

# focus

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## Does your retirement future look as bright as it used to?

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CERTIFIED PUBLIC ACCOUNTANTS

25 Suffolk Court, Hauppauge, New York 11788  
631.434.9500 • Fax 631.434.9518  
www.avz.com • cpa@avz.com

# Does your retirement future look as bright as it used to?

**M**any people approaching their “golden years” are understandably nervous about opening their retirement plan statements these days. Although leaving the workforce — and a steady income — behind during the current economic downturn probably isn’t ideal, you may still be able to retire in style. First, however, you must take a hard look at what you have, what you need and what you want. And if the numbers don’t add up, you need to plan to reconcile them.

## **Income sources**

Most Americans understand that Social Security benefits alone won’t meet their income needs during retirement. Even if you have a pension, there are no guarantees that it will be there when you need it. So, try to save through a tax-advantaged retirement plan, such as a 401(k), IRA or, if you’re self-employed, another type of plan, such as a simplified employee pension (SEP).

***Most retirees need between 70% and 85% of their working income to maintain their current standard of living during retirement.***

The sooner you start contributing, the more opportunity your funds have to grow tax-deferred (or tax-free, in the case of Roth



accounts). But even if you’ve put it off, contributing to a plan *now* is better than never. If you’re 50 or older, you may be allowed to contribute as much as \$22,000 in 2009 (the standard \$16,500 plus an additional \$5,500 catch-up amount) to your 401(k). If, for example, you contribute \$22,000 at the beginning of each of the next 10 years, at a 6% rate of return, your account will be worth more than \$307,000 at the end of the period.

IRA contribution limits in 2009 are \$6,000 if you’re 50 or older (the standard \$5,000 plus an additional \$1,000 catch-up amount), although this limit may be reduced. If you’re self-employed, for 2009 you might be eligible to contribute as much as \$49,000 to a SEP, and you might even be able to contribute a greater amount to a specially designed plan.

Along with retirement accounts, consider your other assets such as:

- ◆ Money market accounts and CDs,
- ◆ Nonretirement account mutual funds and stocks,
- ◆ Life insurance policies and annuities, and
- ◆ Real estate.

Don't include your primary residence as a retirement-income-generating asset unless you plan to sell it and downsize.

### Needs and wants

How do you know if your assets will provide enough income? A lot depends on the lifestyle you plan to lead after you retire. Most retirees need between 70% and 85% of their working income to maintain their current standard of living during retirement. Your needs will be smaller if, for example, you're planning to move to a less-expensive city but greater if, say, you want to travel the world in luxury.

As health care costs continue to climb faster than inflation, your general health and life expectancy are also major factors — especially if you hope to leave money to your heirs. And if you plan to help your grandchildren pay for college or you want to make large charitable gifts, those goals should be included in your retirement planning.

### If it doesn't add up

Given the current economy, you may find that you don't have enough cash to retire right now. You're not alone: A recent Bank of America survey found that four in 10 Americans say they will stay in the workforce longer than expected because of the economic downturn.

If you had planned to retire at age 65, you may want to put it off until age 70. This potentially gives your investments time to recover some of their losses

and provides you with a few more years to make retirement plan contributions. Also keep in mind that, to age 70, the longer you put off taking Social Security benefits, the larger your checks will be once you do receive them. For instance, if your normal retirement age is 67, by delaying until age 70 you'll be able to increase your benefits to 124% of what they otherwise would have been had you started taking benefits at your normal retirement age.

However, after you reach age 70½ you must begin taking required minimum distributions (RMDs) from your traditional IRA accounts and, except in limited circumstances, your traditional and Roth 401(k) accounts, or face significant penalties. (See "Skipping or reducing RMDs is OK this year" for more information.) Note, however, that Roth IRAs have no RMD, unless the Roth IRA was inherited.

### Don't go it alone

Even if you've managed your own finances most of your life, consider working with a financial professional to plan for your retirement. Underestimating likely income — or income needs — can prove disastrous. An advisor can help ensure that your investments are well diversified and appropriate given your age and future plans, so that you don't risk what you already have. ◆

### Skipping or reducing RMDs is OK this year

If you've been nervous about taking required minimum distributions (RMDs) from your traditional IRA or defined contribution plan (such as a 401(k), 403(b) or 457 plan) while the market is down, relax. That requirement has been suspended for 2009. Normally, after you reach age 70½ you must take annual RMDs. If you don't comply, you can owe a penalty equal to 50% of the amount you should have withdrawn but didn't.

