IMPLEMENTING THE WEALTH MANAGEMENT INDEX

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Tools to Build Your Practice and Measure Client Success

Ross Levin

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To Mimi, Vera, And Bridget, Who Continue
To Give Me Riches Far More Vast
Than I Could Have Imagined.

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Introduction

I wrote *The Wealth Management Index* when our daughters were two, our business was tiny, and life was fun, but complicated. Now it is 16 years later, our daughters are heading off to college, our business is bigger, and life is fun, but complicated. So while things have changed or shifted in ways that I may not have expected, they are merely different, not better or worse.

I bring this up because I have a few operating principles that have helped guide me over most of my life:

- I feel incredibly grateful for all the people I have met who have shared hours or moments with me because they make my life rich
- I believe that while it is really important to think about what we want, I think it is more important to want what we already have.
- I believe that impermanence is part of life
- I believe in the Serenity Prayer—Grant me the serenity to accept the things I cannot change, the courage to change the things that I can, and the wisdom to know the difference

These precepts are the groundwork from which the index was created, our business was built, and hopefully, how I live my life. I hope that this book is a gift to the profession, only in the sense of sharing the ideas on which Accredited Investors was developed, while acknowledging that many of you do certain aspects of wealth management differently than we do. Our business has been transformed through the sharing of ideas at conferences, study groups, and friendly interactions with people one would think could be competitors. But we really don't compete with each other; each of our fundamental objective is to serve the right clients for our practices.

I have a long list of thank-yous which is guaranteed to be incomplete.

I want to thank my business partner of a quarter of a century, Wil Heupel, for walking this path with me from the beginning. His skills offset my weaknesses.

Kathy Longo came into Accredited Investors a dozen years ago and became an owner shortly after. She has done an amazing job of being a partner, when Wil and I had such a storied history, and has effected change in the firm that we never would have been able to see or do without her.

The staff at Accredited, many of whom are mentioned in the book, have been a tribute with which to partner. They continue to help me grow as they grow. While I can't mention all of the staff, a few in particular helped with this draft of the book. Jacob Wolkowitz and Sean P. Smith helped develop and test many of our investment planning concepts. Steve Gilbertson and Chris MacBean have done extensive work on our spending policies. Joan Kurlander used her law background to insure that I didn't embarrass myself with estate planning, and W. Alan Williams put his CPA to use with regard to my tax planning work. Brandon Jones and Lori Dierke gave me the approved Accredited Investors documents and spreadsheets (many of which they developed) to be included in the book, and Suzy Ridenour helped make sure that everything was where it should be.

Our clients have come to us believing in how we deliver wealth management and have shared their lives and stories with us.

The biggest outside professional influences in my life have come from my two study groups—The Alpha Group and Group 2020. The Alpha Group—my first study group currently consisting of Mark Balasa, Jim Budros, John Cammack, Chris Dardaman, Harold Evensky, Charlie Haines, Tucker Hewes, Mark Hurley, Deena Katz, Ram Kolluri, Don Phillips, Peggy Ruhlin, Lou Stanasolovich, Mark Tibergien, Greg Sullivan, and John Ueleke—has openly shared practices and friendship with me that has made a huge difference in my approach to business. I met most of these friends through my involvement on the boards of International Association for Financial Planning (IAFP), the Financial Planning Association (FPA), and the Certified Financial Planner Board of Standards (CFP)—the payoff for my volunteer experience far exceeded my contribution.

I was invited to join Group 2020 a few years ago, and it consisted of many people whom I knew of but did not know. Janet Briaud, Tim Chase, Cheryl Hollins, Michael Joyce, Richie Lee, Kathy Lintz, Ron and Suzette Rutherford, and yes, Charlie Haines again, opened their firms and hearts to me and have continued to help me grow and see things differently.

There are far too many others in the profession to name, for example, all the people with whom I served on the boards of the IAFP and CFP Board of Standards, the number of writers who have asked for my opinion and sometimes even used it, and the various people who have e-mailed me, called,

or written to me because something in a column I wrote for the *Journal of Financial Planning* caught their interest.

My editorial team at Wiley/Bloomberg was incredible: Judy Howarth edited my chapters almost before I wrote them and put up with my missing of deadlines (okay, I am a Myers/Briggs ENFP); my acquisitions editor, Laura Walsh, believed in the book and sold it to the publisher; and Vincent Nordhaus, who was responsible for the editorial production.

My biggest thank you goes to my wife Bridget, and our daughters, Mimi and Vera, who continue to show me unconditional love, even when I have bitten off more than I can chew.

