

# The 3 Cs you need to help create an A+ estate plan



Whether you're managing your family's finances or running a business, success or failure often comes down to one thing: planning.

As wealth managers, we get an up-close look at the positive impacts of estate and business planning for clients who want to protect their families, build a lasting legacy, and leave something to their communities. While all wealth plans are intentional, there are a few key considerations that make the difference between an effective and dynamic wealth plan and one that doesn't work as well as it should.

The following three principles—comprehensive, coordinated, and calculated—when applied to estate, business, tax, and charitable planning, could help you move closer to your short and long-term goals for life and legacy. Simply put, these three principles or “The Three Cs” can help your wealth plan become a plan for life and beyond.

## ① Comprehensive

### Look at the big picture with comprehensive planning.

BMO Wealth Management advocates for a holistic approach to wealth planning that considers the whole picture of your life. What does a comprehensive wealth plan like this really consist of? Let's look at an example:

The Taylors<sup>1</sup> are a couple in their 40s with three young children and a new sustainable manufacturing business. Their goals at this stage of their lives are:

- Making their business a success
- Protecting the family's lifestyle in case the business fails, or if one of the business owners dies or becomes disabled
- Education for their kids
- Building retirement savings
- Family health care

If the family creates a basic will and a revocable trust, they may believe their planning is complete. Wills and trusts are legal documents which let you decide what happens to your home, business, and other assets during your life and after you die. However, to be fully comprehensive, wills and trusts should be joined by ancillary documents. These might include powers of attorney, healthcare directives or documents relating to managing the business.

The family may also want to consider a business succession plan for the business or a buy/sell agreement to achieve their goal of preparing for unexpected events, or for ensuring their business's longevity. A business succession plan, in particular, could help the family ensure the right person or team takes over their company when the time comes, and that employees are protected. Lastly, a look at retirement goals with a financial plan could help get their long-term savings on track and make sure money is set aside for emergencies.

**Key takeaway:** Comprehensive planning means being thorough and creating a plan that covers all the aspects of your financial life—personal, business, and charitable. The more comprehensive a plan is, the more likely it is to be effective throughout your lifetime and beyond.

## ② Coordinated

### Ensure coordination between personal and business planning.

Staying with the Taylor family and their new business in the example noted earlier, let's assume the Taylors have taken our advice and gathered their personal and business documents as part of a more comprehensive financial plan. They opted to form a limited liability company (LLC) for some liability protection and to create an LLC operating agreement for managing and operating the business. This provided them with some protection with the added benefit of maintaining their company as a separate legal entity from their personal finances.

The Taylors set up a savings account and are designating it an emergency fund for now and a retirement fund for later. On the surface, their planning seems sensible. However, their estate attorney drafted the personal financial documents, and their business attorney drafted the LLC operating agreement.

The trust document that was drawn up leaves the business to the three Taylor children equally upon their death, because the parents see the business as an income legacy for the family. However, the LLC operating agreement contains "first right of refusal" language that allows another member of the company to buy out the estate of a deceased member, a member with a disability or a retiring or divorcing member. This means that the family's estate plan and business entity document may be in conflict with each other, and the latter could obstruct the family's goal to leave the business as a legacy. This lack of coordination could also lead to unwanted wealth transfer or tax implications.

**Key takeaway:** For financial planning to work as intended, all advisors need to be aware of their client's personal, business, and charitable goals. A coordinated approach is therefore essential, as is collaboration. Having a team of qualified advisors including a financial advisor, estate planning attorney and CPA that all know what the other is doing will likely produce the most efficient and effective plan.

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## ③ Calculated

### Keep your financial roadmap current with accurate calculations that reflect shifting challenges.

Even the most carefully thought-out wealth plan isn't worth much when it is based on outdated financials or conditions that no longer apply. An effective wealth plan should start with a snapshot of your current financial condition and include an analysis of the efficient ways to grow savings, while achieving necessary cash flow you'll need for your lifestyle and goals. It can show where the financial 'gaps' are at different stages of your life and the life of your business, and this plan should change as your financial circumstances shift over time.

Calculated wealth planning is more about economic efficiency—finding the risks of not achieving goals and filling the financial gaps at each stage of life or business. The greatest risk the Taylors face while growing their family business would be losing the business owner. Even if the business had another partner and could continue to operate, there would still be question marks over funding the family's lifestyle and the children's education. With this economic risk, the gap may be able to be filled with insurance.

But what if no one dies and the business becomes a huge success—so much so that the family is now worth \$10 million? They could self-fund health care and send the children to college. The previous risks are gone, but new risks arise.

The business may now be large enough to have employed many key employees from the local area, and successful enough to be relied on as an important community resource. The plan now shifts to succession and protection of key employees as well as transitions to family-member managers and, one day, family owners.

The growth of the company also creates tax risks should the original owners die—which could even put the owners in a situation where they'd need to sell the company at a discount in order to pay estate taxes. Strategies that a wealth planner could use to tackle these risks include employee benefit plans, tax mitigation strategies and advanced personal planning such as gifting and other techniques to reduce potential estate tax exposure.

**Key takeaway:** As a business matures, it will encounter new and different risks that could manifest as planning gaps unless the plan is regularly updated. Calculating when, how and how much updating is needed at each stage of your business' lifecycle and your personal life can help you get the right protection in place and reduce risk.

## What else could have an impact on your financial plan?

In general, when speaking with qualified financial advisors, be open to discuss other important factors that could have an impact on your estate planning:

- **Customization.** A plan should always be specific to your goals. Cookie cutter plans may leave gaps you never even thought of.
- **Collaboration.** Having a team of experienced advisors including a financial advisor, estate planning attorney and CPA that all know what the other is doing will likely produce the most efficient and effective plan.
- **Change.** When change happens, don't wait for an advisor to call. Reach out to keep them informed about life events such as marriages, births, deaths, divorces, buying a house or starting a business. This way your financial plan evolves as your life does.

## Planning is the first step to success.

Committing to a wealth plan is the first step to success. With respect to step one, going through the exercise of looking at your finances from a big-picture perspective will help ensure that you're not just managing your day-to-day expenses, but instead looking strategically at what you want your hard-earned money to do for you and your family over the long term. As for step two, it's important to convey any major life changes to your advisors, such as marriage, divorce, births, deaths, home purchases, and business start-ups, so that they can adjust your plan as your life evolves, and ensure it keeps you on track towards your goals.

When your wealth plan follows the principles described above, you will have a powerful tool to help create a smooth and effective wealth transfer, a lasting legacy, and affirmation that your wishes will be carried out.

When change happens, don't wait for an advisor to call.



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<sup>1</sup>The Taylors are not an actual client but are being used as an example for illustrative purposes only.

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