Under the new law, seniors can keep funds in their plans for another year without incurring that penalty — providing some much-needed time for investments to recoup recent losses. Work with your tax advisor to see if you can benefit from reducing or skipping your 2009 distributions. And if you've inherited an IRA, your advisor can explain how the RMD rules apply to you.

# Rewarding nonfamily employees

## Offer “alternative” compensation and benefits

**F**amily business owners understand the need to reward their nonfamily workers. After all, in many cases, these employees make up the lion’s share of a company’s workforce. But it can be difficult to keep your “lions” motivated when family employees are also owners and your nonfamily employees aren’t. If you don’t want to give ownership interests to nonfamily members, consider instead offering them “alternative” compensation and benefits.

### Keeping them happy

Although you may think you know what forms of alternative compensation and benefits will encourage your nonfamily employees to work harder or stay with your company longer, you may be mistaken and offer them something they don’t value. Here are some alternatives that nonfamily workers are sure to appreciate:

**Matching contributions.** You can match your workers’ contributions to their 401(k) plans dollar-for-dollar up to a specified percentage of their salaries. Your matching contributions are deductible and, by boosting those contributions, you can particularly benefit key employees. Why? Key employees earn

more and may be contributing more to qualified plans, so they will gain more. But, you must increase the matching percentage for *all* employees, not just key employees. Further, there are various discrimination tests which may limit the amount of contributions for top workers and which, in turn, could limit the eligible matching contribution. Also, to benefit older workers, be sure that your 401(k) plan allows “catch-up” contributions.

*It’s likely that some nonfamily executives may feel left out.*

*A great way to include these employees is to give them some of the same fringe benefits that family workers enjoy.*

**An NQDC plan.** If you want to provide additional benefits to some key employees beyond what you can provide under a 401(k) or other qualified plan (such as a SIMPLE or profit-sharing plan), a nonqualified deferred compensation (NQDC) plan may be just what you’re looking for.

Strict nondiscrimination requirements apply to qualified plans but not NQDC plans, so you can offer this benefit to as few workers as you wish. Plus, you can tailor the plan to your goals or each employee’s needs. For instance, if you want to encourage an executive to work for your company for a certain number of years, you can apply a golden handcuffs provision. Plus, there are no contribution limits.

Unfortunately, there are some drawbacks to NQDC plans. For example, your business receives no tax deduction for the deferred wages until workers withdraw the money, usually at retirement.



**Phantom stock.** This is one way to get nonfamily workers more vested — at least financially — in your business without giving away actual company ownership and diluting your interest. Phantom stock owners receive compensation when their interests grow, but suffer no loss if the stock’s value declines. So they gain the financial benefits without the monetary risk.

For example, if you award shares of phantom stock paying 50% on growth to one executive and your stock increases from \$100 to \$200 in value (calculated based on a formula set out in the agreement with the employee), the worker will receive \$50 per phantom share owned.

The payment is taxable to the employee and deductible to your business.

**Fringe benefits.** It’s likely that some nonfamily executives may feel left out. A great way to include these employees is to give them some of the same fringe benefits that family workers enjoy. Keep in mind, though, that many of these expenses may be taxable income to workers.

### **Benefiting you and your employees**

In family businesses, cash may not be “king” for nonfamily employees. They also may feel the need to simply belong. But offering them any or all of the above compensation and benefits should help them obtain both goals. ♦

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## The right trust can help shield assets from creditors

**M**ore than ever, people are looking for ways to protect their assets — and with good reason. With the erratic stock market and weakened home values, threats such as a frivolous lawsuit or a forced bankruptcy filing could sink your financial ship. Or, you may be more concerned about threats to assets you’re passing to your children. You can battle all of these threats by placing assets in a trust — but not just any trust.

### **Asset-protection trust primer**

Trusts can be a great way to protect your assets — but, the trust must be irrevocable and become the owner of the assets. Depending on the jurisdiction, you might even be able to be the trustee. After you place property in the trust, it’s no longer yours and is unavailable to satisfy claims against you.