IMPLEMENTING THE WEALTH MANAGEMENT INDEX

CHAPTER 1

Turning a Concept into a Practice

When I wrote *The Wealth Management Index* in 1996, it was at a time when we were experiencing a bull market of epic proportions. As clients were making money hand over fist, we were trying to temper their enthusiasm with an approach to wealth management that would measure their personal success based on all the things that they had expressed as important to us—and many things which they had not considered. We were implementing a tool that consolidated all the various aspects of financial planning into a process by which the client could begin to understand the many components of their financial life on which decisions needed to be made.

Much has changed since 1996 and nothing has changed. We still need to help clients understand the importance of all areas of wealth management and they still often place too much importance or attention on asset management. The most important change for our firm is that we have a much bigger practice—more than 35 employees, around a billion dollars of managed assets, and an approach to building a business and delivering comprehensive wealth management in a way that has been true to our values.

My intention with this book is to open up our practice to you as a way for you to incorporate those things which you find beneficial and let go of those ideas that may not resonate with you. This is not a book on how to run a practice; my belief is that each wealth management practice has to discover its own unique role in the vast space of helping clients achieve their objectives. But regardless of what your business currently looks like, I know that you will benefit from me sharing the stops and starts that we have experienced in trying to do what is right for our clients and our business. We certainly don't have all the answers, but I think we have some. The difference between building a wealth-management practice and a long car ride with young kids is that with a practice, you are never there yet. Circumstances change, staff changes, the clients change, the environment changes. The only guarantee is impermanence. Yet it is important to draw a line in the sand as to what your firm stands for and who you wish to serve.

A few years ago, I invited 20 practitioners from around the country to make a donation to the Foundation for Financial Planning and in return spend a day with us to meet our staff and go through all the aspects of how we do business. We labeled this program Be Our Guest, and since then other firms, in concert with the Foundation, have also done this. When we first chose to offer the glimpse into our firm, we discussed whether we should exclude firms from our community from participating. Was there a risk that our openness could be used against us in competition for clients? Only if we believed that there were a finite subset of clients and it was in the best interest of them to work only with us. That is not our belief. There are a number of great firms doing great work for a wide variety of clients. In fact, just subscribe to Bob Veres's newsletter, *Inside Information* or regularly read *Financial Planning, Investment Advisor, FA*, or *Investment News* and you'll see how many different ways there are to succeed in this business. I know that our firm will continue to grow because our offering resonates with a certain subset of the client population. Certain prospects are better suited to our comprehensive practice than others. It is always in the prospect's best interest to work with a firm who can not only deliver sound advice, but do so in a way that reaches that prospect.

As I write this book is there a risk that firms may try to capture our intellectual property and become more like us? I could not think of a greater compliment. But what I really hope is that firms take some of our ideas and make them their own. And I hope that they improve upon some of the things that we are doing and continue to share them with others so that clients can be served in ways that improve the quality of their lives.[1]

The Format

This book is both a practice management guide as well as a tool introducing, explaining, and implementing the Wealth Management Index (WMI). In the area dedicated to practice management, I will go through how we run our practice. I will be covering our technology, processes, communication, and client interaction. I will go through what we do when the prospect first walks in the door to how we manage the client relationship over the course of our years together. I will also discuss how we try to engage our staff. Chapter 9 through the end of the book covers the index's distinct components. This will break down all the areas of the WMI and how we discuss each area in the client meetings. It will also include some of the tools that we developed or purchased to help in our analysis.

While I am writing this book, it is based on all the efforts put forth by my partners, our staff, meetings that I have attended, and my two key study groups—the Alpha Group and Group 2020. My coworkers will be the first to tell you that I am not a detail guy, so it may seem somewhat ironic that I developed a concept around detail. But it was really a way to protect me from my weaknesses and emphasize my strengths. Talking with the clients and understanding their motivations was more fulfilling for me than going step by step through tax returns and documents. The index made sure that I didn't miss anything when forced to do the necessary work that was less engaging for me. Each of us has areas that resonate with us and we would be far happier spending most of our time doing these things. But as we grow a business, we may find ourselves working doing the things that don't represent our callings, but are necessary to help our client's reach theirs. Even if you only use the index for its checklist component, you will be certain that you haven't missed some key area of your client's plan. And you won't be facing the unmitigated dread we have all felt at some time in the past when a client asks "why haven't we discussed this." Our practice has become large enough where I am spending the majority of time doing the things to which I can add the most value. I describe myself as someone who knows better what is happening 10 years from now than 10 minutes from now, and now I spend most of my time reading, writing, thinking, and working with clients. A dream job.

