases of accumulation, decumulation and distribution. Each of these objectives is best executed when your team of professionals is working as a team for your benefit. ●

ABOUT RICHARD P. SLAUGHTER ASSOCIATES, INC.

Richard P. Slaughter Associates is a leading wealth-management firm specializing in delivering tailored strategies as a fiduciary and advocate for high net worth individuals, families and businesses. Slaughter Associates constructs a comprehensive financial relationship with its clients by delivering expertise in financial planning and asset management and coordinating with tax, insurance and estate professionals. The result is a holistic approach—unique in the financial industry—that generates a clear path to the individual financial goals of the client. Founded in 1991 in Austin, Texas, Slaughter Associates was among the first fee-based firms in the nation, a fiduciary status that allows it the freedom to provide advice that is always in the best interests of the client. Slaughter Associates is a NABCAP Premier Advisor, recognized for its commitment to maintaining top business standards, first-class financial-management capabilities and dedication to preserving transparency in the financial services industry.

EXPERTISE

Areas of Expertise	Assets under Management	Other Interesting Fact
Specialization in comprehensive wealth-management services for families with over $1 million in net worth	$550M (as of 2/1/2019)	One of the first fee-only advisor firms in the United States

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