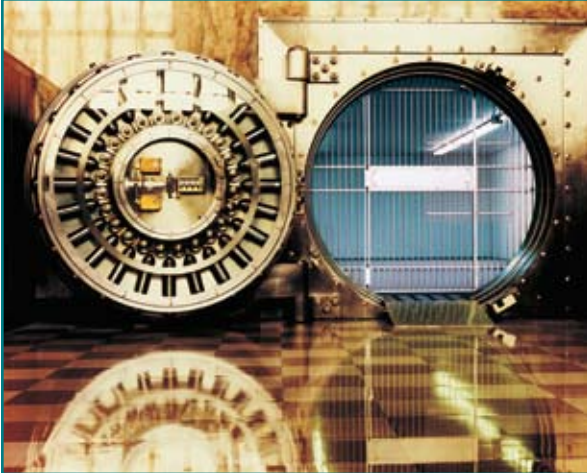
Placing assets in a trust won’t allow you to sidestep responsibility for any debts or claims that are already outstanding at the time you

fund the trust. There may also be a substantial “look-back” that could dissuade you from creating such a trust. But a properly drafted and well-thought-out asset-protection trust will help you avoid being held hostage by plaintiffs’ unreasonable demands and maintain control over your wealth.

### **Spendthrift trusts**

Despite the name, a spendthrift trust does more than just protect your heirs from themselves. It can protect your family’s assets against dishonest business partners or unscrupulous creditors. The trust also protects loved ones in the event of relationship changes. For example, if your son divorces, his spouse generally can’t claim a share of the trust property in the divorce settlement.

Several trust types can be designated a spendthrift trust — you just need to add a spendthrift clause to the trust document. The clause restricts a beneficiary’s ability to assign



or transfer his or her interests in the trust and restricts the rights of creditors to reach the trust assets. But a spendthrift trust won't avoid claims from your creditors unless you relinquish any interest in the trust assets.

Bear in mind that the protection offered by a spendthrift trust isn't absolute. Depending on applicable law, it's possible for government agencies to reach the trust assets to, for example, satisfy a tax obligation.

You can gain greater protection against creditors' claims if you give your trustee more discretion over trust distributions. If the trust requires the trustee to make distributions for a beneficiary's support, for example, a court may

rule that a creditor can reach the trust assets to satisfy support-related debts. For increased protection, give the trustee full discretion over whether and when to make distributions.

### **Offshore trusts**

Offshore trusts are similar to domestic trusts with the exception that they're located in a foreign country with more favorable asset-protection laws. When using an offshore trust, you may keep the trust assets in the United States, but relocating them to the country where you establish the trust generally offers greater protection. This is why offshore trusts are typically funded with cash or securities that are readily moved, rather than with real estate or other property that could be seized by a U.S. court.

But be aware that, as of this writing, the current administration is seeking to curb the use of offshore tax havens and remove tax incentives by both businesses and individuals. Consult your tax advisor for more information.

### **Finding the best strategy**

During today's difficult economic times, it's smart to do all that you can to protect what's yours. Trusts are only one of the asset protection tools available. Work with your financial advisor to determine the best asset-protection strategy for your situation. ♦

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## **Ethics matter — now more than ever**

**E**ven in healthy economic times when companies are thriving, business ethics can easily fall by the wayside. From workers pilfering office supplies, purchasing managers accepting kickbacks, product developers "borrowing" competitors' ideas and executives manipulating financial results, there's an almost infinite number of ways a company can wander off the high road.

A poor economy only increases pressure on employees of every rank to do "whatever it takes" — even if it's fraudulent or illegal. But just because a business is struggling doesn't excuse bad behavior or management's tacit approval of ethical lapses. After all, greed and irresponsible business practices are largely responsible for the U.S. economy's current mess. Ethical, well-run companies,

on the other hand, are the ones most likely to emerge from it.

### Laying ground rules

If you're going to hold your employees to high ethical standards, you must first define those standards, as well as the values (such as teamwork or superior customer service) that define your company. Put these standards and values in writing and communicate them clearly and frequently to your employees, customers, suppliers and other stakeholders, so that everyone knows what's expected.

If you don't already have one, implement an internal control policy to help prevent and detect fraud. Your financial advisor can work with you to determine the policies you need based on the type and size of your business. But common controls include segregation of accounting duties, multiple authorizations for checks over certain amounts and background checks for new employees.