Fortunately, my partners are the opposite of me. This started with me creating the initial concept of the WMI, but Wil Heupel, my co-founding partner of Accredited Investors, Inc., making it possible to use this in our practice. From there, people within the company have taken the role to great lengths with an ardent fervor of how to communicate what we are doing in a way that clients can receive the information.

The Wealth Management Index Overview

The index itself has changed from when I first wrote the book. We have modified categories and included new ones. The wealth management landscape is dynamic and it has been important for the index to keep up with the changing environment. It has become more detailed than the first version, but not so detailed that it becomes an impediment to planning—where looking up and out is often more valuable than looking down.

Another discovery that we made was that many clients are not interested in a score; they are interested in the progress that they are making toward their objectives. This means that the scoring portion of the index has been changed within our practice to a progress component. We communicate to the client where we stand with the various areas as we are going through them. There is no set point when a client is done with planning, so progress is forever monitored. But I have heard from many of you that scoring was something that you valued about the index. For those of you who are interested in this, the scoring component still exists. There are more categories and more decision points than in the first version, yet not too many to make scoring impractical.

We use the index by creating main categories with subcategories underneath them. The subcategories are how we outline the goals for the client and report progress back to them through our agendas, meetings, and follow-up letters. Each subcategory has a number attached that flows through our WMI database.[2] The key advantage to this system versus the original WMI is that as new areas begin to develop, we can add them more easily. For example, long-term care insurance was a relatively nascent industry when I first wrote *The Wealth Management Index*. Today it is an area that we review with every client, regardless of whether or not we recommend the purchase of a policy.

For this chapter, I simply will lay out the index, without providing a detailed explanation as to its use. The fundamental premise of the index is a blend of the right and left brains. We need to combine the thinking and feeling aspects of the client in order to best serve them. Therefore, the index does not simply give technical solutions. In addition, it creates a framework for opening up discussions in the areas to be analyzed. But f you are the type who wants to know who wins the reality TV show without watching the episode, then by all means, jump to Chapter Nine and get right into the guts of the index.

The Wealth Management Index

There are five key components to the index:

1. Asset Protection (Preservation)
2. Disability and Income Protection (Protection)
3. Debt Management (Leverage)
4. Investment Planning (Accumulation)
5. Estate Planning (Distribution)

Under each of these components there are a series of broad questions that are then addressed through their subcomponents.

Asset Protection (Preservation)—25 Percent

Have you articulated a life insurance philosophy?—34 percent[3]

111 Assess the living and liquidity needs of survivors and dependants—60 percent (5.1 percent)
112 Assess the possibilities of living benefits from existing insurance—10 percent (0.85 percent)
113 Analyze the strategy of maximizing pension income through life insurance—10 percent (0.85 percent)
114 Assess estate tax wealth-replacement needs and wishes—20 percent (1.7 percent)

What are your concerns regarding risks of large losses from medical, long-term care, property/casualty, and personal or professional liability issues?—33 percent

121 Review medical insurance including liability limits, co-pays, Medicare, and COBRA—20 percent (1.65 percent)
122 Understand feelings regarding long-term care and evaluate needs—20 percent (1.65 percent)
123 Determine amount of self-funding on property/casualty deductibles and limits—10 percent (0.825 percent)
124 Understand personal liability needs—10 percent (0.825 percent)
125 Review professional liability limits and appropriate tail insurance—20 percent (1.65 percent)
126 Review benefits and drawbacks of asset transference and retitling for long-term care or liability considerations—20 percent (1.65 percent)

Have you defined and protected your business interests?—33 percent

131 Evaluate business structure—10 percent (0.825 percent)
132 Determine business valuation and develop succession plan—30 percent (2.475 percent)
133 Establish/review buy/sell and business continuation agreements—20 percent (1.65 percent)
134 Determine needs due to disability—20 percent (1.65 percent)
135 Establish appropriate funding mechanisms for buy-out upon death—20 percent (1.65 percent)

Disability and Income Protection (Protection)—20 Percent

What are the income and lifestyle needs and wants of your family currently and prospectively?—35 percent

211 Review current cash flow and budget needs—30 percent (2.1 percent)
212 Determine the amount of income that you wish to replace if you were to become disabled—20 percent (1.4 percent)
213 Determine purpose and costs of one-time large expenditures including education, vacation homes, or assistance for family members—10 percent (0.7 percent)
214 Establish your financial independence goals and the price to be paid to achieve them—30 percent (2.1 percent)
215 Review your annual charitable giving objectives and how they should be funded—10 percent (0.7 percent)

Have you evaluated all current sources of income and potential changes to these sources?—25 percent

221 Understand current and projected earned income for your family—20 percent (1 percent)
222 Review all pass-through income from S-corporations, Limited Liability Corporations, or Partnerships—20 percent (1 percent)
223 Review the cost/benefits of various pension pay-out options—15 percent (0.75 percent)
224 Analyze social security income options including those for children under 18—15 percent (0.75 percent)
225 Understand required minimum distributions from retirement—10 percent (0.5 percent)
226 Determine the amount of portfolio withdrawals to fund expected three-year cash-flow shortages—10 percent (0.5 percent)
227 Objectively consider any expected gifts or inheritances—10 percent (0.5 percent)

Are you fully utilizing all benefits available to you?—15 percent

231 Review participation in pre-tax reimbursement and cafeteria plans—25 percent (0.75 percent)
232 Determine levels of participation and type of company retirement plans (qualified and non-qualified)—25 percent (0.75 percent)

233 Review all available stock purchase and stock option plans including any necessary filings—25 percent (0.75 percent)
234 Evaluate whether any forms of IRA contributions, rollovers, or supplemental retirement plans on self-employment income are appropriate—25 percent (0.75 percent)

Are you proactively engaged in tax planning for you and your dependants?—25 percent

241 Determine appropriate levels of withholding and estimated tax payments—15 percent (0.75 percent)
242 Determine whether tax-loss harvesting is possible and appropriate—15 percent (0.75 percent)
243 Review gifting opportunities and strategies—20 percent (1 percent)
244 Determine whether to accelerate or defer income and/or deductions for tax bracket or AMT reasons—30 percent (1.5 percent)
245 Evaluate the recharacterization or conversions of IRAs to/from Roth IRAs—20 percent (1 percent)

Debt Management (Leverage)—10 Percent

Have you established your philosophy regarding using savings or credit?—30 percent

311 Determine desired level of emergency fund and credit lines—35 percent (1.05 percent)
312 Evaluate appropriate credit cards for limits and benefits—25 percent (0.75 percent)
313 Develop a strategy for when you wish to be debt-free—40 percent (1.2 percent)

Is your type of debt appropriate given your wealth-management objectives?—70 percent

331 Review the best financing terms on all properties considering time horizons, interest rates, and deductibility—34 percent (2.38 percent)
332 Review the best financing terms and deductibility terms on lines of credit and alternative debt—33 percent (2.31 percent)
334 Determine your current ratio as well as credit ratings—33 percent (2.31 percent)

Investment Planning—25 Percent

Have you developed an investment philosophy?—60 percent

411 Define your attitude toward investment risk—10 percent (1.5 percent)
412 Determine whether the portfolio return objectives are consistent with these attitudes—10 percent (1.5 percent)
413 Define the various time horizons for which you are saving—10 percent (1.5 percent)
414 Determine legal, investment, regulatory restrictions or unique circumstances impacting your portfolio—10 percent (1.5 percent)
415 Determine a suitable asset allocation—60 percent (9 percent)

Have you determined the mechanics for managing your portfolio and the evaluation of what success looks like?—40 percent

421 Decide accounts to consolidate, transfer, or maintain separately and how they will be handled for policy and advice—55 percent (5.5 percent)
422 Determine asset location—15 percent (1.5 percent)
423 Review portfolio performance relative to appropriate benchmarks—30 percent (3 percent)

Estate Planning—20 Percent

Have you a philosophy on wealth transfer?—70 percent

511 Determine the amount of after-tax inheritance and how it is to be received—40 percent (5.6 percent)
512 Determine survivor liquidity needs outside of trustee control and to pay estate taxes—10 percent (1.4 percent)
513 Direct proper ownership (including revocable trusts), beneficiary designations, and determine guardians and trustees—10 percent (1.4 percent)
514 Determine where estate discounting techniques and wealth-transfer entities—Family Limited Partnerships, Qualified Personal Residence Trusts, Grantor Retained Annuity Trusts, defective trusts, Irrevocable Life Insurance Trusts, and others—are appropriate—10 percent (1.4 percent)
515 Finalize documents and Crummey notices—10 percent (1.4 percent)
516 Determine whether a family meeting should be facilitated and appropriate family governance prepared—15 percent (2.1 percent)