### *Just because a business is struggling doesn't excuse bad behavior or management's tacit approval of ethical lapses.*

Keep in mind that ethical standards are only as strong as your implementation and enforcement of them. Everyone, from mail-room staff to your CFO, must be held to your company's policies or face disciplinary action.

### Temptation time

Even if your business already has well-established codes of conduct, you may find that current circumstances require a new level of vigilance. Quality control, for example, may be one of the first victims of an economic downturn as some businesses turn to cheaper materials and reduce oversight.

There's nothing wrong with saving money, but to avoid a possible lawsuit or government



investigation, it's essential that cost-cutting initiatives don't:

- ◆ Endanger the health or safety of your employees or the public,
- ◆ Violate any laws — including labor, product safety, environmental protection and, for public companies, Sarbanes-Oxley,
- ◆ Increase your liability risk, or
- ◆ Violate the terms of any contracts.

And, keep in mind that, even if you avoid a legal catastrophe, your customers are likely to notice if you start cutting corners.

Also be on the lookout for increased fraud activity, including small schemes such as inflating expense reports or making promises to customers that your company can't possibly fulfill to land a commission. More damaging are scams in which accounting staff invent vendors or "ghost" employees, or executives manipulate revenue, growth and other crucial numbers.

### Tone at the top

Well-communicated ethics policies and vigilance will help keep your business on the straight and narrow. Most important, though, may be the "tone at the top." As many studies have found, the most successful companies have leaders who don't just talk the talk, but also walk the walk. ◆

## Introducing AVZ Wealth Management, LLC

In May, AVZ Financial Services, LLC changed its name to AVZ Wealth Management, LLC ("AVZW").

Why the change? The new title better reflects the services and benefits AVZ offers to its clients. AVZW helps clients achieve financial peace of mind through a tax advantaged approach to wealth creation, preservation and distribution. *Wealth management* is a much more accurate and comprehensive description of the benefits we present to our valued clients.

The partners have been discussing a name change for more than a year; we decided that it would be appropriate to rename the firm as we were rolling out the new logo and brand of the AVZ corporate family.

Securities offered through 1<sup>st</sup> Global Capital Corp, Member FINRA, SIPC. Investment advisory services offered through AVZ Wealth Management, LLC. AVZ Wealth Management, LLC is not affiliated with 1<sup>st</sup> Global Capital Corp.

## Semi Annual Bankers' Breakfast

On June 11, 2009, AVZ hosted their semi annual Banker's Breakfast at the Hilton Long Island/Huntington Hotel. There were two topics for discussion; our first speaker, James P. O'Connor a tax principal with AVZ presented, "An Overview of 2009 Federal and New York State Tax Updates" and Robert Gates the director of IT services at AVZ, spoke on "Improving Business through Technology".

In addition to the presentations, the gathering provides banker's the opportunity to build relationships with AVZ and other banker's.

If you have any questions regarding 2009 Federal and New York State Tax Updates and Improving Business through Technology, please contact either James at [joconnor@avz.com](mailto:joconnor@avz.com) or Robert at [rgates@avz.com](mailto:rgates@avz.com).



## AVZ Attends AAM's 20<sup>th</sup> Anniversary Conference

*Marketingpalooza*, the 20<sup>th</sup> annual conference for the Association of Accounting

Marketing (AAM), took place from June 2 - 5, 2009, in Austin, Texas.

For the past several years AVZ has sent their marketing coordinator to attend this conference. For the more than 350 attendees, the conference provided accounting marketers with tools, ideas and strategies to help them excel in their careers and increase the profitability of their firms. This is one of the only conferences of its kind, devoted entirely to accounting firm marketing, and planned by accounting marketing peers in the industry. Past conferences include San Diego, Savannah, Denver, Orlando, Las Vegas, Boston and San Antonio.

The Association for Accounting Marketing is the only association in the country formed specifically to address the growing marketing needs of public accounting firms. The members are comprised of marketing professionals, CPAs and consultants, vendors, educators and students who seek to expand the business of public accounting.

AVZ would like to wish everyone a fun and safe Labor Day weekend!



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WEALTH MANAGEMENT



TECHNOLOGY SERVICES

25 Suffolk Court, Hauppauge, New York 11788  
631.434.9500 • Fax 631.434.9518  
[www.avz.com](http://www.avz.com) • [cpa@avz.com](mailto:cpa@avz.com)